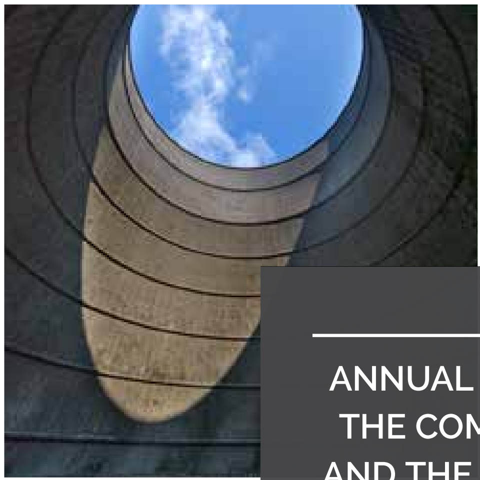
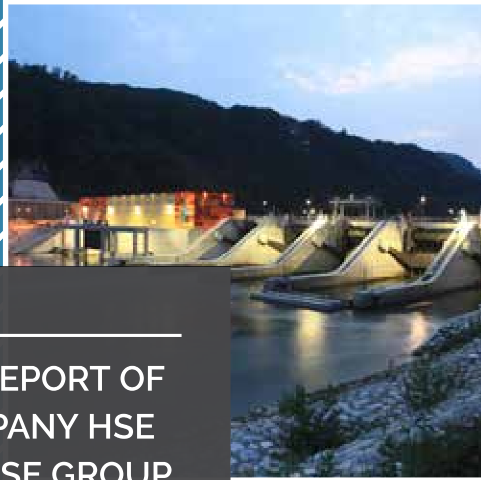




ANNUAL REPORT OF THE COMPANY HSE AND THE HSE GROUP

2014

Holding Slovenske elektrarne d.o.o.

CONTENTS

1 INTRODUCTION

1.1 FOREWORD BY THE MANAGAMENT

WIND OF CHANGE

Dear colleagues, owner representatives, business partners, media and other stakeholders taking interest in this document. The figures shown, the facts we are presenting in detail, and the strategy which we believe in does not always speak for themselves. They tell us something only if we know and understand the background.

The energy sector, HSE Group operates in, has been through winds of change in recent years. The changes were abrupt and radical, although they had been predicted and expected for quite some time. For a while, we were ignoring the facts and lived in the belief that the crisis that had hit the sector and shaken its foundations some years ago, somehow could not reach us. It did. And it may last for months, probably even years. The HSE Group will have to adapt to the changes in the electricity market faster than ever – at least as fast as other European energy companies, our competitors do. And at the same time change the way of thinking and acting. From top to bottom.

The HSE Group, due to low electricity prices on the international electricity markets and the investment in The replacement TEŠ Unit 6, the largest energy investment in Slovenia, are causing some financial and liquidity concerns that requires a new approach to business. Approach that is comprehensive and future-oriented. We are focusing on constant improvement of the existing business model: we have introduced 24/7 electricity trading and cut all forms of costs, we are seeking opportunities on foreign markets and make plans with potential business partners. All with one ultimate aim: to become and remain the leading energy company in the region, a reference unit for a successful trader and a benchmark for an excellent employer. The HSE Group has to set a standard, and for that, it needs good fundations.

Year 2014 outlined the fundations. The figures below the line and the facts between the lines bear witness to the fact that we are doing well. A team of competent, hard-working and loyal employees stands behind our efforts. The team that has endured the turbulence of the last year and with which we will outline the future. And a team of all those who are not directly involved in our day-to-day operations but carefully watch, supervise and sometimes also criticise.

Behind the figures presented stands (major) part of the Slovenian energy sector which contributes significantly to safe and reliable supply of electricity. This is also our mission that has never been subject to the change. If anything, the HSE Group has always played its role on the Slovenian energy market and will continue to do so in the future. Whatever the changes, and no matter how strong the wind is and with what blasts it tosses us around. It only strengthens us and shows that we are on the right track.

Ljubljana, 6 August 2015

STOJAN NIKOLIĆ
CFO of HSE d.o.o.

BLAŽ KOŠOROK
CEO of HSE d.o.o.

1.2 REPORT OF THE SUPERVISORY BOARD

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

- manner and extent of verification of management and operations of the company HSE in the 2014 financial year,
- opinion on the Management's work in 2014,
- opinion on the Company's operations in 2014,
- verification and adoption of the Annual Report of the company HSE and the HSE Group,
- the Supervisory Board's position on the auditor's reports,
- verification of the Management's proposal for allocation of accumulated profit, and
- disclosure of the operating costs of the supervisory body.

In the financial year 2014, Marko Zidanšek, MSc, as the Chairman, Vlasta Krmelj, PhD, and Milenko Ziherl were sitting on the HSE SB as representatives of capital until 7 January 2014. On 21 January 2014, Peter Kralj, PhD, was recalled.

The composition of the SB changed on 21 January 2014. Miloš Pantoš, PhD, Boštjan Markoli, PhD, Drago Štefe, MSc, and Črt Slokan were appointed as the founder's representatives to the Supervisory Board. At the first (consitutive) regular session of the SB, Miloš Pantoš, PhD, was elected as Chairman and Boštjan Markoli, PhD, as Deputy Chairman of the Supervisory Board.

Pursuant to the provisions of Worker Participation in Management Act (ZSDU), the employee representatives were Stanislav Prevalnik until 29 June 2014 and Jernej Otič later on. Employee representative Boštjan Jančar was member of the SB throughout the year 2014.

1.2.1 MANNER AND EXTENT OF VERIFICATION OF MANAGEMENT AND OPERATIONS OF THE COMPANY HSE IN FINANCIAL YEAR 2014

In 2014, the HSE SB held in total 24 sessions, of which twelve were regular, six extraordinary and six by correspondence.

In accordance with the Rules of Procedure for the Supervisory Board of the company Holding Slovenske elektrarne d.o.o., which the SB adopted at its first session by correspondence, the Supervisory Board was during this period regularly informed about the operating results of the Company and the HSE Group and about the realization of the SB decisions. It discussed legal transactions that, in accordance with the Articles of Association of the Limited Liability Company Holding Slovenske elektrarne d.o.o., require prior consent of the SB, and other important business and strategic issues that significantly affect the mid- and long-term interests of the Company, investment projects of the HSE Group, and the socially responsible increase of the Company's economic efficiency.

The HSE Management regularly informed the HSE SB about the progress of the investment into 600 MW replacement Unit 6 at TEŠ, about problems of the companies PV and TET, and about the process of the HSE interest in TET, which, however, was not realized. Therefore, the procedure of regular liquidation of the TET company was initiated upon the consent of the HSE SB.

The Supervisory Board currently monitored the operations of the company HSE and the HSE Group, its liquidity, borrowings, receivables, the sale of the company HSE interest in HESS to companies GEN energija, d.o.o. and Savske elektrarne Ljubljana d.o.o. (giving all necessary consents for that legal transaction). The SB was presented reports on the implementation of measures to optimize and streamline operations and on the implementation of additional measures in the HSE Group, the situation in TET, the Business and Financial Restructuring Plan (BFRP) for PV and the BFRP for TEŠ. In order to prevent economic damage, the SB agreed to the payment of liabilities of the company TEŠ to suppliers/creditors for the project of construction of the 600 MW replacement Unit 6 under the assumption of debt contract.

In addition to the above, in this period HSE SB gave several pre-consents to the borrowing and took decisions in important business areas. Thus, the Supervisory Board adopted the Business plan with an additional plan for 2015 and 2016, and approved the work plan of the Audit Committee and the Rules of Procedure for the Audit Committee. At its 8th regular session the SB discussed and approved the Annual Reportof the Company and the HSE Group for 2013, and agreed with the proposal of the Management to the founder that the accumulated profit shall be allocated to other revenue reserves.

In 2014, the HSE SB started and successfully completed the procedure for appointing a member of the Management – the financial director; in accordance with good corporate governance practices, a HR-Nomination Committee was appointed to this end. The procedure was completed at the 9th regular session held on 06 August 2014 with the appointment of the financial director, who took office as of 1 October 2014.

In 2014, the Supervisory Board of the HSE intensively directed its activities in monitoring the liquidity position of the Company and the HSE Group, monitoring with special attention on the situation in the companies of the PV Group and of the company TEŠ. The HSE SB estimates to have acted to the benefit of the Company on the basis of information and reports presented to it by the Management and within its powers, as defined by the law and Articles of Association of the company.

At the beginning of 2014, the SB carried out a self-assessment and on that basis adopted the Action Plan, which then resulted in the amendments to the Rules of Procedure for the Supervisory Board of the HSE. Members of the Supervisory Board shall always be excluded from voting when a conflict of interest exists in deciding about a specific issue.

WORK OF THE SB AUDIT COMMITTEE (SB AC)

In accordance with the Companies Act (ZGD-1), the HSE SB may appoint an Audit Committee of the SB. THE SB AC an not decide on issues that are within the competence of the HSE Supervisory Board. The Committee reports on its work to the HSE SB.

The Audit Committee of the HSE SB je was appointed in March 2014 and, in the period considered, the SB AC met at eight regular meetings and one constitutive meeting. All members of the SB AC attended the meeting. The Audit Committee examined various issues in accordance with the Guidelines for the work of audit committees, the Audit Committee Work plan for 2014 and the Rules of Procedure for the Audit Committee.

At its meetings, the SB AC took note of the implementation of the decision adopted by the Audit Committee of the HSE SB, examined business reports of the Company, monitored the current operations of the HSE and the HSE Group, their liquidity, borrowings and receivables. Furthermore, it monitored the implementation of measures to optimize and streamline the operations of the HSE Group, took note of the reports on replacement Unit 6 at TEŠ and on risk management of the Company and the HSE Group. In addition, it received reports of the Internal Audit, monitored the position of individual companies in the HSE Group, participated in the selection of the external auditor of the HSE Group and examined his independence. The AC SB also considered the Annual Report of the Company and the HSE Group for 2013 together with the auditor's reports.

As at 31 December 2014, the Audit Committee of the HSE SB consisted of the following members: Boštjan Markoli, PhD, Chairman (education level VIII), Boštjan Jančar (SB member, employees representative, education level VII), Darinka Virant (external member, education level VII), Damir Rakela (external member, education level VII).

As of 30 June 2014, the HSE Works Council appointed Boštjan Jančar, representing the interests of employees, as member of the SB Audit Committee. Up to that date, Stanislav Prevalnik held the position.

At its 9th regular session held on 19 February 2015, the SB Audit Committee performed a self-

-assessment according to the questionnaire for self-assessment of audit committees work (prepared by the Slovenian Directors' Association, January 2015).

WORK OF THE HR-NOMINATION COMMITTEE

In accordance with Article 279 of the Companies Act (ZGD-1), the Supervisory Board appointed the HR-Nomination Committee in 2014. During the period, the Committee met at five regular meetings in order to assist the Supervisory Board of the HSE in managing the procedure for the selection and appointment of members of the Company's Management. After the completed appointment procedure for a member of the Management, the Supervisory Board recalled the members of the HR-Nomination Committee, as they have fulfilled the task for which they had been appointed.

The HR-Nomination Committee consisted of: Miloš Pantoš, PhD, – Chairman, Črt Slokan – member, the founder's representative in the HSE SB, Boštjan Jančar – member, employees representative in the HSE SB and Aleksander Zadel, PhD, – external member.

1.2.2 OPINION ON THE MANAGEMENT'S WORK IN 2014

In accordance with the legislation and good practice, the HSE SB comprehensively supervised the management and operations of the Company and the HSE Group in 2014.

The Managing Director of the company HSE, Blaž Košorok (hereinafter: the Managing Director of HSE), and after taking up his position also the Financial Director of the company HSE, Stojan Nikolić (hereinafter: the Financial Director of HSE), attended the HSE SB sessions. They reported in detail at every point of the agenda and together with other heads of professional services of the HSE answered the questions from the members of the Supervisory Board. Regular communication between the Management and the Chairman of the Supervisory Board took place also outside the sessions themselves.

Professional services of the HSE organized the sessions, implemented current technical improvements and provided administrative and organizational support.

The HSE SB regularly monitored and evaluated the Management's work, when discussing interim business results, comparing the performance of the company and the HSE Group to previous periods, and receiving reports of outside experts on individual companies of the HSE Group.

1.2.3 OPINION ON THE COMPANY'S OPERATIONS IN 2014

Taking into account the general economic situation, the situation in the financial and energy markets, the realized safe and reliable electricity supply of Slovenia, and the activities carried out on key development projects, the company HSE successfully finished the financial year of 2014. The Company generated net profit in the amount of EUR 140.8 million, which is substantially above the previous year figures. The net profit was higher mainly due to payments of profits generated in subsidiaries and gains on the sale of the 35.6% stake in the HESS. When preparing financial statements for the year 2014, a fundamental error in the financial statements for the financial year 2013 was corrected: the impairment of the long-term investment in the company PV in the amount of EUR 60.4 million was recognised and, consequently, the net profit of 2013 after the correction of the fundamental error was lower.

Special mention deserves the fact that in 2014 the company HSE generated more than EUR 1.3 billion EUR net sales revenue and sold more than 27 TWh of electricity. Despite lower net sales revenue resulting from lower average wholesale prices of electricity, the company HSE generated operating profit in the amount of EUR 98 million EUR, which is lower compared to 2013 due to exceptional other operating income generated in 2013. However, in comparison with the year 2013, the Company also achieved significantly better return on equity and assets ratios.

1.2.4 REVIEW AND APPROVAL OF THE ANNUAL REPORT OF THE COMPANY HSE AND THE HSE GROUP AND POSITION ON THE AUDIT REPORT

In accordance with Article 272(3) of the Companies Act (ZGD-1), the Management presented the Annual Report of the company HSE and the HSE Group, together with the auditor's reports, for the year 2014 to HSE Supervisory Board on 14 August 2015 and the HSE SB discussed it at its 10th extraordinary session on 24 August 2015. The HSE SB found that the Annual Report of the company HSE and the HSE Group all mandatory components as prescribed by the Companies Act (ZGD-1).

The Annual Report of the company HSE and the HSE Group was audited by KPMG Slovenija, d.o.o. The auditors issued a positive opinion on the non-consolidated financial statements of the company HSE d.o.o. and a qualified opinion on the consolidated financial statements of the HSE Group, and concluded that the information in the Management's report of the Company and the HSE Group was consistent with the accompanying financial statements.

The Audit Committee of the HSE SB discussed the audited Annual Report of the Company and the HSE Group for 2014 at its 10th extraordinary session held on 24 August 2015 and proposed to the HSE Supervisory Board to adopt it, since it contains all the necessary components/disclosures.

Based on the opinion of the Audit Committee and the opinions of the auditors, the HSE SB approved the Annual Report of the company HSE and the HSE Group for 2014 in the content as the Company's Management submitted it to the Supervisory Board.

1.2.5 VERIFICATION OF THE MANAGEMENT'S PROPOSAL FOR ALLOCATION OF ACCUMULATED PROFIT

The company HSE ended the financial year 2014 with a net profit of EUR 140.8 million.

At its 9th session by correspondence that was held in the days from 24 July 2015 to 27 July 2015, the HSE Supervisory Board approved the Management's proposal that half of the net profit for 2014 in the amount of EUR 70,411,581.58 is allocated to other revenue reserves already in the preparation of the financial statements for 2014.

The remaining net profit of 2013, after the correction of the fundamental error in the amount of EUR 8,065,311.47 and the rest of the net profit for the year 2014 in the amount of EUR 70,411,581.59 represent the accumulated profit in 2014, amounting to EUR 78,476,893.06.

In line with the strategic objectives and investment policy, the HSE Supervisory Board agrees with the proposal of the Company's Management to the founder that the accumulated profit for 2014, which represents the remainder of the net profit of 2013 and 2014, in the amount of EUR 78,476,893.06 shall be allocated in total to other revenue reserves.

The HSE SB prepared the report in accordance with Article 282 of the Companies Act (ZGD-1). The report of the HSE Supervisory Board is intended for the founder and sole member of the Company.

1.2.6 DISCLOSURE OF COSTS OF THE SUPERVISORY BOARD

Remuneration of Supervisory Board members is disclosed in the second part of the Annual Report under point 5.5.7.7.

In accordance with Recommendation 6.10 of the Code, the operating costs of the Supervisory Board in the amount of EUR 38,878.50 are disclosed. They arise from contractual cooperation with a specialized HR Agency.

Ljubljana, 24 August 2015

MILOŠ PANTOŠ, PhD,
Chairman of the HSE Supervisory Board

1.3 ELECTRICITY PRODUCTION AND TRADING IN THE HSE GROUP IN 2014

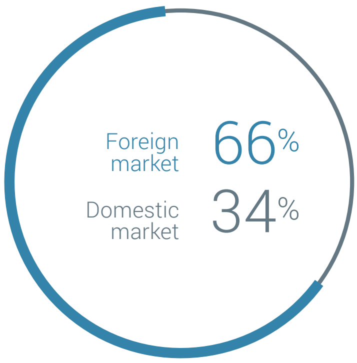
SALES IN FOREIGN MARKETS
Electricity sale: 18,208 GWh
Share of sales in FM: 66%

SALES IN DOMESTIC MARKET
Electricity sale: 9,441 GWh
Share of sales in DM: 34%

HSE Company (100% RS)
Employees: 134
Purchase of electricity: 27,649 GWh

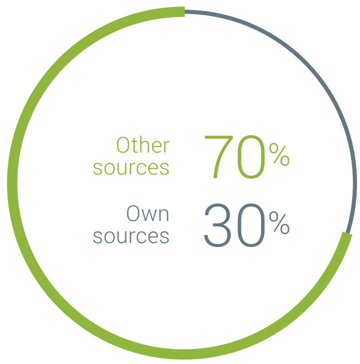
OTHER SOURCES
Purchase of electricity: 19,355 GWh
Share of other sources: 70%

SALES OF ELECTRICITY



OWN PRODUCTION SOURCES
Employees: 2,320
Production: 8,294 GWh
Share of own sources: 30%
Capacity: 1,759 MW

SOURCES OF ELECTRICITY



64% OF SOURCES

HIDRO[3]
Employees: 408
Production: 5,340 GWh
Capacity: 929 MW
Number of units: 67 turbines

DEM (100% HSE)
Employees: 276
Production: 3,919 GWh
Capacity: 592 MW
Number of units: 28 turbines

SENG (100% HSE)
Employees: 132
Production: 991 GWh
Capacity: 337 MW
Number of units: 39 turbines

HESS[1]
Employees: 40
Production: 430 GWh
Capacity: 106 MW
Number of units: 9 turbines

36% OF SOURCES

TERMO
Employees: 591
Production: 2,954 GWh
Capacity: 830 MW
Number of units: 4 blocks and 4 gas turbines

TEŠ[4] (100% HSE)
Employees: 439
Production: 2,835 GWh
Capacity: 662 MW
Number of units: 3 blocks and 2 gas turbines

TET[2] - in liquidation
Employees:152
Production: 119 GWh
Capacity: 168 MW
Number of units: 1 block and 2 gas turbines

PRIMARY SOURCES
Employees: 1,321
Production: 33,854 TJ

PV (77,7% HSE)
Employees: 1,321
Production: 33,854 TJ

Notes:
1 Data show production of HESS up to 31 October 2014 (100%) when a 35.6% stake in HESS was sold to GEN Energia and SEL. Since that date, HESS has been included into the HSE Group by applying the equity method, because was sold to GEN Energija and SEL.
2 TET Company has been in liquidation proceedings since 17 November 2014. Only net production of electricity in TET is presented (without electricity taken from the network).
3 Data on number of employees, capacity and number of units as at 31 December 2014, therefore no data from the HESS Company are included in the HYDRO production. HYDRO production figure also includes electricity production from SE DEM in the amount of 1 GWh.
4 Capacity figures and number of units for TEŠ do not yet include Unit 6 which was first synchronised on 24 September 2014; since then hot start-up trials have been running (in the period from the first synchronisation till year-end 2014, Unit 6 produced 139 GWh electricity, which has been included in the TEŠ production figures).

1.4 OPERATING HIGHLIGHTS OF THE COMPANY HSE AND THE HSE GROUP

Taking into account the general economic situation, the situation in the financial and energy markets, the realized safe and reliable electricity supply of Slovenia, and the activities carried out on key development projects, the company HSE successfully finished the financial year of 2014. The Company generated net profit in the amount of EUR 140.8 million, which is substantially above the previous year figures. The net profit was higher mainly due to payments of profits generated in subsidiaries and gains on the sale of the 35.6% stake in the HESS. When preparing financial statements for the year 2014, a fundamental error in the financial statements for the financial year 2013 was corrected: the impairment of the long-term investment in the company PV in the amount of EUR 60.4 million was recognised and, consequently, the net profit of 2013 after the correction of the fundamental error was lower. [1]

Special mention deserves the fact that in 2014 the company HSE generated more than EUR 1.3 billion EUR net sales revenue and sold more than 27 TWh of electricity. Despite lower net sales revenue resulting from lower average wholesale prices of electricity, the company HSE generated operating profit in the amount of EUR 98 million EUR, which is lower compared to 2013 due to exceptional other operating income generated in 2013. However, in comparison with the year 2013, the Company also achieved significantly better return on equity and assets ratios.

In order to prevent economic damage and to avoid suspension of the Alstom works on the project of the replacement Unit 6 at TEŠ, the company HSE carried out payment obligations of TEŠ to Alstom and other suppliers for the replacement Unit 6 under the assumption of debt contracts. Consequently, short-term financial receivables increased. In addition to TEŠ, the company PV and the PV Group have also found themselves in an extremely difficult liquidity situation and, therefore, the HSE purchased their equipment in the amount of EUR 22.7 million at the end of 2014. For these reasons, and due to the impairment of the long-term investment in the PV company in 2013, the Company's assets increased by 6%. Indebtedness of the Company is down by 23% due to the repayment of loans, while the equity increased by 14% due to operating net profit.

The company HSE d.o.o.	2014	2013*
Net sales revenue in EUR	1,312,697,148	1,637,396,249
Revenue in EUR	1,378,197,581	1,651,449,982
EBIT in EUR	98,222,095	103,459,338
EBITDA in EUR	99,630,586	105,172,251
EBITDA without exceptional events in EUR	99,619,563	99,629,522
Net profit or loss in EUR	140,823,163	16,130,623
Assets in EUR	1,394,651,222	1,313,851,947
Equity in EUR	1,152,425,385	1,008,927,696
Total financial liabilities in EUR	76,372,456	99,601,567
Return on equity (ROE)	0.130	0.016
Return on assets (ROA)	0.104	0.011
Added value in EUR	108,069,683	114,017,236
Electricity sold in GWh	27,649	28,783
Number of employees as at 31 December	134	129

* In 2013, a fundamental error was corrected and the impairment of the long-term investment in the company PV in the amount of EUR 60.4 million was recognised.

1 - This chapter needs to be read in connection with the Financial Report of the company HSE, chapter »Correction of a fundamental error from previous periods«.

The financial year of 2014 was successful for the HSE Group, in spite of problems. Given the changed situation on electricity markets, the operating results of the Group companies were good, with the exception of the PV Group, TEŠ and TET - in liquidation. The supply of electricity to Slovenia was also thanks to the HSE Group safe and reliable. The construction of the replacement Unit 6 at TEŠ continued in line with the time schedule, the renovation of the hydro power plants (HPP) chains on the Drava and Soča rivers is nearly completed, the construction of the HPP on the lower Sava River continued, and so did, but on a limited scale, the project for the construction of HPPs on the middle Sava River.

In 2014, the HSE Group generated a loss of EUR 35.7 million. The companies of the HSE Group tested the value of their assets. Due to the changed market conditions, it was necessary to recognise impairments of certain assets in the total amount of EUR 72 million. Excluding the recognised impairments, the operating result of the Group, as well as the net profit or loss, would show a positive figure.

The assets of the HSE Group were down by 4% in relation to 2013, mainly due to the above-mentioned impairments of assets as well as due to the sale of a 35.6% HSE stake in HESS. In addition, equity was lower by 5% because of losses generated in the companies that had impaired their assets, and because the equity of minority owners was lower due to the sale of a 35.6% HSE stake in HESS. Indebtedness to banks was due to repayment of short-term loans in December.

Due to the start-up tests of the replacement Unit 6 at TEŠ, which was successfully integrated into the Slovenian electro-energy network in autumn 2014, the liquidation of TET and extremely difficult geotechnical conditions in the coal pits of PV, the costs in both the thermal power plant and the coal mine were consequently higher, while the production of electricity in the TPP was significantly lower than planned. Nevertheless, due to favorable hydrology, we succeeded to keep the production at the level of 2013.

The HSE Group is adapting to the tightened conditions in the global and European markets by adopting a range of measures to optimize and streamline operations; however, in 2014, the resulting impacts showed only to a lesser extent, and their effect will be better visible in the coming years.

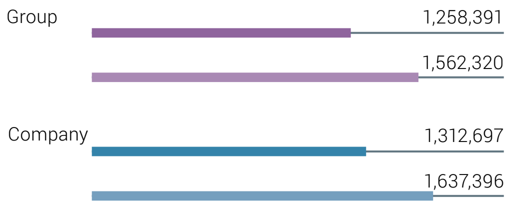
For all the above stated reasons, the equity and assets of the HSE Group are lower than in 2013, and the decrease also resulted from the sale of a 35.6% stake of HSE in HESS. Indebtedness of the HSE Group is lower due to the repayment of short-term loans in December 2014.

HSE Group	2014	2013
Net sales revenue in EUR	1,258,391,110	1,562,320,279
Revenue in EUR	1,320,120,696	1,624,931,118
EBIT in EUR	(8,113,035)	100,173,760
EBITDA in EUR	80,382,714	189,341,387
EBITDA without exceptional events in EUR*	136,198,258	184,631,344
Net profit or loss in EUR	(35,690,435)	66,610,459
Assets in EUR	2,728,888,082	2,830,521,497
Equity in EUR	1,471,547,419	1,546,787,072
Total financial liabilities in EUR	936,396,818	964,892,225
Added value in EUR	301,369,690	355,542,441
Electricity produced in GWh	8,294	8,285
Electricity sold in GWh	25,566	26,630
Number of employees as at 31 December	3,671	3,869
Number of Group companies as at 31 December	37	33

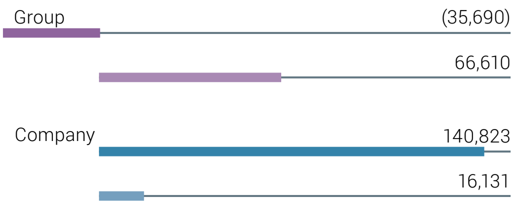
* Detailed explanation is given under Item 2.13.2 "The Group's Ratios".

TOTAL REVENUE IN EUR THOUSAND

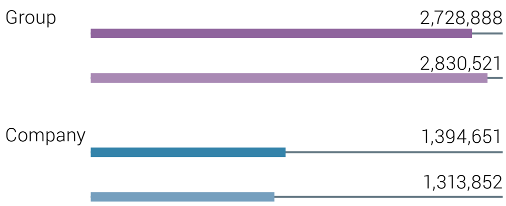
NET SALES REVENUE IN EUR THOUSAND



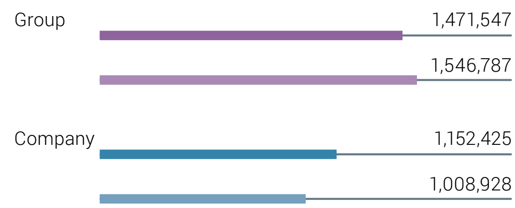
NET PROFIT OR LOSS IN EUR THOUSAND



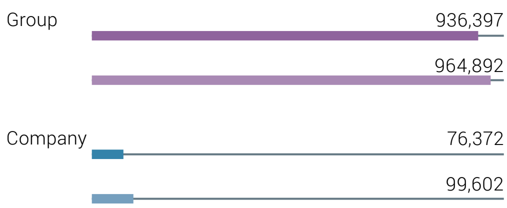
ASSETS IN EUR THOUSAND



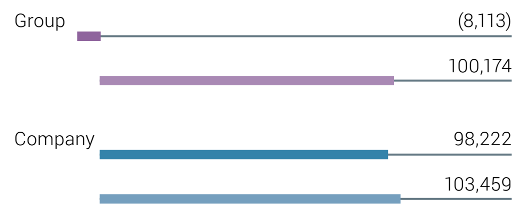
EQUITY IN EUR THOUSAND



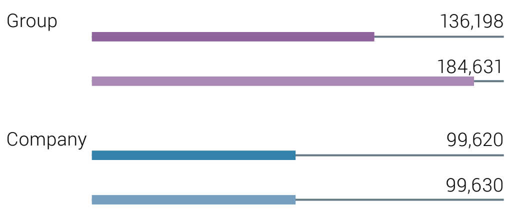
TOTAL FINANCIAL LIABILITIES IN EUR THOUSAND



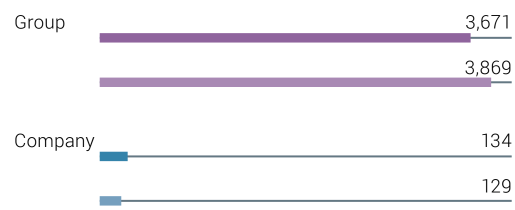
EBIT IN EUR THOUSAND



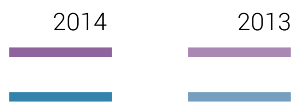
EBITDA WITHOUT EXCEPTIONAL EVENTS IN EUR THOUSAND

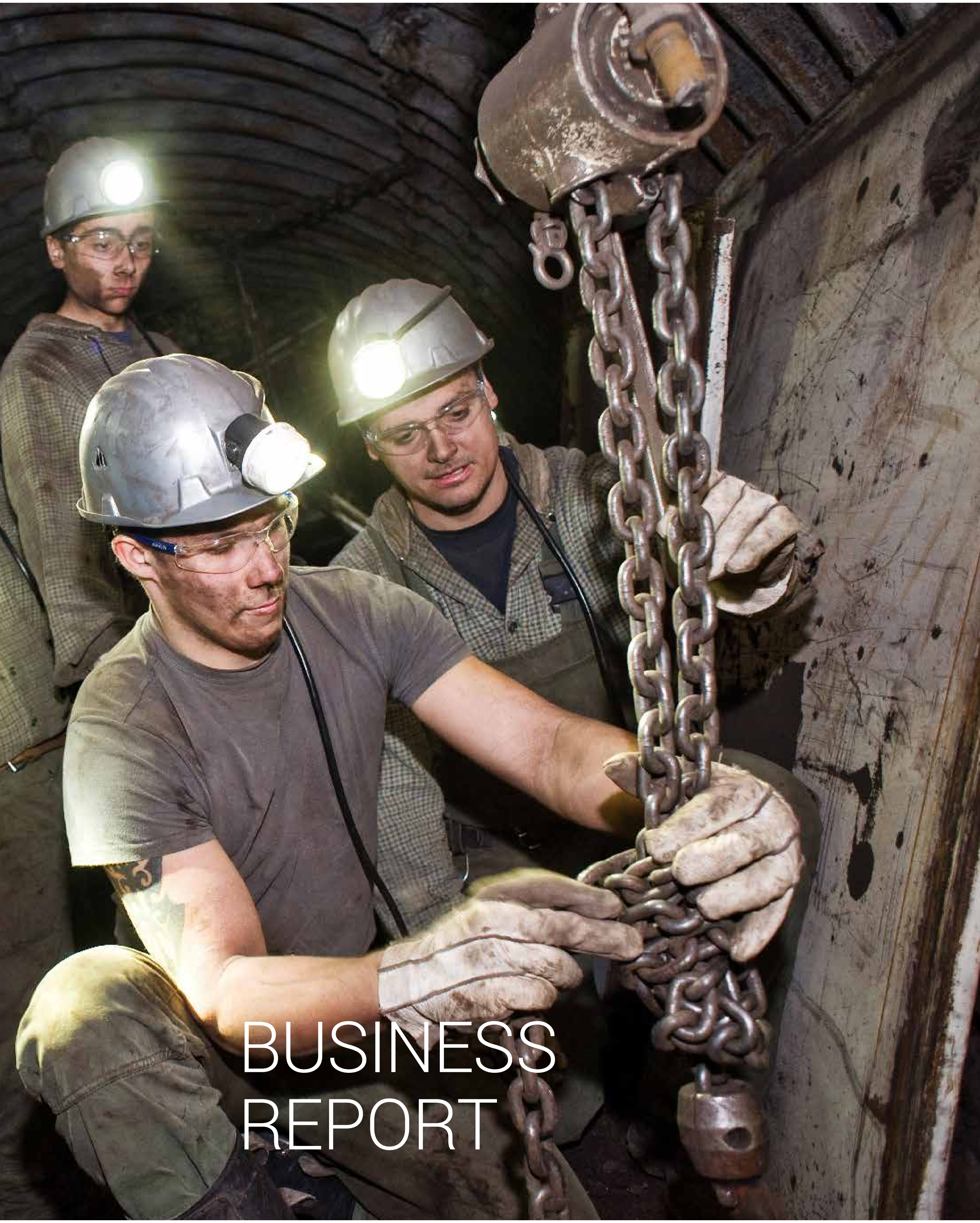


EMPLOYEES



PRODUCTION OF GROUP COMPANIES IN GWh





BUSINESS REPORT

2 BUSINESS REPORT

2.1 SIGNIFICANT EVENTS IN THE HSE GROUP IN 2014

JANUARY

- On 7 January, Marko Zidanšek, MSc, Vlasta Krmelj, PhD, and Milenko Ziherl tendered their resignations as members of the HSE Supervisory Board (SB), of which the Slovenian Compensation Company (SOD) took note on 21 January.
- On 21 January, the founder of HSE recalled the HSE SB member Peter Kralj, PhD, and appointed Miloš Pantoš, PhD, Boštjan Markoli, PhD, Črt Slokan and Drago Štefe, MSc, as new HSE SB members.
- On 21 January, the founder of HSE adopted the new Articles of Association of the limited liability company HSE, which entered into force on 3 February 2014.
- On 21 January, the founder of HSE issued a decision instructing the HSE Management to proceed with implementation of measures to optimize and streamline the HSE Group operations.
- On 28 January, the HSE SB recalled the following members of the HSE Audit Committee: Peter Kralj, PhD, Jožef Kocuvan and Darja Turk.
- Cold start-up tests of the replacement Unit 6 at TEŠ started.
- TEŠ and Alstom, the main supplier of the equipment for replacement unit 6, entered into an agreement by which a part of the planned payments for works carried out in 2014 moved to 2015. This agreement was made because the possibilities to provide financing of the TEŠ replacement Unit 6 in 2014 changed.
- The PV Coalmine achieved a remarkable monthly coal extraction of 510,358 tons, or an average daily coal extraction of 22,189 tons.
- In SENG, generator A1 at HPP Doblar I was successfully synchronized to the 110 kV network, while trial run of the pumped-storage power plant (PSP) Avče was extended for 1 year.

FEBRUARY

- On 4 February, the European Commission (EC) completed the inquiry procedure on the complaint of civil initiatives, which refers to the process of preparing the National Spatial Plan (NSP) pursuant to which, in February 2011, the Government of the Republic of Slovenia adopted the Decree on the NSP for the PHPP Kozjak (DEM) and the transmission line connection to the distribution transformer station RTP Maribor. The procedure has been successfully resolved.
- On 7 February, the Ministry of Agriculture and the Environment of the Republic of Slovenia (RS MKO), the Slovenian Environment Agency, issued environmental consent for the HPP Brežice (HESS).
- On 24 February, the HSE SB appointed the following members of the HSE Audit Committee: Boštjan Markoli, PhD (to act as chairman), Stanislav Prevalnik as workers' representative in the AC, and external members Darinka Virant and Damir Rakela.
- Because of ice disaster, SENG had a state of emergency in small hydro power plants SHPP Planina, SHPP Mrzla Rupa and SHPP Zadlaščica.

MARCH

- On 3 March, a two-hour warning strike by stopping work during each shift was performed in the PV.
- On 5 March, at the 11th regular session of the PV Supervisory Board, the Management Board of the PV resigned.
- On 6 March, the PV Supervisory Board held an extraordinary meeting at which the members discussed and adopted the resignation of the PV Management Board. The PV SB appointed Ivan Pohorec as the new temporary President of the PV Management Board with full authority until 6 June 2014.
- On 7 March, HSE, TEŠ and PV signed a Contract on the purchase of coal, lease of capacity and purchase of electricity for 2014.

- On 11 March, a round table entitled »Energy sector NOT FOR SALE« was organised in Maribor on the initiative of the Energy Sector Trade Union of Slovenia; DEM representatives also participated. The participants of the roundtable agreed that the sale of the Slovenian energy sector is not a wise decision and that it must remain state owned as a strategic sector and a prerequisite for the development of the domestic economy.
- On 13 March, a contract was signed for the supply of hydro-mechanical equipment for HPP Brežice (HESS).
- On 23 March, the PV Trade Union, the PV Management Board and the HSE Managing Director signed the agreement on the realization of strike demands and the cancellation of strike.
- On 24 March, the drafting of the Business and Financial Restructuring Plan (BFRP) for the PV Group started.
- On 24 March, the Ministry of Infrastructure and Space (MzIP) issued to HESS the operating license for the dam structure of HPP Krško (HESS). This ended a 1-year trial operation of the plant.
- On 25 March, the official opening of the beginning of construction of HPP Brežice (HESS) took place.

APRIL

- On 1 April, HPP Krško (HESS) turned over into regular operation.
- As of 17 April, the HSE and other companies of the HSE Group, being directly or indirectly owned by the state, have become liable for public information under the Public Information Access Act.
- On 22 April, the World Earth Day, DEM supported by HSE organised in Maribor a conference on E-mobility as a business opportunity for Slovenia.
- On 29 April, HSE decided to adopt new Articles of Association of DEM, SENG and TEŠ, and consequently the term of office ended for Supervisory Boards in SENG (as of 30 April), DEM and TEŠ (as of 5 May). The decision to abolish supervisory bodies also resulted from the decision of SOD of 21 January ordering the Management Board of HSE intensively to proceed with the implementation of measures to optimize and streamline business operations and take other measures in the HSE Group. This, however, was not possible without establishing a unified and coordinated functioning of all companies in the HSE Group with the main objective to achieve synergy effects of operations between companies in the HSE Group.

MAY

- On 15 May, HSE, TEŠ and PV signed Annex No 1 to the Contract on the purchase of coal, lease of capacity and purchase of electricity for 2014.
- On 19 May, the PV SB at its 13th regular session unanimously appointed the incumbent Interim President of the Management Board, Ivan Pohorec, as the President of the PV Management Board for the full term.
- On 21 May, the General Meeting of PV adopted the HSE proposal to reduce the number of Supervisory Board members from six to three. SB members Marjan Ravnikar, MSc, and Jana Vrtovec Trček, MSc, were substituted by Jože Kaligaro, MSc, and Klemen Potisek, MSc, appointed for a 4-year term. The General Meeting also adopted the resolution to appoint a special auditor to verify the conduct of business in the last five years of PV subsidiaries or companies in which PV had equity participation.
- On 27 and 28 May, the 9th Strategic Conference of the HSE Group was held, which in its second part addressed the opportunities for optimization and rationalization of operations and the implementation of a set of measures that would in the short term help stabilize operations of the HSE Group.

JUNE

- On 4 June, at the site of HPP Brežice (HESS), the flow of the Sava River was diverted into a temporary bypass channel.
- On 18 June, the renovation project at HPP Zlatoličje, the Melje dam, and the construction of the sHPP Melje (DEM) were completed.
- On 30 June, the workers in the third night shift, employed at PV and HTZ, started a spontaneous strike.

JULY

- On 2 July, the contract on the sale of 35.6% of the HSE stake in HESS was signed; with the payment of the purchase price in October 2014, HESS passed with 51% into majority ownership of GEN.
- On 17 July, HSE, TEŠ and PV signed Annex No 2 to the Contract on the purchase of coal, lease of capacity and purchase of electricity for 2014, to ensure short-term solvency of the PV. The miners stopped the strike.
- On 17 July, the HSE SB at its 8th regular session approved the Annual Report of the Company and the HSE Group for 2013 and agreed with the proposal of the HSE Management to the founder that the Company's accumulated profit for 2013 would be allocated to other revenue reserves.
- On 23 July, the boiler oil burners of the replacement Unit 6 at TEŠ were lit for the first time.
- On 28 July, the PV SB appointed Boris Štefančič as a member of the PV Management Board, responsible for restructuring.
- SENG, carried out technical examination of generators 1 and 2 at HPP Doblar I.

AUGUST

- On 6 August, the HSE SB at its 9th regular session, appointed Stojan Nikolić as a member of the Company's Management Board (Financial Director); he started his 4-year term on 1 October.
- On 9 August, when testing the boiler of the replacement Unit 6 at TEŠ pulverised coal-based fuel was used for the first time.
- On 26 August, HSE adopted a resolution on the payment of distributable profit of DEM in the amount of EUR 56 million.
- By 26 August, DEM has produced 2,633 GWh of electricity and fulfilled its annual plan of production on that day.
- On 29 August, the founder of HSE took note of the Annual Report of the Company and the HSE Group for 2013 and deferred the decision on the allocation of distributable profit and on the discharge of the HSE Supervisory and Management Boards for 2013 until to obtain the report on the valuation of PV and TEŠ.

SEPTEMBER

- On 12 September, President of the PV Management Board, Ivan Pohorec, tendered his written resignation at the extraordinary meeting of the PV SB.
- On 19 September, the PV SB appointed Ludvik Golob, MSc, for the new President of the PV Management Board with full powers for a 5-year term; he took up his duties on 22 September.
- On 24 September, the first synchronization of the replacement Unit 6 generator at TEŠ to the electrical energy network was carried out and the first kilowatt-hours of electricity were delivered to the network.
- HPP Solkan (SENG) marked the 30th anniversary of operation.
- The Museum of HPP Fala (DEM) received the Our Slovenia 2014 award.
- TET has ceased to produce electricity from coal, resulting in the standstill of machinery and equipment at Unit 4; they started implementing measures to maintain production facilities in technically satisfactory condition.
- At the end of September, the members of HSE and HSE Italia adopted the necessary resolutions to begin the process of voluntary liquidation of the company HSE Ro Energy.

OCTOBER

- On 21 October, the replacement Unit 6 at TEŠ for the first time reached a maximum rated power of 600 MW.
- SENG obtained the building permit for the sHHP Kneža.
- PV completed the first stage of the trial operation of the new pumping station at k. -41.5 and of the partly renovated main pumping station at k. -130.

NOVEMBER

- On 3 November, Peter Dermol was recalled as General Manager of TEŠ, the post that he had held since 8 May 2013. As of the same day, Matjaž Eberlinc, PhD, was appointed General Manager ad interim for a period of six months.
- On 17 November, the TET General Meeting adopted resolutions on a simplified capital reduction and on the initiation of regular liquidation of the company.
- On 18 November was the official opening of the newly renovated HPP Doblar I, and on that occasion SENG marked the 75th anniversary of that HPP and the 67th anniversary of the Company's operation.
- On 19 November around midnight, a fatal accident occurred in the PV Pesje pit.
- SENG has reached the record annual production of electricity from hydropower plants.

DECEMBER

- On 16 December, the beginning of the regular liquidation procedure of TET was entered into the court register.
- On 22 December, the PV SB at its 8th regular session adopted the business plan of the company PV and the PV Group for the year 2015 with an additional plan for 2016 to 2017. In addition, the Business and Financial Restructuring Plan (BFRP) for the company PV and the BFRP for the PV Group were confirmed.
- On 30 December, SENG signed a contract for the second stage of reconstruction at HPP Plave I for the supply and installation of generators.
- Due to unresolved issues regarding the state aid for capital increase in TEŠ, HSE throughout the year 2014 carried out payments of TEŠ overdue obligations to its suppliers for the replacement Unit 6 under the assumption of debt contracts.

2.2 IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

- On 1 January 2015, the new Managing Director Marjan Pintar took over the leading of SENG for a 4-year term.
- On 5 January, SENG received the operating license for the PSP Avče.
- On 8 January, the liquidation proceedings of the HSE Ro Energy was formally completed with the deletion of the company from the business register of companies.
- On 13 January, the HSE SB at its 7th regular session adopted the business plan of the company HSE and the HSE Group for 2015 with an additional plan for 2016 and 2017, as well as the Projections of operation of the HSE Group for the period 2015–2030. All HSE subsidiaries (with the exception of TET - in liquidation) have adopted business plans for the period 2015–2017.
- On 15 January, the Social Agreement for the year 2015 was signed between the PV Management Board and the social partners. By the agreement, which was signed in the PV Group companies, the social partners have committed themselves to implement measures such as a reduction of gross basic salary for all workers employed under the terms of the collective agreement for the coal industry, while fixed gross salary may not be lower than stipulated by the Employment Relationships Act. The reduction in the cost of labor is one of the cost rationalization measures of the PV.
- In the middle of January, the liquidator of TET–in liquidation prepared the dismissal program for redundant workers. At the end of January, the first part of the employees received notices of termination of employment with one month's notice.
- In January, all liabilities for work carried out in 2014 were settled in relation to Alstom, the main supplier of replacement unit 6, as it had been agreed to postpone the payments into 2015.
- In January, the company HSE redeemed the entire minority stake in the company TET–in liquidation (18.7%) for EUR 1.00.
- Based on documents and input data, which have been harmonized within the HSE Group, TEŠ prepared an amended investment programme NIP 6, edition December 2014. HSE took note of this document on 30 January. The Management of the sole member estimated that the document showed the final value of the investment, all costs related to the investment of replacement unit 6, a workable time schedule and business projections of TEŠ in the period 2015–2030 harmonized with the HSE. The review of NIP 6, edition December 2014, by an independent institution and a test made by a private investor showed a positive result.
- On 12 March, HSE, TEŠ and PV signed a Long-term agreement on the purchase of coal, lease of capacity and purchase of electricity for the period 2015–2054.
- On 16 March, a tripartite contract for the sale of coal for electricity for 2015 was signed between the HSE, TEŠ and PV.
- On 16 March, the PV Management Board, on the basis of unaudited financial statements for the year 2014, established capital inadequacy of the PV as at 31 December 2014, which is according to the criterion stated under Item 2 of Article 14(3) of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP) one of the formal legal grounds for a declaration of insolvency; it means that the loss of the current year, together with the losses carried over from previous periods, reached one half of the share capital of the company.
- On 18 March, SENG signed with ELES a contract on connecting the PSP Avče onto the transmission network; the contract regulated mutual relations between the companies regarding the connection, payment of network fee and purchase of 110 kV equipment.

- At the end of March, the production at excavation site -65/D in PV was temporarily stopped due to deformation of the removing track.
- In the first quarter, the following documents were submitted to the competent institutions and banks: NIP 6, edition December 2014; long-term business projections of TEŠ and the HSE Group for the period 2015–2030. Based on the submitted documentation, the company HSE submitted to the banks (EIB, EBRD and GFA) an application for a waiver from its commitments under financial contracts.
- On 2 April, the PV SB held its 10th regular session. The PV Management Board informed the PV SB about the status of insolvency and the measures to address it, together with expectations of operating performance in the coming years and an assessment of operational risks arising from the complexity of excavation areas, focusing on the year 2015. Based on that information, the PV SB estimated that sound economic, financial, operational and social reasons existed for recapitalization, which has also been foreseen in the business plan of PV for the year 2015.
- In April, HSE implemented a new business model and organizational structure by restructuring the organization and job classification in terms of the envisaged optimization and rationalization of operations in the HSE with the ultimate aim of unification and integration of business support processes at the level of the HSE Group. In accordance with the amendments to the Rules on Internal Organisation and Job Classification of 16 April 2015, all employees received new employment contracts.
- On 3 May, the sole member appointed Matjaz Eberlinc, PhD, as the Managing Director of TEŠ ad interim for a term not exceeding six months.
- In May, TEŠ prepared the Business and Financial Restructuring Plan (BFRP) for TEŠ for the period from 2015 to 2017, in which it identified measures for cost optimization and rationalization of TEŠ operations.
- On 27 May, after successful completion of the technical inspection of the replacement Unit 6 with the associated facilities TEŠ received the Ministry of Space (MOP) decision ordering a one-year trial operation of the newly built replacement unit 6. The contractual trial run of the main technological facility (GTO) of the replacement unit 6 began on 28 May, and the trial operation ordered on the basis of the above decision started on 11 June.
- On 29 May, the Slovenian Sovereign Holding (SDH), on proposal of the HSE Management of 15 May and in line with the prior consent of the HSE SB of 19 May, gave its consent to the raising of contributions in kind in the aggregate amount of up to EUR 37.6 million, and cash contributions of up to EUR 34 million, for the purpose of capital increase in the PV, and in this context agreed to the conclusion of contracts and other legal transactions needed for the recapitalization of PV.
- The company HSE took out a short-term loan of EUR 80 million in January, and then another short-term loan of EUR 70 million in May, in order to close the financial construction of the replacement Unit 6 at TEŠ.
- Activities are under way for the conclusion of a new loan agreement with the SID Bank because the guarantee agreement for the loan contract between the HSE and the EIB expires in October.
- In May, the voluntary liquidation procedure was initiated for HSE Italia, which was the end of June deleted from the Italian Registry of Companies.
- Valuations of companies PV and TEŠ, valuations of assets in PV, TEŠ and TET–in liquidation, as well as a private investment test (PIT) for the companies PV and TEŠ were carried out, all of them with a positive

result, which, consequently, means that the issue of state aid (described in more detail in the financial section of the company's report under the disclosure of short-term investments and loans) has been resolved.

- The short-term loan to RGP in the amount of EUR 1.7 million has been extended until 31 December 2015.
- In 3 June, the companies TEŠ and HSE received from EBRD a letter regarding the waiver from commitments. The waiver from commitments refers to the higher price of coal for a period of one year and the infringement of a financial indicator at the level of the HSE Group for the year 2014. In the letter, the Bank (EBRD) demanded the realization of the planned recapitalization of TEŠ by the HSE by 30 June 2015, which was also realized.
- On 3 June, the initiation of bankruptcy procedure for RCE was entered into the court register.
- On 11 June, the companies TEŠ and HSE received from the agent of the GFA banks a letter regarding the waiver from commitments with regard to higher coal prices and the infringement of a financial indicator at the level of HSE. The consent was conditioned upon the payment of compensation and a letter from EIB regarding the waiver from commitments. On 23 June, TEŠ paid the compensation. On 28 July, TEŠ and HSE received from EIB a draft letter regarding the waiver from commitments, and therefore the terms of the letter of the GFA banks regarding the waiver from commitments at that moment were not yet met.
- On 19 June, after successful completion of startup tests and contractual trial operation, TEŠ took over from the main supplier the management of the main operating facility (GPO) for the replacement Unit 6. This means that the production capacity of the replacement Unit 6 is fully available to TEŠ and its owner, the HSE, which allows for maximum utilization and optimization of production capacities of the replacement Unit 6 in terms of achieving the best possible financial effects.
- On 22 June, the HSE SB at its 16th regular session approved the Development Plan of the company HSE and the HSE Group for the period 2015–2019 (DP); the adoption of the RN by the administrator of state assets, the SDH is underway.
- On 30 June, HSE increased the capital of TEŠ in the amount of EUR 248.6 million in accordance with the Business Plan (BP) of the company HSE and the HSE Group for 2015 with an additional plan for the years 2016 and 2017.
- In June, in compliance with the adopted BP of the company HSE and the HSE Group for 2015, HSE and TEŠ signed two long-term loan agreement in the amount of EUR 83 million and EUR 33.8 million, of which the creditor banks were notified.
- Based on the final decision under the abridged procedure the TEŠ associated companies, Tešing and Enraz, were erased from the register of companies.
- On 8 July, the company HSE received from the Ministry of Finance (MF) its consent to initiate a procedure for long-term indebtedness.
- The Celje District Court, by order dated 8 July 2015, began with a simplified procedure of compulsory settlement over the company GOLTE.
- On 9 July, at the General Meeting of PV, the HSE as majority owner first voted for the reduction of the PV share capital from EUR 113.8 million down to EUR 2.7 million, and then for capital increase by contribution in kind in the amount of EUR 37.6 million and contributions in cash in the amount of EUR 34 million. Due to the resignation of two PV SB members, the General Meeting also appointed two new members of the Supervisory Board.
- On 28 July, TEŠ and HSE received from EIB a draft letter regarding the waiver from

commitments under certain conditions that have not yet been met. The validity of waiver is conditioned upon confirmation by the MF, as agent of the GFA banks, and by the company HSE and company TEŠ. A further condition that must be fulfilled is the submission of the opinion of the attorney general regarding the validity of the state guarantee for a loan of EUR 440 million. Upon fulfillment of these conditions, the EIB agrees with the amended financial plan of the project and the final date for the completion of the project.

- On 29 July, capital increase of the PV was successfully completed.

2.3 CONTROLLING COMPANY

2.3.1 PROFILE OF THE CONTROLLING COMPANY

Holding Slovenske elektrarne d.o.o. (HSE) 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 December 2014

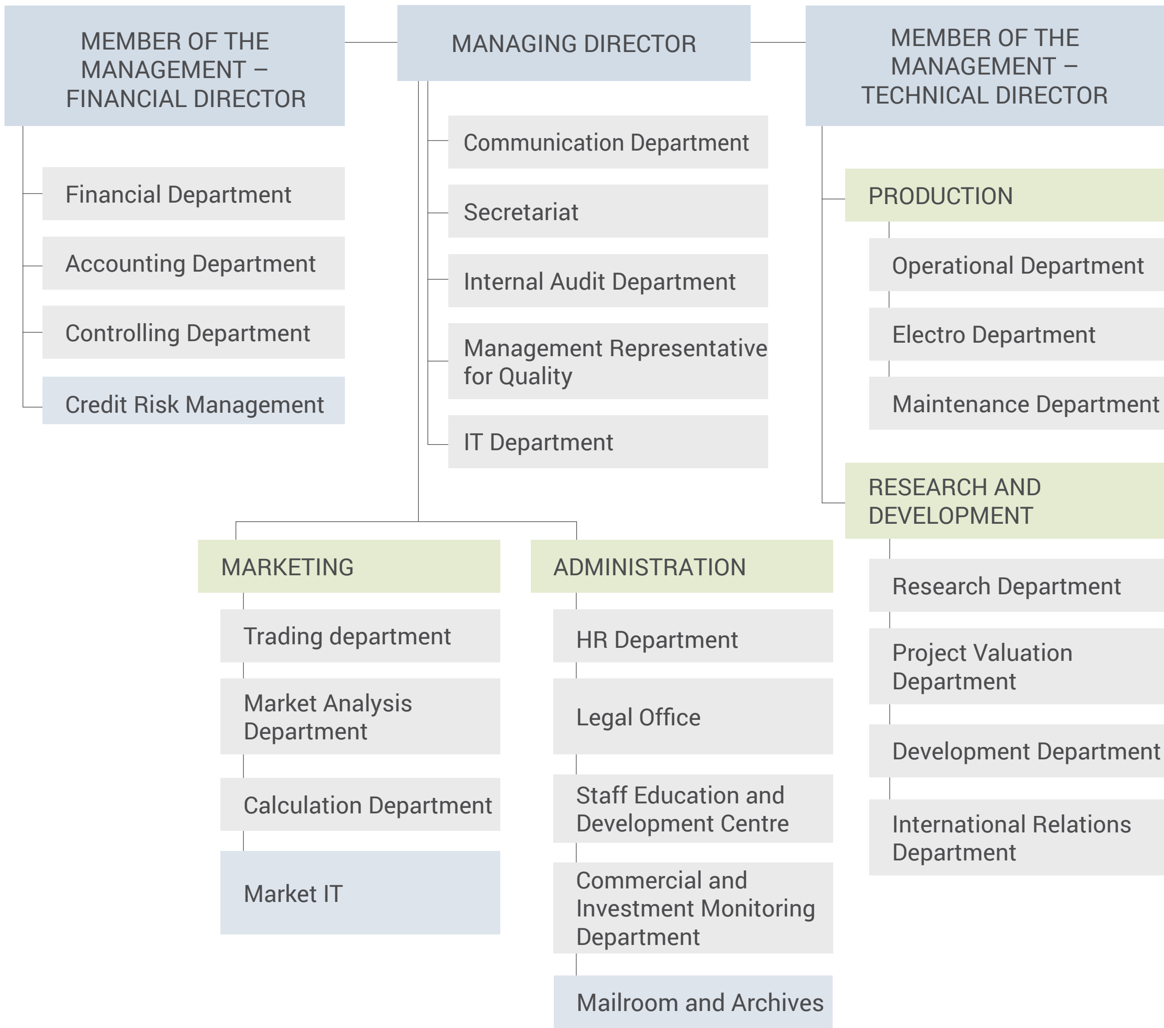
Full company name	Holding Slovenske elektrarne d.o.o.
Abbreviated name	HSE d.o.o.
Legal form	Limited liability company
Address	Koprska ulica 92, 1000 Ljubljana, Slovenia
Telephone	+386 1 470 41 00
Fax	+386 1 470 41 01
Entry No.	1/35036/00, registred with the Ljubljana District Court
Share capital in 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	1662970000
Main activity of the company	Electricity trading
Website	www.hse.si
E-mail	hse@hse.si; info@hse.si
Member of Management - Managing Director	Blaž Košorok
Member of Management - Finance Director	Stojan Nikolić
Chairman of the Supervisory Board	Miloš Pantoš, PhD

On 26 July 2001, the Government of the Republic of Slovenia at its 38th session adopted the Articles of Association of the limited liability company HSE, which is 100% owned by the Republic of Slovenia.

The company was established with the primary purpose to perform the activities of establishing, financing and managing of companies in which it holds majority stakes, and has the status of a holding company.

2.3.2 ORGANISATIONAL STRUCTURE OF THE CONTROLLING COMPANY

THE COMPANY'S ORGANISATIONAL CHART AS AT 31 DECEMBER 2014



HSE 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 between the units considering the possibility of exploiting synergies within the HSE Group.

2.3.3 MANAGEMENT OF THE CONTROLLING COMPANY

The Republic of Slovenia as the sole owner manages the Company through the manager of state assets, SDH, in the role of the founder and sole member through the HSE Supervisory Board and the HSE Management.

GOVERNING BODIES OF THE CONTROLLING COMPANY HSE AS AT 1 JANUARY 2014

THE FOUNDER	SUPERVISORY BOARD	MANAGING DIRECTOR
Company members	Owner's representatives	Blaž Košorok
RS - 100% ownership stake	Marko Zidanšek, MSc - Chairman	
	Vlasta Krmelj, PhD - Deputy Chairman	
	Peter Kralj, PhD	
	Milenko Ziherl	
	Employee representatives	
	Stanislav Prevalnik	
	Boštjan Jančar	
	AUDIT COMMITTEE	
	Milenko Ziherl - Chairman	
	Peter Kralj, PhD	
	Jožef Kocuvan	
	Darja Turk	
	Stanislav Prevalnik	

GOVERNING BODIES OF THE CONTROLLING COMPANY HSE AS AT 31 DECEMBER 2014

THE FOUNDER

Company members

RS - 100% ownership stake

SUPERVISORY BOARD

Owner's representatives

Miloš Pantoš, PhD - Chairman

Boštjan Markoli, PhD - Deputy Chairman

Črt Slokan

Drago Štefe, MSc

Employee representatives

Boštjan Jančar

Jernej Otič

AUDIT COMMITTEE

Boštjan Markoli, PhD - Chairman

Boštjan Jančar

Darinka Virant

Damir Rakela

MANAGEMENT

Managing Director

Blaž Košorok

Finance Director

Stojan Nikolić

CHANGES DURING THE YEAR

On 7 January, Marko Zidanšek, MSc, Vlasta Krmelj, PhD, and Milenko Ziherl tendered their resignations as members of the HSE Supervisory Board (SB), of which the Slovenian Compensation Company (SOD) took note on 21 January.

On 21 January, the founder recalled the HSE SB member Peter Kralj, PhD, and appointed Miloš Pantoš, PhD, Boštjan Markoli, PhD, Črt Slokan and Drago Štefe, MSc, as new HSE SB members.

On 28 January, the HSE SB recalled the following members of the HSE Audit Committee (AC): Peter Kralj, PhD, Jožef Kocuvan and Darja Turk.

On 24 February, the HSE SB appointed the following members of the HSE Audit Committee: Boštjan Markoli, PhD (Chairman), Stanislav Prevalnik as workers' representative and external members Darinka Virant and Damir Rakela.

In the period from 24 February to 19 June operated the HR-Nomination Committee with the assignment to select the members of the HSE Management. The members have been appointed and recalled by the HSE SB.

On 30 June, the Works Council of HSE appointed Jernej Otič as employee representative to the HSE SB. The previous HSE SB member Stanislav Prevalnik was recalled on 29 June both as HSE SB and HSE AC member. On 30 June, the Works Council of HSE appointed Boštjan Jančar as employee representative to the HSE AC.

In 2014, attendance at sessions of the Supervisory Board and of the HSE Audit Committee was almost 100%.

On 1 October, Financial Director Stojan Nikolić started to serve as a member of the HSE Management; the HSE SB appointed him for a 4-year term.

In accordance with SDH Recommendation No. 6.8 the Company discloses the membership of its members of management and supervisory bodies in the management or supervisory bodies of related and unrelated companies for the year 2014, as follows:

- Blaž Košorok, Managing Director: member of the supervisory body in companies HESS d.o.o. and SRESA d.o.o.;
- Stojan Nikolić, Financial Director: member of the supervisory body in Energoinvest DVI d.d., TOZ d.d.;
- Miloš Pantoš, PhD, Chairman of the HSE SB: member of the management body in the company Infinitas, d.o.o.;
- Boštjan Markoli, PhD, Deputy Chairmana of the HSE SB: /
- Drago Štefe, MSc, member of the HSE SB: member of the supervisory body in the company Vodno gospodarsko podjetje - Kranj d.d.;
- Črt Slokan, member of the HSE SB: member of the management body in the company SALNAL d.o.o. and member of the supervisory body in companies Goriške opekarne d.d., Izletnik Celje d.d. (since 23 December 2014) and TOZ d.d. (until 23 December 2014).
- Boštjan Jančar, member of the HSE SB: /
- Jernej Otič, member of the HSE SB: /

2.3.4 CORPORATE GOVERNANCE STATEMENT

The company Holding Slovenske elektrarne d.o.o., Koprska ulica 92, 1000 Ljubljana (HSE), in accordance with Article 70(5) Of the Companies Act (ZGD-1), with regard to the period from 1 January 2014 to 31 December 2014 declares as follows.

The Management and the Supervisory Board of the company HSE hereby declare that in 2014 the governance of the Company was in line with laws and other regulations, the applicable Articles of Association of the Limited Liability Company HSE of 6 September 2011 and 21 January 2014 (Act of Incorporation of HSE), recommendations stated in the Corporate Governance Code for Capital Assets of the Republic of Slovenia, adopted by the Slovenian Compensation Company (SOD) on 15 May 2013, which was on 19 December 2014 replaced with the Corporate Governance Code for Companies with Capital Assets of the State, issued by the Slovenian Sovereign Holding (SDH).

The Management and the Supervisory Board of the company HSE, in accordance with

Article 60.a of the ZGD-1, hereby declare that the Annual Report of the company HSE and the HSE Group and all its integral parts, including the corporate governance statement, have been prepared and are published in accordance with the Companies Act and the International Financial Reporting Standards (IFRS).

The corporate governance statement is part of the Annual Report for 2014 and available at the Company's website http://www.hse.si.

1. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR CAPITAL ASSETS OF THE REPUBLIC OF SLOVENIA AND THE CORPORATE GOVERNANCE CODE FOR COMPANIES WITH CAPITAL ASSETS OF THE STATE ISSUED BY THE SLOVENIAN SOVEREIGN HOLDING, D.D. AND THE RECOMMENDATIONS MANAGER OF DIRECT AND INDIRECT CAPITAL ASSETS OF THE REPUBLIC OF SLOVENIA (SOD RECOMMENDATIONS) AND WITH THE RECOMMENDATIONS AND EXPECTATIONS OF THE SLOVENIAN SOVEREIGN HOLDING (SDH RECOMMENDATIONS)

In accordance with Item 3.4.1 of the Corporate Governance Code for Companies with Capital Assets of the State issued by the Slovenian Sovereign Holding (the Code), the company HSE has voluntarily decided to use the Code. The Code is publicly available at the SDH website.

The Company observed the spirit of the Code to a considerable extent, taking into account the business activity and other specific characteristics of the Company. In 2014, the company did not fulfill the following recommendations:

- Recommendation No. 6.8.8: Within the D&O collective insurance of the HSE Group the SB members of HSE d.o.o. are entitled to be covered by this insurance. In accordance with tax rules, they are accounted for the tax bonus. With regard to the year 2014, the HSE did not act according to the recommendations stated under items 6.8.8, 7.3.10 and, consequently, 6.8.10 of the SDH Code.
- Recommendation No. 6.12.2 – The number of regular sessions of the Audit Committee was exceeded to a lesser extent due to the economic situation to which the company was exposed.
- Recommendation No. 9.2.1 is not fully realized, the realization is planned for 2015.
- Recommendation No. 9.2.7 has not been followed consistently. The recommendations of the internal auditors were not fully implemented within the set time limits (due to objective and subjective reasons - opposition to trade unions, some employees left, ...).
- Recommendation No. 9.2.10 has in part not been realised. The plan of work of Internal Audit for 2014 was presented to the SB Audit Committee, but the Supervisory Board has taken no decision with regard to its approval. The report on the work of the internal audit for the year 2014, however, was presented to both the Audit Committee and the HSE SB. The plan of work of Internal Audit for 2015 and the planning framework for the years 2016 and 2017 were discussed by the Audit Committee and presented to the Supervisory Board for approval. The HSE SB approved and adopted both documents.
- Recommendation No. 10.1 was not realized in 2014. The Code of Ethics was adopted in 2015.

1.1 Report on implementing the SOD and SDH Recommendation

In 2014, the Company observed the spirit of the SOD recommendations in its operations to a considerable extent, taking into account the business activity and other specific characteristics of the Company. In 2014, the company did not fulfill the following SOD recommendations:

- Recommendation No. 3: Evaluation of the efficiency of the supervisory body was in accordance with the instructions of the Chairman carried out after a year's term of office, at the first regular session in 2015.
- Recommendation No. 10 was not realized in 2014. The Code of Ethics was adopted in 2015.
- Recommendation No. 11 was not realized in 2014. We will examine the reasonableness for the implementation of the EFQM in the future, having regard to the other standards that the HSE already fulfils.

In 2014, the Company observed the spirit of the SDH recommendations in its operations to a considerable extent, taking into account the business activity and other specific characteristics of the Company, with the exception of Recommendation No. 5, which in its substance equals SOD Recommendation No. 11. Recommendation No. 6.9 has been observed only in part.

2. GOVERNING BODIES OF THE COMPANY

In 2014, pursuant to the HSE Articles of Association, SOD as the founder and the sole member managed the company directly and indirectly through the management and supervisory bodies, i.e. the Managing Director and the Financial Director (the Management) and the Supervisory Board (SB).

2.1 Founder and sole owner

Pursuant to the Articles of Association of the company HSE, the founder and the sole owner decides independently on the following:

- amendments to the Articles of Association,
- adoption of the fundamentals of business policy and the development plan of the company HSE and the HSE Group for a period of five years, including financial, personnel, business and organizational restructuring, on the proposal of the Management and upon Supervisory Board consent,
- adoption of the annual report if the Supervisory Board has not approved it and if the Managing Director and the Supervisory Board leave the decision on the adoption of the annual report to the founder,
- the allocation of distributable profit,
- discharge to the Management and the Supervisory Board,
- return of subsequent payments,
- allocation and termination of interests,
- encumbrance of interests/shares in subsidiaries on a proposal from the Management and upon consent of the Supervisory Board,
- entering into contracts and other legal transactions in which the Company undertakes to transfer against payment or gratuitously to another person in a single legal transaction or several related legal transactions together at least 3% of the Company's assets, if this is not a transfer under the provisions of the Companies Act-1-UPB3 the status changes,
- determines the remuneration policy for the members of the Management upon proposal of the Supervisory Board,
- changes in the Company's share capital,
- status changes and dissolution of the Company,
- appointment and dismissal of members of the Supervisory Board of the company, except those elected by the works council,
- appointment of the Company's auditor on the proposal of the Supervisory Board,
- appointment of the Company's authorised representative, granting and revocation of full powers of attorney, and appointment of an authorised business representative,
- remuneration for the work of the members

of the Supervisory Board,,

- other matters in accordance with its responsibilities as set out in the applicable legislation and the Articles of Association of HSE.

In accordance with Article 526 of the ZGD-1, the founder shall enter its decisions in the in the register of decisions.

2.2 Management

In accordance with provisions of the Articles of Association of HSE, decision of the Supervisory Board and the Rules of Procedure for the Management of 7 November 2014, the Company is managed and represented by the Management, currently consisting of the Managing Director and the Financial Director of the Company, on their own responsibility. The Managing Director and the Financial Director shall be appointed and recalled by the Supervisory Board. After the expiry, their term of office a director can be reappointed.

2.3 Supervisory Board

The Companies Act (ZGD-1), the Articles of Association of HSE and the Rules of Procedure for the HSE Supervisory Board regulate the competencies and decision-making procedures of the Supervisory Board, the organization of work and other issues important for its operation.

The Articles of Association 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 Supervisory Board members are appointed for a term of four years and can be re-appointed when their term of office expires.

In accordance with the Articles of Association, the HSE SB within its powers:

- supervises the management of the Company,
- examines and verifies the books and records of the Company, its cash on hand, securities and inventories of goods, and other things,
- verifies and approves the annual report and consider the proposal for allocation of accumulated profit,
- draws up a written report to the founder on the results of the review of the annual report and the proposal for allocation of accumulated profit,
- gives its consent to the proposal for the foundations of the business policy and development plans of the Company and the HSE Group,
- verifies the implementation of adopted fundamentals of business policy and development plans of the Company and the HSE Group and suggests possible corrections,
- gives consent to the business plan of the Company and the HSE Group,
- appoints an audit committee and other committees,
- to appoint and dismiss the members of the Management,
- concludes contracts of employment or management contracts with the members of the Management,
- gives consent to the Management of the Company to take decisions at General Meetings of subsidiaries in the event of changes in the status or equity structure,
- gives the Management its consent to the transfer of certain business functions from the subsidiaries that are wholly owned by the Company, to the Company (implementing the tasks of an operational holding),

- adopts the Rules of Procedure for the Supervisory Board,
- gives consent to individual transaction of the Management in accordance with the Articles of Association,
- gives consent to the Rules of Procedure for the Management,
- may request reports also on other issues, gives the HSE Management prior consent to enter into transactions regarding the acquisition or disposal or encumbrance of shares or interests in subsidiaries and other companies, to establish or dissolve other companies, branch offices and plants, to buy, sell, exchange or encumber real estate owned by the company, and to enter into any legal transaction (including investments, credit transactions, etc.), whose value exceeds 10% of the Company's share capital or EUR 2,955,000.00, excluding transactions with electricity, emission coupons and their equivalents, natural gas, liquefied petroleum gas and related transactions, transactions related to short-term cash management in the HSE Group and transactions for short-term investing of cash in the form of deposits with commercial banks, giving sureties, warranties or guarantees for liabilities of other persons.

2.4 Audit Committee

The Audit Committee (AC) was established in accordance with the Companies Act-1 and provides professional support to the SB. Tasks and competencies of the Audit Committee are defined by the Companies Act-1, the Rules of Procedure for the Audit Committee of the HSE Supervisory Board and the decisions of the SB.

The composition and functioning of the Supervisory Board and the Audit Committee are presented in the report of the Supervisory Board.

3. INTERNAL CONTROLS AND RISK MANAGEMENT IN THE COMPANY

With a view to ensuring greater transparency, efficiency and responsible operations, the company has established a functioning system of internal controls and risk management through the organizational structure of the Company, the quality management standard ISO 9001, OHSAS 18001 standard, information security management as required by ISO/IEC 27001, and the Company's internal acts with precisely established system of reporting by individual organizational units. The system of internal controls is supported by the IT control system that, among other things, provides for appropriate limitations and control over the network as well as for precise, updated and complete data processing.

The system of internal controls in the company allows for a planned and systematic uses of procedures and methods, which assure accuracy, reliability and completeness of data and information, make correct and fair preparation of financial statements possible, prevent and detect deficiencies in the system and ensure compliance with laws and regulations, the governing bodies' acts and systemic rules of the Company.

With a view to establishing a comprehensive risk management system in order to provide to the Company's Management and the Supervisory Board quality information and a solid basis for the management and supervision of the Company, the Company has established the Risk Management Committee. The organization, composition, method of work and the tasks of the Committee are specified in the Rules of Procedure for the HSE Risk Management Committee.

The Internal Audit as an independent organisational unit is responsible for constant and comprehensive verification of regulatory and legal compliance, and of economic efficiency and organisational structure of all operations. It performs independent and objective audit activity within the company HSE and the HSE Group.

The Management is responsible for the establishment, operation, control and continuous improvement of the system of internal controls and for the accuracy and completeness of data, while the Audit Committee of the HSE SB monitors and evaluates the role and effectiveness of the internal audit function in connection with the Company's overall risk managements system.

4. 4. INTERNAL AUDITING

Internal Audit carries out its mission in the companies of the HSE Group in accordance with the Internal Audit Charter and the Rules of the internal audit of HSE Group companies.

In accordance with the Plan of Internal Audit for 2014 and the decisions of the Management of the company HSE and of the Supervisory Boards of subsidiaries within the HSE Group, internal audits of individual transactions and various (multiple) areas of operations of subsidiaries of the HSE Group were carried out. In addition, Internal Audit performed consulting activities and other tasks in accordance with the adopted plan and the decisions of the Company's Management and/or the Audit Committee and the HSE SB.

Added value of internal audit has been achieved with consulting and recommendations suggested after the completed audits. The execution and/or implementation of the suggested recommendations is regularly checked and the findings and proposals for even more effective implementation are regularly reported to the Management of HSE, and to the Audit Committee and the HSE SB.

In 2014, the Internal Audit Department commenced activities to amend the Internal Audit Charter regulating the audit function in the companies of the HSE Group with the fundamental aim that the controlling company HSE carries out audit, consulting and other activities in all HSE Group companies that are 100% owned, i.e. directly and indirectly majority-owned by the company HSE d.o.o.

In 2014, the Internal Audit Department was also additionally staffed. An external assessment of internal audit quality was carried out with the aim to ensure that internal auditing is conducted in line with the expectations of HSE Management and the Audit Committee and the HSE SB.

Internal Audit regularly reported an all its activities during the year and on an annual level to the HSE Management, as well as to the Audit Committee and the HSE Supervisory Board.

Ljubljana, 6 August 2015

STOJAN NIKOLIĆ,
CFO of HSE d.o.o.

BLAŽ KOŠOROK,
CEO of HSE d.o.o.

MILOŠ PANTOŠ, PhD,
Chairman of the HSE Supervisory Board

2.4 PROFILE OF THE HSE GROUP

The HSE Group is the largest Slovenian organization in the area of power generation and the largest producer and trader of electricity on the wholesale market in Slovenia. The hydropower plants, thermal power plants and a coalmine united into one brand name, the HSE Group, together produce the majority share of electricity in Slovenia; together with delivery of electricity, which includes a combination of different sources, the HSE Group plays a crucial role in ensuring safe, reliable and high-quality supply to domestic customers.

THE GROUP'S ACTIVITY

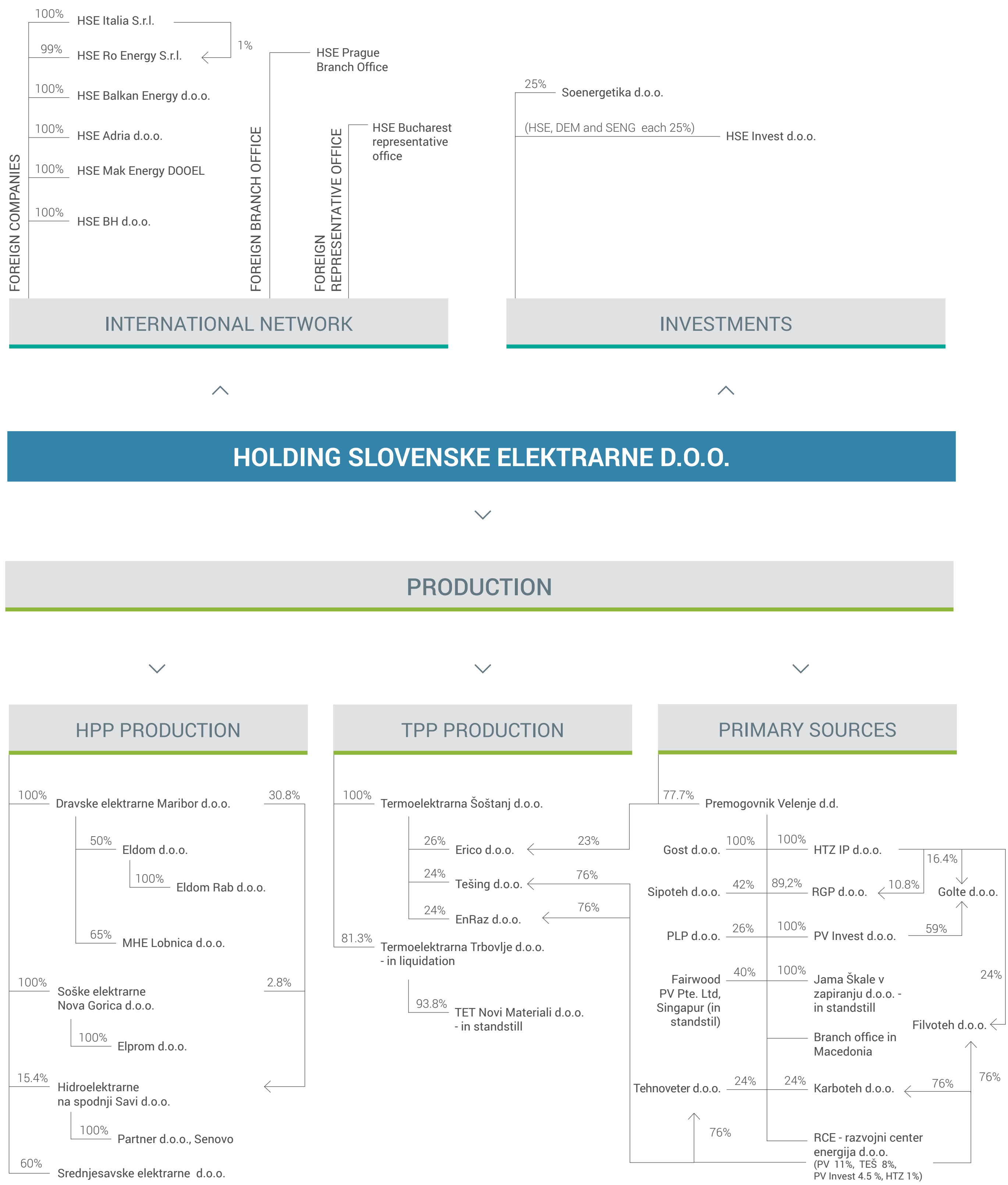
Our activities principally comprise the area of energy and environment management as well as controlling the associated processes and risks. A wide array of activities comprises the following main groups:

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

The main activities of the HSE Group 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.

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

RELATED COMPANIES OF THE HSE GROUP AS AT 31 DECEMBER 2014



HPP PRODUCTION

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

Dravske elektrarne Maribor d.o.o.	
Managing Director	Viljem Pozeb
Main activity	Electricity production in HPP
Supervisory Board composition as at 1 January 2014	Marko Tandler - Chairman Miran Jug Marjan Kirbiš
Supervisory Board composition as at 31 December 2014	Supervisory Board was abolished on 5 May 2014

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 HHPs (SHHP Melje, SHHP Markovci and SHHP 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 amounts to 2.800 GWh and 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 that 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 an associated company 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. The company performs the following activities: 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 1 January 2014	Matjaž Eberlinc - Chairman Nenad Trkulja Silvester Medveščček
Supervisory Board composition as at 31 December 2014	Supervisory Board was abolished on 30 April 2014

*As of 1 January 2015 the new Managing Director Marjan Pintar took over the management for a four-year term.

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 from 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 854 GWh, while overall installed capacity of the SENG power plants amounts to 337 MW.

ELPROM D.O.O. is a subsidiary of SENG. It was established for the purposes of electricity production from renewable sources.

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 1 January 2014	Blaž Košorok - Chairman Andrej Kovač Primož Stropnik Nikola Galeša Vladimir Gabrijelčič
Supervisory Board composition as at 31 December 2014	Janez Keržan - Chairman Andrej Kovač Blaž Košorok Roman Modic Nikola Galeša Vladimir Gabrijelčič

The company HESS, which was established 2008, successfully continues the construction of hydro power plants on the lower Sava River and and ensure optimal maintenance and the operation of hydroelectric power plants already built. Since November 2014, HESS is an associated company of the HSE Group and is included in the HSE Group under the equity method. As at 31 December 2014 the Group GEN energija holds a 51% ownership stake and the HSE Group a 49% ownership stake in HESS (DEM – 30.8%, HSE – 15.4% and SENG – 2.8%). Currently, three HPPs are operating with an average production of 403 GWh and an installed capacity of 106 MW.

PARTNER D.O.O. SENOVO is a subsidiary of the company HESS. The main activity company are building completion and finishing work.

SREDNJESAVSKE ELEKTRARNE D.O.O. (SRESA)

Srednjesavske elektrarne d.o.o.	
Managing Director	Matjaž Eberlinc
Main activity	Electricity production in HPP
Supervisory Board composition as at 1 January 2014	Blaž Košorok - Chairman Jana Pogačnik Karl Vukovič Drago Polak Primož Stropnik Mitja Dušak
Supervisory Board composition as at 31 December 2014	Blaž Košorok - Chairman Jana Pogačnik Karl Vukovič Drago Polak Primož Stropnik Mitja Dušak

The company SRESA 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 HPPs on the middle Sava River will considerably contribute to the fulfilment of the requirements under the EU directive on RES, and will enable a 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 1 January 2014	Peter Dermol
Managing Director as at 31 December 2014	Matjaž Eberlinc
Main activity	Electricity production in TPP
Supervisory Board composition as at 1 January 2014	Roman Šturm - Chairman Janja Špiler Herman Janež Marjan Penšek Andrej Višnar Janez Ramšak
Supervisory Board composition as at 31 December 2014	Supervisory Board was abolished on 5 May 2014

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 installed capacity of 662 MW (without replacement Unit 6, which was first synchronised on 24 September 2014) TEŠ produces approximately a third of the country's energy, and in critical periods, it can meet more than half of the national demand. The average annual production of electricity is between 3,500 and 3,800 GWh, and the average annual thermal energy production for Šalek Valley district heating ranges from 310 to 410 GWh.

In terms of output, TEŠ is comparable to similar thermal power plants in Europe and even exceeds their operating unit availability. The constructed 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 (BAT).

ERICO D.O.O. is an associated company of TEŠ. 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%).

TEŠING D.O.O. is an associated company of TEŠ (with RCE as its majority owner) and was established with the purpose to provide consulting and engineering.

ENRAZ D.O.O. is an associated company of TEŠ (with RCE as its majority owner) and was established with the purpose to provide consulting in the field of energy engineering and environmental protection.

TERMOELEKTRARNA TRBOVLJE D.O.O. – IN LIQUIDATION (TET)

Termoelektrarna Trbovlje d.o.o. - in liquidation	
Managing Director as at 1 January 2014	Franc Blaznek
Liquidator as at 31 December 2014	Luka Podjed
Supervisory Board composition as at 1 January 2014	Matjaž Eberlinc - Chairman Borut Dolanc Aleš Gerčar
Supervisory Board composition as at 31 December 2014	Supervisory Board was abolished on 17 November 2014

After nearly two years of negotiations with a potential buyer who, after the already harmonised sale and purchase agreement, put new requirements that HSE as the majority owner of TET could not accept, the General Meeting of TET at its session on 17 November 2014 adopted the resolution to initiate the regular liquidation procedure of the company. On 16 December 2014, the beginning of liquidation proceedings was entered into the court register.

TET NOVI MATERIALI D.O.O. is a subsidiary of TET–in liquidation. Its main activity is wholesale of wood, construction materials and sanitary equipment. The company is dormant.

PRIMARY SOURCES

PREMOGOVNIK VELENJE D.D. (PV)

Premogovnik Velenje d.d.	
Management Board as at 1 January 2014	Milan Medved - President Vladimir Malenković - Member Sonja Kugonič - Member (Worker Director)
Management Board as at 31 December 2014	Ludvik Golob - President Boris Štefančič - Member
Main activity	mining and agglomeration of lignite
Supervisory Board composition as at 1 January 2014	Marjan Ravnikar - Chairman Marko Bregar Jana Vrtovec Trček Rajko Arlič Kristjan Verbič Bojan Brcar
Supervisory Board composition as at 31 December 2014	Jože Kaligaro - Chairman Klemen Potisek Bojan Brcar

PV is the company with an almost 140-year history. High-technology mining equipment and trained staff to use it, place it among the most modern underground coalmines in the world. Using innovative technology achieved production results, which are comparable to the achievements of underground coalmines in Europe and around the world. In addition a reliable and competitive supply of domestic coal for electricity production, the transfer own highly professional engineering knowledge and technology beyond the borders of Slovenia is essential. According to the international reviewers, PV is the reference coalmine in Western Europe and with its technological expertise takes a place in the forefront of global technology. The superior electro-mechanical equipment is the result of years of development and the result of domestic engineering knowledge.

HTZ I.P. D.O.O. is a sheltered company and the largest subsidiary of the PV. State of the art, expertise and many years of experience, and high technological development provide flexibility and innovation to the company, development, providing flexibility and innovation company that directs its activities to the values of humanity and social responsibility. The activities of the company are: production, installation and repairs of machinery and equipment, manufacture and trade of clothing and footwear, laundry and dry cleaning activity, photocopying, printing and bookbinding, protection and rescue in fire and disaster protection, etc.

PV INVEST D.O.O. is a subsidiary of PV; it is registered for the following activities: trading in real estate, environmental rehabilitation, geophysical measurements and mapping, etc. The company also carries out activities of residential care for the elderly and people with disabilities and other social protection activities with accommodation; it has also registered accompanying activities that are necessary in the implementation of the main activities.

RGP D.O.O. is a subsidiary of PV and HTZ. It 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.

GOST D.O.O. is a subsidiary of PV and 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.

JAMA ŠKALE V ZAPIRANJU D.O.O. is a subsidiary of PV; it was established for the purposes of closing down the Škale pit. The company is dormant.

GOLTE D.O.O. is a subsidiary of PV Invest and owns the summer and winter tourist center whose main activity is the management of skiing centers. The company is comprised of four sections: the technical Division that is responsible for the operation and maintenance of cableway installations, hotel and accommodation facility, catering and travel agency. The company Golte is owned by PV Invest with a 59% ownership stake and HTZ with a 16.4% ownership stake.

SIPOTEH D.O.O. is an associated company of PV, engaged in the production of metal structures and their components.

PLP D.O.O. is an associated company of PV and supplies the coalmine with timber products. The principal activity of the company sawing, planning and impregnation of wood.

FAIRWOOD PV is an associated company of PV, established for selling the knowledge and experise of the PV in foreign markets. The company is dormant.

RCE–RAZVOJNI CENTER ENERGIJA D.O.O. is an associated company of the HSE Group 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 areas of efficient energy use (EEU) and renewably energy sources (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 using advanced energy technologies, and intellectual property protection. The company has been in the bankruptcy proceedings since June 2015.

The founders of companies KARBOTEH D.O.O. AND TEHNOVETER D.O.O. are the RCE (76%) and PV (24%). Both companies have been established with the purpose to provide engineering activities and technical consulting.

The founders of the company FILVOTEH D.O.O. are the RCE (76%) and HTZ (24%). The company has been established with the purpose to provide engineering activities and technical consulting.

THE BRANCH OFFICE IN THE REPUBLIC OF MACEDONIA, SKOPJE, was established in late 2011. In 2014, the PV in 2014 operated through it only in the minimum scope.

INTERNATIONAL NETWORK

Since the beginning of the company HSE we had to establish various forms of organization (company, branch, representative office) in various countries across Europe in order to participate in various markets of electricity and to perform trading activities in various forms in accordance with the local legislation. Due to changes in individual local legislation that now allows the local energy activity also to be performed by companies established in the EU, or because of business decisions, some of them have already ceased to operate.

HSE ITALIA S.R.L.

HSE Italia S.r.l.	
Management Board of the company as at 31 December 2014	Tomaž Štokelj - Chairman Ana Zaljetelj Damjan Lipuščček
Main activity	Electricity trading

The subsidiary HSE Italia, which is involved in supporting electricity trading activities on the Italian market, was established in 2003. In May 2015, the company initiated the procedure of voluntary liquidation, and in late June 2015 the company was erased from the register of companies.

HSE BALKAN ENERGY D.O.O.

HSE Balkan Energy d.o.o.	
Managing Directors as at 31 December 2014	Irena Stare Drago Skornšek
Main activity	Electricity trading

The establishment of HSE Balkan Energy based in Belgrade resulted from the expansion of HSE operation in the 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 main activity of the company is trading in electricity.

HSE ADRIA D.O.O.

HSE Adria d.o.o.	
Managing Directors as at 31 December 2014	Tomaž Štokelj 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. The company trades in electricity and provides technical consulting.

HSE MAK ENERGY DOOEL

HSE MAK Energy DOOEL	
Managing Directors as at 31 December 2014	Tomaž Štokelj 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 as at 31 December 2014	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 and crossborder activities.

HSE PRAGUE BRANCH OFFICE

HSE Prague Branch Office	
Manager	Tomaž Štokelj
Main activity	Electricity trading

The main reason for establishment of a branch in the Czech Republic was the acquisition of a license for trading in electricity, which enables trade in the Czech Republic and membership to the OTE and PXE Exchanges. Due to amendments in the legislation in 2010, trading of electricity was taken over by the HSE. However, branch must be 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	Sandi Ritlop
Main activity	Other project engineering and technical consulting
Supervisory Board composition as at 31 December 2014	Irena Šlemic - Chairperson Alida Rejec 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 vision of expanding its operations to other countries. Company of the HSE Group own a 75% stake in the HSE Invest (25% HSE, 25% DEM and 25% SENG).

SOENERGETIKA D.O.O.

Soenergetika d.o.o.	
Managing Director	Aleš Ažman
Main activity	Production of eletricity and therman energy

The vision of the company is efficient realisation of projects in the energy sector, with the purpose to generate significant added value for the owners at acceptable risk levels. The main mission of the company is complete realisation of projects for the production of heat and electricity as well as the subsequent management of realized projects. HSE has 25% ownership of the company.

2.4.1 MANAGEMENT OF THE HSE GROUP

Establishment of HSE had two key objectives: coordination of main activities and the exploitation of synergy effects between the companies within the HSE Group. HSE was established with the primary purpose to provide holding activities, i.e. establishment, financing and management of companies in which it holds a majority stake. The HSE Group is now facing new challenges, among which the main ones are associated with the optimization, rationalization and reorganization of the HSE Group. Given the fact that the conditions in the energy and financial markets have changed significantly, we are now forced to seek an optimal structure that will allow us to continue our business operations as well as to maintain the leadership role in the Slovenian energy market in the future.

Based on the Development Plan of the company HSE and the HSE Group for the next 5 years, we will realize our vision to ensure optimal use of Slovenian energy and professional potential, and through innovation, competence and social responsibility of all employees to enable an increase in competitive advantages and preferred choice to the customers of energy services in the region. The HSE Group must build on the trust and recognized visibility. Raising the reputation of the HSE is a key challenge for the future. Corporate governance is therefore of paramount 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 foundations and a renewed strategy. The business system of the HSE Group must be able to adapt to the new market situation as soon as possible to secure its existence, progress and development. The right way in this direction is good management and sound decision-making that leads to:

- raising the level of added value of companies,
- maximizing the synergistic effects,
- efficient risk management,
- achieving even better operating results,
- ensuring constant progress, innovativeness and development and, consequently, investments.

The idea of the reorganization of the HSE Group in terms of better quality and more efficient management of the Group is not new. This is proven by decisions of previous strategic conferences and materials related to the strategy and development of the HSE Group. Also the content of these documents clearly shows that a need for greater exploitation of synergies, equity consolidation and intensified coordination of activities exists.

Activities in the management of the HSE Group took place in the direction of greater uniformity in the functioning of all companies in the HSE Group. In order to optimize total costs, the HSE intensified supervision of individual investment projects in companies with a view to better coordination and optimization of processes and implementation of individual investment projects. Such approach allows for the use of internal resources within the HSE Group with a view to optimizing the costs of implementation of individual investment projects.

The amendment of the Act establishing the DEM, SENG and TEŠ of 29 April 2014 brought about, inter alia, the abolition of supervisory boards in those companies. Transactions that until then required the consent of the Supervisory Board of the relevant company have become subject to the decision-making of the founder. These are transactions or decisions specified in the provisions of the relevant Acts of incorporation, which managing directors may not conclude without the prior written consent of the company member and/or the founder. The HSE as the sole member and the founder enters all decisions in the register of decisions. Operational management of DEM, SENG and TEŠ is implemented through the investment projects administrator who was appointed by a special decision in August 2014.

More attention was paid to risk management and cost efficiency, which are preconditions for long-term competitiveness of both the Group and each company within it, as well as to the optimization of funding sources of the HSE Group.

MANAGEMENT BODIES

HSE subsidiaries in Slovenia are run by a single-member management, while companies abroad normally have a two-member management. The exception is the PV, led by two members of the Management Board. The PV has a three-member Supervisory Board and the HSE Invest a six-member Supervisory Board.

COMMITTEE FOR ACTIVE SUPERVISION OF INVESTMENTS

The 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 boards.

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 those employed in the HSE Group.

TRADE UNION ACTIVITIES IN THE COMPANIES

Trade union activities in DEM, SENG, TET–in liquidation and TEŠ are coordinated by the Trade Union of Energy Sector Workers in Slovenia (SDE), one of the most influential and strongest trade unions within the Association of Free Trade Unions of Slovenia (ZSSS).

Operating within the HSE Group there are also the trade unions Independence and the Union of Coal Miners of Slovenia (SPESS), 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–in liquidation 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 (SSD)

HSE Group employees exercise their right to participate in management through workers' councils of individual companies. 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 trade unions, 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, an Economic and Social Council (ESC) was founded with the goal of intensifying cooperation between the managements or management boards, workers' councils and representative trade unions in the HSE Group companies.

2.5 BUSINESS POLICY OF THE HSE GROUP

MISSION

The mission of the HSE Group is to become the leading provider of comprehensive energy solutions in the region while respecting the principles of sustainable development, adapting to market conditions and exploiting the synergies of the Group.

VISION

The vision of the HSE Group is to carry out the consolidation of the HSE Group through innovation, competence and social responsibility of all employees in order to increase the competitive advantage of the HSE Group in the energy markets.

VALUES

The values of the HSE Group are reflected in the attitude towards users, the social environment, employees, business partners and owners. We focus on:

- professionalism, innovation, responsibility, honesty, cooperation,
- care for the satisfaction of customers and users of services provided by the HSE Group,
- development of responsible long-term relationships with business partners and other stakeholders,
- sustainable development, while protecting the environment through the implementation of EEU activities and the introduction of RES,
- continuous training and motivational working environment for employees,
- optimizing the secure and stable jobs having regard to the demanding business environment,
- efficient operations and generating income to the owners and adapting operations to external market conditions,
- continuous improvement of the management system.

2.6 STRATEGIC POLICIES OF THE HSE GROUP

The HSE Group se, like the rest of the energy sector in Europe, is in a difficult period of changed conditions in the electricity market; thus, the operations need to be further adjusted to the policies and requirements of the adopted European and national climate and energy legislation, while the planned capital investment projects shall continue at the given real possibilities. The role of the state with its legislative framework, and with the adopted climate and energy and environmental policy, is an important factor for investments in the energy sector and has a significant impact on the development and operations of the entire HSE Group.

The HSE Group contributes significantly to meeting the commitments of European and hence national energy policy by ensuring secure, competitive and sustainable energy supply. This challenge requires us, in view of achieving energy and environmental goals of the EU until 2020 (2030, 2050), to be active in all priority areas of sustainable resource use, such as the exploitation of renewable energy sources, the reduction of CO_2 emissions and the provision of efficient and reliable supply to customers. In this context, we have also placed our long-term investments in new production facilities that are, in addition to the economic viability, always assessed in terms of their contribution to the achievement of the long-term commitment to the country's climate and environmental goals.

In the electricity market, we are witnessing unfavorable price signals and the current price of electricity does not allow the construction of power plants except those that are the subject of support schemes. The consequences first and foremost affect producers of electricity from conventional sources and investors in new energy facilities. The EU member states therefore already seriously consider the reorganization of the market; some countries have already introduced mechanisms to ensure sufficient production capacity (CRM). Due to rising production costs and falling prices of electricity on the market, the majority of European energy companies have already started to reorganize operations and reducing costs, which is also a challenge for the HSE Group.

The challenging situation, in which the HSE Group has found itself, is also the result of the intense investment cycle of the Group, in which the bulk of financial difficulties represents the investment in the replacement Unit 6 at TEŠ. To maintain liquidity in the coming period, it will therefore be crucial to cover current financial liabilities arising from the project, while, of course, at the same time to create a profit from trading in electricity.

The HSE Group follows the main strategic guidelines, which allow the sustainable development of the Group. These are the realization of viable investments in new production facilities, which enable the use of renewable sources and significantly reduce CO_2 emissions per unit of electricity and increase the added value of the HSE Group. At the same time, we strive for greater power efficiency and advanced technologies for the sustainable production of electricity, which clearly indicates that the investment is carried out in line with the long-term national and European policies and legislation in this area. Our main strategic orientations are:

- focus on restructuring and deleveraging of the HSE Group in order to increase the added value throughout the chain, which comprises trading in electricity, sustainable production of electricity, extraction of primary raw materials, planning the renovation and construction of environmentally sound energy facilities, their implementation and the development of comprehensive energy services for the needs of the energy market;
- continuous training and transfer of knowledge among employees to promote and create capable, innovative, satisfied and motivated employees;
- strengthen corporation-like behaviour of the Group with consolidation of ownership and modern corporate governance to enhance competitiveness;
- continue the siting of new generating capacities in an environmentally friendly, socially acceptable, sustainable and pro-competitive manner, considering the awareness of all employees that the Group HSE is a reference pillar of corporate social responsibility in Slovenia;
- strengthening of stable, long-term business relationships and establishing new strategic partnerships in the region;

- research into possible investments in distributed generation technologies, which are in line with the national policy of promoting electricity produced from renewable energy sources (RES) and combined heat and power generation (CHP) and able to offer electricity at market prices;
- dedicate more attention to the possibilities of using environmentally acceptable alternative fuels in both existing facilities and new investments by simultaneous emphasis on the concurrent utilization of electricity and heat and the sustainable use of biomass.

The changed key operation parameters, which must be urgently taken into account in the forthcoming period are:

- historically low prices of electricity,
- low prices of CO_2 emission coupons as well as regulatory changes in the market coupons in the coming period – lengthy procedures to amend the legislation on the emissions trading system (ETS) and the uncertainty linked to the success of reforming the ETS,
- gas prices that are relatively high compared with prices of electricity,
- the low world price of coal,
- introduction of the CRM mechanism in individual countries,
- reduction of supports for renewable energy sources,
- decline in demand for electricity in the EU,
- challenging economic and financial situation in Slovenia and the EU,
- the tightening of environmental legislation,
- not updated national energy policy,
- energy legislation, which does not allow the full potential of domestic support to primary sources, arising from EU legislation (Article 15 (3) of Directive 2009/72/EC on statutory prescribed amount of primary energy from domestic sources to ensure security of supply).

2.7 MANAGEMENT SYSTEM POLICY

2.7.1 CERTIFICATES OBTAINED BY THE HSE GROUP COMPANIES

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

*Since October, after the 35.6% interest of HSE in HESS, HESS is an associated company of the HSE Group.

ISO 9001: Quality management system
ISO 14001: Environment management system
OHSAS 18001: Occupational health and safety system
ISO 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
LECs: RES-E certificates for Great Britain
DPP: Family-friendly company
HACCP: Hazard Analysis Critical Control Point (food safety in preparation process)
DOP: Corporate Social Responsibility certificate

2.7.2 CHIEVING OBJECTIVES IN THE AREA OF QUALITY

Improving and maintaining the management system (quality, environmental protection, health and safety at work, and information security) has been confirmed through the successful execution of internal and external assessments.

Likewise, we successfully carried out the certification of electricity produced from renewable sources - for both large and small hydropower plants.

2.7.3 ACHIEVING ENVIRONMENTAL MANAGEMENT OBJECTIVES

The HSE Group is an environmentally conscious group of companies, which provide their employees with a 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 to continuously improve 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 2014, internal and external quality control assessment of ISO 14001 for environmental protection were carried out and successfully completed. 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 HEALTH AND SAFETY OBJECTIVES

Compliance with the relevant HSE legislation constitutes the minimum, which takes account of and builds on the requirements of OHSAS 18001. After the renewed assessment was successfully implemented and completed, the assessors found that the area of safety and health at work is governed in accordance with the standard. In 2014, a new risk assessment of programs for the promotion of health at the workplace was carried out.

2.7.5 ACHIEVING INFORMATION SECURITY OBJECTIVES

The policy of the HSE management system also defines the policy for the protection of data and information for all companies in the HSE Group. In 2014, a risk assessment audit was carried out for information assets. Both the internal and the external assessment were successfully conducted.

2.7.6 FAMILY-FRIENDLY COMPANY

On the basis of due diligence, on 23 September the Audit Committee adopted the decision on issuing a full Family-Friendly Company certificate (FFC) for the company HSE. Upon obtaining the full FFC in 2013, the HSE selected and approved three additional measures. An external audit of the certificate was carried out and the validity of the full certificate was extended for the next three years.

2.8 MARKET POSITION

In the second half of 2014, the world economy was characterized by a substantial decrease in US dollar oil prices and a further loosening of monetary policy of most major central banks, most notably of the ECB.

In the euro area, economic activity remained relatively weak, while in December 2014 inflation even turned negative. Nevertheless, consumer confidence and the economic climate at the end of 2014 were above the long-term average. Economic developments in most of Slovenia's main trading partners outside the euro area were relatively favorable. Since mid-2014, the value of the euro fell sharply against the major world currencies. The economic growth in the euro area slightly increased in the last quarter of 2014. After a decline in 2013, GDP in the euro area increased by 0.9%, mainly due to the growth in household consumption and exports, while investment spending remained weak.

Confidence indicators suggest further strengthening of economic activity in the year 2015. Key factors to improve the prospects for growth are the stabilization of the financial markets, particularly in the government bond market, a significant reduction in oil prices, improving the price competitiveness of the weaker euro. In 2014, the ECB adopted a number of measures to improve the functioning of the monetary policy transmission mechanism, encourage lending to the economy and stabilize inflation expectations. In the years to come, favourable conditions in the financial markets, together with the ECB and the EC measures, should have positive impact on increasing the supply of lending and hence investment. Gradually, foreign demand is expected to strengthen and, in addition, the lower value of euro should favourably affect the exports.

2.8.1 FEATURES OF THE SLOVENIAN ECONOMIC ENVIRONMENT[2]

In 2014, GDP grew by 2.6%. Economic growth was much higher than the euro area average and the highest since the beginning of the crisis, but this is largely due to one-off factors. External demand remained the main driver of economic growth, but government investments also represented a major contribution.

Exports in 2014 were supported by solid foreign demand and improved cost competitiveness. At the end of the year, the annual export growth accelerated further. This was due to the stabilization of economic developments in the majority of important trading partners, as well as to the efficiency of companies in the search for new sales markets. More stable signals from the international environment were reflected in the confidence indicators, which continued to improve also in the beginning of this year.

The year 2014 was marked by high investments in infrastructure, especially at the local level, which were partly financed with European funds. After several years of decline, even government spending slightly increased in the last quarter of 2014.

Although the situation on the labor market were favorable in terms of employment and wages growth in 2014, the private consumption did not noticeably increase. The main reason for that were new jobs with flexible forms of employment prevailing. While such employments provide flexibility for the companies, they at the same time inhibit the growth of household spending. The structure of unemployment moves more and more pronounced in the direction of increasing the share of long-term unemployed.

Falling prices of raw materials on world markets and the still weak domestic demand have contributed to a sharp decline in inflation. In 2014, it was 0.4% on average, i.e. the same as in the euro area.

In 2014, the surplus in the current account of the balance of payments amounted to 5.8% of GDP, which is slightly above the figure in 2013. The high surplus was generated by the solid growth in exports of goods, while the deficit in primary income increased particularly due to the increasing burden of payment of interest on the public debt. The surplus in the current account under conditions of favorable growth in the export sector reflected in higher net savings of the private sector, allowing deleveraging of the economy. The

2 - Source: SORS, IMAD, Bank of Slovenia.

Companies, continuing to reduce debt and having low nominal investment growth, have been actually in the position of net saving for three years. Their volume of liabilities arising from bank loans has dropped again last year. Decreasing the credit volume to the private sector, despite increased economic growth, is mainly due to the high indebtedness of some companies that remains concentrated in a few sectors, and due to the reluctance of banks to risk-taking when granting loans. The companies therefore seek alternative sources of funding within the available options, such as loans from abroad, bonds and retained earnings. Last year, the households maintained their financial surplus close to the level from the end of 2013, because they remained cautious about consumer decisions despite higher income.

In 2014, confidence in the domestic banking system gradually strengthened. This was reflected in increased deposits by the non-banking sector, but almost all sectors contributed to that. The successful process of rehabilitation and stabilization of the domestic banking sector had impact on the increased confidence.

In the past year, the state was again the only sector with a financial deficit. According to SORS, it amounted to 4.9% of GDP in 2014, but excluding the assistance to financial institutions and other one-off effects, it decreased in comparison to the previous year and amounted to 3.5% of GDP. The general government debt at the end of 2014 climbed to 80.9% of GDP. At the same time, the primary deficit which does not contain one-off effects was significantly lower, and the primary deficit without interest amounted to only 0.3% of GDP.

2.8.2 MARKET ENVIRONMENT OF THE ELECTRICITY INDUSTRY

In 2014, the European economic environment was surrounded by extremely rapid growth of its largest trade partner, the USA, on the one hand, and the geopolitical aspirations of its third largest trading partner, Russia, on the other hand. In 2014, economic growth in the euro area amounted to 0.9%, and in the EU-28 to 1.3%. Data on economic growth in the last quarter of 2014 show that from among the most problematic member states Spain seems to continue recovering with 0.7% economic growth, while Greece with -0.4% and Italy 0% economic growth still more or less stagger in place. Stabilisation and restoration of confidence in the euro area in 2014 also reflected in the decrease of the required return on European government bonds.

If the general economic environment and the consumption of electricity by industrial consumers have stabilized, market conditions for electricity producers are not promising. Due to continued growth in the production of electricity from renewable energy sources, the wholesale price of electricity in virtually all major markets were under pressure. The hardest affected are the producers of electricity from TPPs, since electricity prices are low compared to the prices of energy and CO_2 emission allowances. Thus, preservation and decommissioning of gas power plants continued, even of the most efficient ones that had just been built. In line with further deterioration of the situation for the production of electricity from coal-fired power plants, we are also witnessing the growing decline in production volumes, and closing down of older TPPs with poor economics and efficiencies. Since this situation could lead to a reduced reliability in the operation of electricity systems, the demands for the introduction of the CRM mechanisms are becoming ever louder. In addition to the energy market, CRM mechanisms would introduce the power market and would thus allow additional revenue for conventional, especially thermal power producers. In some countries, these mechanisms have already been introduced, some countries are introducing them now, and other countries are still considering this opportunity. However, such differences in the design of markets in individual countries could have a material impact on the distortion of competition within the single European market for electricity.

Mass closure and preservation of conventional power plants reduces the demand for CO_2 emission coupons. The market of CO_2

emission allowances was marked by high volatility, which was particularly evident at the beginning of 2014, but after the first quarter, a relatively stable growth of prices was recorded. Despite the declining demand for CO_2 emission coupons, the reasons for the growth of prices arise from the changes in the legislative framework. In addition to setting the legislative basis for keeping the issue of 900 million CO_2 coupons for the years 2014, 2015 and 2016, structural reforms are in the pipeline for the implementation of a so-called Market Stability Reserve (MSR), which provides that the supply of CO_2 emission coupons should be adjusted to their price on the market.

2.8.3 CONDITIONS IN THE ELECTRICITY MARKET

SLOVENIA

Due to its good connection to the neighbouring markets, the Slovenian electricity market has shared the fate of other major regional markets. Despite the general decline in wholesale prices, the prices on the Slovenian market have remained at the level of prices in the Balkans, which are still substantially higher than in Germany. At the annual level, the average hourly prices on the Slovenian BSP exchange were by EUR 7.75/MWh higher than on the German EEX exchange. In comparison to 2013, the price on the daily market fell from EUR 43.17/MWh to EUR 40.43/MWh. The highest hourly price in 2014 was EUR 145/MWh, while in 2013 it was EUR 123/MWh.

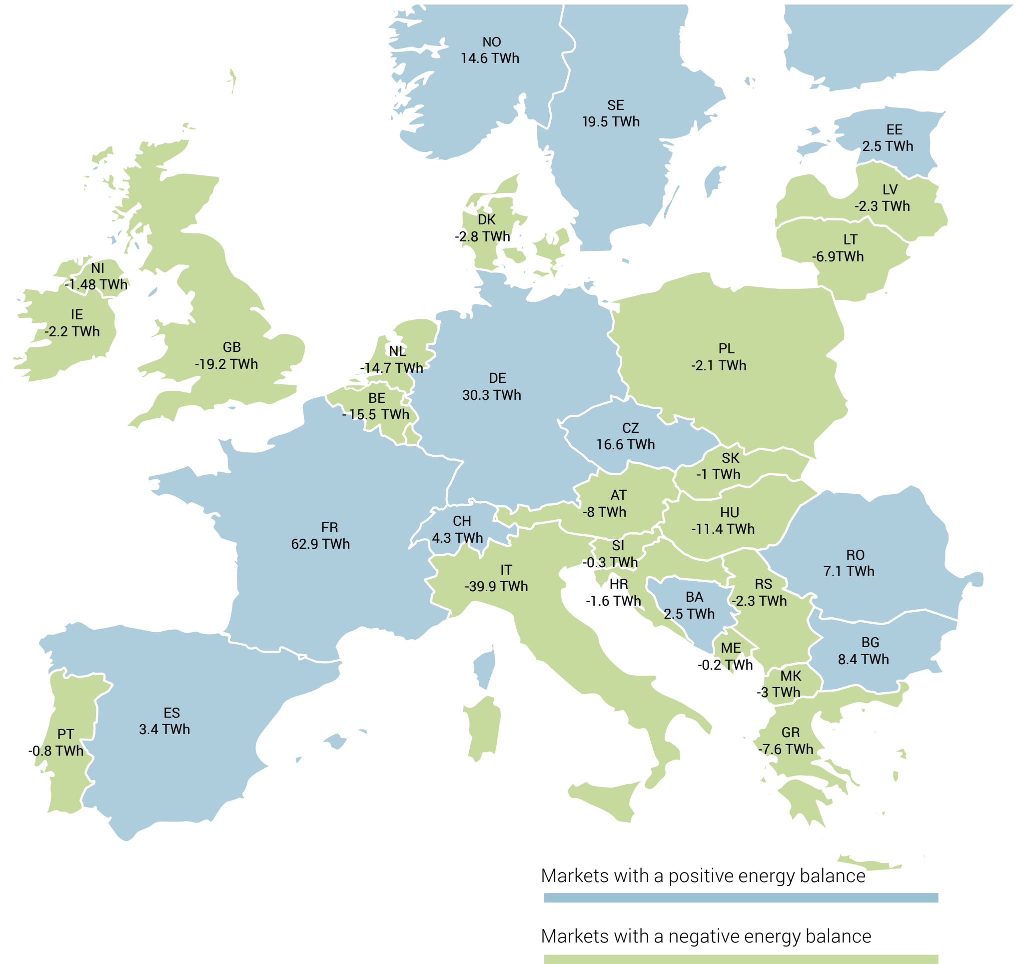
Despite excellent hydrological conditions in the past year, Slovenia was still a net importer of electricity, as the electricity production was by 338 GWh lower than consumption. The increased production of electricity, which was by 700 GWh higher than in 2013, was largely due to increased production from hydropower plants. Production in DEM was higher by 1,078 GWh, in SENG by 88 GWh, and in HESS by 84 GWh than in 2013. Taking into account the half-ownership of the NPP in Slovenia, it can be concluded that the production of electricity in the NPP was by 518 GWh higher in 2014 compared to the previous year. The price situation, especially taking into account the low electricity prices compared to the prices of fuels and CO_2 emission coupons, testing of the replacement Unit 6 at TEŠ, and above all the problems in the production of coal in the PV, have resulted in significantly lower production from TPPs. Thus, in 2014, TET - in liquidation produced by almost 364 GWh and TEŠ by 772 GWh less electricity than in the previous year.

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 to more expensive hours. We used the business opportunities of the strategic position of Slovenia as the intersection of three markets with different electricity prices.

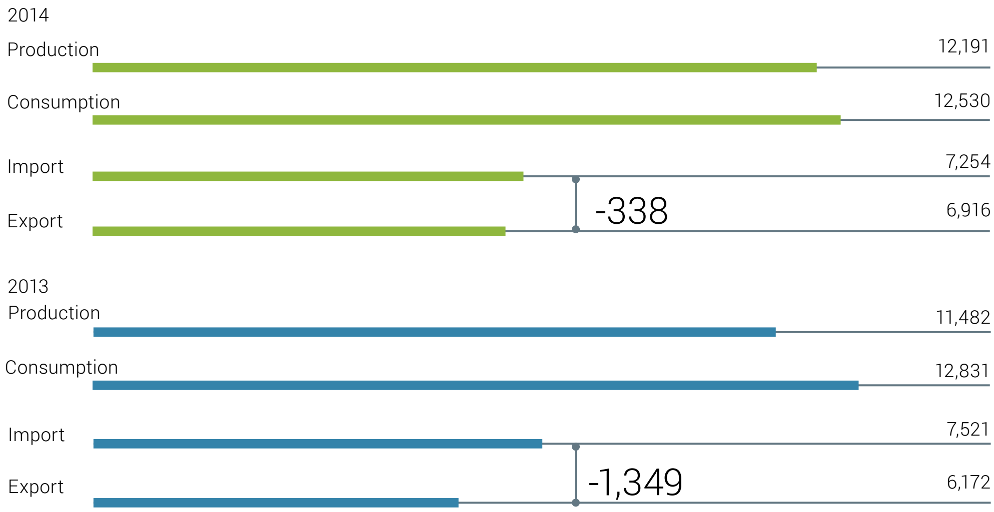
The HSE with its active role in daily trading contributed to the development of the Slovenian BSP SouthPool Regional Energy Exchange which, by integrating the Slovenian and the Italian markets, gained an important role in the electricity market both in Slovenia and in the region. In 2014, the electricity trading amounts at the BSP exchange exceeded 6.2 TWh, which is by 0.5 TWh above the 2013 figure.

As regards the transmission of electricity across the Slovenian border, it should be mentioned that, in 2014, the Slovenian transmission system operator ELES, in compliance with the European Directive on the allocation of cross-border transfer capacities continued the allocation of cross-border transfer capacities on a commercial basis by means of explicit auctions (yearly, monthly). The allocation of cross-border transfer capacities at the Slovenian-Italian border was in 2014 implemented by means of market coupling, which resulted in good liquidity of trading on the Slovenian electricity exchange.

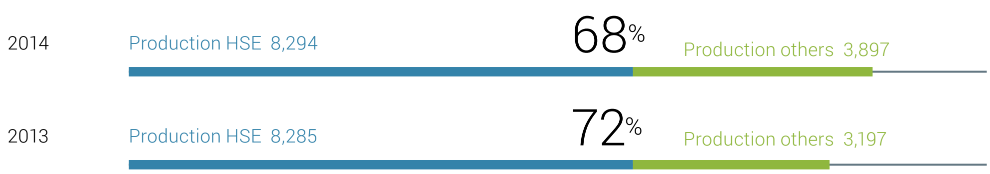
BALANCE OF EUROPEAN ELECTRICITY MARKETS IN 2014 (IN TWH)



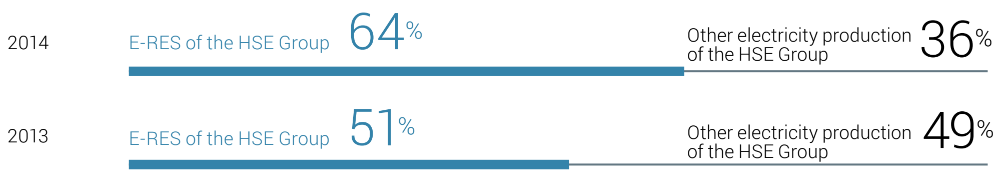
SLOVENIAN ELECTRICITY MARKET IN 2014 AND 2013 (IN GWh)



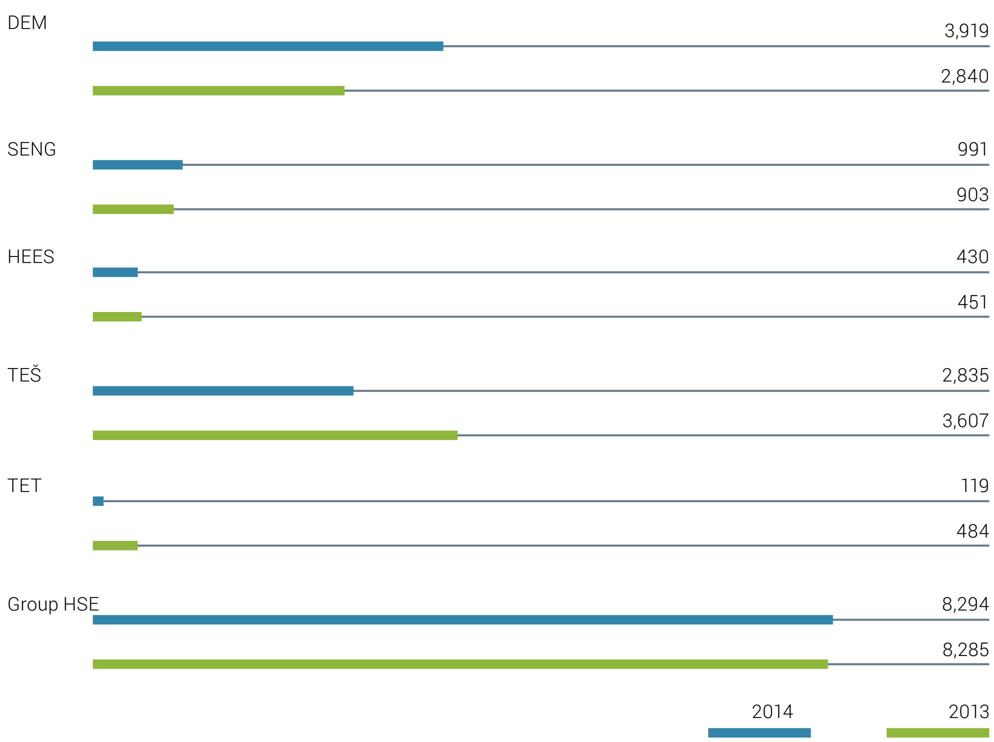
SHARE OF THE HSE GROUP'S PRODUCTION IN TOTAL ELECTRICITY PRODUCTION IN SLOVENIA IN 2014 AND 2013 (IN GWh)



SHARE OF ELECTRICITY PRODUCED FROM RES IN THE PRODUCTION OF THE HSE GROUP



NET ELECTRICITY PRODUCTION OF THE HSE GROUP IN 2014 AND 2013 (IN GWh) [3]



CONTINENTAL EUROPE

After a considerable increase in electricity supply prices for one year ahead because of the disaster in Japan, and subsequent decision to shut down eight German NPPs in March 2011, the trend of decrease in prices of long-term contracts on electricity supply occurred. This negative trend continued in 2012, 2013 and also in 2014. The price of a long-term contract for base load electricity in 2015 thus decreased since the beginning of 2014, from around EUR 36/MWh to EUR 33/MWh at the end of the year. 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 cause strong pressure on supply prices under short-term contracts. The Brent crude oil prices were from the beginning of the year until the month of July in the range between USD 105 to 115/barrel, and then the price started to fall steeply down to the value of USD 57/barrel in December 2014. The drop in

3 - Production of HESS is presented as at 31 October 2014. After that date HESS is no longer a subsidiary of the HSE Group and is included into the HSE Group under the equity method.

oil prices is the result of the rapid growth of crude oil production in the US, where new drilling technologies enable extraction of oil from the local slate. In 2014, coal prices on the world markets continued to move in a negative trend. The price of coal supplied under contract in North Sea ports in Europe amounted to around USD 80/t in the beginning of 2014, and only to around USD 66/t at the end of the year.

The market of Continental Europe represents a market that generates a large share of our turnover. Due to its high liquidity, this market is exploited mainly for managing price risks in trading in other regional markets.

The HSE was actively involved in electricity export to Italy from Slovenia, Austria, Switzerland and France. Due to general economic and political conditions in Greece, and due to the overhaul of the transmission line between Italy and Greece in 2014, HSE was not engaged in transit between Italy and Greece. Also in 2014, the newly installed solar power plants played an important role on the Italian market, since due to them the prices of electricity were under strong selling pressure. In 2014, like in 2013, we have not witnessed traditionally high energy prices during the summer months; instead of the average price on the daily market during the second and third quarter of 2014 was approximately 20% lower than in the previous year. The average price on the day-ahead market amounted to EUR 50.5/MWh in 2014, while in 2013 the price was still EUR 61.7/MWh.

SE EUROPE

Stagnating consumption of electricity from previous years on fragmented markets of SE Europe continued and, together with a good hydrological year, contributed to the fact that it was quite a surplus of electricity in Bosnia and Herzegovina, Romania and Bulgaria. On the other hand, there was a strong change in the energy balance of Serbia, which has turned from a net exporter in 2014 into a net importer of electricity in the amount of 2.3 TWh, mainly due to the catastrophic floods in the first half of the year. The consequences of floods in energy infrastructure in Serbia could only be remedied at the end of last year.

In 2014, HSE participated – directly or through its subsidiaries abroad – in most auctions for lease of cross-border transfer capacities in the SE Europe. After years of efforts of the international community, the company SEE CAO for the coordinated allocation of cross-border transfer capacities was founded in 2014; at the end of the year, it performed coordinated allocation of the annual and monthly capacities for the first time. The number of borders for which the SEE CAO conducts auctions is still quite limited, since all the countries in the region have not yet signed the agreements. In most remaining border certain shifts have also occurred, as the neighboring countries or their system operators mutually agreed to coordinate the allocation of cross-border capacities in the way that only one transmission system operator shall allocation cross-border capacities at a relevant border. Unfortunately, fragmentation of capacities and various restrictions without publicly known reasons rather limited trading and the increased the trading risk.

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.

In 2013, Croatia joined the EU and became a full member, but unfortunately, the legislation in the field of energy and the consequent course of trading in electricity in 2014 is not yet fully harmonized with the European legislation.

In the years 2013 - 2014, Romania came closer to the European standards regarding the functioning of the electricity market, although they preserved certain particularities, such as the conclusion of all bilateral transactions through the OPCOM power exchange (mandatory pool).

2.9 SALES AND CUSTOMERS

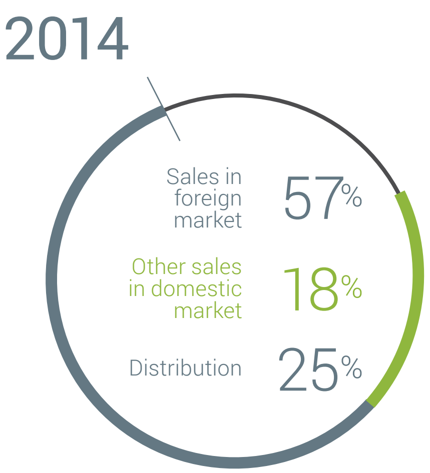
ELECTRICITY AND ELECTRICITY PRICES

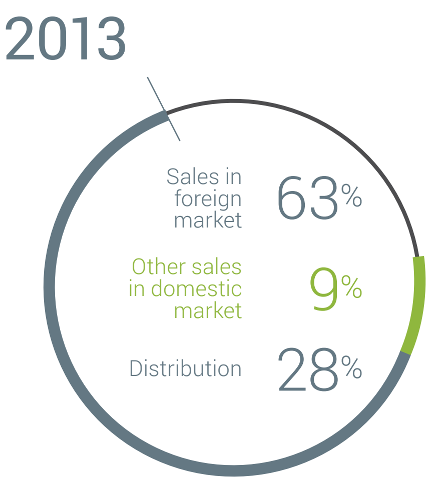
In 2014, the HSE Group sold about 1 TWh less electricity than the previous year. The lower sales were the result of harsh conditions in the markets of electricity, as well as the optimization of trading in electricity in relation to the credit exposure to the HSE business partners. Low price of electricity on the European market in 2014 conditioned and dictated quick adjustment of trading to market condition. The average sales and purchase price of electricity decreased by almost EUR 8/MWh compared to 2013. Nevertheless, the HSE Group took advantage of the favorable international position and market opportunities.

SALES VOLUME AND STRUCTURE

The HSE Group sold 25,566 GWh electricity in 2014. A volume of 10,985 GWh of electricity or 43% was sold on the domestic market, while 14,581 GWh of electricity or 57% was sold on foreign markets. Sales structure on the domestic market was as follows: 58% of electricity we sold to subsidiaries of distribution companies, 9% to large customers and 33% to other customers.

STRUCTURE OF THE HSE GROUP ELECTRICITY SALES IN 2014 AND 2013





LONG-TERM CONTRACTS AND DAY-AHEAD MARKET

The company generated most of its electricity sales 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. In addition, 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 2014:

- secondary frequency control in the regulatory range of ± 57 MW,
- tertiary frequency control in the amount of 94 MW,
- black start capability,
- voltage control and 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

In 2014, the HSE Group generated EUR 1.3 billion in net sales revenue. 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%.

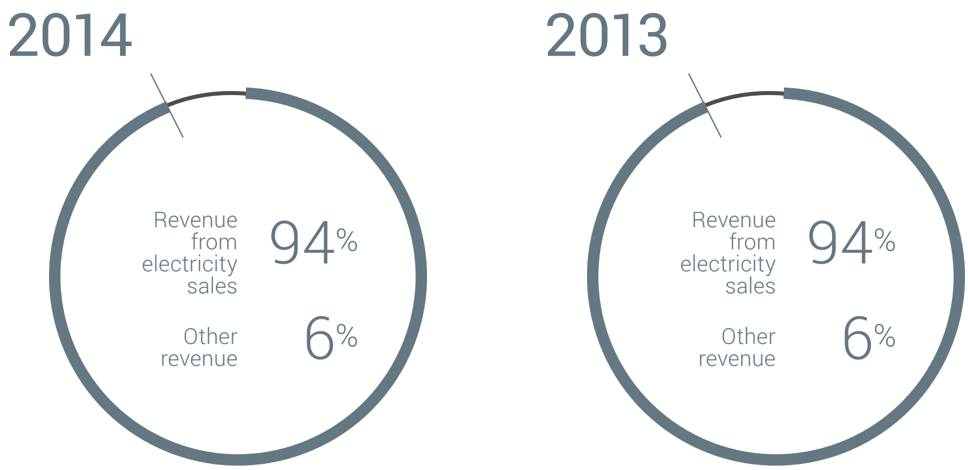
OTHER REVENUE

The HSE Group generated other revenue from services related to electricity, with the sale of CO_2 emission coupons, gas, heat, fly ash and gypsum, system water and waste materials, with rents, catering and hotel services, with activities of institutional care for elderly people, with revenues from sales of construction and maintenance works, with revenues in the mining construction services and services of sports activities.

HEAT

In 2014, 306 GWh of heat was produced and sold, which is by 43 GWh less than in 2013.

STRUCTURE OF THE HSE GROUP NET SALES REVENUE IN 2014 AND 2013



2.10 PURCHASING AND SUPPLIERS

2.10.1 ELECTRICITY

The essential mission of the HSE since its establishment is to purchase from the manufacturing companies of the HSE Group all the electricity produced and to sell it on the electricity market in a way that maximizes the difference between revenue and expenditure. In this, the HSE seeks to take advantage of the synergies of production units within the HSE Group. The operational and cost characteristics of individual production units differ considerably, so it is possible with the appropriate combination of schedules of power plants to achieve a more cost-effective production of electricity. Since production capacities of production units as well as the electricity market prices change over time, a regular and efficient dispatching of production units, while observing technical characteristics of power plants and market conditions, is all the more important.

In the domestic market, HSE bought a large part of electricity from the production companies of HSE Group. Within daily optimisation, however, most energy was bought on the Slovenian electricity exchange (BSP). In foreign markets, the main suppliers to the electricity exchange were major trading companies with which the HSE has signed the EFET agreements.

ELECTRICITY PRODUCTION UNITS IN THE HSE GROUP IN 2014

DEM	No. of gen. units	Dravograd 3	Vuzenica 3	Vuhred 3	Ožbalt 3	Fala 3	MB otok 3	Zlatoličje 2	Formin 2	sHP-P+SPP 2	TOTAL
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	6.5	**770.5**
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	525.0	550.0	530.0	500.0		

HESS*	No. of gen. units	Boštanj 3	Arto-Blanca 3	Krško 3	TOTAL
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	

* Data present production units of HESS as at 31 October 2014 (100%). Since that date, because a 35.6% share of HSE was sold to the Group GEN Energija, HESS has been included in the HSE Group under the equity method.

SENG	No. of gen. units	Doblar I. 3	Doblar II. 1	Plave I. 2	Plave II. 1	Solkan 3	PSP Avče 1	Zadlaščica 2	sHPP 26	TOTAL
Net output	MW	30.0	40.0	15.0	19.0	32.0	180.0	8.0	13.4	**337.4**
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	Unit 6**	TOTAL
Net output	MW	42.0	42.0	25.0	248.0	305.0	545.5	**1.207.5**
Rated generator capacity	MVA	56.3	56.3	94.0	324.0	377.0	727.0	**1.634.5**

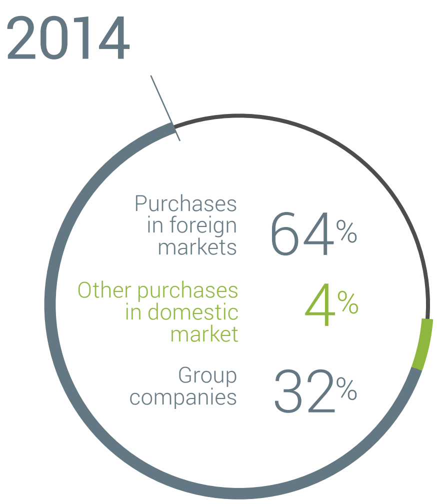
* Unit 3 operated till 7 February 2014. Since 1 September 2014 it is no longer foreseen for operation.
**Unit 6 was first synchronised on 24 September 2014: since thend hot startup tests were performed.

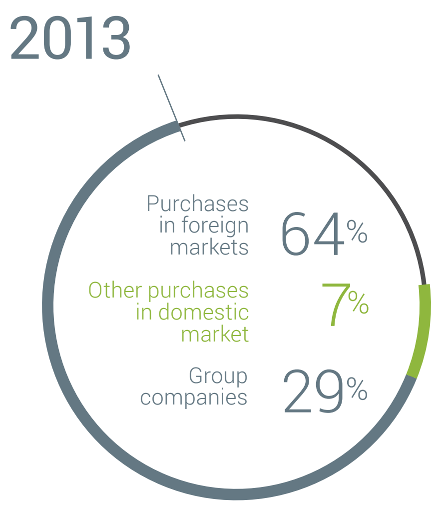
TET		PB I.	PB II.	Unit 4	TOTAL
Net output	MW	29.0	29.0	110.0	**168.0**
Rated generator capacity	MVA	39.7	39.7	156.0	**235.4**

STRUCTURE OF SOURCES

The electricity that the HSE supplied to its customers in 2014 was purchased in the domestic market from the HSE Group companies (32%) and other electricity suppliers in Slovenia (4%). The HSE Group purchased the remaining energy (64%) in foreign markets.

STRUCTURE OF THE HSE GROUP ELECTRICITY PURCHASES IN 2014 AND 2013





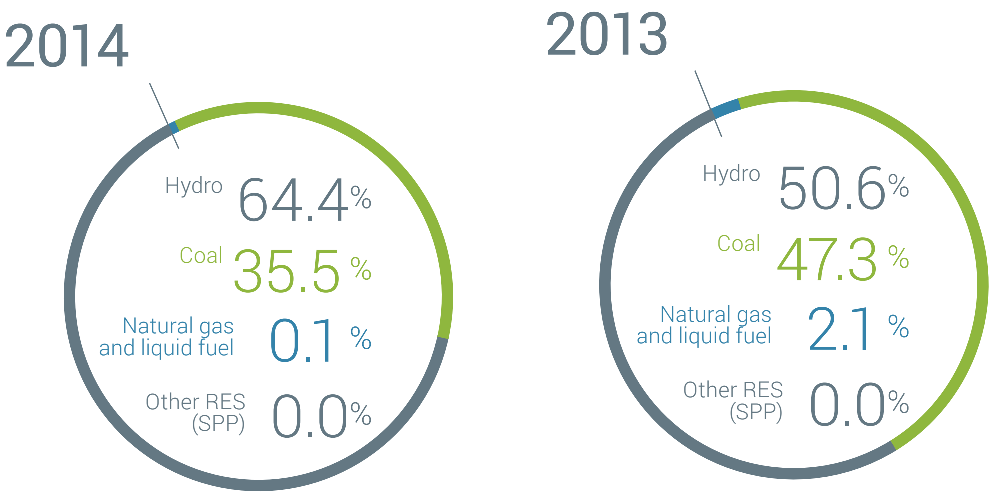
OPTIMISING PURCHASES

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

PRIMARY RAW MATERIALS

In 2014, primary raw materials used in the production of electricity included coal with 35.5% and water potential with 64.4%, while natural gas and extra light heating oil accounted only for 0.1%. The electricity produced by solar power plants accounted for 0.01% of the total energy produced by the HSE Group.

PRIMARY RAW MATERIALS USED IN ELECTRICITY PRODUCTION IN 2014 AND 2013



PURCHASE PRICE

In 2014, the purchase price of electricity was mostly affected by the following factors:

- electricity production at HPPs was by 36.9% higher than planned,
- electricity production at TEŠ was by 20.1% lower than planned,
- electricity production at TET–in liquidation was realised at 95.6% of the planned amount,
- price conditions in the electricity market,
- abandonment of electricity production of Unit 4 at TET (17 September 2014),
- start-up tests of replacement Unit 6 at TEŠ,
- problems with coal excavation in the PV and, consequently, smaller available quantities and higher price of coal.

COAL

31,949 TJ of coal was used for electricity production at TEŠ, and 1,372 TJ of coal was used to cover the requirements of TET–in liquidation.

COAL STOCKS

As at 31 December 2014, the coal stocks at PV amounted to 2,940 TJ.

2.11 INVESTMENTS

The HSE Group is in a period of intensive investment in new production facilities. At the end of 2014, it was in the final stage of construction of the replacement Unit 6 at TEŠ and renovation of some existing generating hydroelectric power facilities. The HSE Group places emphasis on the implementation of those production facilities, which largely meet the achievement of the objectives of the energy and climate package, while maximizing economic and minimizing environmental impact.

The HSE Group realized the development plans of HSE Group companies within the framework of the given possibilities. In 2014, we continued investments only to complete the works that were necessary for the operation of the production units. We conducted a re-evaluation of the planned investments, since the current price of electricity does not allow the construction of the majority of power plants except those that are the subject of support schemes. Activities for the obtaining of the design, environmental and other relevant documentation have continued on a limited scale, not to halt the lengthy procedures for the siting of energy facilities. In continuation, some major investment project of the HSE Group in 2014 are presented.

2.11.1 THE REPLACEMENT UNIT 6 AT TEŠ

In the realization of the set investment projects, the HSE Group saw the completion of the construction of the replacement Unit 6 at TEŠ as essential. The Unit is a facility of national importance, which will improve energy efficiency, while TEŠ will achieve compliance with international standards of best available techniques (BAT). The erection of replacement Unit 6 will make it possible to reduce the specific CO_2 emissions by 30% at the same amount of electricity produced and, in addition, due to better utilization efficiency the use of primary energy in Slovenia will be lower.

The replacement Unit 6 TEŠ will gradually replace technologically obsolete and economically not viable units. This is a nationally important project that will reduce the import dependency of the country. As such, it was included in the Resolution of the National Energy Program of 2004, the Resolution on National Development Projects for the Period. 2007–2023, and in spring 2009 also in the Green Paper for the National energy Programme of Slovenia.

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
Construction period	2010-2015

Activities on the project in 2014:

- Project design and supply of the main technological equipment were carried out in line with the planned project timeline. As at 31 December 2014, approximately 99.5% of all equipment was delivered to the replacement Unit 6 construction site, while the level of design realisation was estimated at approximately 99%.
- In the boiler room, the works were completed on the pressure part, steel constructions, facades, other equipment, canals, DeNOx system, insulation, linings, heating and cooling.
- The cold and hot start-up tests have been completed for the turbine regulation and for protections, generator cooling, heating of feed water, condensate pumps and heat station 3.
- Cold start-up tests and construction finishing work on the flue gas desulphurization are finished. The start-up tests are carried out.
- All steel constructions for the transportation of coal are completed, technological equipment is installed, now hot start-up tests and optimization of technology are being executed.
- Start-up tests and trial run of the cooling system have been completed.

At the end of 2014, due to changes in key input data (i.e. the price of electricity, the price of CO_2 coupons, production volume and the price of coal) the investor prepared a new version of the revised investment program - NIP 6, December 2014 edition.

The project investor is the company TEŠ.

2.11.2 HPPS ON THE MIDDLE SAVA RIVER

In 2014, activities and thereto-related investments were carried out in order to sign the concession contract, as well as activities for the preparation of pre-investment and investment documentation, and procedures for the siting of objects. The concession contract for the middle Sava has not yet been signed. One reason for this lies in the expansion of NATURA 2000 sites, which may affect the possibility for the construction of some HPPs on the middle Sava River. Among the owners of the company SRESA talks are going on about consolidation of ownership and transfer of the concession on SRESA. Due to the challenging situation on the electricity market, the project activities are carried out only to a limited extent, just not to stop the lengthy procedures of siting the objects.

Currently, the project of construction of hydropower plants on the middle Sava River is funded by the HSE.

2.11.3 HPP ON THE MURA RIVER

DEM were appointed as the concessionaire on the Mura River as early as in December 2005. Different variants of technical solutions have been prepared and the impact of HPPs on the sustainability of the area were discussed from three aspects. On the entire area of the concession, the concepts of HPPs as multipurpose facilities will have to be subjected to the sensitivity of the environment, and protection of the environment will have to be taken into account to the greatest extent in both the planning and the operation of the power plants. The restrictive conditions resulting from the environmental program of the area will have to be fully observed.
The project investor is the company DEM.

2.11.4 HPPS ON THE LOWER SAVA RIVER

Construction of the 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 companies 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. the concession fee. In addition to the already built HPP Vrhovo (owned by Savske elektrarne Ljubljana d.o.o. – SEL), HPP Boštanj, HPP Arto–Blanca and HPP Krško, the HPP chain on the lower Sava River will comprise HPP Brežice and HPP Mokrice.

HPP Boštanj and HPP Arto–Blanca are built and in operation. HPP Krško has been in regular operation since 1 April 2014. HPP Brežice has obtained environmental consent and partial building permit, the construction started at the end of March 2014. The national spatial plan has been adopted for HPP Mokrice as the last in the chain, and the stage of environmental impact assessment has just begun. Due to the lengthy siting procedures and difficulties in obtaining approvals the construction of the last two power plants in the chain, HPP Brežice and HPP Mokrice will be carried out in the period from 2014 to 2019. The completion of construction of HPP Mokrice would also mean the successful completion of the construction of five hydropower plants on the lower Sava River, that is the completion of the construction project of HPPs on the lower Sava River.

The construction project of the hydro power plants chain on the lower Sava River, led by the company HESS, came into majority ownership of the GEN Group, after the HSE sold its 35.6% share in HESS. The HSE Group now holds a 49% share in HESS.
The project investor is the company HESS.

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

In 2014, the reconstruction of HPP Doblar I and thereby the reconstruction Phase II at HPP Doblar I was completed, and the reconstruction of HPP Plave I started.

RECONSTRUCTION PHASE II AT HPP DOBLAR I: generator A1 was replaced and after the tests carried out in the middle of February 2014 put into trial operation that ended on 30 June 2014. Technical examination of generators A1 and A2 was carried out on 3 July 2014and on that basis the operating permit was obtained.

RECONSTRUCTION PHASE II AT HPP PLAVE I: after the successful completion of reconstruction at HPP Doblar I, activities started reconstruction Phase II at HPP Plave I. It started with the tendering procedure for the supply and installation of generators, while the preparation of other project documentation for the tender of other equipment is underway.

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. The PV carried out the necessary maintenance work on external objects. Most of the investments were made in the modernization of mining equipment (mainly purchase of spare parts for mining machines, front and side chain conveyors and hydraulic supports) and equipment for the construction of pit tracks, where the largest share of the investment represented the steel arch supports and maintenance of continuous mining machines.

2.12 IT

OPTIMISATION OF THE HSE GROUP DATA CENTRE

In 2014, upgrades and migrations of key systems and application tools on highly-available (HA) system infrastructure in the DEM and TEŠ safe rooms were implemented. We also carried out a preventative verification of the existing system hardware and software and implemented streamlining of maintenance and license agreements for joint infrastructure of the HSE.

IT HSE SECURITY POLICY

In mid-2014, 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. The project was successfully completed and put into operation at the end of 2014.

CONSOLIDATION OF SERVER AND DATA INFRASTRUCTURE 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 warehouses at DEM and TEŠ (in safe rooms) in 2014. 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. At the end of 2014 partial optimization of system data and server capacities was carried out and the project of renovation of the entire system of the server and data infrastructure of companies PV, TEŠ, HESS, HSE and DEM was prepared, which will be continued and implemented in 2015.

UNIFICATION OF BUSINESS ERP SYSTEMS IN THE HSE GROUP

After the implementation of SAP ERP in the HSE, the need arose for additional functions in the area of management business partners, which will be efficiently supported with the upgrading of the SAP CRM, which is an integral part of the SAP information system. At the end of 2014 we started to prepare the design for the co-called »Roll-out SAP« implementation in SENG, DEM and TEŠ.

2.13 BUSINESS PERFORMANCE ANALYSIS[4]

In 2014, the HSE Group realised NET SALES REVENUE in the amount of EUR 1,258,391,110, which is 19% less in comparison to 2013, due to decreased quantities of electricity sold by the controlling company and to lower electricity prices.

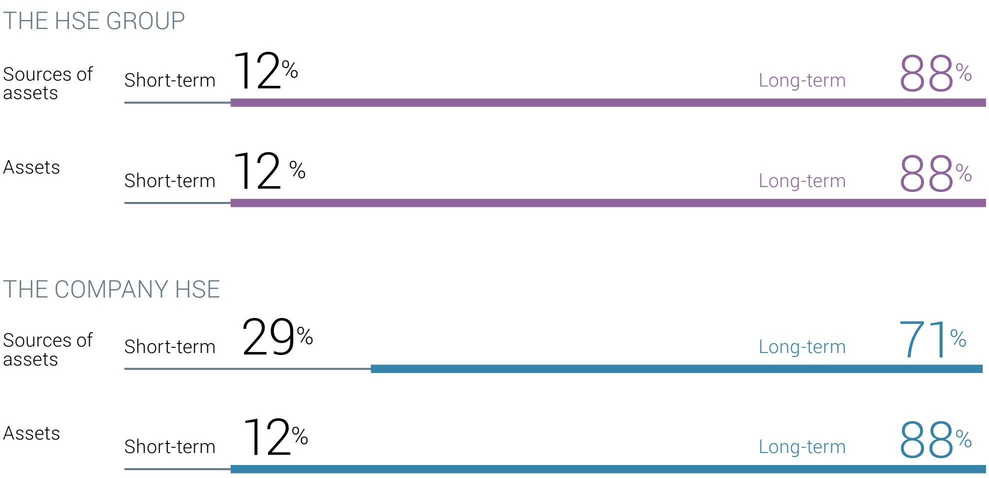
The achieved OPERATING PROFIT OR LOSS of the HSE Group in 2014 is negative in the amount of EUR 8,113,035, mainly due to impairments of fixed assets in TEŠ, TET–in liquidation and in the PV Group, and due to exceptional events in PV and TEŠ. Consequently, due to the negative financial result in the amount of EUR 6,622,877 and taxes in the amount of EUR 20,954,523, the NET PROFIT OR LOSS of the HSE Group is negative too, with a net loss amounting to EUR 35,690,435 EUR. Without the above-mentioned impairments of fixed assets in the amount of EUR 72 million, the financial year 2014 would be concluded with a positive figure of the net profit or loss in the amount of EUR 36 million, and a positive figure of profit or loss in the amount of EUR 64 million.

ASSETS of the HSE Group as at 31 December 2014 in the amount of EUR 2,728,888,082 are by 4% lower compared to the end of 2013, particularly due to the sale of the 35.6% HSE interest in HESS and due to impairments of fixed assets in other companies. As the HSE Group no longer holds a majority share in HESS, the HESS is now included in the HSE Group under the equity method.

As at 31 December 2014, THE EQUITY of the HSE Group amounted to 1,471,547,419, which is by 5% less compared to the end of 2013, resulting from the loss of the Group in 2014 (particularly due to impairments of fixed assets and exceptional events in PV and TEŠ) and the lower equity of minority shareholders (due to the sale of the 35.6% HSE interest in HESS).

The companies of the HSE Group PRODUCED 8,294 GWh electricity in 2014, which is at the same level of production as in 2013. Because of favourable hydrologic conditions, production in HPPs was higher than in 2013. On the other hand, the production of TPPs was lower than in 2013, especially due to lower supplies of coal from the PV and, consequently, lower production in TEŠ, as well as due to start-up tests of replacement Unit 6 at TEŠ and unprofitable production and, consequently, permanently stopped operation of Unit 4 at TET–in liquidation.

STRUCTURE OF THE STATEMENT OF FINANCIAL POSITION OF THE HSE GROUP AND COMPANY HSE AS AT 31 DECEMBER 2014



4 - This Chapter needs to be read in connection with the Financial Report of the company HSE, Chapter » Correction of a fundamental error from previous periods«.

STRUCTURE OF FPS

The structure of the statement of financial position of the HSE Group shows that as at cut-off date of 31 December 2014 the Group finances all its long-term assets with long--term financial sources.

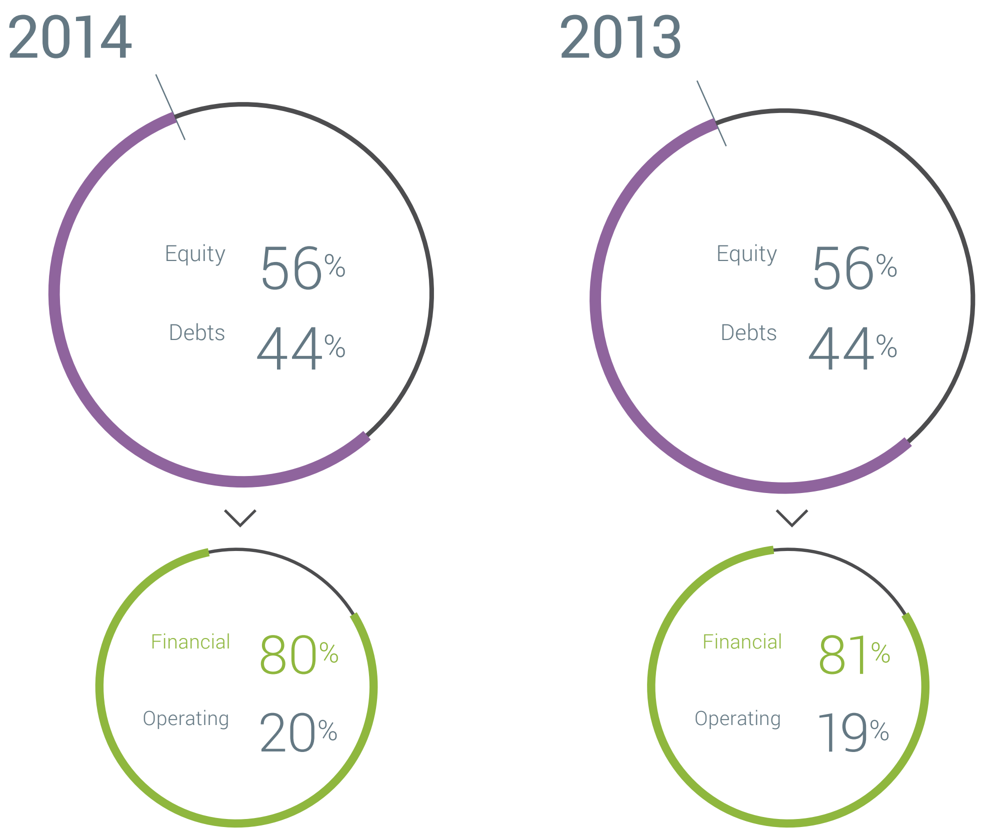
CAPITAL ADEQUACY

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

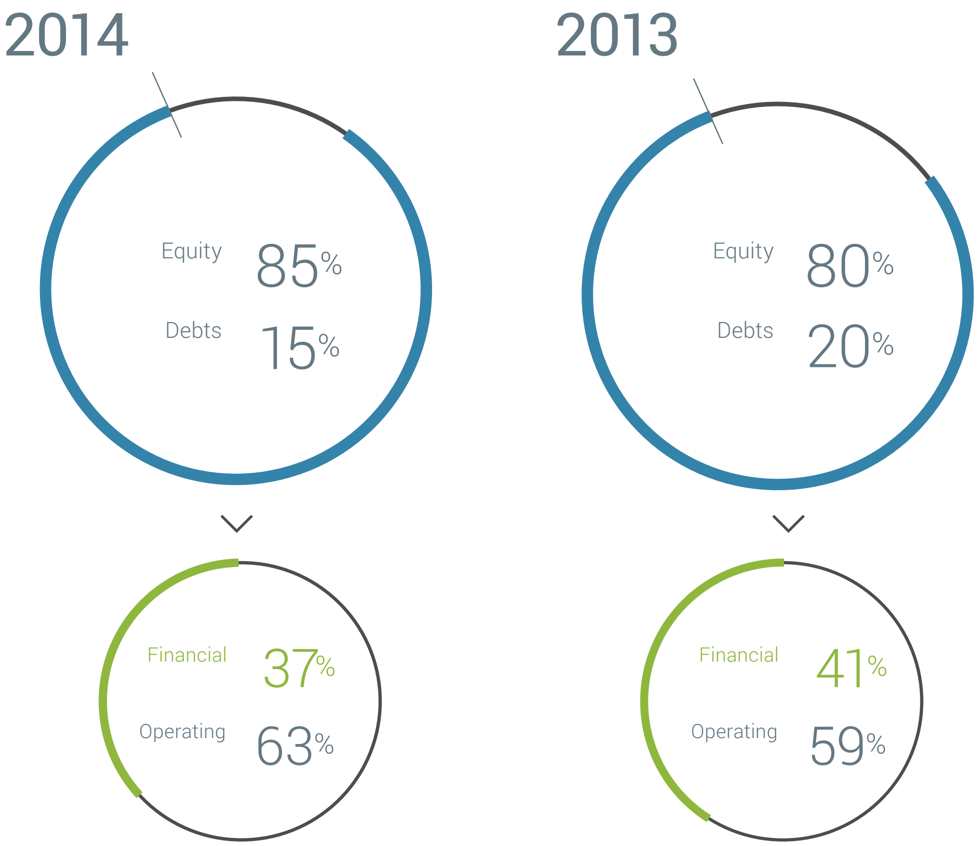
STATE OF INDEBTEDNESS

An important indicator of the business and financial position is also the state of indebtedness of the HSE Group, which was at the end of 2014 below that from the preceding year, mainly due to the repayment of short-term loans in December. At year-end 2014, indebtedness of the controlling company to the banks was by 13% lower, while indebtedness of the Group to banks was lower by 3%.
Already in 2013, the HSE Group companies adopted measures to rationalise and optimise operations, which was in 2014 only reflected to a minor extent, while their effect will mainly show in the years to come.
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 15% and to 44% within the group. In the debt structure of the controlling company, financial liabilities represent 37%, while those of the Group account to 80%. A more detailed structure of liabilities is presented in the financial reports of the controlling company HSE and the HSE Group.

HSE GROUP'S (FINANCIAL AND OPERATING) EQUITY-TO-DEBT RATIO AS AT 31 DECEMBER 2014 AND 31 DECEMBER 2013



THE CONTROLLING COMPANY'S (FINANCIAL AND OPERATING) EQUITY-TO-DEBT RATIO AS AT 31 DECEMBER 2014 AND 31 DECEMBER 2013



NET FINANCIAL DEBT OF THE HSE GROUP AND COMPANY HSE AS AT 31 DECEMBER 2014 AND 31 DECEMBER 2013

THE HSE GROUP

THE COMPANY HSE

THE VALUE OF ASSETS AND TOTAL EQUITY AS AT 31 DECEMBER 2014 AND OPERATING RESULTS OF THE HSE GROUP COMPANIES IN 2014

HOLDING SLOVENSKE ELEKTRARNE d.o.o.

Total assets in EUR	1,394,651,222
Total equity in EUR	1,152,425,385
Net profit or loss in EUR	140,823,163

SLOVENIA

DRAVSKE ELEKTRARNE MARIBOR d.o.o.

HSE's stake	100.0%
Total assets in EUR	528,565,983
Total equity in EUR	510,725,832
Net profit or loss in EUR	8,523,310

SOŠKE ELEKTRARNE NOVA GORICA d.o.o.

HSE's stake	100.0%
Total assets in EUR	263,930,526
Total equity in EUR	206,846,303
Net profit or loss in EUR	7,434,373

HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.**

Direct HSE's stake	15.4%
Indirect HSE's stake	49,0%
Total assets in EUR	279,539,231
Total equity in EUR	272,765,199
Net profit or loss in EUR	3,052,325

SRESA d.o.o.

HSE's stake	60.0%
Total assets in EUR	77,035
Total equity in EUR	77,024
Net profit or loss in EUR*	(162)

TERMOELEKTRARNA ŠOŠTANJ d.o.o.

HSE's stake	100.0%
Total assets in EUR	1,498,884,806
Total equity in EUR	426,353,458
Net profit or loss in EUR	(89,275,670)

TERMOELEKTRARNA TRBOVLJE d.o.o. - in liquidation

HSE's stake	81.3%
Total assets in EUR	8,029,363
Total equity in EUR	(2,475,090)
Net profit or loss in EUR	(24,476,068)

PREMOGOVNIK VELENJE d.d.

HSE's stake	77.7%
Total assets in EUR	160,111,014
Total equity in EUR	38,420,435
Net profit or loss in EUR	(36,052,627)

HSE INVEST d.o.o.

Direct HSE's stake	25.0%
Indirect HSE's stake	75.0%
Total assets in EUR	2,680,592
Total equity in EUR	1,336,313
Net profit or loss in EUR	96,948

SOENERGETIKA d.o.o

HSE's stake	25.0%
Total assets in EUR	5,361,156
Total equity in EUR	1,806,683
Net profit or loss in EUR	698,196

* SRESA was established for the purpose of HPPs construction on the middle Sava River. HSE d.o.o. has remained the holder of the concession rights.

** After the sale of the 35.6% interest in 2014 HESS became an associated company of the HSE Group, included in the Group under the equity method.

ABROAD

HSE ITALIA S.r.l.

HSE's stake	100.0%
Total assets in EUR	1,431,896
Total equity in EUR	189,036
Net profit or loss in EUR	12,960

HSE ADRIA d.o.o.

HSE's stake	100.0%
Total assets in EUR	4,179,924
Total equity in EUR	687,462
Net profit or loss in EUR	311,639

HSE MAK ENERGY DOOEL

HSE's stake	100.0%
Total assets in EUR	102,476
Total equity in EUR	95,017
Net profit or loss in EUR	10,697

HSE RO ENERGY S.r.l.***

Direct HSE's stake	99.0%
Indirect HSE's stake	100.0%
Total assets in EUR	0
Total equity in EUR	0
Net profit or loss in EUR	(32,187)

*** On 8 January 2015, the liquidation process of the company HSE Ro Energy was formally completed with the erasion from the Register of Companies.

HSE BALKAN ENERGY d.o.o.

HSE's stake	100.0%
Total assets in EUR	2,482,787
Total equity in EUR	711,902
Net profit or loss in EUR	38,426

HSE BH d.o.o.

HSE's stake	100.0%
Total assets in EUR	1,046,940
Total equity in EUR	540,992
Net profit or loss in EUR	13,499

2.13.1 CONTROLLING COMPAN'S RATIOS[5]

in EUR

EQUITY FINANCING RATE	31 Dec 2014	31 Dec 2013*
1. Equity and liabilities	1,394,651,222	1,313,851,947
2. Equity	1,152,425,385	1,008,927,696
Equity financing rate = 2 / 1*	**82.63**	**76.79**

*Ratio is adjusted due to eliminating the error in 2013.

At the end of the year, the company's equity constituted almost 83% of its total liabilities. In relation to year-end 2013, the equity-financing rate was higher especially because of higher equity that increased due to the net operating profit and lower indebtedness.

in EUR

LONG-TERM FINANCING RATE	31 Dec 2014	31 Dec 2013*
1. Equity	1,152,425,385	1,008,927,696
2. Long-term liabilities	69,071,477	80,825,843
3. Total (1 + 2)	1,221,496,862	1,089,753,539
4. Equity and liabilities	1,394,651,222	1,313,851,947
Long-term financing rate = 3 / 4	**87.58**	**82.94**

*Ratio is adjusted due to eliminating the error in 2013.

The company financed 88% of its assets with long-term resources, while the other 12% were financed through short-term resources. Compared with the end of 2013, the long-term financing rate was higher due to an increase in equity and lower short-term indebtedness.

in EUR

OPERATING FIXED ASSETS RATE	31 Dec 2014	31 Dec 2013*
1. Property, plant and equipment	34,947,327	12,411,428
2. Intangible assets	24,444,729	48,531,538
3. Total fixed assets at carrying amount (1 + 2)	59,392,056	60,942,966
4. Assets	1,394,651,222	1,313,851,947
Operating fixed assets rate = 3 / 4	**4.26**	**4.64**

*Ratio is adjusted due to eliminating the error in 2013.

The share of fixed assets accounts for 4.3% of the company's assets. In comparison to 2013, it is lower due to increased short-term receivables from TEŠ under the assumption of debt contracts.

5 - This Chapter needs to be read in connection with the Financial Report of the company HSE, Chapter » Correction of a fundamental error from previous periods«.

in EUR

LONG-TERM INVESTMENT RATE	31 Dec 2014	31 Dec 2013*
1. Property, plant and equipment	34,947,327	12,411,428
2. Intangible assets	24,444,729	48,531,538
4. Long-term investments in subsidiaries	884,084,518	1,019,458,150
5. Other long-term investments and loans	40,880,442	366,500
6. Long-term operating receivables	530,936	659,866
8. Total (1 + 2 + 3 + 4 + 5 + 6 + 7)	984,887,952	1,081,427,482
9. Assets	1,394,651,222	1,313,851,947
Long-term investment rate = 8 / 9	**70.62**	**82.31**

*Ratio is adjusted due to eliminating the error in 2013.

The company's long-term assets account for 71% of its total assets. The ratio decreased compared with the end of 2013 due to the sale of the 35.6% interest in HESS.

in EUR

EQUITY TO OPERATING FIXED ASSETS	31 Dec 2014	31 Dec 2013*
1. Equity	1,152,425,385	1,008,927,696
2. Property, plant and equipment	34,947,327	12,411,428
3. Intangible assets	24,444,729	48,531,538
4. Total fixed assets at carrying amount (2 + 3)	59,392,056	60,942,966
Equity to operating fixed assets = 1 / 4	**19.40**	**16.56**

*Ratio is adjusted due to eliminating the error in 2013.

At the end of December 2014, the equity to fixed assets ratio stood at 19.4, which means that the least liquid assets we in whole financed by equity. The ratio increased in relation to year-end 2013 primarily due to higher equity.

in EUR

IMMEDIATE SOLVENCY RATIO	31 Dec 2014	31 Dec 2013
1. Cash and cash equivalents	28,360,621	13,014,445
2. Short-term investments	193,014,788	31,115,746
3. Total liquid assets (1 + 2)	221,375,409	44,130,191
4. Short-term liabilities	173,154,359	224,098,408
Immediate solvency ratio = 3 / 4	**1.28**	**0.20**

The acid test ratio presents the relationship between liquid assets and short-term liabilities. At the end of 2014, it stood at 1.3, meaning that the company covered all its short-term liabilities with liquid assets. In both years, short-term financial investments comprise the short-term financial receivables from TEŠ under the assumption of debt contracts, amounting to EUR 10.2 million at the end of 2013 and EUR 166 million at the end of 2014, as well as short-term loans to PV in the amount of EUR 16 million EUR, and to RGP in the amount of EUR 1.7 million in both years. Short-term financial investments into TEŠ and PV will be converted into a long-term financial investment after the implemented capital increase in both companies. If the capital increase had been realised already in 2014, the ratio at the cut-off date 31 December 2014 would be less than 1, but better in comparison to the situation at the end of 2013.

in EUR

QUICK RATIO	31 Dec 2014	31 Dec 2013
1. Cash and cash equivalents	28,360,621	13,014,445
2. Short-term investments	193,014,788	31,115,746
3. Short-term operating receivables	178,782,176	179,475,270
4. Total (1 + 2 + 3)	400,157,585	223,605,461
5. Short-term liabilities	173,154,359	224,098,408
Quick ratio = 4 / 5	**2.31**	**1.00**

The quick ratio at the end of 2014 was 2.31. In comparison to the end of 2013, the ratio was higher due to short-term financial investments – receivables from TEŠ under the assumption of debt contracts, which amounted to EUR 166 million at the end of the year. Even if the capital increase in TEŠ and PV had been realised already in 2014, the ratio at the cut-off date 31 December 2014 would be above 1 and better in comparison to the situation at the end of 2013.

in EUR

CURRENT RATIO	31 Dec 2014	31 Dec 2013
1. Short-term assets	405,130,221	227,316,643
2. Short-term liabilities	173,154,359	224,098,408
Current ratio = 1 / 2	**2.34**	**1.01**

The current ratio at the cut-off date 31 December 2014 stood at 2.34, which shows that the company covered all of its current liabilities through short-term assets. Compared to the year-end 2013, the ratio is higher due to higher short-term financial investments, which has been already explained in connection with the quick ratio.

in EUR

OPERATING EFFICIENCY RATIO	2014	2013
1. Operating revenue	1,313,019,784	1,643,151,820
2. Operating expenses	1,214,797,689	1,539,692,482
Operating efficiency ratio = 1 / 2	**1.08**	**1.07**

In 2014, the Company's operating revenue exceeded its operating expenses by 8%. Compared to the previous year, the ratio is a little higher, because operating expenses were more down than operating revenues.

in EUR

NET RETURN ON EQUITY RATIO (ROE)	2014	2013*
1. Profit or loss for the period	140,823,163	16,130,623
2. Average equity	1,080,676,541	998,675,440
ROE = 1 / 2	**0.130**	**0.016**

*Ratio is adjusted due to eliminating the error in 2013.

In the reported period, the company generated EUR 13 of profit per EUR 100 of invested equity. In comparison with year-end 2013, the ROE ratio is higher due to higher net profit. And net profit was better thanks to payments of subsidiaries profits; in addition to that, the fundamental error – impairments of the long-term investment into PV was eliminated in 2013. Even in case that the profits of subsidiaries would not be paid out and the investments had not been impaired, the net profit for the year 2014 would be better in comparison with the previous year.

in EUR

RETURN ON ASSETS (ROA)	2014	2013*
1. Profit or loss for the period	140,823,163	16,130,623
2. Average assets	1,354,251,585	1,424,162,157
ROA = 1 / 2	**0.104**	**0.011**

*Ratio is adjusted due to eliminating the error in 2013.

The return on assets (ROA) in 2014, in the amount of 10.4%, was substantially higher than at the end of 2013, thanks to the higher net profit and lower value of average assets (in 2013, the average assets value was higher mainly due to short-term loans granted to TEŠ for bridge financing of replacement Unit 6 in the meantime until the drawing of EIB and EBRD loans was approved).

in EUR

ADDED VALUE	2014	2013
1. Operating revenue	1,313,019,784	1,643,151,820
2. Costs of goods, materials and services	1,204,197,544	1,528,703,390
3. Other operating expenses	752,557	431,194
Added value = 1 - 2 - 3	**108,069,683**	**114,017,236**

The added value of the year 2014 amounted to EUR 108,069,683. It is lower in comparison to the previous year, because several other operating revenues had been generated in 2013.

VALUE ADDED PER EMPLOYEE	2014	in EUR 2013
1. Added value	108,069,683	114,017,236
2. Average no. of employee	132	131
Value added per employee = 1 / 2	**821,823**	**873,695**

In 2014, added value per employee amounted to EUR 821,823 and was lower in relation to the previous year mainly due to higher other operating revenues generated in 2013.

DEBT / EQUITY RATIO	31 Dec 2014	in EUR 31 Dec 2013*
1. Short-term financial liabilities	11,588,915	22,614,252
2. Long-term financial liabilities	64,783,541	76,987,315
3. Total financial liabilities (1 + 2)	76,372,457	99,601,567
4. Equity	1,152,425,385	1,008,927,696
DEBT / EQUITY RATIO = 3 / 4	**0.07**	**0.10**

*Ratio is adjusted due to eliminating the error in 2013.

The ratio of total financial liabilities to equity was lower compared to that of 31 December 2013 due to the repayment of loans to banks and within the HSE Group in compliance with amortisation schedules, and due to higher equity resulting from net operation profit.

TOTAL FINANCIAL DEBT / EBITDA	2014	in EUR 2013
1. Short-term financial liabilities	11,588,915	22,614,252
2. Long-term financial liabilities	64,783,541	76,987,315
3. Total financial liabilities (1 + 2)	76,372,457	99,601,567
4. EBIT	98,222,095	103,459,338
5. Amortisation/depreciation expense	1,408,491	1,712,913
6. EBITDA (4 + 5)	99,630,586	105,172,251
Total financial debt / EBITDA = 3 / 6	**0.77**	**0.95**

The ratio showing the relationship between the indebtedness of the company and EBITDA was better than at the end of 2013 due to the repayment of loans.

EBITDA / Financial expenses for borrowings	2014	in EUR 2013
1. EBIT	98,222,095	103,459,338
2. Amortisation/depreciation expense	1,408,491	1,712,913
3. EBITDA (1 + 2)	99,630,586	105,172,251
4. Financial expenses for borrowings	3,965,944	7,599,489
EBITDA / Financial expenses for borrowings = 3 / 4	**25.12**	**13.84**

The ratio showing the relationship between EBITDA and financial expenses for loans received was better than in 2013 due to lower interest payments.

in EUR

Total financial liabilities / Assets	31 Dec 2014	31 Dec 2013*
1. Long-term financial liabilities	64,783,541	76,987,315
2. Short-term financial liabilities	11,588,915	22,614,252
3. Total financial liabilities (1 + 2)	76,372,457	99,601,567
4. Assets	1,394,651,222	1,313,851,947
Total financial liabilities / Assets = 3 / 4	**0.05**	**0.08**

*Ratio is adjusted due to eliminating the error in 2013.

The total financial liabilities to assets ratio was 0.05 at the end of December 2014. Compared to the end of 2013, the ratio is lower due to higher assets and lower indebtedness.

DIVIDEND TO EQUITY RATIO

In 2014, the owner of the company HSE made no decision on the use of accumulated profit.

2.13.2 THE HSE GROUP RATIOS

in EUR

EQUITY FINANCING RATE	31 Dec 2014	31 Dec 2013
1. Equity and liabilities	2,728,888,082	2,830,521,497
2. Equity	1,471,547,419	1,546,787,072
Equity financing rate = 2 / 1	**53.92**	**54.65**

At the end of 2014, the Group's equity represented 54% of its total liabilities. Relative to 2013, the equity-financing rate decreased in particular due to lower equity. The equity was lower due to the generated loss (mainly resulting from impairments of fixed assets it TEŠ, TET–in liquidation and the PV Group, and because of exceptional events in the companies PV and TEŠ) and due to lower equity of minority shareholders (mainly resulting from the sale of the 35.6% interest of HSE in HESS; consequently, HESS has been included into the Group under the equity method).

in EUR

LONG-TERM FINANCING RATE	31 Dec 2014	31 Dec 2013
1. Equity	1,471,547,419	1,546,787,072
2. Long-term liabilities	937,281,163	962,567,334
3. Total (1 + 2)	2,408,828,582	2,509,354,406
4. Equity and liabilities	2,728,888,082	2,830,521,497
Long-term financing rate = 3 / 4	**88.27**	**88.65**

The Group financed 88% of its assets with long-term resources, while the remaining 12% were financed with short-term resources. Despite lower equity and lower long-term liabilities, the long-term financing rate was only slightly lower than at the end of 2013, because also long-term assets were lower due to impairments.

in EUR

OPERATING FIXED ASSETS RATE	31 Dec 2014	31 Dec 2013
1. Property, plant and equipment	2,241,267,011	2,437,538,638
2. Intangible assets	22,567,489	31,500,841
3. Total fixed assets at carrying amount (1 + 2)	2,263,834,500	2,469,039,479
4. Assets	2,728,888,082	2,830,521,497
Operating fixed assets rate = 3 / 4	**82.96**	**87.23**

At year-end 2014, fixed assets represented 83% of the Group's total assets. Compared with the end of 2013, the operating fixed assets rate was substantially lower, mainly due to the sale of the 35.6% HSE interest in HESS (consequently, the HESS in included into the Group under the equity method), the impairments of assets in TEŠ, TET - in liquidation and PV, and due to the initiated liquidation procedure for TET.

in EUR

LONG-TERM INVESTMENT RATE	31 Dec 2014	31 Dec 2013
1. Property, plant and equipment	2,241,267,011	2,437,538,638
2. Intangible assets	22,567,489	31,500,841
3. Investment property	0	231,497
4. Long-term investments in subsidiaries	0	13,500
5. Other long-term investments and loans	135,548,014	3,323,960
6. Long-term operating receivables	819,330	1,178,571
7. Other long-term assets	600,857	632,851
8. Total (1 + 2 + 3 + 4 + 5 + 6 + 7)	2,400,802,701	2,474,419,858
9. Assets	2,728,888,082	2,830,521,497
Long-term investment rate = 8 / 9	**87.98**	**87.42**

The Group's total long-term assets account for 88% of its total assets. Compared with the end of 2013, the long-term financing rate was higher. Both long-term assets, as mentioned above, and short-term assets were lower, the latter due to decrease in short-term deposits and short-term operating receivables, which decreased due to lower turnover.

in EUR

EQUITY TO OPERATING FIXED ASSETS	31 Dec 2014	31 Dec 2013
1. Equity	1,471,547,419	1,546,787,072
2. Property, plant and equipment	2,241,267,011	2,437,538,638
3. Intangible assets	22,567,489	31,500,841
4. Total fixed assets at carrying amount (2 + 3)	2,263,834,500	2,469,039,479
Equity to operating fixed assets = 1 / 4	**0.65**	**0.63**

The equity to fixed assets ratio stood at 0.65 at the end of 2014, meaning that more than 50% of illiquid assets were financed from equity. Compared to the state at the end of 2013, the ration increased, since the equity was less down than the fixed assets. The reasons for decrease in both equity and fixed assets have been already explained in connection with other ratios.

in EUR

IMMEDIATE SOLVENCY RATIO	31 Dec 2014	31 Dec 2013
1. Cash and cash equivalents	88,298,173	75,184,323
2. Short-term investments	6,024,008	33,569,492
3. Total liquid assets (1 + 2)	94,322,181	108,753,815
4. Short-term liabilities	320,059,500	321,167,091
Immediate solvency ratio = 3 / 4	**0.29**	**0.34**

The acid test ratio describes the relationship between liquid assets and short-term liabilities of the Group. At the end of 2014, it amounted to 0.29, which means that the Group covered 29% of its current liabilities with its liquid assets. Compared with 2013, the ratio is lower due to lower short-term deposits. The companies of the HSE Group regularly monitor and manage their short-term liquidity.

in EUR

QUICK RATIO	31 Dec 2014	31 Dec 2013
1. Cash and cash equivalents	88,298,173	75,184,323
2. Short-term investments	6,024,008	33,569,492
3. Short-term operating receivables	186,022,917	209,255,988
4. Total (1 + 2 + 3)	280,345,098	318,009,803
5. Short-term liabilities	320,059,500	321,167,091
Quick ratio = 4 / 5	**0.88**	**0.99**

The quick ratio stood at 0.88 at the end of 2014, meaning that the Group financed 88% of all short-term liabilities from current assets. In comparison to year-end 2013, the ratio is weaker due to lower short-term deposits and lower short-term operating receivables, which were down due to lower turnover.

in EUR

CURRENT RATIO	31 Dec 2014	31 Dec 2013
1. Short-term assets	322,914,246	350,856,414
2. Short-term liabilities	320,059,500	321,167,091
Current ratio = 1 / 2	**1.01**	**1.09**

The current ratio amounted to 1.01 at the end of 2014, which means that the Group covered all of its current liabilities through short-term assets. In comparison to the end of 2013, the ratio is slightly lower, mainly due to lower short-term assets (lower short-term deposits and lower short-term operating receivables, as already explained in connection with other ratios).

OPERATING EFFICIENCY RATIO	2014	in EUR 2013
1. Operating revenue	1,313,364,578	1,620,667,167
2. Operating expenses	1,324,343,838	1,515,826,587
Operating efficiency ratio = 1 / 2	**0.99**	**1.07**

In 2014, the Group's operating revenue was by 1% below its operating expenses. The operating expenses also comprise the impairments of fixed assets in TEŠ, TET– in liquidation and the PV Group in the amount of EUR 72 million. Consequently, the operating efficiency ratio is weaker than it was in 2013. Without impairments of fixed assets, the ratio would be 1.05.

NET RETURN ON EQUITY RATIO (ROE)	2014	in EUR 2013
1. Profit or loss for the period	(35,690,434)	66,610,459
2. Average equity	1,509,167,246	1,510,124,914
ROE = 1 / 2	**(0.024)**	**0.044**

The net return on equity ratio – ROE in 2014 was negative due to the generated operating loss (impairments of fixed assets, as mentioned with the preceding ratio). Even in case that impairments of fixed assets were not implemented in 2014, the ration would be below that from 2013. The reasons are as follows: start-up of replacement Unit 6 at TEŠ, changed operating regime of power plants and, consequently, closing down of old coal-fuelled units, initiated liquidation of company TET and problems with coal excavation in the PV. Consequently, high costs incurred in both TPPs and the coalmine, which were not in line with the electricity price decrease. The companies of the HSE Group have already adopted several measures to optimise and streamline the operation, mostly at TEŠ and in the PV Group. However, the effects of these measures were noticed in 2014 only to a smaller extent and will be better visible only in the years to come.

RETURN ON ASSETS (ROA)	2014	in EUR 2013
1. Profit or loss for the period	(35,690,434)	66,610,459
2. Average assets	2,779,704,790	2,713,187,117
ROA = 1 / 2	**(0.013)**	**0.025**

The net return on assets ratio – ROA was negative in 2014 due to the generated operating loss, as already explained in connection with other ratios.

in EUR

ADDED VALUE	2014	2013
1. Operating revenue	1,313,364,578	1,620,667,167
2. Costs of goods, materials and services	935,403,100	1,173,166,153
3. Other operating expenses	76,591,789	91,958,573
Added value = 1 - 2 - 3	**301,369,690**	**355,542,441**

The Group's added value in 2014 is by 15% lower compared to 2013, mainly due to exceptionally high costs, as already explained in connection with other ratios.

in EUR

VALUE ADDED PER EMPLOYEE	2014	2013
1. Added value	301,369,690	355,542,441
2. Average no. of employee	3,770	3,883
Value added per employee = 1 / 2	**79,939**	**91,564**

In spite of the lower average number of employees in the HSE Group, the added value per employee in 2014 was lower in comparison to 2013 due to lower Group's added value.

in EUR

DEBT / EQUITY RATIO	31 Dec 2014	31 Dec 2013
1. Short-term financial liabilities	58,774,687	70,663,266
2. Long-term financial liabilities	877,622,131	894,228,959
3. Total financial liabilities (1 + 2)	936,396,818	964,892,225
4. Equity	1,471,547,419	1,546,787,072
DEBT / EQUITY RATIO = 3 / 4	**0.64**	**0.62**

The ratio shows the relationship between the Group's indebtedness and equity. Despite decrease in the total indebtedness of the Group due to the repayment of loans, the value of this ratio is higher relative to 2013 due to lower equity (as already explained in connection with other ratios).

in EUR

TOTAL FINANCIAL DEBT / EBITDA	2014	2013
1. Short-term financial liabilities	58,774,687	70,663,266
2. Long-term financial liabilities	877,622,131	894,228,959
3. Total financial liabilities (1 + 2)	936,396,818	964,892,225
4. EBIT	(8,113,035)	100,173,760
5. Amortisation/depreciation expense	88,495,749	89,167,627
6. EBITDA (4 + 5)	80,382,715	189,341,387
Total financial debt / EBITDA = 3 / 6	**11.65**	**5.10**

The ratio shows the relationship between the Group's debt and EBITDA (calculated by adding depreciation and amortisation to EBIT). The ratio is weaker in spite of lower indebtedness in comparison to 2013 particularly due to impairments of fixed assets in TEŠ, TET–in liquidation and the PV Group.

TOTAL FINANCIAL LIABILITIES / EBITDA exclusive of extraordinary events	2014	in EUR 2013
1. Short-term financial liabilities	58,774,687	70,663,266
2. Long-term financial liabilities	877,622,131	894,228,959
3. Total financial liabilities (1 + 2)	936,396,818	964,892,225
4. EBIT	(8,113,035)	100,173,760
5. Amortisation and depreciation expense	88,495,749	89,167,627
6. Impairments/write-offs/disposals of intangible assets, property, plant and equipment	72,302,670	14,667,909
7. Impairment/write-off of receivables and inventories	4,627,446	2,254,740
8. Formation of provisions	3,356,993	598,080
9. Other operating revenue	24,471,566	22,230,772
10. EBITDA exclusive of extraordinary events (4 + 5 + 6 + 7 + 8 - 9)	136,198,258	184,631,344
Total financial liabilities / EBITDA exclusive of extraordinary events = 3 / 10	**6.88**	**5.23**

The ratio shows the relationship between the Group's debt and EBITDA (without considering exceptional events). In spite of lower indebtedness in comparison to 2013, the ratio is less favourable due to high costs in TPPs that, although decreasing, do not follow the price decrease in electricity, as already explained above.

EBITDA / Financial expenses for borrowings	2014	in EUR 2013
1. EBIT	(8,113,035)	100,173,760
2. Amortisation/depreciation expense	88,495,749	89,167,627
3. EBITDA (1 + 2)	80,382,714	189,341,387
4. Financial expenses for borrowings	7,076,417	11,773,301
EBITDA / Financial expenses for borrowings = 3 / 4	**11.36**	**16.08**

The ratio showing the relationship between the Group's EBITDA and financial expenses from loans is lower than in 2013 especially due to the impairments of fixed assets in TEŠ, TET–in liquidation and the PV Group.

EBITDA exclusive of extraordinary events/ financial expenses for borrowings	2014	in EUR 2013
1. EBIT	(8,113,035)	100,173,760
2. Amortisation and depreciation expense	88,495,749	89,167,627
3. Impairments/write-offs/disposals of intangible assets, property, plant and equipment	72,302,670	14,667,909
4. Impairment/write-off of receivables and inventories	4,627,446	2,254,740
5. Formation of provisions	3,356,993	598,080
6. Other operating revenue	24,471,566	22,230,772
7. EBITDA exclusive of extraordinary events (1 + 2 + 3 + 4 + 5 - 6)	136,198,258	184,631,344
8. Financial expenses for borrowings	7,076,417	11,773,301
EBITDA exclusive of extraordinary events / financial expenses for borrowings = 7 / 8	**19.25**	**15.68**

The ratio showing the relationship between the Group's EBITDA (without exceptional events) and financial expenses from loans is better compared to 2013. Lower are both the EBITDA (due to high costs in TPPs that, although decreasing, do not follow the price decrease in electricity, as already explained above) and the financial expenses from loans due to lower indebtedness.

Total financial liabilities / Assets	31 Dec 2014	in EUR 31 Dec 2013
1. Long-term financial liabilities	877,622,131	894,228,959
2. Short-term financial liabilities	58,774,687	70,663,266
3. Total financial liabilities (1 + 2)	936,396,818	964,892,225
4. Assets	2,728,888,082	2,830,521,497
Total financial liabilities / Assets = 3 / 4	**0.34**	**0.34**

The ratio showing the relationship between the Group's indebtedness and its assets was at the same level as in 2013, as both the Group's indebtedness and its assets were down, as already explained in connection with other ratios.

DIVIDEND TO EQUITY RATIO

In 2014, the owner of the company HSE made no decision on the use of accumulated profit.

2.14 RISK MANAGEMENT

The HSE Group cares for continuous monitoring of risks in the business environment. The business risks are managed to ensure that the key risks to which the HSE Group is exposed in all areas, especially in the production of electricity and its marketing, are timely identified, assessed and controlled. Key risks of the HSE Group may roughly be divided into:

- market risks,
- quantity risks,
- financial risks,
- corporate risks,
- information system risks,
- R&D risks,
- HR risks, and
- management system risks.

Risk management includes identifying, monitoring, measuring or assessing and managing the risks to which an individual company or the Group is or might be exposed. The objectives that we pursue all the time, are especially timely identification of potential threats and related risks, their monitoring and prompt actions to ensure that they only cause the smallest possible deviations from the expected results.

Risk management committees have been established in the HSE Group companies operating in the Republic of Slovenia, and the Internal Audit Charter has been signed in the companies of the HSE Group.

Despite a difficult year for the HSE Group, and taking into account the given limitations, we believe that the risks in the operations of both the Company and the HSE Group were properly identified and adequately managed.

2.14.1 REPORT ON WORK OF THE RISK MANAGEMENT COMMITTEE OF HSE FOR THE YEAR 2014

In a period of challenging economic condition, risk management is of the utmost importance, while implementation of system policies of the EU member states to promote the RES production makes everything even more complex. Therefore, in order to achieve high-quality bases for decision-making in management and governance, the owner and the HSE management, in addition to professional services, need another professional body with multidisciplinary structure, able to assess business risks in the competitive economic environment from all professional viewpoints, thus supporting the risk management. This consultative and advisory role in the HSE was assigned to the Risk Management Committee, (hereinafter: the Committee), which acts in accordance with its Rules of Procedure.

OVERVIEW OF THE COMMITTEE'S WORK

In addition to the ongoing monitoring of the financial situation of the company with a focus on ensuring the liquidity of the HSE, judging the suitability of trading limits, balances of incoming and outgoing hedging instruments and actions for the recovery of overdue outstanding receivables, the Committee, in the context of its permanent tasks, in 2014 regularly took note of realistic and current estimates of operations of the company HSE and the HSE Group, monitored key risk management in the PV Group, TEŠ and TET–in liquidation, reviewed the long-term projections of the management and the provision of equity and debt resources at the corporate level for all companies in the HSE Group, and monitored the work of the credit subcommittee.

In 2014, the Committee continued or commenced activities which result in the Committee's proposals for the adoption and implementation by the HSE Group companies of:

- risk management policy,
- rules on interest rate risk management of the HSE Group companies and the Rules on the management of foreign exchange risk of the HSE Group companies,
- protocol on the implementation of HSE obligations in accordance with the EMIR Regulation,
- controlling Manual for the HSE Group companies,
- rules on the preparation, evaluation, decision-making and monitoring of investment projects, and
- onboarding policy in the HSE Group.

As an expert body, the Committee took note of the proposed Risk Assessment Methodology for the HSE Group companies, the Rules governing the monitoring of the implementation of limitations/commitments of the HSE Group companies under contracts with banks and other contractors that specify the limits of HSE Group companies, the Audit verification of the risk assessment of the Company and the HSE Group, and the status of implementation of the proposed specific recommendations contained in the audit verification, and of the relevant policies in the field of trading in electricity and CO_2 emission coupons.

In addition to the above stated important topics, in 2014 the Committee also addressed some narrower areas, such as the state of the IT support to business processes with SAP solutions, the report on transfer pricing documents, the status of production of development documents, etc.

CONCLUSION

According to the summary report on the work of the Committee, in 2014 the Committee despite the extremely challenging situation monitored and addressed the key risks of the Company and the HSE Group and to the extent of its powers developed and proposed to the management and those responsible appropriate recommendations. All this is also a further task of the Committee in view of the aggravated economic and liquidity situation.

Irrespective of the activities performed by the Committee, it is necessary to emphasize that the Committee is a consultative and advisory body and, therefore, its decisions do not have executive power. This is also right because, otherwise, accountability could be blurred.

2.14.2 BUSINESS RISKS

MARKET RISKS

Changing the concept of the market, increasing the share of generation from RES, fluctuations in the price of electricity and other primary energy sources bring numerous business challenges, also in the area of market risk management. For HSE Group, the systematic recording, evaluation and control of risks is a key element of professional risk management, which must at the same time enable the exploitation of new market opportunities. The risk management policy is based on rules, strategies, decisions and adopted registers, and has been designed to ensure an increase in the value of the HSE by assuming the risks that fall within the prescribed limits. The process of market risk management is integrated into the daily operations of the HSE.

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

From the analytical perspective, the HSE continues to develop tools for monitoring the factors influencing the market exposures in trading. 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 HSE Group. In addition, models and mechanisms are being prepared to provide a database 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. From the viewpoint of operations and risk management of the HSE, the illiquid wholesale electricity markets are those markets and/or countries that have lo liquid trading portals or electricity exchanges.

In 2014, , the company HSE managed the risks of market illiquidity with the following activities and methods:

- segmentation and prioritisation of markets and partners,
- creating a margin policy depending on the market liquidity and market conditions,
- promotion of long-term relations with partners,
- conclusion of contracts with adequate maturity and sufficient contractual safeguards,
- daily analysis of the company's position, trading quantities and product prices in illiquid markets, and of the coverage used for price fluctuations for transactions aimed at generating added value or minimising the risk of losses in accordance with the principle of good management,
- limitation of trade or open position of the company HSE in illiquid markets,
- trading with instruments for hedging the 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 2014, the HSE managed and controlled the risks associated with the non-transparency of the market with the following activities and methods:

- weekly reviews 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 the HSE position,
- monthly reviews of price curves in relation to transactions concluded in various countries and the value of cross-border transfer 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.

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, in addition, to take for granted 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 the following key variables: the market position of the HSE in individual markets at a specific moment of supply, volatility or fluctuation of prices in individual markets at a specific moment of supply and correlation or interconnectedness of prices between individual markets at specific points of supply. These variables are included in the calculation of Value-at-Risk (VaR) parameter, 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. The parameter represents the amount of potential loss of the HSE trading portfolio in five days, which in 95% of normal market changes will not be exceeded in terms of market price, correlation and volatility given the HSE quantity position.

In 2014, the HSE managed and controlled the price risks with the following activities and methods:

- Daily monitoring of the market position on group-level and on the level of HSE by countries and individual groups of transactions that have a similar purpose and/or significance. In the event that in a certain moment the position exceeds the quantities allowed by the rules, it is corrected accordingly (conclusion of a purchase or sale transaction). In 2014, the market position never exceeded the limits defined by the rules.
- Daily hedging – conclusion of counter-transactions involving the same quantity in the same market, or purchase of derivatives involving financial settlement (futures), 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.

QUANTITY RISK ASSOCIATED WITH DEVIATIONS FROM CONTRACTUAL QUANTITIES

The risk 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 2014, the company HSE managed and controlled 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)

The risk 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 2014, the HSE managed and controlled the the risks associated with changes in NTC with the following activities and methods:

- monthly monitoring of legislation (regulations) by country and the balance of transfer 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 the Group and the company levels 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 transfer capacities on individual borders.

REGULATORY RISK

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

In 2014, the company HSE managed and controlled regulatory 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;
- continuous reporting and informing about legislative changes in domestic and local markets;
- daily monitoring of investment decisions in the EU energy sector and economic policy, and adaptation of market measures.

METHODOLOGY RISK

Methodology risk arises 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 2014, the company HSE managed and controlled methodology risks with the following activities and methods:

- regular monitoring of all stages of modelling;
- 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 the Group provides a large portion of electricity from hydropower plants.
- Consumption uncertainty arises from the impact of weather and temperature, load flexibility and seasonal cycles.
- Uncertainty of energy supply arises from random failures of power lines and other equipment or from interventions by the operator of the power transmission network 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 2014, the HPPs of the HSE Group, including the small HPPs, generated 1,439.9 GWh electricity more than planned. TEŠ generated by 715 GWh less than planned, and TET–in liquidation was by 5.6 GWh below the plan, which in total represented electricity production of the HSE Group amounting to 719.1 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.

In 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 2014, unexpected production shortfall in TEŠ totalled 2.6%, and in TET–in liquidation the unexpected production shortfall amounted to 1.3%.

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 (1–14 days), and only exceptionally could a breakdown of transporter T-10 in the pit cause a 45-day interruption in transportation. There is a relatively low probability of a major breakdown that would require a six-month shutdown.0

In 2014, there was a downtime in production due to the minors' strike, which has been largely replaced by additional business days. Many more problems in 2014 were caused by challenging local geomechanical conditions, which by squeezing and sealing of transportation tracks brought about a 20% loss of coal production. Underground coal mining is an activity that takes place over several hundred meters underground and specific risks are always present. The company tries to do its best to counter these risks and keep them to a minimum with technical, technological and organizational measures.

Based on estimates of the potential failures in coal supply by the PV, and of the storage options for the coal and the associated costs, the optimal coal stocks have been determined: at the beginning of each calendar year, the stocks shall amount to 3,000 TJ.

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;
- provision of 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 2014, 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 2014 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. Major deviations only occurred due to testing of replacement Unit 6 at TEŠ.

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

FINANCIAL RISKS

The consequences of the financial crisis that has plunged the global economy into a deep economic and financial hole are still shown in very slow recovery of the global, European, and especially the Slovenian economy. Because of economic crisis and the consequent economic slowdown combined with the low prices of electricity on the market, the year 2014 was very complex and full of challenges for the Company and the HSE Group. In addition, also the situation in financial markets was quite unusual because, despite a surplus in liquid assets, commercial banks did not sufficiently provide support to companies in the form of credits, which could contribute to a faster economic recovery. Companies, in addition to operating in conditions of economic growth stagnation were also faced with difficulties in finding new sources of funding or renewal of existing loans, which has to poorer solvency and payment delays.

In 2014, the HSE Group operated in accordance with principles of business and finance profession and made constant efforts to maintain short-term and long-term solvency. In the field of financial risk management, a lot of attention was focused on controlling the liquidity risk and providing bridge financing of the largest Slovenian investment project in the energy sector, i.e. the project of installing replacement Unit 6 at TEŠ. Despite the harsh operating conditions and the changed situation on the financial markets in 2014, the HSE Group successfully managed to cope with financial risks and succeeded in maintaining a stable financial position.

CREDIT RISKS

Credit risk 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 agregate exposure under the concluded contracts. Unstable economic and financial environment in Slovenia and Europe requires additional attention to credit portfolio management in terms of greater diversification and insurance of contractual relationships with adequate collaterals.

The HSE Risk Management Committee is regularly informed about the balance of the counterparties limits and the balance of collaterala received or issued. Within the framework of the Committee, as an expert advisory body, the Subcommittee for credit risk management was also active; it followed the current issues, monitored and evaluated the adequacy of credit risk management. Its findings provided a basis for easier decision-making of the management in implementing the measures in the area credit risk management.

Credit risks are managed by detailed examination and prudent selection of business partners prior to their approval, the subsequent regular monitoring of their operations and conservative approach in setting limits to the scope of operations. On 19 December 2014, HSE adopted the applicable Onboarding Policy (hereinafter: the Policy), which precisely prescribes the procedures and due care in the selection of business partners. By implementing the Policy, the possibility to cooperate, knowingly or unknowingly, with high-risk partners in terms of credit risk or partners with reasonable grounds of corruption, financial, and tax fraud, money laundering and other crimes is in advance restricted. In accordance with the implementing provisions of the Policy, the Company set up the HSE Partners Approval Committee (PAC) composed as determined by the Operating Rules of the HSE PAC. The PAC is responsible for consideration, inspection, evaluation and approval of natural and legal persons within the HSE partners. Much attention is devoted to examining the legal constraints and specificities arising from the partner's headquarters, primarily in terms of feasibility and unchallengeability of set-offs in the event of early termination due to insolvency, and entitlement to the received and given collaterals regardless of their enforceability, which is also taken into account when determining the operating conditions and the contractual framework. Effective credit risk management requires good cooperation between all business functions involved, particularly the functions of the commercial, legal and financial areas.

In 2014, credit risks were properly controlled, as the Company has not recorded any credit event. All activities were carried out in accordance with the Credit Risk Management Policy adopted in the HSE. Permanent attention was devoted to the preparation of master agreements and contracts, monitoring of collaterals and regular annual evaluation of business partners on the basis of their currently published financial statements and annual reports.

CORPORATE RISKS

Corporate risks were adequately controlled through regular colleges of managements and management boards of the HSE Group (either through the shareholder representatives in the supervisory boards of subsidiaries or directly through the management boards of the companies), which report regularly to the HSE Management on business activities and investment projects in subsidiaries; through regular development colleges of the HSE Group; through implementation of the strategic conference of the HSE Group (with emphasis on marketing, financial and liquidity situation, optimization and rationalization of operations and identification of measures to stabilize the operations of the HSE Group); through meetings with the the Joint Workers' Council of the HSE Group and the HSE Workers' Council, meetings of the investment control committees, meetings of the Economic and Social Council, etc.

INFORMATION SYSTEM RISKS

Information technology risk is a risk that endangers the implementation of business and technology processes as well as the availability and security of data. Information system risks comprise fire, defects in hardware or software, malicious code, intrusion into the system via internet, unauthorized access to data, power failure, or malfunction of the cooling system of the computer centre (data centre). Unforeseen events (electric shock, fire, power failure, etc.) can cause destruction of hardware, software and data on this equipment. Protection against such risks comprises firewalls, backup of data and programmes, the establishment of a Disaster Recovery Center, installation of the system hardware in a safe room, etc.

Intrusion into the system via the internet can cause the loss or unauthorized disclosure of data, and unavailability of services. The local network is protected against external networks by firewalls and programs for checking the traffic between the local and external network.

Throughout 2014, 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. Security mechanisms and policies allow access to the information system only to authorized users. A program to monitor the audit trail of access to sensitive information has also been implemented.

Power outage or failure of the cooling system of the computer centre (data centre) may result in the unavailability and the system hardware failures. The system hardware is powered by two separate electric branches and independent UPS systems with one-hour autonomy. In addition, in the event of power failure, the system area will automatically start to be supplied by a diesel generator. The system area is cooled with double air conditioning units.

All the time, the IT Department takes care of timely renewal and optimization of maintenance and licensing agreements, providing reliable and professional implementation services by external partners and proper management of the HSE IT infrastructure, which in turn reduces the risk of outage or failure of the HSE information system.

Further investments into the system hardware and application software are suitable in terms of time and useful life that is specified on the very purchase of any asset.

In the field of control of business partners, a contract for the introduction of SAP CRM project Phase II was signed in 2014, which is an information tool for the management of business partners and will be, in accordance with the Onboarding Policy, adapted to our specific business needs. In this way we will, first in the parent company HSE and later in the HSE Group, carry out a careful control over the portfolio of our business partners, thus contributing to a more effective management of credit and financial risks, as well as of compliance risks, and significantly reduce the possibility that the Company would work with partners, for which there are grounds to suspect corruption, financial and tax fraud, money laundering and other crimes.

In the context of management of system and application resources of the HSE information system and services in the field of the HSE telecommunication infrastructure, supervisory and control systems are in place, capable of measuring response times of operation systems and devices and thus also able to determine the desired quality level of availability of the existing IT infrastructure.

The risks in information technology are estimated with a low probability of occurrence and medium-sized consequences. In 2014, they were properly managed.

R&D RISKS

DELAYED PERFORMANCE OF INVESTMENTS PLANNED

For the purpose of risk management in the area of delays in realisation of individual capital projects and investments, HSE regularly monitors and coordinates the activities in the preparation and implementation of all stages of investment projects in the HSE Group. The implementation of investment and other development projects is monitored within the scope of the Development Committee, the Committee for Active Supervision of Investments and the Risk Management Committee. All possible deviations and risks were resolved in accordance with the proposed mechanisms and corrective measures. The purpose of monitoring the implementation of investments is to identify deviations from the planned activities, and provide communication and transfer of information to key users. The current emphasis in monitoring the implementation of investment projects has been placed on the realization of the various stages of an investment project (documentation, procedures, implementation, commissioning, etc.), and on technological, environmental, spatial and procedural implementation, which was monitored on a monthly basis. Investment projects have also been addressed in the drafting of the company HSE and the HSE Group Development Plan 2015–2019. In view of the discrepancies between the planned and the actual level of investment projects, it was decided to implement uniformity of planning procedures at the level of the HSE Group.

WRONG PRIORITIES IN PREPARATION AND IMPLEMENTATION OF STRATEGIC POLICIES

Strategic policies of the HSE Group are set based on the goals of the national and EU energy and climate policy, the owner's requirements about infrastructure management and the economic (business) goals of operations. As a risk management measure, the Company actively monitors any changes in the above areas and strategic orientations have been adapted to the new situation. We also regularly monitor technological developments in the production of electricity, environmental technologies and other technological fields. To this end, we organized the 9th Strategic Conference of the HSE Group in May 2014. The adopted conclusions and measures cover all key areas of the HSE activities with emphasis on the reorganization and optimization of operations in all business areas, from a uniform maintenance, joint purchases, optimization of investments, wage policy, employment policy, etc. We have prepared a Development Plan 2015-2019 of the Company and the HSE Group with emphasis on the restructuring of the HSE Group and coordination of investment projects of the HSE in the 2015–2019 period, prepared in accordance with the founder's decision of 21 January 2014. The key development projects as well as activities in the energy markets of the HSE Group have been brought in line with the Group companies and with the long-term operation projections of the HSE Group in the period 2015–2030. Account has been taken of the complexity of the market and financial situation in which the HSE Group has found itself.

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.

A problem in preparing the strategic orientations of the HSE Group represents the national energy and climate policy that has not been updated for quite some time.

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

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

RISK OF INVESTMENT ACTIVITIES

The 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.

In December 2014, an amended investment programme NIP 6 – Construction of replacement Unit 6 of 600 MW was prepared (NIP 6). In NIP 6, edition December 2014, the Chapter »Risk Analysis« addressed all the risks in detail and risk matrices are added. The risk analysis in NIP 6 is based on the following premises:

- The project is realised up to 98%, which means that the majority of risks associated with the project has already been managed.
- Until year-end 2014, an amount of EUR 750 million loans and EUR 515 million own funds of TEŠ and HSE have been used for the project. To complete the project, TEŠ and HSE will have to provide further 163.8 million, mainly from its own resources.
- In recent years, the situation on the electricity markets have changed and worsened, forecasts for the future development of the markets for electricity in the short term are less optimistic and it will be more difficult to ensure the proper economics in functioning of Unit 6 in the initial phase of operation.
- TEŠ and HSE will succeed in time to obtain all the necessary approvals and consents related to the provision of adequate sources of financing and the commencement of operation of Unit 6.

In the preparation of risk analysis contracts were reviewed and the level of certainty was assessed. Calorific values of coal for each year throughout the exploitation period of Unit 6 were obtained from the PV. All other issues that the investor assessed as potential risks were carefully examined. At the same time, the fact was taken into account that at the end of 2014, the degree of completion of the total investment was already 99%; the majority of contracts had been signed, amounting to 96% of the total project value. This means that unknowns are fewer and thus the reliability of estimates is getting better.

Three out of five new constructions on the lower part of the Sava River, HPP Boštanj, HPP Arto-Blanca and HPP Krško are in operation, the construction of HPP Brežice and HPP Mokrice continues. In connection with this project, the following key risks have been 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, 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.

After the HSE sale of its 35.6% interest in HESS in 2014, the project of construction of a chain of hydropower plants on the lower Sava

River, led by HESS, passed under the majority ownership of the GEN Group. Consequently, HESS is now included into the HSE Group under the equity method. However, as a 49% owner we still actively monitor and participate in the construction of hydropower plants on the lower Sava River through the HESS Supervisory Board and General Meeting.

It is estimated that in 2014 the R & D risks were adequately controlled, taking into account the given limitations.

HR RISKS

Effective management of the human resources function is one of the key areas to ensure a stable and long-term business operation that contributes to the implementation of activities for achieving the sector-specific, business and strategic objectives of the Company and the HSE Group. Human resources risks include the risk associated with retirement and the high age structure of employees at the HSE Group level, the risk of high turnover of key personnel, loss of intellectual capital and untapped potential of employees, the risk of employee absence due to sick leave and other health limitations, and the risk of rigid rules in the field of human resources that hinder the introduction of urgent and necessary changes in this area in the HSE Group.
HR risks are managed by promoting the permanent training of staff, acquiring new knowledge and skills and knowledge transfer among employees, encouraging teamwork and project work, optimizing the number of employees in individual organizational units, labor costs, and the use of various tools to increase motivation and satisfaction of employees. Important is the high level of organizational culture and the cultivation of good relations among employees. We try to prevent fluctuation with good management and communication with and among employees, continuous professional growth and motivation as well as by introduction of stimulating working conditions and environment. Integrated management of human resources risks at the HSE Group level is only possible with a common and uniform strategy of human resources management; therefore, the establishment and implementation of such strategy is a fundamental activity of the human resources function.

HR risks have been adequately managed.

MANAGEMENT SYSTEM

INFORMATION SECURITY: The Company and the HSE Group follow the requirements of ISO 27001. Risks are physical assets, software, databases, paper documents, people, locations, and services have been assessed. In the field of personal data protection catalogues have been prepared according to the law for reporting to the Information Commissioner of the Republic of Slovenia.

HEALTH AND SAFETY AT WORK: The Company and the HSE Group regularly carry out risk assessments and control ergonomics in the workplace chairs, miscellaneous ergonomic aids), provide support to employees with preventive measures which eliminate the causes of illness in the workplace (recreation and active rest), and offer periodic health checks. The main objective is to reduce the possibility injuries and illness of employees.

SECURITY RISKS AND DISASTERS: Due to the difficult conditions of work in the PV (trench collapses, exhaust, gas, fire, explosion of methane and coal dust, coalface explosions) the situation for the safety of employees was demanding. The safety of workers in the pit was managed and controlled with measures for health and safety at work, supported with the safety and technical information system that allows continuous monitoring and control of certain technical and safety parameters, provides information about the operation of certain machinery and equipment, and enables monitoring of a network of seismic sensors at a distance.

All risks in the field of management systems have been successfully controlled.

2.15 EXTERNAL COMMUNICATION

Even though for 2014 we have selected the slogan »Make it really well« the year did not start in this spirit; the first half of the year was marked by dissatisfaction of employees in the PV, culminating in a strike; therefore, the majority of communications was aimed at calming and resolving the situation, which had its epilogue only in July with the signing of an annex to the Contract for the purchase of coal, lease of capacity and purchase of electricity for 2014 between the HSE, TEŠ and PV.

Communicating more positive news was brought by the proverbial rainy April, when we were able to inform the public about the start of regular operation in HPP Krško. On the World Day of the Earth, we organized in cooperation with DEM as the project promoter within the HSE Group, a conference on e-mobility as a business opportunity for Slovenia, which was positively accepted among the speakers and participants and the general public.

In terms of communications, the second half of the year started with information about the signing of a contract for the sale of the Company's interest in HESS, which thus came into 51% majority ownership of the GEN Group. It continued with objective information of all stakeholders about the progress of negotiations for the sale of the HSE interest in the company TET, which in the end was not realised due to additional conditions, set by the buyer after the contract was already agreed. Consequently, the General Meeting of TET, at its session of 17 November adopted the resolution on the initiation of regular liquidation of the company.

Beginning of autumn was marked by the successful integration of the replacement unit 6 at TEŠ into the Slovenian electric energy network that was implemented after the completed startup tests on 24 September.

Throughout the year, we communicated to all stakeholders the next steps of the project concerning the exploitation of the Mura River, and supported with communication also other DEM projects (with emphasis on the renovation of HPP Zlatoličje, the Melje dam and the construction of sHPP Melje), and the SENG projects (with emphasis on the completed reconstruction of Doblar I and the 67th anniversary of SENG). Throughout the year, we dedicated internal communication activities to the necessity of increasing cost efficiency and rationalization of operations of the HSE Group, which was mainly the consequence of the intensive investment cycle and the unfavorable conditions in electricity markets in Europe.

To inform the internal and external public about developments in the HSE Group companies, we published four issues of the journals Energy.

To raise the awareness about the importance of environment protection among the little ones, we started the year with a contest for kindergartens » World Day of the Earth « and concluded it with the project »Great feelings«. With both prize competitions, we have tried to encourage both children and their teachers to daily and year-round care for nature and to act responsibly towards the environment.

At the beginning of the school year 2014/2015, we prepared for kindergartens and elementary schools of the Pomurje region, in cooperation with the DEM and the Pomurje Development Institutes in Murska Sobota, the prize eco Pomurje project, whose main objective was to raise awareness of young people about the importance of renewable energy, focusing on energy derived from the water source. The project ended at the World Water Day. Along with the above mentioned projects, we also issued four volumes of the "Modri Jan", a free environmental magazine for children, which is day by day gaining new subscribers, while commendable and encouraging letters are dropped into the »mailbox«.

The efforts regarding the young people's attitude towards the environment started in 2013 under the »Blue Generation« brand

and presented on the website www.modrageneracija.si, have borne fruit this year, especially after the successfully conducted »Support blue« drive. In view of the target group, we focused on communicating via Facebook and Twitter, and we also modernized and simplified the website www.modrageneracija.si, which is increasingly becoming a meeting point for ECO-oriented young people.

We participated in the upgrading of the partner website »Spend Less«, whose key objective is to raise public awareness regarding efficient energy use.

2.16 RESEARCH AND DEVELOPMENT

Research and development activities in 2014 were mainly aimed at monitoring and coordinating the complex and demanding investment programme of the HSE Group, supporting the optimisation and rationalisation of the HSE Group operations, the drafting of the HSE Group Strategic Development Plan 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

COORDINATION OF INVESTMENT PROJECTS

Due to the harsh electricity market situation, we once again evaluated the planned investment projects. The coordination of investment projects was actively pursued in preparing all the necessary strategic documents of the companies, with agreements reached at the Development Colleges of the HSE Group, through internal meetings on the subject, as well as with guidelines, instructions and limitations for preparing strategic documents of the Group companies for the next period.

In 2014, reporting to internal and external stakeholders was carried out with the help of the new IT support, which means efficient support for monitoring and reporting of investments at the level of the HSE. We discussed all major legislative changes and prepared comments and positions to each of the proposed solutions. In order to standardize the procedures for the preparation, implementation and monitoring of investment projects, proposals for new internal regulatory documents at the level of the HSE Group were also considered.

For the purposes of presentations and discussions at the 9th Strategic Conference held on 27 and 28 May, expert positions were prepared for the new business paradigm of the HSE Group in terms of its mission, vision, goals and strategic orientation in light of achieving greater rationalization and optimization of the Group's operations. The conclusions cover all key areas of activities within the HSE Group, from uniform maintenance, common purchases and optimization of investments to wage and employment policy, which were all taken into account when preparing the business plans of the Group companies for 2015 (with a view to 2017), and long-term projections of individual HSE Group companies.

UPDATING THE DEVELOPMENT PLAN OF THE HSE GROUP

In accordance with the decisions and policies of the founder and the HSE Supervisory Board, in compliance with the business plan of the Company and the HSE Group for 2015, and in line with long-term projections of operations of the HSE Group for the period 2015–2030, the Development Plan of the HSE Group was prepared for the period 2015–2019. In addition to the ongoing rationalization and optimization of operations, greater attention will be paid to finding additional synergies within the Group, increasing the added value and consolidation of business processes at the Group level.

The main business challenges are connected to the implementation of the financial and operational restructuring program of the HSE Group with emphasis on the restructuring of the PV Group and TEŠ. The focus will also be on increasing productivity and the transfer of skills between generations, and on risk management. In pursuing each of these objectives the HSE Group will act very responsibly and take the utmost care for the social security of employees; emphasis will be placed on social dialogue and consultations with trade unions and workers' councils, so that decisions taken will be satisfactory for both sides. The Development Plan represents the starting points for the HSE Group, and every effort will be made that they are taken into account in the adoption of the national strategic documents that will be prepared and adopted in the following period.

2.16.2 MONITORING AND PARTICIPATION IN PREPARATION OF LEGISLATIVE AND STRATEGIC DOCUMENTS FOR ENERGY AND CLIMATE POLICY

MONITORING AND COORDINATION OF IMPLEMENTING THE EMIR AND REMIT REGULATIONS

Based on Regulation 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR Regulation) the company HSE is required to report on transactions concluded with all derivatives, and to use risk mitigation techniques for contracts on derivatives. In the course of 2014, HSE started to report in accordance with the EMIR Regulation. At the same time, the company HSE is also obliged to implement obligations under the REMIT Regulation. The purpose of Regulation 1227/2011 on the integrity and transparency of the wholesale energy market is to prevent market manipulation and abuse of insider information. In 2014, HSE already started to comply with the mandatory disclosure in accordance with the REMIT Regulation through its website. To ensure compliance with the REMIT regulation and to avoid the risk of any fines, the HSE Group has also prepared a Protocol for the implementation of REMIT obligations, which is expected to enter into force in 2015.

REPRESENTING HSE INTERESTS IN DRAFTING LEGISLATIVE AND STRATEGIC DOCUMENTS BY PREPARATION OF POSITIONS

By preparing its positions, HSE actively participates in the preparation and public discussion of all relevant regulatory and other strategic documents at the national and EU level in order to ensure that the interests of the HSE Group are taken into account to the highest possible extent in the context of new legislation and strategic documents.

Since most EU countries are already on the path of transformation and adaptation to new realities in the energy sector, our Company is faced with the challenging situation where competing companies in some EU countries have already successfully taken advantage of some options for responding to the situation in the market, which was made possible by the appropriate legislation of their countries. We therefore strive to persuade the legislator to recognise again the importance of priority dispatch of electricity from domestic resources, arising from Directive 2009/72/EC (Article 15 (3)) which was already transposed into our national law in the previous Energy Act. The Article stresses the importance of domestic primary sources in ensuring security of supply, where the HSE Group with an important domestic primary source based on the BAT technology could play an important role. The legislator failed to include that Article into the new Energy Act, although the role of domestic resources in ensuring security of supply has been clearly recognized at the EU level.

We therefore also proactively participate in the field of possible introduction of the CRM mechanism in Slovenia. We are member of the task force of the Energy Industry Chamber of Slovenia for CRM, and in this capacity, we examined the necessary steps to be taken in the process of introducing the CRM mechanism in Slovenia and analysed the CRM mechanism in the EU Member States. We suggested further activities and promoters of these activities. On this basis, ELES prepared an analysis in September, in the context of which it evaluated the impact of TEŠ on the operation and adequacy of supply, analysed various scenarios of operation/failure of production units, and assessed macroeconomic effects of rising network charges due to the introduction of CRM mechanism.

2.16.3 REGULATORY FRAMEWORK FOR THE IMPLEMENTATION OF DEVELOPMENT ACTIVITIES IN THE HSE GROUP

In 2014, we realized the objective of completing the uniform methodology for assessing investment projects of the HSE Group in terms of management, monitoring and coordination of investment projects. We also launched the the renewal and unification of other normative documents for the management of development projects, other development activities and the implementation of investments at the level of the HSE Group.

2.16.4 DISTRIBUTED PRODUCTION FROM RES AND CHP IN THE HSE GROUP

The field of distributed generation of electricity from renewable sources in connection with the development of smart grids plays a key role in future energy supply and the transition to a low-carbon society. The purpose of activities in this field is to identify the key policies in the implementation of such projects in the development strategy of the HSE Group. In line with the strategic objectives, we pursue the objective of investing in technologies of distributed generation, which require a minimum operating support and will be able, already in their depreciation period and certainly after 2020, provide electricity at market prices.

Implementation of e-mobility in Slovenia is another field of the HSE Group's activity because as the largest manufacturer and retailer of electricity we want to participate in the development and subsequent supply of charging stations. HSE is, together with DEM, actively involved in the promotion of e-mobility.

2.16.5 COOPERATION WITH KNOWLEDGE CENTRES IN DEVELOPING NEW TECHNOLOGIES AND SUSTAINABLE USE OF RESOURCES

HSE has also in 2014 participated independently and through subsidiaries in a number of research and development projects, mainly in the field of new technologies and the sustainable use of resources, in partnership with scientific research institutions and industry. We have participated in the project AQUAVIVA and were, together with the HSE Group subsidiaries, also involved as a partner in the project AIM (Alpine Space and Movement). In the field of research and development of advanced materials and technologies, we are working as a partner in the Centre of Excellence for low carbon technologies).

2.17 PLANS FOR THE FUTURE

In the period 2015–2017, the HSE Group has to implement the measures of financial, business, personnel and organizational restructuring, because this is a condition for maintaining long-term success of the HSE Group.

The HSE Group will continue its uniform efforts to maintain and enhance the reputation of both the Group itself and each of its members. HSE was established to bring together commercial strength of the key producers of electricity in the provision of safe and reliable electricity supply, and to maximize the synergies between them. Therefore, the HSE Group has to act as a whole in all projects designed for this purpose in all areas of its activities from business to public and environmental with an emphasis on sustainable development.

The HSE Group is aware that business conditions in 2015 both in the financial and economic areas will continue to be very difficult for all companies of the HSE Group. The activities outlined at the 9th Strategic Conference of the HSE Group continue. In the upcoming period, strong emphasis will be given to divestment of all non-operating assets and elimination of all unnecessary activities that are not related to the core business or are not consistent with the strategy of the HSE Group. With a view to the completion of the investment projects of the HSE Group in progress, we sold in 2014 the 35.6% HSE share in HESS, being aware that only harmonized management of the entire HPP chain on the Sava River represents the optimum utilization of this renewable resource. To this end, talks are underway between the owners of the company SRESA about consolidation of ownership and transfer of the concession to SRESA.

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 and reducing its cost price in order to ensure continued operations, to maintain liquidity and financial stability, and to achieve its objectives.

Business plan for 2015 s ambitious, strong emphasis placed on the envisaged operational optimisation and streamlining of all costs, and the provision of financial resources, but the HSE Management estimates that the planned objectives can be achieved with the full engagement of all employees of the HSE Group. In this regard, the crucial tasks will be the execution of the plan for financial and operational restructuring of the PV Group and TEŠ, as well as an agreement with the banks on the conditions for further cooperation on key projects of the HSE Group.

Year 2015 will outline new urgent steps that will allow the long-term viability of the HSE Group as a whole, especially in the most demanding market conditions. The works on the two sustainable and promising key projects, the HPPs on the middle Sava River and the HPP on the Mura River, will continue in 2015 only with strictly limited activities aimed at keeping the dynamics of siting the facilities, which due to the collision between environmental requirements (Natura 2000) and the requirements for the use of renewable resources for the production of electricity represents the most complex element of both projects. Also to a limited extent only, the activities for further utilization of the Soča River basin will continue to be carried out.

In recent years, the HSE Group successfully obtained loans for the implementation of its key development projects, which in the now changed business conditions additionally obligates the Group to carry out all the necessary measures to achieve operating within the conditions that define a manageable financial position in the long term.

Streamlining and reduction of labor costs is one of the key elements of maintaining sustainable competitiveness of the HSE Group. Thus, negotiations between the social partners who are aware of the complexity of the situation must result in the earliest possible signing of the agreement on the harmonization of the cost of labor and other rights arising from the work in the HSE Group. Optimization of business processes, reorganization and new jobs classification, as well as a revision and harmonization of wage, remuneration and reward systems are necessary.

The composition and structure of assets and liabilities in the statement of financial position will be, in 2015 too, not only influenced by investments in key development projects of the HSE Group, but largely also under the impact of hydrology and the supply of coal from the PV (as most of their own production for the year 2015 has already been sold). It will also depend on implementation of the planned financial and operational restructuring of the PV Group and TEŠ, developments in financial markets and the liquidity of our customers, as well as their responsiveness to the measures provided for by the HSE in 2015.

The HSE Management believes that, with the set objectives, a successful, profitable and economic operation of the HSE Group will be achieved and added value for the owner generated in the long run.

SUSTAINABLE DEVELOPMENT OF THE HSE GROUP

Notwithstanding the fact that Slovenia has not yet updated its development documents on sustainable development, the HSE Group is carrying out its activities in accordance with the guidelines of the most successful European energy companies. Commitment to sustainable development has been a conscious decision of the HSE Group since the very beginning. Our operations are based on responsibility to others and to the natural and economic environment. Our attitude towards balanced development is one of the essential components of organizational culture and mission of our Company. We proactively exploit opportunities for the development of more environmentally friendly modes of production of electricity by reducing emissions, careful waste management, efficient use of natural resources and developing new, original environmental solutions. Sustainable development brings positive effects for nature, for people and for business, and is becoming increasingly important in terms of growth, costs, margins and brand value.

We are building a socially responsible attitude to all stakeholders of the company to employees, business partners, shareholders and the general public. We act globally. Since the quality of life is important to us, we, in addition to grants and sponsorships, invest a lot of resources in education and professional development of our employees and society at large.

We systematically invest in the development of environmentally friendly production of electricity (renewable energy resources, efficient energy use) and care for the well-being of future generations by systematic environmental protection policy. Environmental policy is carried out carefully and under consideration of the applicable legal and technical regulations and standards in the field of environmental protection, fire protection and health protection.

Risks arising from failure to comply with the requirements of a sustainable energy policy are controlled with a variety of activities in the preparation and implementation of investment and other development projects. Both in the implementation of new production facilities and in 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. The execution of our key investment projects (mainly the construction of HPPs) meets the requirements of the common EU and national targets of the climate–energy package 25/20/20 until 2020. In addition to the increased share of electricity produced from RES, the construction of the replacement Unit 6 at TEŠ is aimed at reducing emissions of CO_2 and other harmful substances into the air.

SOCIAL RESPONSIBILITY REPORT

3 SOCIAL RESPONSIBILITY REPORT

3.1 RESPONSIBILITY TO EMPLOYEES

HR MANAGEMENT POLICY

In the field of human resources management, responsibility towards employees has been defined as one of the key values and strategic orientations for the coming period. Human resources management is characterized by processes of reorganization with the aim of establishing uniform work processes. In the area of human resources management, the Company implements common standards and common policies of employment, education and training. We strive to strengthen a »healthy« and successful organization that will be able to quickly adapt to external and internal changes. The purpose of the HR management policy is to achieve the strategic and business objectives of the Company and the HSE Group. In accordance with that, the fundamental elements of a long-term strategy of human resources management are as follows:

- focus on professional, career and personal development of members of the organization by optimizing the utilization of their potential through targeted education and training, by setting up mechanisms for the creation and transfer of knowledge at all levels, by implementing a motivational management model of performance knowing that the members of the organization represent a key competitive advantage of the company HSE and the HSE Group,
- provision of the optimal organizational structure in line with the business strategy and business model of the company HSE and the HSE Group,
- care for quality, healthy and safe working environment, while striving to maintain and upgrade the high standard of the full Family Friendly Company certificate,
- establish and maintain a strong and development-oriented organizational culture of the company,
- optimization and rationalization of the number of employees and labor costs with long-term objective of increasing the value added per employee,
- introduction of the Registry of skills with career profiles of employees within the HSE Group with a view to optimum utilization of synergy effects of knowledge, experience and competencies.

Also in 2014, we have maintained the practice of regular and constructive partnership cooperation with trade unions and workers' councils of the HSE Group. Constructive and open manner of adopting agreements with the social partners ensures a balance of diverse interests and ability to achieve broad consensus both in terms of the development plans of the HSE and the provision of social security and quality of jobs in the HSE Group.

3.1.1 EMPLOYEES IN THE CONTROLLING COMPANY

The employment policy of the Company and the HSE Group in 2014 was based primarily on recruiting staff from the HSE Group; part of the staff were recruited from the labor market, which ensured the inflow new talents, ideas and energies, different views and experiences. Formation of managing executives and experts is based primarily on the policy of educating our own staff. With the adopted HR management strategy, we have set the goal of establishing a quality and knowledge-based succession-planning model.

In the period from January to December 2014, the company HSE newly employed eleven employees, while in the same period six employees left the Company. As at 31 December 2014 the company HSE had 134 employees. We are proud that the HSE Group is distinguished by employees with a broad range of skills, interests and talents.

VOLUNTARY PENSION INSURANCE

HSE has a programme of voluntary supplementary pension insurance, which includes the majority of employees and represents a long-term form of saving for a higher quality of life after the completion of their working life.

EDUCATION AND TRAINING

The strategy of the Centre for Education and HR Development is focused on the development of human resources; its most important component is targeted and continuous education and training of employees. in 2014, the total number of training hours amounted to 3,193, while employees on average spent 24 hours for improving their skills. In 2014, 13 employees participated in undergraduate and postgraduate study programmes, and two employees completed their studies. The share of employees involved in education remains at a high level, employees are willing to invest intensively in their education and training and strive to realize its potential.

3.1.2 EMPLOYEES IN THE HSE GROUP

At the end of 2013, the HSE Group had 3,671 employees, that is even 198 less than as at 31 December 2013.

The most significant drop in the number of employees was in the PV Group (116), followed by TET–in liquidation (26), DEM (12), TEŠ (11), and HSE Invest (1). As at 31 December, HESS is no longer member of the HSE Group.

NUMBER OF THE HSE GROUP EMPLOYEES

COMPANY	31/12/2014	%	31/12/2013	%	IND 14/13
HSE	134	4	129	3	104
DEM	276	8	288	7	96
SENG	132	4	132	3	100
HESS	0	0	37	1	0
TEŠ	439	12	450	12	98
TET - in liquidation	152	4	178	5	85
PV Group	2,465	67	2,581	67	96
HSE Invest	70	2	71	2	99
HSE Balkan Energy	1	0	1	0	100
HSE Adria	1	0	1	0	100
HSE BH	1	0	1	0	100
TOTAL	**3,671**	**100**	**3,869**	**100**	**95**

NUMBER OF EMPLOYEES AS AT 31 DECEMBER 2014 AND AVERAGE NUMBER OF EMPLOYEES IN 2014 BY EDUCATION

EDUCATION LEVEL	NUMBER OF EMPLOYEES AS AT 31 DECEMBER 2014		AVERAGE NUMBER OF EMPLOYEES IN 2014	
	Controlling company	HSE Group	Controlling company	HSE Group
1	0	177	0	186
2	0	138	0	144
3	0	82	0	87
4	1	1,281	1	1,304
5	13	1,000	15	1,029
6/1	13	380	13	385
6/2	29	221	25	218
7	57	309	55	312
8/1	16	69	17	71
8/2	5	14	6	15
TOTAL	**134**	**3,671**	**131**	**3,749**

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 resolving of environmental issues and planning for sustainable development of electricity production,
- achievement of sustainable operation and development of energy capacities.

All electricity-producing companies of the HSE Group and the controlling company have the ISO 9001 international quality certificate and the ISO 14001 international environmental certificate. Through consistent observance of these standards, the companies ensure safe and environment-friendly production of electricity in all hydropower plants. Thanks to environmental rehabilitations and modernisations, and the state-of-the-art replacement Unit 6 at TEŠ, also TEŠ achieved a more environment-friendly technology level, while PV was among the first coalmines in the world to demonstrate comprehensive and responsible environmental management in compliance with the requirements of the respective standard.

RENEWABLE ENERGY SOURCES

HSE seeks to generate electricity from renewable energy sources minimum impacts on the environment and to promote rational use of energy, since it is aware of its responsibility to the environment in which it 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 electricity from RES, and within that scope to guarantees of origin (GO). 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%.

Energy from hydropower plants is quantitatively the most important source of RES-E in Slovenia, and the HSE Group is the largest producer of hydropower in the country. The area of renewable energy sources is therefore very important for business operation as well as for future external image of the company.

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. By implementing the Blue Energy project we made it possible for customers all over Slovenia to choose by themselves from which sources will the electricity they use be produced.

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, the importance of responsible behaviour towards the environment has to be taught to children. For this purpose, we have designed the 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 a Wise man), which through its website www.modri-jan.si and targeted projects 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 young people of different interests and subcultures who are aware of the future and would themselves like to contribute to positive changes. The 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. These activities are in part also efforts to educate the public on rational use of energy, the purpose of which is not only a more rational management of the environment but also prevention of extreme circumstances that can be caused by unreasonable use and consumption 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, the HSE considers its entrepreneurial, individual and social interest in a balanced way which represents the basic of socially responsible sustainable approach.

3.3 RESPONSIBILITY TO THE WIDER SOCIAL COMMUNITY

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

In 2014, we continued with the activity BLUE ENERGY FOR HEAT PUMPS within the projects 'You Are Energy, Be Effective' and ECOMOBIL – promotion of utilisation of electric vehicles. We participated in renovation of the partner website PORABI MANJ (consume less).

Throughout the year, we did our best to help organizations, associations and individuals who especially need aid and support with specific donations and sponsorships; we also supported meetings and conferences dealing with electricity, renewable energy sources and energy efficiency use. We were proud sponsors of some major sports and artistic events in Slovenia. Within the 'Centre for Social Responsibility of the HSE Group', we carried out some charity campaigns.

However, we do not act responsibly only towards external stakeholders and the environment, but also towards our employees; in doing that we are, among other things, encouraged by the obtained full 'Family-friendly company' certificate, proving that the adopted measures facilitate our employees to reconcile their work and family life.

At the end of summer holidays, in cooperation with the Slovenian Olympic Committee and with well-known and successful Olympic names, we carried out the campaign 'Support the blue'.

We ended the year with a charity action »Great feelings« – on the website www.modri-jan.si we collected photos of moments at which we can say that we feel great; some photos were also added by HSE employees; in the end, we exchanged them for money, which was given to people affected, by the floods.

ACCOUNTING REPORT OF HSE

4 ACCOUNTING REPORT OF HSE

4.1 INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholder of Holding Slovenske elektrarne, d.o.o., Ljubljana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company Holding Slovenske elektrarne, d.o.o., Ljubljana and its subsidiaries (the Holding Slovenske elektrarne Group) which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualification

As outlined in Note *15 Long-term financial liabilities* in the statement of financial position, the Group is not meeting its bank covenants as at 31 December 2014 that are defined in certain long-term loan agreements. Pursuant to the International Accounting Standard 1 – *Presentation of Financial Statements*, non-current borrowings in the amount of EUR 739,143 thousand should be transferred from long-term financial liabilities and disclosed within short-term financial liabilities, as the Group on the date of the statement of financial position did not have written confirmations from its bank partners on the waivers of its liabilities to banks.

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb članic, ki so povezane s švicarskim združenjem KPMG International Cooperative ("KPMG International").

TRR: SI 56 2900 0000 1851 102
vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vl.: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556

KPMG

In addition, the Group obtained by the date of the independent auditor's report the final valid letter on the waiver of its liabilities from one of its bank partner, whereas procedures on obtaining a written confirmation on the waiver of its liabilities to banks from two other bank partners are in progress.

Qualified Opinion

Except for the effects of the matter described in the *Basis for qualified opinion* paragraph, in our opinion, the financial statements present fairly, in all material respects, the financial position of Holding Slovenske elektrarne Group as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other Matter

Financial statements of the Holding Slovenske elektrarne Group for the financial year ended 31 December 2013 were audited by the audit firm Deloitte revizija d.o.o., which issued a qualified opinion regarding the failure to transfer long-term financial liabilities to short-term financial liabilities as a result of not meeting bank covenants under loan contracts as of the date of the statement of financial position, whereby the respective opinion included also a paragraph on emphasising a matter.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boštjan Mertelj
Certified Auditor

Boris Drobnič
Partner

Ljubljana, 6 August 2015

KPMG Slovenija, d.o.o.
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The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

4.2 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

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

- accounting policies are appropriately selected and consistently used;
- judgements and assessments are reasonable and wise.

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

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

As at 6 August 2015, the Management adopted the financial statements of the company Holding Slovenske elektrarne d.o.o. for the financial year ended as at 31 December 2014.

Ljubljana, 6 August 2015

STOJAN NIKOLIĆ,

CFO of HSE d.o.o.

BLAŽ KOŠOROK,

CEO of HSE d.o.o.

4.3 INTRODUCTORY NOTES 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, the company has been since 1 January 2011 preparing its financial statements and accompanying explanatory notes in accordance with IFRS as adopted by the EU.

The audit firm KPMG Slovenija 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 Dec 2014	adjusted 31 Dec 2013
ASSETS		**1,394,651,222**	**1,313,851,947**
A. LONG-TERM ASSETS		**989,521,001**	**1,086,535,304**
I. Intangible assets	1	24,444,729	48,531,538
II. Property, plant and equipment	2	34,947,327	12,411,428
IV. Long-term investments in subsidiaries	3	884,084,518	1,019,458,150
V. Other long-term investments and loans	4	40,880,442	366,500
VI. Long-term operating receivables		530,936	659,866
VIII. Deferred tax assets	5	4,633,049	5,107,822
B. SHORT-TERM ASSETS		**405,130,221**	**227,316,643**
III. Short-term investments	6	193,014,788	31,115,746
IV. Short-term operating receivables	7	178,782,176	179,475,270
V. Current tax receivables	25	68,300	0
VI. Other short-term assets	8	4,904,336	3,711,182
VII. Cash and cash equivalents	9	28,360,621	13,014,445
EQUITY AND LIABILITIES		**1,394,651,222**	**1,313,851,947**
A. EQUITY	**10**	**1,152,425,385**	**1,008,927,696**
I. Called-up capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Revenue reserves		484,267,929	413,856,349
IV. Fair value reserve		(1,121,412)	(3,795,939)
V. Retained earnings		78,476,894	8,065,312
B. LONG-TERM LIABILITIES		**69,071,477**	**80,825,843**
I. Provisions for termination and jubilee benefits upon retirement and jubilee benefits	11	744,400	593,296
II. Other provisions	12	3,542,907	3,241,609
IV. Long-term financial liabilities	13	64,783,541	76,987,315
V. Long-term operating liabilities		629	0
VI. Deferred tax liabilities		0	3,623
C. SHORT-TERM LIABILITIES		**173,154,359**	**224,098,408**
II. Short-term financial liabilities	14	11,588,915	22,614,252
III. Short-term operating liabilities	15	131,653,719	145,197,802
IV. Current tax liabilities	25	1,468,556	7,478,195
V. Other short-term liabilities	16	28,443,169	48,808,159

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

4.4.2 INCOME STATEMENT

in EUR

	Note	2014	adjusted 2013
OPERATING REVENUE		**1,313,019,784**	**1,643,151,820**
1. Net sales revenue	18	1,312,697,148	1,637,396,249
4. Other operating revenue	19	322,636	5,755,571
GROSS OPERATING INCOME		**1,313,019,784**	**1,643,151,820**
OPERATING EXPENSES		**1,214,797,689**	**1,539,692,482**
5. Costs of goods, materials and services	20	1,204,197,544	1,528,703,390
6. Labour costs	21	8,435,599	8,820,466
7. Write-downs in value	22	1,411,989	1,737,432
8. Other operating expenses		752,557	431,194
OPERATING PROFIT OR LOSS		**98,222,095**	**103,459,338**
9. Financial revenue	23	65,177,797	8,298,162
10. Financial expenses	24	4,686,052	79,211,689
FINANCIAL RESULT		**60,491,745**	**(70,913,527)**
PROFIT OR LOSS BEFORE TAX		**158,713,840**	**32,545,811**
TAX	**25**	**17,890,677**	**16,415,188**
11. Corporate income tax		17,554,377	17,622,677
12. Deferred taxes		336,300	(1,207,489)
NET PROFIT OR LOSS FOR THE PERIOD	**26**	**140,823,163**	**16,130,623**
Majority owner		140,823,163	16,130,623
Minority interest			

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

4.4.3 STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR

	Note	2014	adjusted 2013
13. Net profit or loss for the period	**26**	**140,823,163**	**16,130,623**
17. Actuarial gains and losses of employee defined benefit plans	10	(20,010)	13,649
Items that will not be transferred to profit or loss		**(20,010)**	**13,649**
21. Net effective part of change in fair value of instrument for cash flow hedging	10	2,694,538	4,360,239
Items that may be transferred to profit or loss		**2,694,538**	**4,360,239**
23. Total comprehensive income for the period	**4.5.7.3**	**143,497,691**	**20,504,511**
Total comprehensive income for the period attributable to majority owner		143,497,691	20,504,511
Total comprehensive income for the period attributable to minority interest			

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

4.4.4 CASH FLOWS STATEMENT

in EUR

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
a) Items of income statement	**79,132,246**	**90,665,154**
Operating revenue (except from revaluation) and financial revenue from operating receivables	1,312,883,769	1,639,595,807
Operating expenses (except from revaluation and amortisation/depreciation) and financial expenses for operating liabilities	(1,211,041,432)	(1,537,421,040)
Income tax and other taxes not included in operating expenses	(22,710,091)	(11,509,613)
b) Changes in net operating assets in statement of financial position items	**(39,158,502)**	**14,154,396**
Opening less closing operating receivables	2,607,993	36,095,270
Opening less closing other assets	(1,193,154)	(1,289,559)
Opening less closing inventories	0	620
Closing less opening operating liabilities	(26,444,429)	(66,320,236)
Closing less opening other liabilities and provisions	(14,128,912)	45,668,301
c) Net cash from operating activities	**39,973,744**	**104,819,550**
CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	**202,788,378**	**473,812,864**
Cash receipts from interest related to investing	4,093,129	8,043,336
Cash receipts from profit participations related to investing activities	57,574,436	43,355
Cash receipts from disposal of intangible assets	43,974,687	1,607,700
Cash receipts from property, plant and equipment (including advances)	84,742	17,910
Cash receipts from short-term loans	0	463,600,000
Cash receipts from disposal of long-term financial investments in associated companies, subsidiaries and joint ventures	97,061,384	500,563
b) Cash disbursements from investing activities	**(201,457,747)**	**(339,340,576)**
Cash disbursements to acquire intangible assets	(20,634,599)	(23,974,467)
Cash disbursements to acquire property, plant and equipment (including advances)	(19,358,095)	(1,459,563)
Cash disbursements from short-term loans granted	0	(190,907,923)
Cash disbursements from other long-term investments	0	(122,998,623)
Cash disbursements from other short-term investments	(161,465,053)	0
c) Net cash from investing activities	**1,330,631**	**134,472,288**
CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	**111,000,000**	**102,000,000**
Cash receipts from short-term loans received	111,000,000	102,000,000
b) Disbursements from financing activities	**(136,958,199)**	**(331,477,887)**
Cash disbursements from paid interest pertaining to financing	(3,607,543)	(8,012,492)
Cash disbursements from long-term loans received	(11,350,656)	(11,350,656)
Cash disbursements from short-term loans received	(122,000,000)	(312,114,739)
c) Net cash from financing activities	**(25,958,199)**	**(229,477,887)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**13,014,445**	**3,200,494**
Increase/(decrease) of cash and cash equivalents	15,346,176	9,813,951
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**28,360,621**	**13,014,445**

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

4.4.5 STATEMENT OF CHANGES IN EQUITY

in EUR

ADJUSTED 2013	CALLED-UP CAPITAL Share capital	CAPITAL SURPLUS	REVENUE RESERVE Other revenue reserves	FAIR VALUE RESERVE	RETAINED EARNINGS OR LOSSES Retained earnings or losses	RETAINED EARNINGS OR LOSSES Net profit or loss for the period	TOTAL
Balance at 1 Jan 2013	**29,558,789**	**561,243,185**	**384,313,947**	**(8,169,827)**	**0**	**21,477,090**	**988,423,184**
B.1. Transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**4,373,888**	**0**	**16,130,623**	**20,504,511**
Net profit or loss for the reporting period						**16,130,623**	**16,130,623**
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 plan				*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**	**29,542,401**	**0**	**0**	**(29,542,401)**	**0**
Allocation of the remaining portion of net profit of the comparable period to other equity components					21,477,090	(21,477,090)	0
Allocation of portion of net profit for the period to other equity components pursuant to decision of Management and Supervisory Board			8,065,311			(8,065,311)	0
Allocation of portion of net profit to additional reserves pursuant to resolution of the Shareholders' Meeting			21,477,090		(21,477,090)		0
Balance at 31 Dec 2013	**29,558,789**	**561,243,185**	**413,856,348**	**(3,795,939)**	**0**	**8,065,312**	**1,008,927,695**
Balance at 1 Jan 2014	**29,558,789**	**561,243,185**	**413,856,348**	**(3,795,939)**	**0**	**8,065,312**	**1,008,927,695**
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**2,674,528**	**0**	**140,823,163**	**143,497,691**
Net profit or loss for the reporting period						**140,823,163**	**140,823,163**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**(20,010)**	**0**	**0**	**(20,010)**
Actuarial gains and losses of employee defined benefit plan				*(20,010)*			*(20,010)*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**2,694,538**	**0**	**0**	**2,694,538**
Net effective part of change in fair value of instrument for cash flow hedging				2,694,538			2,694,538
B.3. Changes within equity	**0**	**0**	**70,411,581**	**0**	**8,065,312**	**(78,476,893)**	**0**
Allocation of the remaining portion of net profit of the comparable period to other equity components					8,065,312	(8,065,312)	0
Allocation of portion of net profit for the period to other equity components pursuant to decision of Management and Supervisory Board			70,411,581			(70,411,581)	0
Balance at 31 Dec 2014	**29,558,789**	**561,243,185**	**484,267,929**	**(1,121,411)**	**8,065,312**	**70,411,582**	**1,152,425,386**
Accumulated profit					8,065,312	70,411,582	78,476,894

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

4.5 NOTES TO THE FINANCIAL STATEMENTS

4.5.1 REPORTING ENTITY

Holding Slovenske elektrarne 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 2014 are presented below.

The company HSE is the controlling company of the HSE Group, registered in Slovenia, and trading in electricity is its core activity.

4.5.2 BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

During the compilation of the financial statements as at 31 December 2014, the company took into account:

- IFRS, which comprise the International Accounting Standards (IAS), interpretations and clarifications of the Standing Interpretation Committee (SIC), the International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU,
- Companies Act (ZGD),
- Energy Act (EZ),
- Corporate Income Tax Act,
- Rules on the implementing the Corporate Income Tax Act and its implementing regulations,
- company's Accounting manual, and
- other applicable legislation.

B) ACCOUNTING ASSUMPTIONS AND QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

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 assets that shall result in cash inflows 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 2014.

C) 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.

D) 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.

E) USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires that the management forms certain estimates 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.

Estimates 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 estimates and assumptions are subject to subjective judgement and certain level of uncertainty, subsequent actual results can differ from assessments. The estimates 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.

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

- assessment of useful life of amortisable assets (disclosure 4.5.7.1 points 1 and 2),
- impairment testing of assets (disclosure 4.5.7.1 points 1, 2 and 3),
- assessment of fair value of derivatives (disclosure 4.5.7.1. point 10),
- assessment of realisable values of receivables (disclosure 4.5.7.9.1.),
- assessment of provisions for jubilee and termination benefits (disclosure 4.5.7.1. point 11),
- assessment of other provisions (disclosure 4.5.7.1. point 12), and
- assessment of contingent liabilities and assets (disclosure 4.5.7.1. point 17).

F) ELIMINATION OF MATERIAL ERROR FROM PREVIOUS PERIODS

The company corrects or eliminates significant errors from previous years retrospectively i.e. in the first financial statements that are approved for publishment upon the detection of errors. The said errors are corrected by means of:

- recalculation of comparative amounts from previous period or previous periods, in which the errors appeared;
- recalculation of opening balance of assets, liabilities and equity for the first presented previous period if the error occurred prior to the first presented previous year.

In 2014, the company eliminated the significant error from previous period and recognised the impairment of long-term investments in the company PV in the amount of EUR 60,408,543 for 2013.

The company received a qualified opinion for the fiscal year 2013 due to the limited scope of the audit i.e. no estimate of the recoverable value of long-term investments in PV and TEŠ was namely carried out as required under IAS 36 – Impairment of assets.

In the disclosure to the income statement for 2013 (Investments in subsidiaries), the company provided the reasons for not checking the recoverable value of long-term investments in PV and TEŠ, namely:

- while compiling the financial statements for 2013, the annual sales price of coal was not known for the period from 2014 to 2027 (solely the maximum average sales price was known),
- while compiling the financial statements for 2013, the Operational and Financial Restructuring Plan that was used as the basis for determining the coal's sales price for electricity production in the TEŠ replacement unit 6, was in course of preparation.

The Operational and Financial Restructuring Plan for PV and its Group was adopted in the last quarter of 2014, based on which long-term projections for PV Group companies and TEŠ were prepared and thereby terms and conditions met for preparing a valuation of long-term investments in PV and TEŠ. The maximum annual sales price for coal was defined i.e. EUR 2.75 /GJ.

In connection with the preparation of financial statements for 2014, the company ordered a valuation of the recoverable value of long-term investments in PV and TEŠ for accounting purposes as at 31 December 2014 pursuant to IAS 36 – Impairment of assets. The recoverable value of shares and interests was checked by means of a calculation that based on the going concern assumption, whereas also the value in use was calculated. Both valuation were conducted by certified valuers registered at the Slovenian Institute of Auditors (SIR).

It was established based on the valuation's findings that the long-term investment in PV must be impaired, while no requirement for impairing also the long-term investment in TEŠ was expressed.

Given the qualification expressed in connection with disclosing the investment in the equity interest in PV in the financial statements for 2013 and upon receiving the information on the performed valuation in 2014, the company had to substantiate the accurate occurrence of impairment loss and accordingly also disclose the related revaluation financial expenses in the appropriate period.

Following was established after receiving the valuation's results regarding the recoverable value of the investment in PV:

- the valuation of the long-term investment in PV was negative as at 31 December 2014,
- if the valuation would be carried out as at 31 December 2013, the WACC would be higher mostly due to the higher required yield on government bonds by approximately 2.88%; the aforesaid would have a negative impact on the value of cash flows (under the assumption that as of 31 December 2013 equal cash flows would have been planned from 2015 onwards),
- prior to adopting the long-term maximum annual sales price of coal in the amount of EUR 2.75/GJ, the planned sales price for 2014 was EUR 2.45/GJ, and EUR 2.25/GJ (NIP 5) after 2014. If projections would take account of the respective coal's price, the EBITDA of PV would be essentially lower and thus also the value of the long-term investment in PV as at 31 December 2013.

Given the above-mentioned it was established that the impairment of the long-term investment in the company PV in the amount of EUR 60,408,543 EUR is not the result of PV's operations in 2014, thus the impairment was considered as elimination of material error in the financial statements for 2013.

Tables below outline the adjustments made in the statement of financial position, the income statement and the statement of comprehensive income for 2013 as a result of eliminating or correcting the material error.

ADJUSTMENT OF MATERIAL ERROR AND ITS IMPACT ON THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

in EUR

	31 Dec 2013 prior to adjustment	adjustment at 31 Dec 2013	adjusted 31 Dec 2013
ASSETS	**1,374,260,490**	**(60,408,543)**	**1,313,851,947**
A. LONG-TERM ASSETS	**1,146,943,847**	**(60,408,543)**	**1,086,535,304**
IV. Long-term investments in subsidiaries	1,079,866,693	(60,408,543)	1,019,458,150
EQUITY AND LIABILITIES	**1,374,260,490**	**(60,408,543)**	**1,313,851,947**
A. EQUITY	**1,069,336,239**	**(60,408,543)**	**1,008,927,696**
I. Called-up capital	29,558,789	0	29,558,789
II. Capital surplus	561,243,185	0	561,243,185
III. Revenue reserves	444,060,621	(30,204,272)	413,856,349
IV. Fair value reserve	(3,795,939)	0	(3,795,939)
V. Retained earnings	38,269,583	(30,204,271)	8,065,312

ADJUSTMENT OF MATERIAL ERROR AND ITS IMPACT ON THE INCOME STATEMENT FOR 2013

in EUR

	31 Dec 2013 prior to adjustment	adjustment at 31 Dec 2013	adjusted 31 Dec 2013
10. Financial expenses	18,803,146	60,408,543	79,211,689
FINANCIAL RESULT	**(10,504,984)**	**(60,408,543)**	**(70,913,527)**
PROFIT OR LOSS BEFORE TAX	**92,954,354**	**(60,408,543)**	**32,545,811**
NET PROFIT OR LOSS FOR THE PERIOD	**76,539,166**	**(60,408,543)**	**16,130,623**

ADJUSTMENT OF MATERIAL ERROR AND ITS IMPACT ON THE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR 2013

in EUR

	31 Dec 2013 prior to adjustment	adjustment at 31 Dec 2013	adjusted 31 Dec 2013
13. Net profit or loss for the period	**76,539,166**	**(60,408,543)**	**16,130,623**
23. Total comprehensive income for the period	**80,913,054**	**(60,408,543)**	**20,504,511**

4.5.3 BRANCHES AND REPRESENTATIVE OFFICES

The company has a branch office in the Czech Republic and a representative office in Romania. In 2014, 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 the branch and the representative office are included in financial statements of the company.

4.5.4 SIGNIFICANT ACCOUNTING POLICIES

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

When necessary, the comparative data was adjusted so that it is in accordance with the presentation of data in the current year.

4.5.4.1 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.

4.5.4.2 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.

Methods of amortisation, 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 finally 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.

Estimated useful lives used for individual intangible assets are:

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.

AMORTISATION RATE – INTANGIBLE ASSETS

	2014
Software	2-20 years

4.5.4.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are long-term assets owned by the company and used for the performance of its registered activities. Property, plant and equipment comprise land, buildings, production equipment, other equipment and assets in the course of construction.
Property, plant and equipment (hereinafter: operating fixed assets) are disclosed at cost less accumulated depreciation. 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 useful lives for individual items of property, plant and equipment are the following:

DEPRECIATION RATE - PROPERTY, PLANT AND EQUIPMENT

	2014
Buildings	50 years
Production equipment	25 years
Computer equipment	2-4 years
Furniture	10 years
Small tools	3-5 years
Cars	5 years
Other devices and equipment	2-10 years

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

4.5.4.4 LEASED ASSETS

Leases in terms of which the company assumes substantially all major risks and benefits of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in line with the accounting policies applying to such assets.

Other leases are treated as operating leases.

4.5.4.5 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 disclosed 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.

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.

In case of selling an equity interest in the subsidiary, the difference between the carrying amount and the sales value of the investment is recorded among financial revenue or expenses.

4.5.4.6 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Investments in associates are investments in which the company has an important influence and usually its stake in such companies 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.

4.5.4.7 FINANCIAL INSTRUMENTS

Financial instruments include the following assumptions:

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

4.5.4.7.1 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.

4.5.4.7.2 NON-DERIVATIVE FINANCIAL LIABILITIES

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

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.

4.5.4.7.3 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 earmarked for 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.

4.5.4.8 IMPAIRMENT OF ASSETS

4.5.4.8.1 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 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 among operating expenses in profit or loss.

4.5.4.8.2 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 among operating expenses in the income statement.

4.5.4.9 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 (SAS). The adjustment due to the transfer to new SAS 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 derivatives and actuarial gains relating to payables to employees for termination benefits upon retirement.

Retained earnings include unallocated profit of the current year and previous periods.

4.5.4.10 PROVISIONS FOR JUBILEE BENEFITS AND TERMINATION BENEFITS UPON RETIREMENT

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 termination and jubilee benefits decrease the created provisions.

4.5.4.11 EMPLOYEE BENEFITS

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected

to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

4.5.4.12 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.

4.5.4.13 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.

4.5.4.14 CONTINGENT LIABILITIES

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.

4.5.4.15 REVENUE

The sales revenue is recognised at fair value of the received payment of receivables, thus 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 advances granted, revenue from default interest, gains arising from sales of fixed assets, received compensations and contractual penalties and similar revenue.

Revenue arising from DEFAULT INTEREST charges and related receivables are recognised upon occurrence if it is probable that the economic benefits related to transaction will flow 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 shares in investments (dividends, sales revenue), interest on deposits and loans granted, and revenue from parent guarantees granted.

4.5.4.16 EXPENSES

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

Operating expenses are recognised once 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 operating 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 impairment of financial assets and liquidations of subsidiaries. Interest expenses are recognised upon their occurrence, in the amount of agreed-upon interest rate.

4.5.4.17 TAXATION

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 income statement, since it excludes 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 2014, 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.

4.5.4.18 SEGMENT REPORTING

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

4.5.4.19 NEW STANDARDS AND INTERPRETATIONS

4.5.4.19.1 STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE FINANCIAL YEAR 2014

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

- IFRS 10 »CONSOLIDATED FINANCIAL STATEMENTS« - Investment entities, which the EU adopted on 20 November 2013 (applicable for 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.

The standard had no effect on the accounting of investments, as the company records no investments that would be subject to consolidation due to the newly introduced model.

- IFRS 11 »JOINT ARRANGEMENTS«, adopted by the EU on 11 December 2012 (applicable to the annual periods starting on or after 1 January 2014).

IFRS 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 inly 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.

The standard had no effect on separate financial statements.

- IFRS 12 »DISCLOSURE OF INTERESTS IN OTHER ENTITIES«, adopted by the EU on 11 December 2012 (applicable to the annual periods starting on or after 1 January 2014).

IFRS 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.

The application of the standard does not require any material changes in the disclosure of shares in other entities.

- 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.

The revised standard had no effect on the company's financial statements.

- 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 standard has no effect on the company's financial statements.

- 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 standard have no effect on the company's financial statements.

- 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 has no effect on the company's financial statements.

- 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 revised standard has no influence on the company's financial statements.

- 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 revised standard has no impact on the company's financial statements.

4.5.4.19.2 STANDARDS AND INTERPRETATIONS ISSUED BY IASB THAT ARE NOT YET EFFECTIVE

- IAS 19 »EMPLOYEE BENEFITS – EMPLOYEE CONTRIBUTIONS«, adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The company does not expect the amendment to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

- IFRIC 21 »LEVIES«, adopted by the EU on 1 December 2012 (effective for annual periods beginning on or after 17 June 2014).

The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government.

In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period.

If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached.

The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

The company does not expect the interpretation to have a significant impact on the financial statements on the day of first use, since it does not require changing the accounting policies in view of levies.

- AMENDMENTS TO IFRS 3 »BUSINESS COMBINATIONS«, adopted by the EU on 23 December 2014 (effective for annual periods beginning on or after 1 July 2014).

The amendment to IFRS 3 Business Combinations (with consequential amendments to other standards) clarifies business combinations that when contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to IAS 32, rather than to any other standard. It also clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

The Company does not expect the amendment to have a significant impact on its financial statements as it does not have contingent considerations.

- AMENDMENTS TO VARIOUS STANDARDS »IFRS IMPROVEMENTS (PERIOD 2010-2012)«, which arise from the annual IFRS improvements (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily with the purpose to eliminate inconsistencies and interpretations of content (amendments must be used for annual periods beginning on or after 1 February 2015).
- AMENDMENTS TO VARIOUS STANDARDS »IFRS IMPROVEMENTS (PERIOD 2011-2013)«, which arise from the annual IFRS improvements (IFRS 1, IFRS 3, IFRS 13 and IAS 40), primarily with the purpose to eliminate inconsistencies and interpretations of content (amendments must be used for annual periods beginning on or after 1 January 2015).

4.5.5 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 company by the bank where an individual swap was concluded. Values are verified in the company's financial department.

4.5.6 FINANCIAL RISK MANAGEMENT

Detection and management of financial risks is defined in the business report. In notes to financial statements, the risks are presented in connection with items in financial statements (Point 4.5.7.9. Financial instruments and risks), namely:

- credit risk,
- liquidity risk,
- currency risk,
- interest rate risk, and
- price risk.

4.5.7 NOTES TO THE FINANCIAL STATEMENTS

4.5.7.1 STATEMENT OF FINANCIAL POSITION

INTANGIBLE ASSETS (1)

in EUR

	31 Dec 2014	31 Dec 2013
Emissions coupons	22,731,810	46,740,686
Other long-term property rights	1,712,919	1,790,852
Total	**24,444,729**	**48,531,538**

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

The item of software in use includes diverse computer software.

MOVEMENT OF INTANGIBLE ASSETS (IA) IN 2014

in EUR

	Emissions coupons	Other long-term property rights	Total
Cost at 1 Jan 2014	**46,740,686**	**5,657,164**	**52,397,850**
Acquisitions	20,554,800	483,906	21,038,706
Disposals	(44,563,676)	(232,237)	(44,795,913)
Cost at 31 Dec 2014	**22,731,810**	**5,908,833**	**28,640,643**
Write-downs at 1 Jan 2014	**0**	**3,866,312**	**3,866,312**
Disposals	0	(133)	(133)
Amortisation	0	329,735	329,735
Write-downs at 31 Dec 2014	**0**	**4,195,914**	**4,195,914**
Carrying amount at 1 Jan 2014	**46,740,686**	**1,790,852**	**48,531,538**
Carrying amount at 31 Dec 2014	**22,731,810**	**1,712,919**	**24,444,729**

MOVEMENT OF INTANGIBLE ASSETS (IA) IN 2013

in EUR

	Emissions coupons	Other long-term property rights	Total
Cost at 1 Jan 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 at 31 Dec 2013	**46,740,686**	**5,657,164**	**52,397,850**
Write-downs at 1 Jan 2013	**0**	**3,562,311**	**3,562,311**
Disposals	0	(189,458)	(189,458)
Amortisation expense	0	493,459	493,459
Write-downs at 31 Dec 2013	**0**	**3,866,312**	**3,866,312**
Carrying amount at 1 Jan 2013	**21,820,152**	**1,833,129**	**23,653,281**
Carrying amount at 31 Dec 2013	**46,740,686**	**1,790,852**	**48,531,538**

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.

At the beginning of 2014, the company had in stock and recorded 5,144,462 emission coupons for covering the requirements of own electricity production in TEŠ and TET. For this purpose the company purchased in 2014 3,875,000 and sold 5,165,468 coupons; as at 31 December 2014 the company had 3,853,994 coupons in stock and records EUR 944,619 of revenue in this relation.

The main reason for lowering the value of emission coupons in view of 2013 is the lower electricity produced in TE in 2014, the start of liquidation proceedings at TET, and the lower average purchase price of emission coupons.

In 2014, the company reviewed useful lives of relevant software and established that useful life of one item of software had changed with respect to current projections, which resulted in decreased amortisation rates. Due to extended useful life of this software, the amortisation charge in 2014 totalled to EUR 103,692, which is EUR 150,726 less than the amortisation of the initially determined useful life.

As at the balance sheet date, the company records EUR 81,300 of liabilities for acquiring software. No pledges or other ownership-related limitations referring to intangible assets exist.

PROPERTY, PLANT AND EQUIPMENT (2)

in EUR

	31 Dec 2014	31 Dec 2013
Buildings	1,364,584	1,399,582
Production equipment	106,689	111,769
Other equipment	24,179,742	2,248,715
Property, plant and equipment being acquired	9,296,312	8,651,362
Total	**34,947,327**	**12,411,428**

The item of buildings includes part of company's business premises in Ljubljana (part of premises in Ljubljana, business premises in Velenje, Maribor and Nova Gorica are hired by the company). The item of production equipment comprises the solar power plant, while other equipment includes mostly coal-related equipment that was purchased from PV at the end of 2014. Property, plant and equipment being acquired includes the investment in the construction of the middle Sava HPP.

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT IN 2014

in EUR

	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost at 1 Jan 2014	**1,733,284**	**127,010**	**8,898,342**	**8,651,362**	**19,409,998**
Acquisitions	0	0	0	23,683,226	23,683,226
Disposals	0	0	(302,025)	0	(302,025)
Transfers from investments	0	0	23,038,941	(23,038,276)	665
Cost at 31 Dec 2014	**1,733,284**	**127,010**	**31,635,258**	**9,296,312**	**42,791,864**
Write-downs at 1 Jan 2014	**333,702**	**15,241**	**6,649,627**	**0**	**6,998,570**
Disposals	0	0	(232,790)	0	(232,790)
Depreciation	34,998	5,080	1,038,679	0	1,078,757
Write-downs at 31 Dec 2014	**368,700**	**20,321**	**7,455,516**	**0**	**7,844,537**
Carrying amount at 1 Jan 2014	**1,399,582**	**111,769**	**2,248,715**	**8,651,362**	**12,411,428**
Carrying amount at 31 Dec 2014	**1,364,584**	**106,689**	**24,179,742**	**9,296,312**	**34,947,327**

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT IN 2013

in EUR

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

In 2014, the company purchased from PV equipment for excavating coal at a cost of EUR 22,687,890. The value of purchased equipment grounds on a valuation made for the purpose of sale (fair value method was applied by taking into account cost of dismantling and the set-up at a site outside the cave) by a certified appraiser of plant and equipment registered with the Slovenian Institute of Auditors (SIR). The equipment was leased back to the company PV but is in view of accounting, however, defined as an operating lease since most of the risks and benefits arising in connection with the equipment purchased is held by the company HSE as lessor. The related lease contract is concluded for the period of one year with the option of its prolongation. The anticipated lease amounts for 2015 amount to EUR 2,526,600.

The investment made in the middle Sava HPP, which is disclosed at the year-end of 2014 in the amount of EUR 9,296,312, primarily refers to the compilation and preparation of the pre-investment and investment-related documentation that is required within procedure of setting up the hydro-power plant into the environment. In 2014, the investment in the middle Sava HPP has gone up by EUR 644,950. Due to demanding circumstances on the electricity market, the HSE Group conducts its activities on the project in a limited scope so as to not hinder the long-term proceedings. 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. Existing documentation and expert opinions were prepared so that they will not fall under the statute of limitation and can be used by the new investor as the basis for further activities. All the above-mentioned confirms that regardless of the investment's slowdown due to the current unfavourable circumstances with respect to the expected yield, the investment itself is probably not at risk (also because of Slovenia's commitments on increasing the electricity production from renewable sources) and requirement for impairing the investment as at 31 December 2014 not expressed.

The useful lives of significant equipment were checked in 2014 and according to findings made the expected useful lives of certain equipment have changed, which resulted in lower depreciation rates. Due to extended useful life of this equipment, the depreciation charge in 2014 totalled to EUR 160,628, which is EUR 192,800 less than the depreciation of the initially determined useful life.

The company does not have any item of property, plant and equipment under mortgage but holds EUR 6,732 of equipment under finance lease. As of the balance sheet date, the company recorded EUR 5,564,665 of liabilities for equipment acquired (largest portion thereof relates to equipment for excavating cola).

The company did not impair the plant and equipment in 2014 as the useful life of relevant equipment does not exceed five years. The company examined also the reasons for possible impairment of business premises, by comparing the market value at the end of 2014 with their carrying amount. It was determined that differences between the carrying and market value are immaterial and indicate that the reasons for impairment are not required to be checked.

INVESTMENTS IN SUBSIDIARIES (3)

in EUR

	31 Dec 2014	adjusted 31 Dec 2013
DEM d.o.o.	387,058,979	387,058,979
SENG d.o.o.	152,692,250	152,692,249
HESS d.o.o.	0	134,169,548
TEŠ d.o.o.	342,664,278	342,664,278
TET d.o.o. - in liquidation	0	491,000
PV d.d.	0	0
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.	856,000	1,025,063
HSE Adria d.o.o.	102,553	102,553
HSE MAK Energy DOOEL	26,778	26,778
HSE BH d.o.o.	513,990	513,990
HSE RO Energy S.r.l.	0	544,022
Total	**884,084,518**	**1,019,458,150**

Large part of company's assets comprise long-term investments in subsidiaries. They include investments in companies, in which the company – directly or indirectly through other owners – owns a controlling interest and prepares consolidated financial statements for this group of companies.

Movement of investments in 2014:

MOVEMENT OF LONG-TERM INVESTMENTS IN SUBSIDIARIES

in EUR

	2014	adjusted 2013
Cost at 1 Jan	**1,216,906,185**	**1,094,420,782**
Additions	0	122,998,623
Disposals	(94,199,627)	(513,220)
Transfers, restatements	(40,513,942)	0
Cost at 31 Dec	**1,082,192,616**	**1,216,906,185**
Write-downs at 1 Jan	**(197,448,035)**	**(125,848,492)**
Impairment	(660,063)	(71,599,543)
Write-downs at 31 Dec	**(198,108,098)**	**(197,448,035)**
Carrying amount at 1 Jan	**1,019,458,150**	**968,572,290**
Carrying amount at 31 Dec	**884,084,518**	**1,019,458,150**

MOVEMENT OF LONG-TERM INVESTMENTS IN GROUP COMPANIES

in EUR

	2014
Sale of equity interest in HESS	(93,655,605)
Voluntary liquidation of the company HSE RO Energy	(544,022)
Transfer of 15.4% interest of HESS to associates	(40,513,942)
Impairment of investment in TET - in liquidation	(491,000)
Impairment of investment in HSE Balkan Energy	(169,063)
Total	**(135,373,632)**

In 2014, the company lowered its investments in the company HESS by selling a 35.6% equity interest at EUR 93,655,605 to the companies GEN Energija and SEL. The company kept a 15.4% share in that company, which is disclosed among investments in associates. The sales price was determined on the basis of the valuation prepared by a certified appraiser registered with SIR, who applied the method of adjusted book values. Company's financial revenue from the relevant sale were in 2014 recorded in the amount of EUR 3,054,934.

The subsidiary HSE Ro Energy was liquidated in 2014. Within the voluntary liquidation, HSE Ro Energy compiled as of 19 December 2014 the financial statements and concluded its operations. The liquidation process was formally concluded on 8 January 2015 when the said company was also deleted from the companies' register. The company disclosed in this relation EUR 44,678 of financial revenue in 2014.

None of the subsidiaries or comparable companies is quoted on the stock exchange. Therefore, the reason for possible impairment could not be determined based on the market 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, except with companies PV, TET – in liquidation, and HSE Balkan Energy. Impairment testing of investments was carried out for these three companies and consequently also the relevant impairments. Although the carrying amount of the TEŠ's equity still exceeds as at 31 December 2014 the value of the long-term investment in this company, an impairment testing was carried out for the investment in the equity interest of TEŠ due to high losses disclosed by TEŠ.

As at 31 December 2014, a valuation for accounting purposes was performed for the equity interest in the company PV; value in use was taken into account as the recoverable value. The going concern assumption was applied, while the approved Operational and Financial Restructuring Plan and long-term projections for PV's operations up till 2054 were used as input data. The valuation was performed by a certified appraisor registered with SIR. According to the report on the value of the company PV as at 31 December 2014, the value in use equals 0, while the estimate took into account the real required rate of yield at 7.25% in case of the optimistic scenario or 7.84% in case of the pessimistic scenario. Due to reasons stated in Point 4.5.2. (f) Elimination of material errors from previous periods, the company recorded the impairment-related amount at EUR 60,408,543 through profit or loss for 2013; accordingly, it has no impact on the income statement for 2014.

As of 16 December 2014, the company TET – in liquidation has started regular liquidation proceedings and as of 31 December 2014 the liquidation values of property, plant and equipment and investment properties of the said company were valued by certified appraisors. Based on the recorded liquidation values, the company TET – in liquidation discloses as at 31 December 2014 a negative value of equity at EUR 2,475,090. The investment in TET – in liquidation was consequently impaired in the amount of EUR 491,000 to the value of 0. the company has impaired this investment already in 2012 and 2013 in the total amount of EUR 24,012,340.

The equity interest in the company HSE Balkan Energy was as at 31 December 2014 subject to impairment testing. Value in use was taken into account as the recoverable value. The going concern assumption was applied, while the prospective income statement and the statement of financial position for the next five years were used as input data. According to the report on the value of the company HSE Balkan Energy as at 31 December 2014, the value in use is recorded at EUR 856,000. The estimate took into account the real required rate of yield at 7.77%. The amount of impairment amounted as at 31 December 2014 to EUR 169,063.

The equity interest in the company TEŠ was as at 31 December 2014 subject to valuation for accounting purposes; value in use was taken into account as the recoverable value. The going concern assumption was applied, whereas the Revised Investment Plan NIP 6 and long-term projections for TEŠ's operations up until 2054 were used as input data. The valuation was performed by a certified appraisor registered with SIR. According to the report on the value of the company TEŠ as at 31 December 2014, the recoverable amount exceeded the carrying amount of HSE's investment in this company. The estimate took into account the real required rate of yield, which changes in terms of years i.e. from 6.37% in 2015 to 5.36% from 2018 onwards. The calculated value in use is based among others also on long-term projected movement of market prices for electricity and emission coupons, which are prepared by the internationally renowned institution. The recoverable amount of the 100% equity interest in the company TEŠ is as at 31 December 2014 recorded at EUR 426,353,000. Should the discount rate increase by 0.50%, the recoverable amount would be EUR 327,878,208; if the NOPLAT (which is largely impacted by deviations of electricity prices from the planned electricity prices used in the impairment testing) would decline by 10% the recoverable amount would be recorded at EUR 357,126,137, whereas if CAPEX would increase by 10% the recoverable amount would amount to EUR 408,963,913.

SIGNIFICANT AMOUNTS FROM THE FINANCIAL STATEMENTS OF SUBSIDIARIES

in EUR

	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
TEŠ d.o.o.	1,498,884,806	1,072,531,348	191,065,052	(89,275,670)	426,353,458
PV d.d.	160,111,014	121,690,579	102,202,031	(36,052,627)	38,420,435
DEM d.o.o.	528,565,983	17,840,151	74,476,674	8,523,310	510,725,832
HSE Adria d.o.o.	4,179,924	3,492,463	61,279,107	311,639	687,461
SENG d.o.o.	263,930,526	57,084,223	43,344,563	7,434,373	206,846,303
TET d.o.o. - in liquidation	8,029,363	10,504,453	15,884,537	(24,476,068)	(2,475,090)
HSE Balkan Energy d.o.o.	2,482,787	1,770,885	13,524,704	38,426	711,902
HSE BH d.o.o.	1,046,940	505,948	13,155,667	13,499	540,992
HSE MAK Energy DOOEL	102,476	7,460	6,456,097	10,697	95,016
HSE Italia S.r.l.	1,431,896	1,242,860	6,170,788	12,960	189,036
HSE Invest d.o.o.	2,680,592	1,344,279	5,701,531	96,948	1,336,313
HSE RO Energy S.r.l.			5,694,318	(32,187)	0
SRESA d.o.o.	77,035	11	7	(162)	77,024
Total	**2,471,523,342**	**1,288,014,660**	**538,955,076**	**(133,394,862)**	**1,183,508,682**

DATA ON SUBSIDIARIES

Company	Address	Country	Activity	% of ownership	% voting rights
DEM d.o.o.	Obrežna ulica 170, 2000 Maribor	Slovenia	Hydroelectricity generation	100.0%	100.0%
SENG d.o.o.	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Hydroelectricity generation	100.0%	100.0%
TEŠ d.o.o.	Cesta Lole Ribarja 18, 3325 Šoštanj	Slovenia	Electricity production at thermal power plants	100.0%	100.0%
PV d.d.	Partizanska 78, 3320 Velenje	Slovenia	Mining and agglomeration of lignite	77.7%	77.7%
TET d.o.o. - in liquidation	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production at thermal power plants	81.3%	81.3%
HSE Invest d.o.o.	Obrežna ulica 170, 2000 Maribor	Slovenia	Other project engineering and technical consulting	25.0%	25.0%
HSE Balkan Energy d.o.o.	Milutina Milankovića 27, Beograd	Serbia	Electricity trading	100.0%	100.0%
HSE Italia d.o.o.	Via Roma 20, 34170 Gorizia	Italy	Electricity trading	100.0%	100.0%
HSE Adria d.o.o.	Miramarska 24, 10 000 Zagreb	Croatia	Electricity trading	100.0%	100.0%
HSE MAK Energy DOOEL	Belasica no. 2, 1000 Skopje	Macedonia	Electricity trading	100.0%	100.0%
HSE BH d.o.o.	Ul. Alije Isakovića br.1, Sarajevo	Bosnia and Herzegovina	Electricity trading	100.0%	100.0%
SRESA d.o.o.	Ob železnici 27, 1420 Trbovlje	Slovenia	Hydroelectricity generation	60.0%	60.0%

OTHER LONG-TERM INVESTMENTS (4)

in EUR

	31 Dec 2014	31 Dec 2013
Long-term investments in associates	40,513,942	0
Long-term investments in jointly controlled companies	255,000	255,000
Available-for-sale financial assets	111,000	111,000
Other long-term investments	500	500
Total	**40,880,442**	**366,500**

The largest share among other long-term investments and the sole change in 2014 refers to the 15.4% equity interest in the company HESS upon the disposal of the 35.6% interest. The investment in the company HESS was in 2013 disclosed among investments in subsidiaries. The share of other HSE Group companies that record equity interests in the company HESS is stated at 49%.

MOVEMENT OF OTHER LONG-TERM INVESTMENTS

in EUR

	2014	2013
Balance at 1 Jan	**366,500**	**366,500**
Transfers, restatements	40,513,942	0
Balance at 31 Dec	**40,880,442**	**366,500**

The company is entitled to repurchase the entire equity interest (35.6% and not less) which it sold in 2014 at any time by 31 December 2019 (right to repurchase can be enforced solely in its entire amount, together and concurrently from both buyers). The repurchase procedure is subject to the same method and manner of valuation as during the sale of the equity interest i.e. at fair market price valid during the repurchase.

The company GEN Energija (one of the co-owners of the company HESS that repurchased in 2014 the interest in the company HESS from the company) has in case of long-lasting (several months) unplanned electricity failure by NEK, whose liabilities to NEK would for GEN Energija exceed EUR 20,000,000, the right to sell a 20.9% equity interest in HESS, whereby HSE is obliged to repurchase it at any time by 31 December 2019. In case of enforcing the sales option by GEN Energija, the latter must inform the company on the intended sale at least within 6 months prior to the sale. The price of such a repurchase is determined by means of the same method and manner of valuation as applied with the sale of the interest in HESS (fair market price). GEN Energija is not entitled to sell the share in HESS if it is no longer owned by the Republic of Slovenia.

SIGNIFICANT AMOUNTS FROM THE FINANCIAL STATEMENTS OF ASSOCIATES IN 2014

in EUR

	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
HESS d.o.o.	279,539,231	6,774,032	15,975,835	3,052,325	272,765,199
Total	**279,539,231**	**6,774,032**	**15,975,835**	**3,052,325**	**272,765,199**

DATA ON ASSOCIATES AS AT 31 DECEMBER 2014

Company	Address	Activity	% of ownership
HESS d.o.o.	Cesta bratov Cerjakov 33a, Brežice, Slovenija	electricizy production in HPP	15.4%

DEFERRED TAX ASSETS (5)

DEFERRED TAX ASSETS are recorded at EUR 4,633,049 on 31 December 2014. They were calculated by applying the tax rate of 17%, which is applicable for 2014 and the next years.

Deferred tax assets were formed in connection with expenses that impact the profit or loss of individual year but they are not deductible for tax purposes in the current year (provisions for anniversary and retirement benefits, operating amortisation/depreciation exceeding the deductible for tax purposes, impairment of investments and receivables), and from the fair value of derivatives disclosed in the reserve for fair value and does not yet effect the profit or loss. The largest value among deferred tax assets refers to the impairment of investments (major portion relates to the impairment of investment in the company TET – in liquidation).

MOVEMENT OF DEFERRED TAX ASSETS

in EUR

	Provisions	Impairment	Depreciation and amortisation expense	Other	Total
Balance at 1 Jan 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)
Balance at 31 Dec 2013	**57,062**	**4,669,768**	**10,772**	**370,220**	**5,107,822**
Balance at 1 Jan 2014	**57,062**	**4,669,768**	**10,772**	**370,220**	**5,107,822**
To debit/(credit) of profit or loss	12,214	(345,401)	(3,114)		(336,301)
To debit/(credit) of other comprehensive income				(138,472)	(138,472)
Balance at 31 Dec 2014	**69,276**	**4,324,367**	**7,658**	**231,748**	**4,633,049**

In 2014, changes in deferred tax receivables amount to EUR -474,773. EUR 336,300 is recognised in the income statement, while EUR -138,472 is disclosed in the statement of financial position.

SHORT-TERM INVESTMENTS AND LOANS (6)

in EUR

	31 Dec 2014	31 Dec 2013
Other short-term investments	0	21,309
Short-term financial receivables and loans to Group companies	187,449,487	31,094,437
Short-term deposits granted to others	5,565,301	0
Total	**193,014,788**	**31,115,746**

The largest portion among short-term investments and loans relates to financial receivables due from the company TEŠ based on the contracts regarding the take-over of debt. The aforesaid contributed to most of the increase in financial receivables in 2014. Increases include also financial receivables due from shares in profit of subsidiaries in the amount of EUR 57,430,552 and interest receivables. As for the repayment side, most of the amount refers to the profit sharing by subsidiaries.

MOVEMENT OF SHORT-TERM INVESTMENTS AND LOANS

in EUR

	2014	2013
Balance at 1 Jan	**31,094,437**	**303,576,705**
Acquisitions	225,548,971	197,078,773
Repayments	(63,628,620)	(469,561,041)
Balance at 31 Dec	**193,014,788**	**31,094,437**

SHORT-TERM INVESTMENTS AND LOANS GIVEN TO GROUP COMPANIES include:

a) short-term loans given in the amount of EUR 17,700,000 to the companies PV and RGP.

Short-term loan to the company RGP amounts to EUR 1,700,000 and was approved on 31 March 2015 at the fixed interest rate of 2.50% p.a. the loan is secured with blank bills of exchange.

Framework loans extended to the company PV amount to EUR 16,000,000 and are approved up to 31 December 2015 bearing the fixed interest rate at 2.50% p.a. Loans are secured with blank bills of exchange.

The company RGP was extended the loan's repayment period by 31 December 2015. In 2015, the loans to the company PV in the amount of EUR 16,000,000 are to be converted into the HSE's long-term investment into PV.

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

Undue portion of interest at the year-end of 2014 is stated at EUR 37,582.

b) short-term financial liabilities to the company TEŠ in connection with contracts on taking over the debt in the amount of EUR 166,113,790 and accounted interest in the amount of EUR 1,430,308, as well as receivables arising from allowances for provided parent guarantees to Group companies in the amount of EUR 2,167,807.

Since December 2013, the company concluded agreements taking over the debt with TEŠ, on the basis of which the company directly settled TEŠ's liabilities to the supplier of equipment for the replacement Unit 6 in the total amount of EUR 166,113,790. With the debt transfer agreement between HSE and TEŠ, the HSE discloses a financial receivable due from TEŠ. These receivables bear 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 the replacement Unit 6 at TEŠ. Receivables arising from agreements on debt transfer contracts are the result of unsolved issues in connection with TEŠ's share capital increase which is tied to the possible state aid from 2013. As HSE and TEŠ are state-owned companies, the share capital increase in TEŠ could be deemed as aid in form of state resources which distorts or threatens to distort competition by favouring individual companies. Examining whether state aid is considered in this respective case, the so-called private investor test (PIT) is applied; the relevant test was also carried out in 2015 by a foreign expert institution. The aforesaid test establishes whether the recipient is given a benefit, which he would not under normal market terms. Terms are compared with terms and conditions that would be offered by a private investor in similar circumstances. If it proves that a private investor would agree to such terms then it is not deemed a state aid. In case of TEŠ the privat investor test was positive, thus solving the issue and determining that the funds are not deemed as state aid. As at 30 June 2015, the receivable is to be converted to the HSE's long-term investment into TEŠ.

Given the above-mentioned, we estimate that as at 31 December 2014 no reasons exist that would require impairment of financial receivables and loans.

SHORT-TERM DEPOSITS TO OTHERS include deposits with banks in the amount of EUR 5,565,302.

SHORT-TERM OPERATING RECEIVABLES (7)

in EUR

	31 Dec 2014	31 Dec 2013
Short-term operating receivables due from Group companies	27,445,662	5,819,618
Short-term operating receivables due from associates	23,415	0
Short-term operating receivables due from jointly controlled companies	2,050	299,907
Short-term trade receivables	125,918,224	147,371,132
Short-term advances	3,826,188	5,394,472
Short-term operating receivables due from government and other institutions	17,863,677	20,387,783
Short-term operating receivables due from others	3,702,960	202,358
Total	**178,782,176**	**179,475,270**

SHORT-TERM OPERATING RECEIVABLES FROM THE GROUP COMPANIES in the amount of EUR 27,445,662 comprise receivables arising from sales of electricity, advances for purchase of electricity (EUR 17,318,207), and various services provided for subsidiaries (e.g. trading, financial function, IT function, etc.).

SHORT-TERM OPERATING RECIEVABLES DUE FROM GROUP COMPANIES

in EUR

		31 Dec 2014	31 Dec 2013
DEM d.o.o.	Slovenia	6,601	106,505
SENG d.o.o.	Slovenia	1,452,950	1,141,482
ELPROM d.o.o.	Slovenia	4,317	5,350
HESS d.o.o.,	Slovenia	0	23,276
TEŠ d.o.o.	Slovenia	17,505,925	177,617
TET d.o.o.	Slovenia	25,655	35,210
PV d.d.	Slovenia	2,540,897	759,336
HSE Italia S.r.l.	Italy	1,221,721	10,359
HSE Balkan Energy d.o.o.	Serbia	1,228,549	228,438
HSE Adria d.o.o.	Croatia	3,363,190	3,302,677
HSE MAK ENERGY DOOEL	Macedonia	5,236	10,501
HSE BH d.o.o.	Bosnia and Herzegovina	90,621	17,153
HSE RO ENERGY S.r.l.	Romania	0	1,714
Total		**27,445,662**	**5,819,618**

SHORT-TERM TRADE RECEIVABLES (EUR 125,918,224) comprise primarily receivables from sale of electricity in Slovenia and abroad. Volume of electricity trading declined over 2013, hence also trade receivables are lower.

SHORT-TERM OPERATING RECEIVABLES FOR ADVANCES GIVEN are recorded at EUR 3,826,188. the highest advance is discloses in connection with the company in Luxemburg, where we have a deposit settlement account for paying transferred electricity capacities.

SHORT-TERM OPERATING RECEIVABLES DUE FROM STATE AND OTHER INSTITUTIONS in the amount of EUR 17,863,677 mostly relates to input VAT receivable.

SHORT-TERM OPERATING RECEIVABLES DUE FROM OTHERS in the amount of EUR 3,702,960 comprise short-term guarantees for financial coverages abroad.

The company recorded no receivables due from Management and Supervisory Board members at the end of 2014.

OTHER SHORT-TERM ASSETS (8)

in EUR

	31 Dec 2014	31 Dec 2013
Short-term deferred costs and expenses	3,211,128	1,555,226
Accrued revenue	1,693,208	2,155,956
Total	**4,904,336**	**3,711,182**

The item OTHER SHORT-TERM INVESTMENTS includes short-term deferred costs referring to 2015 and applying primarily to costs of transfer capacities and licences, and short-term accrued revenue (referring to 2014 while invoices were issued in 2015) which mostly relate to electricity trading (i.e. derogations, guarantee of origin).

Deferred costs and accrued revenue have already been accounted up to the approval of financial statements for 2014.

CASH AND CASH EQUIVALENTS (9)

in EUR

	31 Dec 2014	31 Dec 2013
Bank balances	6,284,427	3,411,288
Call deposits	22,076,194	9,603,157
Total	**28,360,621**	**13,014,445**

For the purposes of carrying out its activities, the company holds bank accounts in Slovenia and abroad. As at the year-end of 2014, the company disclosed EUR 6,284,427 of cash. Major portion of bank balances refer at the end of 2014 to bank accounts held abroad.

EQUITY (10)

in EUR

	31 Dec 2014	adjusted 31 Dec 2013
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Revenue reserves	484,267,929	413,856,349
Fair value reserve	(1,121,412)	(3,795,939)
Retained earnings	78,476,894	8,065,312
Total	**1,152,425,385**	**1,008,927,696**

The value of SHARE CAPITAL and CAPITAL SURPLUS remained unchanged in 2014.

CAPITAL SURPLUS

in EUR

	31 Dec 2014	31 Dec 2013
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**

Due to the elimination or adjustment of material error in 2013, other revenue reserves were disclosed as at 31 December 2013 in the amount of EUR 413,856,349 (EUR 30,204,272 less than disclosed prior to the adjustment). Other revenue reserves increased in 2014 in line with the resolution adopted by the Supervisory Board upon the Management's proposal by EUR 70,411,580 based on the allocation of 50% of net profit for the period.

Under fair value reserve in total amount of EUR -1,121,412, the company discloses at the end of 2014:

- results of standard futures for electricity (forward contracts),
- fair value of currency changes,
- fair value of interest rate swaps for loans received, and
- actuarial loss from termination benefits upon retirement.

MOVEMENT OF 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
Balance at 1 Jan 2013	**(2,303,451)**	**(3,004,948)**	**(2,820,568)**	**(40,860)**		**(8,169,827)**
Formation, increase	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
Balance at 31 Dec 2013	**(2,019,728)**	**0**	**(1,807,546)**	**17,686**	**13,649**	**(3,795,939)**
Balance at 1 Jan 2014	**(2,019,728)**		**(1,807,546)**	**17,686**	**13,649**	**(3,795,939)**
Formation, increase	298,002		713,472	(37,401)		974,073
Decrease	(702,687)			(17,686)	(20,010)	(740,383)
Transfer to expenses	2,440,838					2,440,838
Balance at 31 Dec 2014	**16,425**	**0**	**(1,094,074)**	**(37,401)**	**(6,361)**	**(1,121,411)**

In 2014, the fair value reserve increased by EUR 2,674,528, mostly as a result of closing the standard futures contracts for electricity at the end of 2014. Another important reason is the decrease in negative fair value of interest rate swaps.

Electricity futures contracts refer to concluding deals on purchase of electricity on foreign electricity exchanges for the period from 2014 to 2018, 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 2014 that were collateralised with futures, while cost of goods sold cumulatively increased in the income statement by EUR 2,440,838. On the basis of electricity fluctuations on stock exchange, a cumulative negative financial effect in the amount of EUR -404,685 was realised in forwards concluded in 2014. The positive amount of fair value reserve in the amount of EUR

16,425 EUR with futures for electricity in the period after 2015 is the result of newly opened futures contracts in October 2014.

At the end of March 2011, the company concluded a contract on interest rate swap, the negative fair value of which amounted to EUR -1,094,074 (including deferred taxes), at the end of 2014.

At the end of 2014, the company discloses negative fair value of currency swaps in the amount of EUR -37,401 (including deferred taxes).

At the end of 2014, the company discloses EUR 6,361 of actuarial loss from calculating termination benefits upon retirement.

Deferred taxes for values recorded under the fair value reserve are disclosed in section 4.5.7.3. Statement of other comprehensive income.

Due to adjusting a material error in 2013, the value of retained earnings or losses for 2013 and recorded as at 31 December 2013 has changed and is recorded at EUR 8,065,312 (EUR 30,204,272 less than prior to adjustment). The value of RETAINED EARNINGS OR LOSSES has gone up in 2014 by EUR 70,411,582 in connection with the unallocated portion of net profit for 2014.

RETAINED EARNINGS

in EUR

	31 Dec 2014	adjusted 31 Dec 2013
Net profit for the period	70,411,582	8,065,312
Retained earnings or losses	8,065,312	0
Total	**78,476,894**	**8,065,312**

PROVISIONS FOR TERMINATION BENEFITS UPON RETIREMENT AND JUBILEE BENEFITS (11)

in EUR

	31 Dec 2014	31 Dec 2013
Provisions for termination benefits upon retirement	537,553	398,053
Provisions for jubilee benefits	206,847	195,243
Total	**744,400**	**593,296**

At the end of 2014, the company discloses provisions for termination benefits upon retirement and jubilee benefits in the amount of EUR 744,400 created on the basis of actuarial calculation as at 31 December 2014.

The actuarial calculation was based on:

- the number of employees in the company as at 30 September 2014 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period July – September 2014);
- method for calculating termination and jubilee benefits in the company;
- average salary growth of 0.5% for 2015, 2016 and 2017 and 2.0% p.a. from 2018 onwards;
- discount interest rate of 3.2%; and
- employee turnover by age category.

The change in these provisions amounted in 2014 to EUR 151,104. The company created provisions for jubilee benefits in the amount of EUR 31,212 and drew them for payment of jubilee benefits in the amount of EUR 19,608. Provisions for termination benefits upon retirement were formed in the amount of EUR 154,196, which were reversed in the amount of EUR 14,696 (whereof EUR 20,010 was disclosed within the fair value reserve).

SENSITIVITY ANALYSIS FOR PROVISIONS FOR TERMINATION BENEFITS UPON RETIREMENT AND JUBILEE BENEFITS

in EUR

	2014			
	Discount rate		Growth of wages	
	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	35,140	(31,986)	(32,295)	35,786
Provisions for jubilee benefits	7,478	(7,027)	(7,096)	7,613
Total	**42,618**	**(39,013)**	**(39,391)**	**43,399**

OTHER PROVISIONS (12)

in EUR

	31 Dec 2014	31 Dec 2013
Provisions for lawsuits	3,542,907	3,241,609
Total	**3,542,907**	**3,241,609**

In its OTHER PROVISIONS, the company discloses provisions for the lawsuits filed by the company W&P Profil-Solarvalue Holding d.o.o., whose receivable was transferred to the company Gomar d.d. and the company TDR-Metalurgija d.d. – in liquidation, and provisions for the lawsuit filed by minority shareholders of the company PV.

MOVEMENT OF OTHER PROVISIONS

in EUR

	For lawsuits
Balance at 1 Jan 2013	**6,501,957**
Formation - increase	188,323
Decrease - reversal	(3,448,671)
Balance at 31 Dec 2013	**3,241,609**
Balance at 1 Jan 2014	**3,241,609**
Formation - increase	301,298
Decrease - reversal	
Balance at 31 Dec 2014	**3,542,907**

Formation of other provisions in 2014 relates to the increase in already formed provisions for period's default interest and to newly formed provisions relating to lawsuits filed by minority shareholders of the company PV.

LONG-TERM FINANCIAL LIABILITIES (13)

in EUR

	31 Dec 2014	31 Dec 2013
Long-term financial liabilities to banks	63,458,893	74,809,549
Other long-term financial liabilities	1,324,648	2,177,766
Total	**64,783,541**	**76,987,315**

Company's long-term financial liabilities include following LONG-TERM BORROWINGS FROM BANKS in the total amount of EUR 63,458,893, namely:

- long-term financial loan in the amount of EUR 5,155,862 extended by a Slovene bank in 2007 for the period of 10 years,
- long-term borrowing in the amount of EUR 58,303,031 raised with the EIB in 2008 for 20 years.

The values of loan principals due in 2015 are recorded as short-term liabilities to banks in the amount of EUR 11,350,657. EUR 11,350,657 of long-term borrowings were repaid in 2014. Interest on loans for 2014 and arising from long-term loans amounts to EUR 325,909, whereas undue interest at the end of 2014 amounted to EUR 85,474 and are disclosed among short-term financial liabilities.

MOVEMENT OF LONG-TERM FINANCIAL LIABILITIES

in EUR

	Long-term financial liabilities to banks	Other long-term financial liabilities	Total
Balance at 1 Jan 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)
Balance at 31 Dec 2013	**74,809,549**	**2,177,766**	**76,987,315**
Balance at 1 Jan 2014	**74,809,549**	**2,177,766**	**76,987,315**
Additions		14,672	14,672
Transfers to short-term liabilities	(11,350,656)		(11,350,656)
Repayments		(8,185)	(8,185)
Other		(859,605)	(859,605)
Balance at 31 Dec 2014	**63,458,893**	**1,324,648**	**64,783,541**

The long-term loan raised 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. Interest is accounted on a semi-annual basis (30 June and 31 December) with a maturity date set within 15 days upon the date of accounting. The loan is secured with six blank bills of exchange.

The long-term loan raised 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. Interest is accounted on a semi-annual basis (1 March and 1 September). The loan is fully secured with a guarantee issued by a commercial bank that expires in 2015.

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

Based on the »Implemented policy on managing interest rate risk in the HSE Group«, the company concluded a deal of interest rate hedging with derivative interest rate swap (IRS) for the amount of EUR 50 million. The interest rate hedging deal was concluded with the aim to manage the interest rate risk and cash flow hedging against the negative impact of the Euribor growth on financing costs for borrowings raised, and with the purpose to diversify the risk. The value of the concluded interest rate swap equals 50% of the company's loan portfolio as at 30 March 2011 or EUR 50 million of the long-term borrowing from EIB. The initial hedging date is 30 March 2011 and the maturity date is 1 March 2016. The concluded deal is in view of accounting deemed as effective. Interest accounted on the interest rate swap for 2014 is recorded among financial expenses in the amount of EUR 1,152,838 EUR. The assessed fair value of interest rate swap as at 31 December 2014 in the amount of EUR -1,318,161 is disclosed among OTHER LONG-TERM FINANCIAL LIABILITIES and the fair value reserve. Detailed disclosures are available in the chapter discussing the interest rate risk (section 4.5.7.9.4).

OTHER LONG-TERM FINANCIAL LIABILITIES include in the amount of EUR 6,487 also the value of assets under finance lease (mobile phones).

SHORT-TERM FINANCIAL LIABILITIES (14)

in EUR

	31 Dec 2014	31 Dec 2013
Short-term financial liabilities to Group companies	949	11,002,110
Short-term financial liabilities to banks	11,394,270	11,541,509
Other short-term financial liabilities	193,696	70,633
Total	**11,588,915**	**22,614,252**

SHORT-TERM FINANCIAL LIABILITIES amounted as at 31 December 2014 to EUR 11,588,915. The decline in short-term financial liabilities over the previous year is mostly the result of repaying borrowings from banks and Group companies.

MOVEMENT IN 2014

in EUR

	Short-term financial liabilities to Group companies	Current portion of long-term liabilities	Short-term financial liabilities to banks	Other short-term financial liabilities	Total
Balance at 1 Jan 2014	**11,002,110**		**11,541,509**	**70,633**	**22,614,252**
Increase	60,165,574		54,726,462	1,042,182	115,934,218
Transfers from long-term liabilities		11,350,656	0		11,350,656
Repayments	(71,166,735)	(11,350,656)	(54,873,701)	(919,119)	(138,310,211)
Balance at 31 Dec 2014	**949**	**0**	**11,394,270**	**193,696**	**11,588,915**

MOVEMENT IN 2013

in EUR

	Short-term financial liabilities to Group companies	Current portion of long-term liabilities	Short-term financial liabilities to banks	Other short-term financial liabilities	Total
Balance at 1 Jan 2013	**77,169,837**		**156,452,200**	**72,294**	**233,694,331**
Increase	37,000,000		65,000,000		102,000,000
Transfers from short-term liabilities		11,350,656	0		11,350,656
Repayments	(103,167,727)	(11,350,656)	(209,910,691)	(72,294)	(324,501,368)
Other				70,633	70,633
Balance at 31 Dec 2013	**11,002,110**	**0**	**11,541,509**	**70,633**	**22,614,252**

Value of short-term financial liabilities to banks and companies comprises:

a) portion of principal amounts of long-term loans that mature in 2015,

b) accounted undue interest for 2014 arising from loans.

The item of OTHER SHORT-TERM FINANCIAL LIABILITIES comprises and refers to costs for managing bank guarantees (EUR 148,635) and the negative fair value of currency risks (EUR 45,061).

SHORT-TERM OPERATING LIABILITIES (15)

in EUR

	31 Dec 2014	31 Dec 2013
Short-term operating liabilities to Group companies	40,390,818	40,630,611
Short-term operating liabilities to associates	1,220,180	0
Short-term operating liabilities to jointly controlled companies	110,285	106,753
Short-term operating liabilities to suppliers	78,833,664	86,558,209
Short-term operating liabilities from advances	35,251	59,767
Short-term operating liabilities to employees	683,519	695,124
Short-term operating liabilities to state and other institutions	10,370,362	17,108,609
Short-term operating liabilities to others	9,640	38,729
Total	**131,653,719**	**145,197,802**

Most of the SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES refer primarily to electricity purchased from subsidiaries.

SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES

in EUR

		31 Dec 2014	31 Dec 2013
DEM d.o.o.	Slovenia	10,814,884	10,853,488
MHE LOBNICA d.o.o.	Slovenia	3,861	5,605
SENG d.o.o.	Slovenia	7,652,861	7,709,111
HESS d.o.o.	Slovenia	0	1,886,453
TEŠ d.o.o.	Slovenia	9,986,005	10,214,327
TET d.o.o.	Slovenia	143,436	5,136,059
PV d.d.	Slovenia	8,119,846	23,494
HTZ IP d.o.o.	Slovenia	2,643	4,302
HSE INVEST d.o.o.	Slovenia	9,479	213,241
HSE Italia S.r.l.	Italy	1,500	0
HSE Balkan Energy d.o.o.	Serbia	383,030	658,560
HSE Adria d.o.o.	Croatia	3,139,758	3,701,571
HSE BH d.o.o.	Bosnia and Herzegovina	133,515	224,400
Total		**40,390,818**	**40,630,611**

SHORT-TERM LIABILITIES TO GROUP COMPANIES in the amount of EUR 1,220,180 consist of liabilities for electricity purchase from the company HESS. In 2013, liabilities to the company HESS were disclosed among liabilities to Group companies.

SHORT-TERM TRADE PAYABLES TO SUPPLIERS primarily refer to liabilities for electricity purchased in Slovenia and abroad. In view of lower scope of electricity trading over 2013, also payables to suppliers have declined.

SHORT-TERM LIABILITIES TO THE STATE AND OTHER INSTITUTIONS comprise 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 (16)

in EUR

	31 Dec 2014	31 Dec 2013
Short-term deferred revenue	82,636	0
Short-term accrued costs and expenses	28,360,533	48,808,159
Total	**28,443,169**	**48,808,159**

Other short-term liabilities comprise accrued costs and deferred revenue.

Accrued costs were incurred in 2014 and are included in the income statement for the year, but the company did not receive the relevant bills or invoices in the reporting year. The largest part of costs refers to electricity purchases made in 2014 from TEŠ and TET – in liquidation, amounting to EUR 20,657,580, and electricity purchases from companies amounting to EUR 7,007,508. The residual amount includes deviations from commuter schedules in December 2014, interest on loans received for 2014 and liabilities arising from unutilised annual leave.

CONTINGENT LIABILITIES (17)

in EUR

	31 Dec 2014	31 Dec 2013
Guarantees and parent guarantees granted to subsidiaries in Slovenia	341,403,459	433,568,299
Guarantees and parent guarantees granted to subsidiaries abroad	10,111,541	10,600,916
Lawsuits filed by natural persons	0	212,186
Guarantees granted to others	126,015,400	126,115,400
Total	**477,530,400**	**570,496,801**

Contingent liabilities include the guarantees granted and parent guarantees.

Majority of guarantees granted arises from the difference between the value of the replacement Unit 6 at TEŠ according to NIP 6 (December 2014 issue: EUR 1,428,544,300) and NIP 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 higher costs for the Unit 6 at TEŠ.

GUARANTEES GRANTED AND PARENT GUARANTEES ISSUED FOR SUBSIDIARIES IN SLOVENIA

in EUR

Beneficiary	Debtor	Type of guarantee	Basic legal transaction	Validity		Contingent liability at 31 Dec 2014	Contingent liability at 31 Dec 2013
EIB/ bank consortium**	SENG	Collateral for bank guarantee	Guarantee Facility Agreement dated 15 Feb 2006	15 Feb 2006	Effective for the period of contract's validity	4,406,060	28,950,000
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 Nov 2006, 17 Feb 2010, purchase and sales agreement for natural gas no. 277/2013-2015 dated 16 Oct 2013	23 Nov 2006, 1 Aug 2013	Effective for the period of contract's validity	9,200,000	29,800,000
Alstom Consortium*	TEŠ	Parent guarantee	Contract between TEŠ and Alstom Consortium (Contract on the design, procurement and erection of the power island for the facility called 'Sostanj Unit 6') dated 27 Jun 2008, 19 Oct 2009	25 Nov 2009	Effective for the period of contract's validity	74,367,117	126,818,299
EIB/ bank consortium**	TEŠ	Collateral for bank guarantee	Guarantee Facility Agreement dated 24 Nov 2010	24 Nov 2010	Effective for the period of contract's validity	88,000,000	88,000,000
NLB d.d.	TET - in liquidation	Collateral for guarantee	Annex no. 1 to the contract dated 31 Mar 2014	31 Mar 2014	Up until the sale of HSE interest in TET, not later than by 31 Mar 2015	3,327,514	0
EBRD**	TEŠ	Guarantee for EBRD loan	Agreement on collateral and refund of damages between HSE and EBRD dated 12 Jan 2011	12 Jan 2011	Effective for the period of loan contract's validity	160,000,000	160,000,000
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee issue no. MD1333906422 and Annex no.1 to the contract dated 6 Dec 2013	4 Aug 2014	Effective for the period of contract's validity	99,238	0
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee isue no. MD1433004143 dated 28 Nov 2014	28 Nov 2014	Effective for the period of contract's validity	1,054,501	0
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee isue no. MD1433004147 dated 26 Nov 2015 (guarantee isued on 2 Dec 2014)	26 Nov 2014	Effective for the period of contract's validity	275,198	0
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee isue no. MD1433004146 dated 26 Nov 2015 (guarantee issued on 8 Dec 2014)	26 Nov 2014	Effective for the period of contract's validity	465,422	0
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee isue no. MD1432904107 dated 26 Nov 2014 (guarantee issued on 2 Dec 2014)	26 nov 2014	Effective for the period of contract's validity	208,409	0
Total						**341,403,459**	**433,568,299**

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

Granted parent company guarantees decreased compared with 2013 due to realised transactions and payments to the suppliers Geoplin and Alstom and repayments of borrowings from the EIB or swap of loan (taking over a portion of the borrowing from EIB by SID).

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

4.5.7.2 INCOME STATEMENT

NET SALES REVENUE (18)

in EUR

	2014	2013
On the domestic market	**554,764,992**	**598,981,458**
Electricity	552,063,114	577,025,708
Other merchandise and material	1,125,813	20,758,758
Other services	1,576,065	1,196,992
On the foreign market	**757,932,156**	**1,038,414,791**
Electricity	732,593,410	992,078,389
Other merchandise and material	5,624,141	23,704,262
Other services	19,714,605	22,632,140
Total	**1,312,697,148**	**1,637,396,249**

The company generates net sales revenue mostly through sale of electricity. The revenue from the sale of electricity accounts for 98% of all net sales revenue.

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

Revenue from services provided is generated through services in connection with electricity (transfer capacities, contribution for allocation of transfer capacities, guarantee of origin), services provided for the subsidiaries and other companies, and rents.

Compared to 2013, revenue declined mostly as a result of lower volume of trading in electricity, lower scope of trading with emission coupons and gas.

OTHER OPERATING REVENUE (19)

in EUR

	2014	2013
Revenue from the reversal of provisions	6,817	3,555,540
Gain on sales of fixed assets and reversed impairment of receivables	39,803	474
Revenue from compensations and contractual penalties	18,363	2,005,802
Other operating revenue	257,653	193,755
Total	**322,636**	**5,755,571**

The largest portion among OTHER OPERATING REVENUE refers to revenue from interest on advances provided and revenue from electricity-related default interest. They decreased over the previous period as provisions for lawsuits in the amount of EUR 3,555,540 were eliminated in 2013 and compensations received in the amount of EUR 2,005,802.

COSTS OF GOODS, MATERIALS AND SERVICES (20)

in EUR

	2014	2013
Cost of goods sold	1,150,965,162	1,478,055,511
Contingent costs of goods sold	47,039,082	44,196,990
Total cost of goods sold	**1,198,004,244**	**1,522,252,501**
Total costs of material	**226,469**	**277,241**
Total costs of services	**5,966,831**	**6,173,648**
Total	**1,204,197,544**	**1,528,703,390**

The COST OF MERCHANDISE SOLD, which accounts for 99% of all operating expenses, comprises expenses from electricity purchasing, expenses for purchase of emission coupons for trading, contingent costs of electricity purchase, and negative net effect of exchange differences. The value is lower if compared to 2013 due to lower volume of electricity trading.

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 stationary and technical literature.

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

AUDITOR'S FEE

in EUR

	2014	2013
Audit of the Annual Report	15,000	15,796
Total	**15,000**	**15,796**

* audit costs for HSE d.d. (exclusive of audit costs for HSE Group)

The company KPMG Slovenija d.o.o. rendered no other services in 2014.

LABOUR COSTS (21)

in EUR

	2014	2013
Wages and salaries	6,477,840	6,702,649
Pension insurance costs	823,309	865,850
Other insurance costs	476,230	503,681
Other labour costs	658,220	748,286
Total	**8,435,599**	**8,820,466**

Labour costs comprise costs of salaries and other receipts by employees, including employer's contributions. This includes also the costs of compensations for unutilised leaves in 2014, which can be utilised until 30 June 2015.

WRITE-DOWNS IN VALUE (22)

in EUR

	2014	2013
Amortisation of intangible assets	329,735	493,459
Depreciation of property, plant and equipment	1,078,756	1,219,454
Allowance for or write-down in receivables	0	3,993
Sale and write-down in property, plant and equipment and intangible assets	3,498	20,526
Total	**1,411,989**	**1,737,432**

Write-downs in value comprise the amortisation and depreciation of company's assets and the loss on the sale of assets. The amortisation and depreciation expense decreased if compared to 2013 primarily as the result of changed rates of amortisation and depreciation.

FINANCIAL REVENUE (23)

in EUR

	2014	2013
Financial revenue from dividends and other profits sharing	57,580,552	43,355
Financial revenue from interest	2,343,900	5,108,843
Financial revenue from sale of investments	3,054,934	0
Other financial revenue	2,198,411	3,145,964
Total	**65,177,797**	**8,298,162**

FINANCIAL REVENUE FROM SHARES AND INTEREST include profit pay-outs of subsidiaries DEM, HSE Balkan Energy, HSE BH, HSE Adria in the total amount of EUR 57,430,552 and of the jointly controlled entitiy Soenergetika in the amount of EUR 150,000.

FINANCIAL REVENUE FROM INTEREST mainly includes charged interest on loans given to Group companies, interest on deposits and interest at sight.

FINANCIAL REVENUE FROM SALE OF INVESTMENTS in the amount of EUR 3,054,934 refers to revenue from the sale of the 35.6% equity interest in HESS.

OTHER FINANCIAL REVENUE mostly comprises revenue from parent guarantees given to Group companies.

FINANCIAL EXPENSES (24)

in EUR

	2014	adjusted 2013
Interest expenses	3,965,944	7,599,489
Financial expenses for impairment of investments	660,063	71,599,543
Financial expenses for liquidation of investments	44,678	12,657
Net exchange losses from financing activities	15,367	0
Total	**4,686,052**	**79,211,689**

FINANCIAL EXPENSES FOR INTEREST comprise interest on short-term and long-term borrowings received from banks (EUR 1,647,532), interest on the interest rate swap (EUR 1,152,838), and interest on short-term borrowings from HSE Group companies (EUR 1,165,574).

FINANCIAL EXPENSES FOR IMPAIRMENT OF INVESTMENTS in the amount of EUR 660,063 relate to impairment of investments made in the company TET – in liquidation and the company HSE Balkan Energy.

FINANCIAL EXPENSES ARISING FROM LIQUIDATION (EUR 44,678) refer to the voluntary liquidation of the subsidiary HSE Ro Energy.

TAX (25)

in EUR

	2014	2013
a. Current tax	17,554,377	17,622,677
b. Deferred taxes	336,300	(1,207,489)
Total income tax disclosed in income statement	**17,890,677**	**16,415,188**
Deferred taxes recognised in equity	231,748	366,598

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 2014 amounted to 17% of the tax base reported in the company's tax return.

The company's current tax in 2014 amounted to EUR 17,554,377. Based on the 2013 tax return, the company made a EUR 16,154,121 advance payment of income tax for 2014. At the end of 2014, the company discloses the liability for December advance payment of income tax in the amount of EUR 1,468,556 and receivables in the amount of EUR 68,300, which refers to the overpayment of income tax in view of 2013.

Deferred taxes include deferred tax assets. The values of deferred taxes created and used are presented in the table showing deferred tax assets (section 4.5.7.1. (5)).

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.

As at 31 December 2014, temporary deductible differences for which deferred tax assets were not formed are recorded at EUR 12,753,742; they arise from impairment of investments made in the subsidiary PV.

EFFECTIVE TAX RATE

in EUR

	2014	adjusted 2013
Profit or loss before tax	158,713,840	32,545,811
Tax calculated at applicable tax rate	26,981,353	5,532,788
Tax from revenue reducing tax base	(10,045,751)	(7,370)
Tax from tax relief	(82,939)	(130,967)
Tax from expenses reducing tax base	(5,901)	(47,083)
Tax from non-deductible expenses	205,327	12,274,897
Tax from other changes in tax calculation	502,288	412
Current taxes	**17,554,377**	**17,622,677**
Deferred tax	**336,300**	**(1,207,489)**
Total tax	**17,890,677**	**16,415,188**
Effective tax rate	**11.27%**	**50.44%**

NET PROFIT OR LOSS (26)

in EUR

	2014	adjusted 2013
Gross operating income	1,313,019,784	1,643,151,820
Operating profit or loss	98,222,095	103,459,338
Net cash	60,491,745	(70,913,527)
Profit or loss before tax	158,713,840	32,545,811
Net profit or loss for the period	**140,823,163**	**16,130,623**

The company ended the fiscal year of 2014 with a total profit of EUR 140,823,163.

4.5.7.3 STATEMENT OF OTHER COMPREHENSIVE INCOME

Deferred taxes arising from items of other comprehensive income are not recorded separately in the sole statement; the tax amount for each individual item is instead disclosed in notes.

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 fair value of interest and currency swaps in total amount of EUR 2,694,538.

Results arising from realised and newly concluded standard futures for electricity in 2014 amount to EUR 2,036,153. A detailed disclosure is available in section 4.5.7.1. (10). As a result, the company did not account for deferred taxes since upon the realisation it will pay the price agreed-upon when the transaction was concluded.

In 2011, the company concluded an interest rate swap for which the 2014 net effect of fair value change amounts to EUR 713,472, which means a final negative IRS fair value in the amount of EUR -1,318,161, of which the company accounted for EUR 224,087 of deferred tax assets, hence the net effect is recorded at EUR 1,094,074.

In 2014, the company closed the currency swap transactions, the fair value of which amounted to EUR 17,686 as at 31 December 2013, including deferred taxes. In 2014, the company concluded new transactions, some of which were closed in the same year. The difference totals to EUR -55,087. At the end of 2014, the fair value of open currency swaps amounted to EUR 45,061, of which the company accounted for EUR 7,660 of deferred tax liabilities. Thus, the net effect amounts to EUR 37,401.

The items that subsequently will not be reclassified in the profit or loss include the actuarial surplus regarding liabilities to employees for termination benefits upon retirement in the amount of EUR -20,010.

Taking into account all of the above, the total comprehensive income at the end of 2014 amounted to EUR 143,497,690.

4.5.7.4 CASH FLOW STATEMENT

The cash flows statement comprises changes in the balance of cash and cash equivalents for the period for which it was compiled. In the part relating to operating activities, the cash flow statement is prepared by using the indirect method and data from the statement of financial position and the income statement, whereas in the part referring to investing and financing activities, the cash flow statement is compiled under the direct method.

Data from the cash flow statement is obtained from the statement of financial position from 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 standard futures for purchases of electricity for 2014 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, financial liabilities and receivables, and taxes,
- incrase in provisions for termination benefits in the fair value reserve and provisions.

Cash flows from investing and financing activities include the dividend pay-out of DEM in the amount of EUR 54,142,778, whereby the receivable thereunder was compensated with the partial repayment of the DEM's loan.

in EUR

	2014	2013
Cash flows from operating activities	39,973,744	104,819,550
Cash flows from investing activities	1,330,631	134,472,288
Cash flows from financing activities	(25,958,199)	(229,477,887)
Net cash for the period	**15,346,176**	**9,813,951**

4.5.7.5 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.

Due to the elimination of a material error in 2013, following adjustment was made also in the statement of changes in equity:

- adjusted net operating result for 2013 is recorded at EUR 16,130,623 (adjustment by EUR 60,408,543), and
- allocation of 50% of net profit to other revenue reserves under the resolution of the Supervisory Board based on Managament's proposal is recorded at EUR 8,065,311 (adjustment by EUR 30,204,272).

Total comprehensive income for the period increased by EUR 143,497,691, which is attributable to following:

- net operating result for the period in the amount of EUR 140,823,163, and
- change in other components of comprehensive income in the amount of EUR 2,674,528 (more details in section 4.5.7.3).

In the reporting period, individual items of equity changed in the amount of EUR 78,476,894 due to:

- transfer of accumulated profit of 2013 in the amount of EUR 8,065,312 to retained net earnings or losses (the residual amount of net profit for 2013 is taken into account after eliminating the material error for 2013), and
- allocation of half of the net profit for 2014 in the amount of EUR 70,411,581 to other revenue reserves, in accordance with the Supervisory Board's decision adopted on the proposal of the company's Management.

Accumulated profit for 2014 is recorded at EUR 78,476,894 and represents 50% of the net for the period and the previous year. The decision regarding allocation of accumulated profit is made by the owner.

ACCUMULATED PROFIT OR LOSS

in EUR

	31 Dec 2014	adjusted 31 Dec 2013
Net profit for the period	140,823,163	16,130,623
Retained earnings or losses	8,065,312	0
Increase (additional formation) of revenue reserves	(70,411,581)	(8,065,311)
Accumulated profit or loss	**78,476,894**	**8,065,312**

4.5.7.6 RELATED COMPANIES

The columns of sales and purchases represent the turnover of all transactions (exclusive of VAT), including interest on loans received and financial receivables between the company HSE and related companies in 2014. For financial receivables and loans granted, the balance at the end of 2014 is presented (principal amount with interest). Revenue from parent guarantees granted in 2014 are disclosed separately, in the net value (exclusive of VAT). The value of parent guarantees is disclosed in section 4.5.7.1. (17) Contingent liabilities.

The balance of open operating receivables from related entities is disclosed in section 4.5.7.1. (7) Short-term operating receivables, while the balance of open operating liabilities is disclosed in section 4.5.7.1. (15) Short-term operating liabilities.

Sales and purchase prices for services are defined on the basis of the applicable internal price list of HSE Group companies, rentals and sales prices for electricity on the basis of comparable free prices, and purchase prices for electricity on the basis of cost mark-up method and sales prices achieved on the market.

DATA ON RELATED COMPANIES

in EUR

	Disposals	Acquisitions	Granted loans with interest	Raised loans with interest	Revenue from guarantees issued
DEM d.o.o.	31,391	72,508,726		949	
mHE Lobnica d.o.o.		22,898			
SENG d.o.o.	9,719,888	42,708,614			145,336
ELPROM d.o.o.	5,722,938	6,156,582			
HESS d.o.o.	67,425	10,767,138			
TEŠ d.o.o.	2,251,722	171,244,273	167,544,097		1,993,307
TET d.o.o. - in liquidation	205,319	7,417,003			22,645
PV d.d.*	3,937,304	22,857,879	16,033,973		
HTZ VELENJE I.P. d.o.o.	3,694	203,882			
GOST d.o.o.		3,833			
RGP d.o.o.	56,659		1,703,610		1,837
HSE Invest d.o.o.		413,927			
HSE Italia S.r.l.	5,971,288	4,796,522			
HSE Balkan Energy d.o.o.	7,874,923	8,085,989	4,682		29,273
HSE Adria d.o.o.	58,148,021	55,848,450			5,392
HSE MAK Energy DOOEL	5,748,683	6,348,380			
HSE BH d.o.o.	4,997,818	7,468,084			
HSE RO Energy S.r.l.	5,300,311	5,649,346			
Total 2014	**110,037,384**	**422,501,526**	**185,286,362**	**949**	**2,197,790**

* purchase of equipment for excavating coal in the amount of EUR 22,687,890

TRANSACTION WITH THE REPUBLIC OF SLOVENIA AND LEGAL ENTITIES DIRECTLY OWNED BY THE STATE

in EUR

Business partner	Open receivables as at 31 Dec 2014	Open liabilities as at 31 Dec 2014	Expenses in 2014	Revenue in 2014
ELEKTRO-SLOVENIJA	3,209,858	701,074	3,943,845	23,814,779
ELEKTRO MARIBOR ENERGIJA PLUS d.o.o.	7,012,106	1,102,377	11,088,092	64,795,947
ELEKTRO ENERGIJA d.o.o.	19,286,124	5,590,595	51,006,762	154,447,651
E3, energetika, ekologija, ekonomija, d.o.o.	6,051,346	0	33,698	36,683,043
ELEKTRO CELJE ENERGIJA	6,926,811	8,418	580,298	64,485,263
ELEKTRO GORENJSKA d.d.	0	0	0	(403,090)
ELEKTRO GORENJSKA PRODAJA d.o.o.	9,429,049	5,804,155	5,932,858	40,395,594
TALUM d.d.	2,271,196	0	0	21,266,073
GEN-I d.o.o.	4,452,345	3,534,970	9,292,957	33,696,049
BORZEN d.o.o.	1,148	6,388	1,909,661	1,504,302
GEN ENERGIJA d.o.o.	246,892	21,050	42,459	2,031,715
PETROL d.d.	1,365,833	268,649	3,127,358	13,736,614
GORENJSKE ELEKTRARNE KRANJ	0	0	4,999,877	4,630,592
TERMOELEKTRARNA TOPLARNA LJUBLJANA	0	0	528,895	63,270
Total	**60,252,708**	**17,037,676**	**92,486,760**	**461,147,802**

HSE is fully owned by the Republic of Slovenia. In 2014, the company did not conclude any transactions with the state.

The table shows 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.

4.5.7.7 OPERATING LEASE

The company is renting business premises, garages, parking lots, server lockers and a secure system computer room.

The table below outlines liabilities arising from the operating lease in the notice period, which represents the minimum amounts of lease payments:

in EUR

	31.12.2014
Less than 1 year	296,133
Total	**296,133**

Costs for the operating lease amounted in 2014 to EUR 559,721.

4.5.7.8 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 Supervisory Board changed during the year), including travel expenses related to the performance of tasks in the Supervisory Board and the Audit Committee.

In 2014, the company provided no advances, loans or guarantees to these persons.

Short-term operating liabilities include payables for December wages paid to the company's Management and employees who are not subject to the tariff part of the collective agreement, and attendance fees paid to members of the Supervisory Board and the Audit Committee.

REMUNERATION 2013

in EUR

	Salary	Other receipts	Bonuses	Cost reimbursement	Attendance fees	Total
Members of the Management Board	142,263	4,120	2,872	1,915	2,475	153,645
Members of the Supervisory Board and the Audit Committee	0	0	752	4,494	120,833	126,079
Employees who are not subject to the tariff part of the collective agreement	1,732,268	360,821	39,536	39,755	0	2,172,380
Total in 2013	**1,874,531**	**364,941**	**43,160**	**46,164**	**123,308**	**2,452,104**

REMUNERATION 2014

in EUR

	Salary	Other receipts	Bonuses	Cost reimbursement	Attendance fees	Total
Members of the Management Board	160,872	3,796	3,683	1,967	4,218	174,536
Members of the Supervisory Board and the Audit Committee	0	0	0	3,619	139,667	143,286
Employees who are not subject to the tariff part of the collective agreement	1,479,230	46,686	19,160	35,586	0	1,580,662
Total in 2014	**1,640,102**	**50,482**	**22,843**	**41,172**	**143,885**	**1,898,484**

* considered recommendations by SDH (December 2014) - disclosure of receipts under employment relationship for SB members

RECEIPTS OF THE MANAGEMENT IN 2014

in EUR

	Gross salary	Other receipts	Bonuses	Cost reimbursement	Attendance fees	Total
Blaž Košorok	139,867	3,326	1,921	1,709	4,218	151,041
Stojan Nikolić	21,005	470	1,762	257	0	23,495
Total receipts	**160,872**	**3,796**	**3,683**	**1,966**	**4,218**	**174,536**

RECEIPTS OF SUPERVISORY BOARD MEMBERS

in EUR

	Gross attendance fee	Travel costs	Total
Jančar Boštjan	17,405	54	17,459
Kralj Peter	2,480	240	2,720
Krmelj Vlasta	1,786	275	2,061
Markoli Boštjan	15,985	29	16,014
Otič jernej	7,105	640	7,745
Pantoš Miloš	19,800	31	19,831
Prevalnik Stanislav	10,025	152	10,177
Slokan Črt	14,481	286	14,767
Štefe Drago	15,031	483	15,514
Zidanšek Marko	2,236	0	2,236
Ziherl Milenko	1,674	26	1,700
Total	**108,008**	**2,216**	**110,224**

RECEIPTS OF THE HUMAN RESOURCES AND THE NOMINATION COMMITTEE

in EUR

	Gross attendance fee	Travel costs	Total
Jančar Boštjan	1,879	0	1,879
Pantoš Miloš	2,269	11	2,280
Slokan Črt	1,879	23	1,902
Zadel Aleksander	1,305	525	1,830
Total	**7,332**	**559**	**7,891**

RECEIPTS OF AUDIT COMMITTEE MEMBERS

in EUR

	Gross attendance fees	Travel costs	Total
Jančar Boštjan	1,801	0	1,801
Kralj Peter	440	0	440
Markoli Boštjan	4,481	13	4,494
Prevalnik Stanislav	2,125	0	2,125
Ziherl Milenko	661	0	661
Virant Darinka	7,409	86	7,495
Rakela Damir	7,409	745	8,154
Total	**24,326**	**844**	**25,170**

* considered recommendations by SDH (December 2014) - disclosure of receipts also for external members

4.5.7.9 FINANCIAL INSTRUMENTS AND RISKS

This section refers to section 4.5.6 Financial risk management of the accounting report, as well as to the chapter about financial risks in the business report.

4.5.7.9.1 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 (primarily insolvency-related legislation and acts on financial insurance and instruments), 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 colleterals. If assessed that the partners' credit ratings have deteriorated or that the credit exposure have increased as a result of increase in general (expected) level of market prices, we immediately request additional credit support. Contractual relationships are managed on the basis of general and framework agreements that anticipate an offset of the maximum possible volume of mutual receivables and liabilities in case of premature termination of a contract due to the partner's possible insolvency. Credit exposure is valued by taking into account the legal safety of unchallengability of offset mutual receivables and liabilities in case of the partner's insolvency.

The estimate of the credit risk took account of the possibility of failing to meet contractual obligations with respect to the partner's credit rating, the type of collateral received as well as the credit rating of its issuer.

Unsecured part of receivables is the sum of portion of sales to partners on open account within the framework of defined credit limits. Open account sale is possible according to the applicable policy of credit risks management within the framework of approved credit 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

ESTIMATED CREDIT RISK AS AT 31 DECEMBER 2014

in EUR

	Receivables	Collateralised receivables	Uncolletaralised receivables	LGD**
Short-term operating receivables due from Group companies*	10,002,301	7,641,011	2,361,290	0
Short-term operating receivables due from associates	23,415	23,415	0	0
Short-term operating receivables due from jointly controlled companies	2,050	2,050	0	0
Short-term trade recievables	125,918,224	107,059,176	18,859,049	519,006
Total	**135,945,990**	**114,725,652**	**21,220,339**	**519,006**

*Amount of receivables is exclusive of advances granted **LGD - loss in case of non-payment 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 grade represents higher or lower average risk of loss due to non-payment or non-fulfilment of contractual obligations. The probability of loss in individual credit rating grade is defined on the basis of transition matrix of credit rating agencies. Even the secured receivables carry a certain risk of non-fulfilment with regard to the guarantor's credit rating. Both are monitored by the company 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 bank accounts, deposits and enforcement drafts. 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 physical persons, receivables are secured by the company with bills of exchange.

In 2014, 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 2014, the company recorded EUR 849,584 EUR of doubtful receivables.

No new allowances for receivables were formed in 2014.

MOVEMENT OF ALLOWANCES FOR SHORT-TERM OPERATING RECEIVABLES

in EUR

	2014	2013
Balance at 1 Jan	**849,584**	**854,273**
Formation of allowances for receivables	0	3,992
Final write-off of receivables	0	(8,681)
Balance at 31 Dec	**849,584**	**849,584**

LONG-TERM RECEIVABLES BY MATURITY AS AT 31 DECEMBER 2014

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	530,936			530,936
Balance at 31 Dec 2014	**530,936**	**0**	**0**	**530,936**

LONG-TERM RECEIVABLES BY MATURITY AS AT 31 DECEMBER 2013

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
Balance at 31 Dec 2013	**659,866**	**0**	**0**	**659,866**

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY AS AT 31 DECEMBER 2014

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 MORE THAN ONE YEAR (more than 361 days)	TOTAL
Short-term operating receivables due from the Group companies	25,721,515	1,023,274	824,318	129,283		27,698,390
Short-term operating receivables due from associates	23,415					23,415
Short-term operating receivables due from jointly controlled companies	2,050					2,050
Short-term trade receivables	117,348,922	8,294,533			1,105,017	126,748,472
Short-term advances	3,826,188					3,826,188
Short-term operating receivables due from state and other institutions	17,860,532					17,860,532
Short-term operating receivables due from others	3,693,356				19,336	3,712,692
Short-term financial receivables and loans to Group companies	187,444,253					187,444,253
Short-term financial receivables and loans to associates	0					0
Short-term financial receivables and loans to jointly controlled companies	0					0
Short-term financial receivables and loans to others	0					0
Short-term deposits granted to others	5,565,302					5,565,302
Total at 31 Dec 2014	**361,485,533**	**9,317,807**	**824,318**	**129,283**	**1,124,353**	**372,881,294**

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY AS AT 31 DECEMBER 2013

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 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 jointly cotrolled companies	299,907					299,907
Short-term trade receivables	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 state 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 at 31 Dec 2013	**202,944,956**	**7,327,506**	**22,476**	**0**	**1,124,353**	**211,419,291**

The majority of overdue short-term receivables at the end of 2014 refers to invoices issued for electricity sold that have already been settled by the time this report was prepared (apart from receivables for which allowances have been formed).

4.5.7.9.2 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 Supervisory Board of HSE 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 of the company HSE 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 2014, the company's overdue short-term liabilities were settled.

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

LONG-TERM LIABILITIES BY MATURITY AS AT 31 DECEMBER 2014

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	7,922,090	15,173,166	40,363,637	63,458,893
Other long-term financial liabilities	1,324,648			1,324,648
Long-term trade payables	629			629
Balance at 31 Dec 2014	**9,247,367**	**15,173,166**	**40,363,637**	**64,784,170**

LONG-TERM LIABILITIES BY MATURITY AS AT 31 DECEMBER 2013

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
Balance at 31 Dec 2013	**13,528,422**	**14,125,559**	**49,333,334**	**76,987,315**

With respect to the liquidity risk, the fiscal year 2014 was extremely hard and full of challenges for the company as well as the Group. 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 actually the subsidiary TEŠ. In line with provisions of the contracts with the two banks, TEŠ cannot obtain additional short-term loans on financial markets, whereas in 2014 the issue of state aid relating to share capital increase in TEŠ by HSE was still not solved as the independent Revised Investment Plan NIP 6 and the test by a private investor that could have solved the state aid issue was still not carried out. With the purpose to avoid economic loss and the recall of work by Alstom and other suppliers, the company HSE consequently directly paid TEŠ's liabilities to suppliers of the replacement Unit 6 based on the relevant contract. Given the said contract and taking over the debt the company created a receivables due from TEŠ, which was at year-end of 2014 recorded at EUR 166,113,790. HSE's receivable is to be as of 30 June 2015 converted into a long-term investment in TEŠ.

In addition to TEŠ, the PV company or group is also in an exceptionally difficult situation that requires a financial and operating restructuring. Since 2012 PV is implementing measures such as extension of payment deadlines, agreements on postponing payments, selective payment of supplier invoices, utilisation of funds within the cash management, and coordination with banks, which however have not significantly improved the liquidity situation in in 2014 and thus remains the core issue also at concluding a trilateral contract on the sale of coal for electricity. Circumstances have deteriorated due to a series of extraordinary events that followed in the second half-year of 2014. Core problem still remains the sealing of the transportation line of the CD1 extraction as a result of which the coal production at the site was temporarily halted and subsequently also significantly reduced. Regardless of considering the technical procedures when excavating coal, PV could not have envisaged the geo-mechanical circumstances in the cave or the frequency of coalface explosions at CD1. With the purpose to eliminate hindrances at excavating coal, additional costs have occurred that, together with lower production, resulted in lower net sales revenue at PV. Furthermore, PV will require additional funds to restructure subsidiaries which was already established during the compilation of the Operational and Financial Restructuring Plan. Regardless of all measures taken - such as agreements with banks on rescheduling the borrowings, early payment of coal's sale, postponing the payments to suppliers, including payments made to HSE, and the implemented cost optimisation under the Operational and Financial Restructuring Plan – PV would not be able to stabilise the liquidity situation without being provided additional financial assets. Accordingly, the company purchased in 2014 equipment in the amount of EUR 22,687,890.

Conditions in the area of electricity trading and projections of electricity prices in coming years are also an essential factor at liquidity risk management and play a decisive role while generating revenue by the company and consequently on the entire HSE Group level. Given the situation on the electricity markets it is evident that at low prices of emission coupons and increased RES production, the electricity prices are on a level lower from the average production costs of HSE Group's coal blocks. Such trend is expected to continue also in coming years as projections of electricity prices for the near future, particularly from 2015 to including 2017, do not indicate any material price increase. In addition to the above-mentioned, the financial year 2014 was marked by circumstances on international financial markets where, in spitae of high surplus in available funds, the credit crunch is still present as the banks are not inclined to grant credits to the economic sector. Regardless of all stated, the company succeeded in obtaining sufficient funds through credit and guarantee lines and thus provided for uninterrupted business operations, which is deemed an additional success and confirmation of the good credit rating of the HSE company and Group.

With respect to the above-stated, the company's management of liquidity risk in 2014 is assessed as appropriate.

4.5.7.9.3 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 2014, 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 2014:

Country	Currency designation	Closing exchange rate in EUR for 2014	Closing exchange rate in EUR for 2013
Czech Republic	CZK	27.7350	27.4270
Hungary	HUF	315.5400	297.0400
Romania	RON	4.4828	4.4710
USA	USD	1.2141	1.3791
Great Britain	GBP	0.7789	0.8337

COMPANY'S EXPOSURE TO CURRENCY RISK AS AT 31 DECEMBER 2014

in EUR

	EUR	HUF	Other currencies	Total
Long-term operating receivables	350,658		180,278	530,936
Short-term financial receivables and loans	193,014,768		20	193,014,788
Short-term operating receivables	178,752,728		29,447	178,782,175
Long-term financial liabilities	(64,783,541)			(64,783,541)
Long-term operating liabilities	(629)			(629)
Short-term financial liabilities	(11,588,915)			(11,588,915)
Short-term operating liabilities	(131,650,394)	(161)	(3,164)	(131,653,719)
Net exposure of the statement of financial position at 31 Dec 2014	**164,094,675**	**(161)**	**206,581**	**164,301,095**

COMPANY'S EXPOSURE TO CURRENCY RISK AS AT 31 DECEMBER 2013

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 at 31 Dec 2013	**(32,794,441)**	**(883,912)**	**108,857**	**(33,569,496)**

CURRENCY SWAP CONTRACTS BY MATURITY

in EUR

	31 Dec 2014	31 Dec 2013
Contracts for currency swaps by maturity - up to 12 months	1,796,030	971,717
	1,796,030	**971,717**

Effects of currency swaps are outlined in the table below.

EFFECTS OF CURRENCY SWAPS

in EUR

	2014	2013
Unrealised profit on effective swaps	0	21,309
Unrealised loss on effective swaps	(45,061)	0
Realised profit on effective swaps	11,091	84,076
Realised loss on effective swaps	(30,517)	(106,650)
Total	**(64,487)**	**(1,265)**

4.5.7.9.4 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 2014 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 protect against risks and the instruments used for hedging. For this purpose, the company has a transaction of interest rate hedging with derivative interest swap (IRS). The 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.

Interest rate risks are regularly monitored and reported about. Referring to the aforesaid also developments on the cash market, the movement of interest rates and the value of concluded interest rate hedges are monitored on an ongoing basis.

INTEREST RATE SWAP CONTRACTS BY MATURITY

in EUR

	31 Dec 2014	31 Dec 2013
1 to 5 years	42,424,242	45,454,545
Total	**42,424,242**	**45,454,545**

EFFECT OF INTEREST RATE SWAP

in EUR

	2014	2013
Unrealised loss on effective swaps	(1,318,161)	(2,177,766)
Realised loss on effective swaps	(1,152,838)	(1,216,328)
Total	**(2,470,999)**	**(3,394,094)**

CASH FLOW SENSITIVITY ANALYSIS WITH FINANCIAL INSTRUMENTS BEARING A VARIABLE INTEREST RATE

The change in interest rate for 50 b. p. on the reporting date would increase (decrease) the net profit or loss for the values stated below. Analysis prepared for both years assumes that all variables, particularly foreign currency rates, remain unchanged. In the calculation, the receivables/liabilities at variable interest rate are reduced 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.

Fixed interest rates are agreed for the financial assets, thus the sensitivity analysis has not been conducted for this part.

HSE Group's financial risks were in 2014 appropriately managed.

FINANCIAL INSTRUMENTS AT THE VARIABLE INTEREST RATE

in EUR

	Net profit/loss 2014		Net profit/loss 2013	
FINANCIAL INSTRUMENTS	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial liabilities	(414,467)	375,868	(786,367)	754,911

4.5.7.9.5 PRICE RISK

FORWARD CONTRACTS FOR ELECTRICITY

Price risks are managed by the company on the basis of the adopted Strategy and Rules on Market Risk Management, by means of which it ensures long-term electricity trading and exploitation of favourable market opportunities that assure better operations and increase in market shares on electricity markets, whereas concurrently the company defines the measures for price risk assessment and limits of its exposure to the abovementioned risks.

One form of long-term electricity trading are also futures contracts, which have two basic purposes, namely position trading and hedging against price risks.

The company trades with futures with the purpose to protect long-term positions against price risks. In sales and purchase of electricity with physical purchase after 2014 (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 in the time of open position 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. The price exposure is reduced only in case of concluding diametric futures contract.

In 2014, the company had solely futures contracts concluded for hedging against price fluctuations of already concluded contracts with physical supply of electricity after 2014.

Disclosures of transactions with forward contracts are available in Sections 4.5.7.1 (10) Equity and 4.5.7.3 Statement of other comprehensive income.

CONCLUDED STANDARD FUTURES CONTRACTS

in EUR

	31 Dec 2014	31 Dec 2013
For electricity	2,814,150	5,884,092
Total	**2,814,150**	**5,884,092**

EMISSION COUPONS

for the field of emission coupons, the company has been implementing 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. 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, residual fuel oil, ELKO etc.) 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 thermal 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 state. The strategy of trading with emission coupons was upgraded in 2013 and merged with the Strategy on Sales of Own Production and Purchase of CO_2 Emission Coupons for the Purposes of Own Production.

The company concluded in 2014 no futures contracts for emission coupons.

4.5.7.10 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

CAPITAL MANAGEMENT

in EUR

	31 Dec 2014	adjusted 31 Dec 2013
Long-term financial liabilities	64,783,541	76,987,315
Short-term financial liabilities	11,588,915	22,614,252
Total financial liabilities	76,372,456	99,601,567
Equity	1,152,425,386	1,008,927,696
Financial liabilities/capital	**0.07**	**0.10**
Net financial liability	48,011,835	86,587,122
Net debt/equity	**0.04**	**0.09**

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 2014 was lower than in 2013, as a result of lower short-term indebtedness. In 2014 as well, the company HSE financed the replacement Unit 6 in TEŠ through the contract on taking over the debt due to not yet solved issue relating to state aids in 2014; assets were insured for the company through profit sharing by HSE Group companies and the sale of the 35.6% equity interest in HESS.

4.5.7.11 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 VALUE OF FINANCIAL INSTRUMENTS

in EUR

	31 Dec 2014		31 Dec 2013	
Financial instruments	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**111,500**	**111,500**	**111,500**	**111,500**
Available-for-sale financial assets	111,500	111,500	111,500	111,500
Derivative financial assets at fair value	**0**	**0**	**21,309**	**21,309**
Derivative financial instruments (assets)	0	0	21,309	21,309
Non-derivative financial assets at amortised cost	**400,688,520**	**400,688,520**	**224,265,327**	**224,265,327**
Financial receivables	193,014,788	193,014,788	31,115,746	31,115,746
Operating receivables	179,313,111	179,313,111	180,135,136	180,135,136
Cash	28,360,621	28,360,621	13,014,445	13,014,445
Total	**400,800,020**	**400,800,020**	**224,398,136**	**224,398,136**
Derivative financial liabilities at fair value	**1,363,222**	**1,363,222**	**2,177,766**	**2,177,766**
Derivative financial instruments (liabilities)	1,363,222	1,363,222	2,177,766	2,177,766
Non-derivative financial liabilities at amortised cost	**206,655,517**	**206,655,517**	**242,621,603**	**242,621,603**
Bank borrowings	74,853,163	74,853,163	97,353,168	97,353,168
Other financial liabilities	148,635	148,635	70,633	70,633
Operating liabilities	131,653,719	131,653,719	145,197,802	145,197,802
Total	**208,018,739**	**208,018,739**	**244,799,369**	**244,799,369**

FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE BY HIERARCHY

in EUR

	31 Dec 2014	31 Dec 2013
Financial assets at second-level fair value	0	21,309
Financial assets at third-level fair value	111,500	111,500
Financial liabilities at second-level fair value	1,363,222	2,177,766

4.5.8 EVENTS AFTER THE BALANCE SHEET DATE

No events occurred in the company after the date of statement of financial position that could affect its financial statements for 2014 and related disclosures.

Significant events after the balance sheet date:

- the subsidiary RGP, which was to repay the short-term loan in the amount of EUR 1,700,000 by 31 March 2015, was extended the repayment deadline by 31 December 2015;
- the company repurchased in January 2015 the total minority interest (18.7%) in the company TET – in liquidation at EUR 1;
- as at 30 June 2015, the company increased the share capital of the company TEŠ in the amount of EUR 248,552,790 i.e. a conversion of financial receivables into a long-term investment by HSE in the company TEŠ;
- at the end of July 2015, the company carried out a share capital increase in PV in the amount of EUR 71,603,954. A portion of capital thereunder was ensured by a non-cash contribution in form of purchasing coal in the amount of EUR 21,603,954 (purchased by Hse from PV in 2014) and in form of a loan given in the amount of EUR 16,000,000;
- the company plans to transfer the long-term borrowing from EIB to the SID bank in October 2015. Under the respective loan contract, the company is liable to extend the existing guarantee (maturing in 2015) or provide a new collateral within 90 days prior to the expiry of the existing guarantee's validity. Given the fact that the bank, which issued the guarantee is withdrawing from financial markets in Slovenia, the company acceded to seek new guarantees from banks that are deemed acceptable by EIB. As the company received no offer by the scheduled date, it started proceedings for long-term borrowing. The company acted in line with Article 22, Point 2 of the Decree on conditions and methods of borrowing by legal entities referred to in Article 87 of the Public Finance Act (hereinafter: Decree), since it will receive the loan from an institution that is financing the loan by means of funds from an international financial institution i.e. SID bank. In the respective case, the SID banka will act as the acquirer of the loan or owner to EIB, whereas the company will record a debt to the SID bank with its total amount remaining unchanged. The company has obtained all the necessary consents required under the Decree. The binding offer of the SID bank was confirmed while the EIB agreed to the relevant conversion. As additional insurance, the company made a fixed deposit in the amount of EUR 5,000,000 at the bank that issued the guarantee, which shall not be released untill all contractual relations in the loan agreement with the EIB are settled. Accordingly, no additional or unexpected complications are expected;
- the company raised short-term loans from banks and the subsidiary in 2015 at the total amount of EUR 150,000,000;
- the company lost a lawsuit in May 2015 filed by the company TDR-Metalurgija d.d. – in liquidation and thus utilised the provision formed for this event in the amount of EUR 675,822.

4.5.9 ADDITIONAL DISCLOSURES PURSUANT TO ENERGY ACT

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,
- 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.

INCOME STATEMENT FOR 2014

in EUR

	Electricity trading	SP production	Gas trading	2014
OPERATING REVENUE	**1,312,918,341**	**18,993**	**82,450**	**1,313,019,784**
1. Net sales revenue	1,312,595,705	18,993	82,450	1,312,697,148
4. Other operating revenue	322,636			322,636
GROSS OPERATING INCOME	**1,312,918,341**	**18,993**	**82,450**	**1,313,019,784**
OPERATING EXPENSES	**1,214,742,251**	**7,372**	**48,066**	**1,214,797,689**
5. Costs of goods, material and services	1,204,194,891	2,292	361	1,204,197,544
6. Labour costs	8,387,894		47,705	8,435,599
7. Write-downs in value	1,406,909	5,080		1,411,989
8. Other operating expenses	752,557			752,557
OPERATING PROFIT	**98,176,090**	**11,621**	**34,384**	**98,222,095**
9. Financial revenue	65,177,797			65,177,797
10. Financial expenses	4,686,052			4,686,052
FINANCIAL RESULT	**60,491,745**			**60,491,745**
PROFIT OR LOSS BEFORE TAX	**158,667,835**	**11,621**	**34,384**	**158,713,840**
TAX	**17,882,856**	**1,976**	**5,845**	**17,890,677**
11. Income tax	17,546,556	1,976	5,845	17,554,377
12. Deferred taxes	336,300			336,300
NET PROFIT OR LOSS FOR THE PERIOD	**140,784,979**	**9,645**	**28,539**	**140,823,163**
Majority stakeholder	140,784,979	9,645	28,539	140,823,163

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.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

in EUR

	Electricity trading	SP production	Gas trading	TOTAL
ASSETS	**1,394,447,564**	**164,216**	**39,442**	**1,394,651,222**
A. LONG-TERM ASSETS	**989,411,025**	**109,976**	**0**	**989,521,001**
I. Intangible assets	24,444,729			24,444,729
II. Property, plant and equipment	34,840,638	106,689		34,947,327
IV. Long-term investments in subsidiaries	884,084,518			884,084,518
V. Other long-term investments and loans	40,880,442			40,880,442
VI. Long-term operating receivables	530,936			530,936
VIII. Deferred tax assets	4,629,762	3,287		4,633,049
B. SHORT-TERM ASSETS	**405,036,539**	**54,240**	**39,442**	**405,130,221**
III. Short-term investments	193,014,788			193,014,788
IV. Short-term operating receivables	178,849,242	1,226	8	178,850,476
V. Current tax receivables	68,300			68,300
VI. Other short-term assets	4,904,336			4,904,336
VII. Cash and cash equivalents	28,268,173	53,014	39,434	28,360,621
EQUITY AND LIABILITIES	**1,394,447,564**	**164,216**	**39,442**	**1,394,651,222**
A. EQUITY	**1,152,234,677**	**161,334**	**29,375**	**1,152,425,386**
I. Called-up capital	29,412,444	146,345		29,558,789
II. Capital surplus	561,243,185			561,243,185
III. Revenue reserves	484,267,929			484,267,929
IV. Fair value reserve	(1,121,411)			(1,121,411)
V. Retained earnings	78,432,530	14,989	29,375	78,476,894
B. LONG-TERM LIABILITIES	**69,071,477**	**0**	**0**	**69,071,477**
I. Provisions for termination benefits upon retirement and jubilee benefits	744,400			744,400
II. Other provisions	3,542,907			3,542,907
IV. Long-term financial liabilities	64,783,541			64,783,541
V. Long-term operating liabilities	629			629
C. SHORT-TERM LIABILITIES	**173,141,410**	**2,882**	**10,067**	**173,154,359**
II. Short-term financial liabilities	11,588,915			11,588,915
III. Short-term operating liabilities	131,649,178	319	4,222	131,653,719
IV. Current tax liabilities	1,460,148	2,563	5,845	1,468,556
V. Other short-term liabilities	28,443,169			28,443,169

CASH FLOW STATEMENT FOR 2014

in EUR

	Electricity trading	SP production	Gas trading	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES				
a) Items of income statement	**79,081,929**	**15,933**	**34,384**	**79,132,246**
Operating revenues (except from revaluation) and financial revenues from operating receivables	1,312,782,326	18,993	82,450	1,312,883,769
Operating expenses (except from revaluation and amortisation/depreciation) and financial expenses for operating liabilities	(1,210,991,113)	(2,253)	(48,066)	(1,211,041,432)
Income tax and other taxes not included in operating expenses	(22,709,284)	(807)	0	(22,710,091)
b) Changes in net operating assets in statement of financial position items	**(39,191,094)**	**(1,763)**	**34,355**	**(39,158,502)**
Opening less closing operating receivables	2,220,075	(432)	388,350	2,607,993
Opening less closing other assets	(1,193,154)	0	0	(1,193,154)
Closing less opening operating liabilities	(26,089,103)	(1,331)	(353,995)	(26,444,429)
Closing less opening other liabilities and provisions	(14,128,912)	0	0	(14,128,912)
c) Net cash from operating activities	**39,890,835**	**14,170**	**68,739**	**39,973,744**
CASH FLOWS FROM INVESTING ACTIVITIES				
a) Cash receipts from investing activities	**202,788,378**	**0**	**0**	**202,788,378**
Cash receipts from interest related to investing	4,093,129	0	0	4,093,129
Cash receipts from profit participations related to investing activities	57,574,436	0	0	57,574,436
Cash receipts from disposal of intangible assets	43,974,687	0	0	43,974,687
Cash receipts from property, plant and equipment (including advances)	84,742	0	0	84,742
Cash receipts from disposal of other long-term investments	97,061,384	0	0	97,061,384
b) Cash disbursements from investing activities	**(201,457,747)**	**0**	**0**	**(201,457,747)**
Cash disbursements to acquire intangible assets	(20,634,599)	0	0	(20,634,599)
Cash disbursements to acquire property, plant and equipment (including advances)	(19,358,095)	0	0	(19,358,095)
Cash disbursements to acquire other short-term investments	(161,465,053)	0	0	(161,465,053)
c) Net cash from investing activities	**1,330,631**	**0**	**0**	**1,330,631**
CASH FLOWS FROM FINANCING ACTIVITIES				
a) Cash receipts from financing activities	**111,000,000**	**0**	**0**	**111,000,000**
Cash receipts from short-term loans received	111,000,000	0	0	111,000,000
b) Disbursements from financing activities	**(136,958,199)**	**0**	**0**	**(136,958,199)**
Cash disbursements from paid interest pertaining to financing	(3,607,543)	0	0	(3,607,543)
Cash disbursements from long-term loans received	(11,350,656)	0	0	(11,350,656)
Cash disbursements from short-term loans received	(122,000,000)	0	0	(122,000,000)
c) Net cash from financing activities	**(25,958,199)**	**0**	**0**	**(25,958,199)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**13,004,906**	**38,844**	**(29,305)**	**13,014,445**
Increase/(decrease) of cash and cash equivalents	15,263,267	14,170	68,739	15,346,176
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**28,268,173**	**53,014**	**39,434**	**28,360,621**

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

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

- portion referring to operations is compiled by applying the indirect method and based on data from the statement of financial position and the income statement,
- data is obtained from the statement of financial position for the reporting and previous period and from the income statement for the reporting period,
- no cash flows from financing and investing activities were recorded n the reporting and previous period.

ACCOUNTING REPORT OF THE HSE GROUP

5 ACCOUNTING REPORT OF THE HSE GROUP

5.1 INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholder of Holding Slovenske elektrarne, d.o.o., Ljubljana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company Holding Slovenske elektrarne, d.o.o., Ljubljana and its subsidiaries (the Holding Slovenske elektrarne Group) which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualification

As outlined in Note *15 Long-term financial liabilities* in the statement of financial position, the Group is not meeting its bank covenants as at 31 December 2014 that are defined in certain long-term loan agreements. Pursuant to the International Accounting Standard 1 – *Presentation of Financial Statements*, non-current borrowings in the amount of EUR 739,143 thousand should be transferred from long-term financial liabilities and disclosed within short-term financial liabilities, as the Group on the date of the statement of financial position did not have written confirmations from its bank partners on the waivers of its liabilities to banks.

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb članic, ki so povezane s švicarskim združenjem KPMG International Cooperative ("KPMG International").

TRR: SI 56 2900 0000 1851 102
vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vl.: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556

In addition, the Group obtained by the date of the independent auditor's report the final valid letter on the waiver of its liabilities from one of its bank partner, whereas procedures on obtaining a written confirmation on the waiver of its liabilities to banks from two other bank partners are in progress.

Qualified Opinion

Except for the effects of the matter described in the *Basis for qualified opinion* paragraph, in our opinion, the financial statements present fairly, in all material respects, the financial position of Holding Slovenske elektrarne Group as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other Matter

Financial statements of the Holding Slovenske elektrarne Group for the financial year ended 31 December 2013 were audited by the audit firm Deloitte revizija d.o.o., which issued a qualified opinion regarding the failure to transfer long-term financial liabilities to short-term financial liabilities as a result of not meeting bank covenants under loan contracts as of the date of the statement of financial position, whereby the respective opinion included also a paragraph on emphasising a matter.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boštjan Mertelj
Certified Auditor

Boris Drobnič
Partner

Ljubljana, 6 August 2015

KPMG Slovenija, d.o.o.
4

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

5.2 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

The Management confirms that the consolidated financial statements are prepared in accordance with the provisions of IFRS as adopted by the EU.

As at 6 August 2015, the Management adopted the consolidated financial statements of the HSE Group for the financial year ended 31 December 2014.

Ljubljana, 6 August 2015

STOJAN NIKOLIĆ,

CFO of HSE d.o.o.

BLAŽ KOŠOROK,

CEO of HSE d.o.o.

5.3 INTRODUCTORY NOTES TO THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit firm KPMG Slovenija 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.

5.4 CONSOLIDATED FINANCIAL STATEMENTS

5.4.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in EUR

	Note	31 Dec 2014	adjusted 31 Dec 2013
ASSETS		**2,728,888,082**	**2,830,521,497**
A. LONG-TERM ASSETS		**2,405,973,836**	**2,479,665,083**
I. Intangible assets	1	22,567,489	31,500,841
II. Property, plant and equipment	2	2,241,267,011	2,437,538,638
III. Investment property		0	231,497
IV. Long-term investments in subsidiaries		0	13,500
V. Other long-term investments and loans	3	135,548,014	3,323,960
VI. Long-term operating receivables		819,330	1,178,571
VII. Other long-term assets		600,857	632,851
VIII. Deferred tax assets	4	5,171,135	5,245,225
B. SHORT-TERM ASSETS		**322,914,246**	**350,856,414**
I. Assets held for sale	5	9,304,315	386,197
II. Inventories	6	23,643,698	27,404,605
III. Short-term investments and loans	7	6,024,008	33,569,492
IV. Short-term operating receivables	8	186,022,917	209,255,988
V. Current tax assets	30	112,178	33,094
VI. Other short-term assets	9	9,508,957	5,022,715
VII. Cash and cash equivalents	10	88,298,173	75,184,323
EQUITY AND LIABILITIES		**2,728,888,082**	**2,830,521,497**
A. EQUITY	**11**	**1,471,547,419**	**1,546,787,072**
I. Called-up capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Revenue reserves		413,856,350	413,856,350
IV. Fair value reserve		(1,802,255)	(4,416,429)
V. Retained earnings		461,050,199	485,887,092
VI. Consolidated capital adjustment - exchange rate differences		(1,366,493)	(1,243,072)
VII. Minority interest		9,007,644	61,901,157
B. LONG-TERM LIABILITIES		**937,281,163**	**962,567,334**
I. Provisions for termination benefits upon retirement and jubilee benefits	12	13,669,669	14,278,111
II. Other provisions	13	37,561,255	42,595,906
III. Other long-term liabilities	14	8,180,614	11,077,987
IV. Long-term financial liabilities	15	877,622,131	894,228,959
V. Long-term operating liabilities		243,479	331,146
VI. Deferred tax liabilities	30	4,015	55,225
C. SHORT-TERM LIABILITIES		**320,059,500**	**321,167,091**
I. Liabilities held for sale	16	10,453,623	0
II. Short-term financial liabilities	17	58,774,687	70,663,266
III. Short-term operating liabilities	18	229,776,774	226,169,784
IV. Current tax liabilities	30	2,000,029	8,561,621
V. Other short-term liabilities	19	19,054,387	15,772,420

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

5.4.2 CONSOLIDATED INCOME STATEMENT

in EUR

	Note	2014	2013
OPERATING REVENUES		**1,313,364,578**	**1,620,667,167**
1. Net sales revenue	21	1,258,391,110	1,562,320,279
2. Change in inventories of products and work in progress		2,866,225	(4,666,820)
3. Capitalised own products and own services	22	30,501,902	36,116,116
4. Other operating revenue	23	24,471,566	22,230,772
GROSS OPERATING INCOME		**1,316,230,803**	**1,616,000,347**
OPERATING EXPENSES		**1,324,343,838**	**1,515,826,587**
5. Costs of goods, material and services	24	935,403,100	1,173,166,153
6. Labour costs	25	146,923,084	144,611,585
7. Write-downs in value	26	165,425,865	106,090,276
8. Other operating expenses	27	76,591,789	91,958,573
OPERATING PROFIT OR LOSS		**(8,113,035)**	**100,173,760**
9. Financial revenue	28	6,756,118	4,263,951
10. Financial expenses	29	13,378,995	13,221,912
FINANCIAL RESULT		**(6,622,877)**	**(8,957,961)**
PROFIT OR LOSS BEFORE TAX		**(14,735,912)**	**91,215,799**
TAX	**30**	**20,954,523**	**24,605,340**
11. Corporate income tax		21,225,488	20,718,715
12. Deferred taxes		(270,965)	3,886,625
NET PROFIT OR LOSS FOR THE PERIOD	**31**	**(35,690,435)**	**66,610,459**
Majority owner		(24,831,823)	77,047,208
Minority interest		(10,858,612)	(10,436,749)

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

5.4.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR

	Note	2014	2013
13. Net profit or loss for the period	**31**	**(35,690,435)**	**66,610,459**
17. Actuarial gains and losses of employee defined benefit plans		(268,265)	38,856
19. Gains and losses from foreign currency translation of the financial statements of foreign operations		(129,496)	(66,639)
Items that will not be transferred to profit or loss		**(397,761)**	**(27,783)**
21. Net effective part of change in fair value of instrument for cash flow hedging		3,067,849	4,941,310
22. Change in fair value of financial assets available for sale		(225,945)	67,957
Items that may be transferred to profit or loss		**2,841,904**	**5,009,267**
23. Total comprehensive income for the period	**5.5.7.3**	**(33,246,292)**	**71,591,943**
Total comprehensive income for the period attributable to majority owner		(22,347,146)	81,955,771
Total comprehensive income for the period attributable to minority interest		(10,899,146)	(10,363,828)

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

5.4.4 CONSOLIDATED CASH FLOW STATEMENT

in EUR

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
a) Items of income statement	**106,402,402**	**153,305,795**
Operating revenue (except from revaluation) and financial revenues from operating receivables	1,285,080,388	1,578,396,718
Operating expenses (except from revaluation and amortisation/depreciation) and financial expenses for operating liabilities	(1,151,986,629)	(1,412,311,816)
Income tax and other taxes not included in operating expenses	(26,691,357)	(12,779,107)
b) Changes in net operating assets in statement of financial position items	**15,723**	**66,948,201**
Opening less closing operating receivables	23,241,357	38,141,798
Opening less closing other assets	(3,419,485)	1,703,516
Opening less closing deferred tax assets	139,984	(723,171)
Opening less closing assets/liabilities held for sale	1,525,623	(175,641)
Opening less closing inventories	(7,885,843)	6,509,117
Closing less opening operating liabilities	(22,242,348)	(22,325,592)
Closing less opening other liabilities and provisions	8,663,927	43,810,120
Closing less opening deferred tax liabilities	(7,492)	8,054
c) Net cash from operating activities	**106,418,125**	**220,253,996**
CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	**180,144,978**	**250,749,243**
Cash receipts from interest related to investing	1,015,886	3,727,758
Cash receipts from profit participations related to investing activities	167,691	146,098
Cash receipts from disposal of intangible assets	26,616,697	1,607,700
Cash receipts from property, plant and equipment (including advances)	2,168,991	1,097,782
Receipts from disposal of investment property	110,000	50,960
Cash receipts from short-term loans	348,903	129,667,052
Cash receipts from disposal of other long-term financial assets	88,083,475	15,341
Cash receipts from disposal of other short-term financial assets	61,633,335	114,436,552
b) Cash disbursements from investing activities	**(238,802,330)**	**(751,089,132)**
Cash disbursements to acquire intangible assets	(22,992,144)	(24,973,710)
Cash disbursements to acquire property, plant and equipment (including advances)	(174,216,149)	(449,670,195)
Cash disbursements from short-term loans granted	(86,623)	(129,325,260)
Cash disbursements from acquisition of other long-term financial assets	(710,173)	(61,490)
Cash disbursements from acquisition of other short-term financial assets	(40,797,241)	(147,058,477)
c) Net cash from investing activities	**(58,657,352)**	**(500,339,889)**

CONSOLIDATED CASH FLOW STATEMENT (continue)

in EUR

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	**113,635,426**	**696,041,459**
Cash receipts from paid up capital		1,511,939
Cash receipts from long-term loans received	81,130	564,450,000
Cash receipts from short-term loans received	113,540,095	129,771,050
Cash receipts from increase in long-term financial liabilities	14,201	182,696
Cash receipts from increase in short-term financial liabilities	0	125,774
b) Disbursements from financing activities	**(148,173,427)**	**(347,501,485)**
Cash disbursements from paid interest pertaining to financing	(6,596,482)	(11,945,939)
Cash disbursements for repayment of capital	(6,003)	0
Cash disbursements from long-term loans received	(28,100,172)	(35,245,020)
Cash disbursements from short-term loans received	(113,470,764)	(300,267,769)
Cash disbursements from repayment of short-term financial liabilities	(6)	(29,822)
Cash disbursements from the distribution of dividends and other profit participations	0	(12,935)
c) Net cash from financing activities	**(34,538,001)**	**348,539,974**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**75,184,323**	**6,795,197**
Effects of changes in exchange rates on cash and cash equivalents	(108,922)	(64,955)
Increase/(decrease) of cash and cash equivalents	13,222,772	68,454,081
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**88,298,173**	**75,184,323**

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

5.4.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR

	CALLED-UP CAPITAL		REVENUE RESERVES		RETAINED EARNINGS OR LOSSES				
	Share capital	Capital surplus	Other revenue reserves	Fair value reserve	Retained earnings or losses	Net profit or loss for the period	Consolidated capital adjustment	Minority interest	Total
Balance at 1 Jan 2013	**29,558,789**	**561,243,185**	**384,313,947**	**(9,391,631)**	**370,786,187**	**67,621,984**	**(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								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 plan				*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**	**29,542,403**	**0**	**46,118,278**	**(75,687,296)**	**26,615**	**0**	**0**
Allocation of the remaining portion of net profit of the comparable period to other equity components					67,621,984	(67,621,984)			0
Allocation of portion of net profit for the period to other equity components pursuant to decision of Management and Supervisory Board			8,065,312		0	(8,065,312)			0
Allocation of portion of net profit to additional reserves pursuant to resolution of the Shareholders' Meeting			21,477,091		(21,477,091)				0
Other transfers within capital					(26,615)		26,615		0
Balance at 31 Dec 2013	**29,558,789**	**561,243,185**	**413,856,350**	**(4,416,429)**	**416,905,196**	**68,981,896**	**(1,243,072)**	**61,901,157**	**1,546,787,072**
Balance at 1 Jan 2014	**29,558,789**	**561,243,185**	**413,856,350**	**(4,416,429)**	**416,905,196**	**68,981,896**	**(1,243,072)**	**61,901,157**	**1,546,787,072**
B.1. Transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**	**1,005**	**(41,994,367)**	**(41,993,362)**
Dividend pay-out							1,005	(5,237)	(4,232)
Other changes in equity								(41,989,130)	(41,989,130)
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**2,614,174**	**0**	**(24,831,824)**	**(129,496)**	**(10,899,146)**	**(33,246,292)**
Net profit or loss for the reporting period						**(24,831,824)**		**(10,858,611)**	**(35,690,435)**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**(237,610)**	**0**	**0**	**(129,496)**	**(30,655)**	**(397,761)**
Actuarial gains and losses of employee defined benefit plan				*(237,610)*				*(30,655)*	*(268,265)*
Gains and losses from foreign currency translation of the financial statements of foreign operations							*(129,496)*		*(129,496)*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**2,851,784**	**0**	**0**	**0**	**(9,880)**	**2,841,904**
Net effective part of change in fair value of instrument for cash flow hedging				*3,034,701*				*33,148*	*3,067,849*
Change in fair value of financial assets available for sale				*(182,917)*				*(43,028)*	*(225,945)*
B.3. Changes within equity	**0**	**0**	**0**	**0**	**68,976,826**	**(68,981,896)**	**5,070**	**0**	**0**
Allocation of the remaining portion of net profit of the comparable period to other equity components					68,981,896	(68,981,896)			0
Other changes in equity					(5,070)		5,070		0
Balance at 31 Dec 2014	**29,558,789**	**561,243,185**	**413,856,350**	**(1,802,255)**	**485,882,022**	**(24,831,824)**	**(1,366,493)**	**9,007,644**	**1,471,547,418**

* Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

5.5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.5.1 REPORTING ENTITY

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 company's and Group's annual report are available at the registered office of the controlling company Koprska ulica 92, Ljubljana.

The financial year of the Group is equal to the calendar year. The consolidated financial statements for the year ended 31 December 2014 are presented below.

5.5.1.1 HSE GROUP AS AT 31 DECEMBER 2014

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.d. - in liquidation	Slovenia
HSE Invest d.o.o.	Slovenia
SRESA d.o.o.	Slovenia
mHE LOBNICA d.o.o.	Slovenia
ELPROM d.o.o.	Slovenia
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

Prior to the consolidation of the HSE Group, the Premogovnik Velenje Group (hereinafter: the PV Group) had been consolidated. In accordance with the consecutive consolidation method, consolidated financial statements are already prepared at the level of the subsidiary PV 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.

COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS OF THE PV GROUP

Company	Country of residence of the company
Premogovnik Velenje d.d.	Slovenia
GOST d.o.o.	Slovenia
HTZ IP d.o.o.	Slovenia
PV Invest d.o.o.	Slovenia
RGP d.o.o.	Slovenia
GOLTE d.o.o.	Slovenia

The company HSE RO Energy was in 2014 for the last time included in the consolidated financial statements as it winded up its operations based on the voluntary liquidation and the deletion from the companies' register that was formally concluded on 8 January 2015.

The subsidiaries Jama Škale v zapiranju 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

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
FILVOTEH d.o.o.	Slovenia
KARBOTEH d.o.o.	Slovenia
TEHNOVETER d.o.o.	Slovenia
TEŠING d.o.o.	Slovenia
ENRAZ d.o.o.	Slovenia
HESS d.o.o.	Slovenia
FAIRWOOD	Singapore

In October 2014, the controlling company sold a 35.6% equity interest in the company HESS, hence the Group no longer holds a controlling influence of this company. The operating result for the first ten months is still included in the Group's profit or loss, whereas at the end of 2014 the company HESS is included in the consolidated financial statements by applying the equity method.

5.5.1.3 JOINTLY CONTROLLED COMPANIES

Company	Country of residence of the company	Co-owner - HSE Group company
SOENERGETIKA d.o.o.	Slovenia	HSE

5.5.1.4 BRANCHES AND REPRESENTATIVE OFFICES

The Group has two foreign branch offices, in Macedonia and the Czech Republic, and a representative office in Romania. In 2014, 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.

5.5.2 BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

During the compilation of the consolidated financial statements as at 31 December 2014, the company took into account:

- IFRS, which comprise the International Accounting Standards (IAS), interpretations and clarifications of the Standing Interpretation Committee (SIC), the International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU,
- Companies Act (ZGD),
- Energy Act (EZ),
- Mining Act
- Group's Accounting manual, and
- other applicable legislation.

B) ACCOUNTING ASSUMPTIONS AND QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

The consolidated 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 consolidated financial statements include also the information on liabilities regarding future payments and on assets that shall result in cash inflows in the future.

The consolidated financial statements are based also on the assumption that the Group 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 Group'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 Group uses the same accounting policies for all periods presented in the financial statements for 2014.

C) BASIS OF MEASUREMENT

The consolidated financial statements are prepared on the basis of historical values of balance sheet items of Group companies, 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).

D) 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.

E) USE OF ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires that the controlling company's management forms certain estimates 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.

Estimates 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 estimates and assumptions are subject to subjective judgement and certain level of uncertainty, subsequent actual results can differ from assessments. The estimates 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.

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

- assessment of useful life of amortisable assets (disclosure 5.5.7.1 points 1 and 2),
- impairment testing of assets (disclosure 5.5.7.1 points 1, 2 and 3),
- assessment of fair value of derivatives (disclosure 5.5.7.1. point 11),
- assessment of realisable values of receivables (disclosure 5.5.7.8.1.),
- assessment of net realisable value of inventories (disclosure 5.5.7.1. point 6),
- assessment of provisions for jubilee and termination benefits (disclosure 5.5.7.1. point 12),
- assessment of other provisions (disclosure 5.5.7.1. point 13), and
- assessment of contingent liabilities and assets (disclosure 5.5.7.1. point 20).

F) ELIMINATION OF MATERIAL ERRORS FROM PREVIOUS PERIODS MADE AT THE CONTROLLING COMPANY

In 2014, the controlling company eliminated the significant error from previous period and recognised the impairment of long-term investments in the company PV in the amount of EUR 60,408,543 for 2013.

The correction had no impact on the consolidated financial statements for 2013, as the impairment of the investment in a subsidiary is eliminated during the consolidation procedures. As half of controlling company's net profit of 2013 was in 2013 transferred to other reserves, the same adjustment was made in the consolidated statement of changes in equity as with the controlling company's statement of changes in equity.

Further details are disclosed in section 5.5.7.1(11) – Equity and in section 5.5.7.5. – Consolidated statement of changes in equity.

5.5.3 SIGNIFICANT ACCOUNTING POLICIES

5.5.3.1 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.

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.

5.5.3.2 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.

5.5.3.3 INTANGIBLE ASSETS

Intangible assets are long-term assets enabling the performance of the Group companies' registered activities without existing physically.

Intangible assets comprise long-term property rights (also emission coupons), goodwill and other intangible assets.

Upon initial recognition, an intangible asset is measured at cost. The cost also includes import and non-refundable purchase taxes after the commercial and other discounts have been deducted and all costs directly attributable to preparation of an asset for the intended use. Borrowing costs that are directly attributed to the purchase of an intangible qualifying asset (until its capitalisation) are recognised as a part of cost of such asset.

Intangible assets are subsequently measured using the cost model.

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

Goodwill appears in consolidation and represents a surplus of cost over the acquirer'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 USEFUL LIVES USED FOR INDIVIDUAL INTANGIBLE ASSETS ARE:

	2014
Software	2-20 years
Licences	2-10 years
Other long-term property rights	4-10 years
Other intangible assets	4-10 years

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.

5.5.3.4 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 useful lives for individual items of property, plant and equipment are the following:

ESTIMATED USEFUL LIFE - PROPERTY, PLANT AND EQUIPMENT

	2014
Buildings	10-100 years
Parts of buildings	5-100 years
Production equipment	4-100 years
Parts of production equipment	5-25 years
Computer equipment	2-10 years
Furniture	4-10 years
Small tools	3-10 years
Cars	5-10 years
Other vehicles	4-10 years
Other plant and equipment	2-16 years

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.

5.5.3.5 LEASES

Leases in terms of which the Group assumes substantially all major risks and benefits of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in line with the accounting policies applying to such assets owned by the Group. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are treated as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

5.5.3.6 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 at acquisition carried at cost in consolidated financial statements, whereas lateron their carrying amount changes due to write-ups as the result of using the equity method.

5.5.3.7 FINANCIAL INSTRUMENTS

Financial instruments include the following assumptions:

- non-derivative financial assets,
- non-derivative financial liabilities, and
- derivatives.

5.5.3.7.1 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.

5.5.3.7.2 NON-DERIVATIVE FINANCIAL LIABILITIES

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

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.

5.5.3.7.3 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.

5.5.3.8 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.

5.5.3.9 IMPAIRMENT OF ASSETS

5.5.3.9.1 FINANCIAL ASSETS

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

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

IMPAIRMENT OF RECEIVABLES AND LOANS

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 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 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.

5.5.3.9.2 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. Goodwill and indefinite-lived intangible assets that are not ready for use are tested annually for impairment prior to compilation of financial statements. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

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). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

At the end of the reporting period, the Group 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. Loss on impairment of goodwill is not derecognised.

5.5.3.10 EQUITY

Share 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 (SAS). The adjustment due to the transfer to new SAS 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, available-for-sale financial-assets of the Group, and the cumulative amount of actuarial gains/losses arising from the actuarial calculation from provisions for termination benefits upon retirement.

The retained earnings include profits or loss of the Group companies in the current and previous years.

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.

5.5.3.11 PROVISIONS FOR JUBILEE BENEFITS AND TERMINATION BENEFITS UPON RETIREMENT

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.

5.5.3.12 EMPLOYEE BENEFITS

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected

to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

5.5.3.13 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.

5.5.3.14 GOVERNMENT GRANTS

All types of government grants are initially recognised as deferred revenue within long-term liabilities when there is reasonable assurance that they will be received and that the Group will comply with terms and conditions associated with the grant. Subsequently they are recognised in the income statement among other operating revenue in the useful life of each individual asset. Government grants received for covering costs and expenses are recognised as income in periods in which the relevant costs arise that are to be replaced by the government grants.

5.5.3.15 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.

5.5.3.16 CONTINGENT LIABILITIES

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.

Contingent liabilities are not yet recognised in the consolidated statement of financial position.

5.5.3.17 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 grants).

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.

5.5.3.18 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.

5.5.3.19 TAXATION

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 Group's 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.

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.

Deferred tax liability represents the amount of accounted income tax from taxable temporary differences, which indicates that the amount of taxes to be paid will increase in the future.

INCOME TAX RATES BY COUNTRY

Country	Effective tax rate in 2014
Slovenia	17%
Croatia	20%
Serbia	15%
Macedonia	10%
Bosnia and Herzegovina	10%
Romania	16%
Italy	27.5%

5.5.3.20 SEGMENT REPORTING

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

5.5.3.21 NEW STANDARDS AND INTERPRETATIONS

5.5.3.21.1 STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE FINANCIAL YEAR 2014

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

- IFRS 10 »CONSOLIDATED FINANCIAL STATEMENTS« - Investment entities, which the EU adopted on 20 November 2013 (applicable for 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.

The standard had no effect on the accounting of investments, as the Group records no investments that would be subject to consolidation due to the newly introduced model.

- IFRS 11 »JOINT ARRANGEMENTS«, adopted by the EU on 11 December 2012 (applicable to the annual periods starting on or after 1 January 2014).

IFRS 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 inly 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.

The standard had no effect on consolidated separate financial statements.

- IFRS 12 »DISCLOSURE OF INTERESTS IN OTHER ENTITIES«, adopted by the EU on 11 December 2012 (applicable to the annual periods starting on or after 1 January 2014).

IFRS 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.

The application of the standard does not require any material changes in the disclosure of shares in other entities.

- 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.

The revised standard had no effect on the Group's financial statements.

- 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 standard has no effect on the Group's financial statements.

- 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 standard have no effect on the Group's financial statements.

- 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 has no effect on the Group's financial statements.

- 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 revised standard has no influence on the Group's financial statements.

- 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 revised standard has no impact on the Group's financial statements.

5.5.3.21.2 STANDARDS AND INTERPRETATIONS ISSUED BY IASB THAT ARE NOT YET EFFECTIVE

- IAS 19 »EMPLOYEE BENEFITS – EMPLOYEE CONTRIBUTIONS«, adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan,
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Group does not expect the amendment to have any impact on the consolidated financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

- IFRIC 21 »LEVIES«, adopted by the EU on 1 December 2012 (effective for annual periods beginning on or after 17 June 2014).

The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government.

In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period.

If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached.

The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

The Group does not expect the interpretation to have a significant impact on the financial statements on the day of first use, since it does not require changing the accounting policies in view of levies.

- AMENDMENTS TO IFRS 3 »BUSINESS COMBINATIONS«, adopted by the EU on 23 December 2014 (effective for annual periods beginning on or after 1 July 2014),

The amendment to IFRS 3 Business Combinations (with consequential amendments to other standards) clarifies business combinations that when contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to IAS 32, rather than to any other standard. It also clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

The Group does not expect the amendment to have a significant impact on its financial statements as it does not have contingent considerations.

- AMENDMENTS TO VARIOUS STANDARDS »IFRS IMPROVEMENTS (PERIOD 2010-2012)«, which arise from the annual IFRS improvements (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily with the purpose to eliminate inconsistencies and interpretations of content (amendments must be used for annual periods beginning on or after 1 February 2015).
- AMENDMENTS TO VARIOUS STANDARDS »IFRS IMPROVEMENTS (PERIOD 2011-2013) «, which arise from the annual IFRS improvements (IFRS 1, IFRS 3, IFRS 13 and IAS 40), primarily with the purpose to eliminate inconsistencies and interpretations of content (amendments must be used for annual periods beginning on or after 1 January 2015).

5.5.4 FAIR VALUE MEASUREMENT

With reference to disclosing financial instruments, their fair values must be presented. 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.

5.5.5 FINANCIAL RISK MANAGEMENT

Detection and management of financial risks is defined in the business report.
In notes to consolidated financial statements, the risks are presented in connection with items in consolidated financial statements (Point 5.5.7.8. Financial instruments and risks), namely:

- credit risk,
- liquidity risk,
- currency risk,
- interest rate risk, and
- price risk.

5.5.6 CHANGES IN THE GROUP IN 2014

5.5.6.1 ELIMINATION OF THE COMPANY FROM GROUP

In 2014, the company HSE Ro Energy, which was founded in Romania in 2013 with the purpose to trade in electricity on that market, was included in the consolidation for the last time. The decision on conducting the company's voluntary liquidation was adopted due to limitations in electricity trading in Romania. The company winded up its operations on 19 December 2014 and the formal deletion from the companies' register was carried out on 8 January 2015.

VOLUNTARY LIQUIDATION OF HSE RO ENERGY S.R.L.

in EUR

	2014	2013
Revenue	5,694,318	12,003
Expenses	5,726,505	23,810
Profit or loss before tax	**(32,187)**	**(11,807)**
Tax	0	360
Net profit or loss	**(32,187)**	**(12,167)**

5.5.6.2 DISPOSAL OF THE MAJORITY INTEREST

The majority interest in the company HESS was sold in October 2014, thus the said company's operations were included in the Group only for the first ten months. As from 31 December 2014, the company HESS is included in the Group by applying the equity method.

ELIMINATION OF THE COMPANY HESS FROM THE HSE GROUP

in EUR

	31 Oct 2014
ASSETS	**278,171,805**
A. LONG-TERM ASSETS	**259,191,175**
I. Intangible assets	5,399,824
II. Property, plant and equipment	253,750,070
IV. Long-term investments in subsidiaries	11,000
VIII. Deferred tax assets	30,281
B. SHORT-TERM ASSETS	**18,980,630**
II. Inventories	34,915
III. Short-term investments	7,000,000
IV. Short-term operating receivables	3,096,106
VI. Other short-term assets	5,932
VII. Cash and cash equivalents	8,843,677
EQUITY AND LIABILITIES	**278,171,805**
A. EQUITY	**272,627,459**
I. Called-up capital	60,200,000
II. Capital surplus	202,877,548
III. Revenue reserves	5,559,937
IV. Fair value reserve	4,824
V. Retained earnings	1,101,156
VI. Net profit or loss for the period	2,883,994
B. LONG-TERM LIABILITIES	**210,843**
I. Provisions for jubilee and terminatin benefits	186,344
III. Other long-term liabilities	24,499
C. SHORT-TERM LIABILITIES	**5,333,503**
III. Short-term operating liabilities	4,159,170
IV. Current tax liabilities	590,697
V. Other short-term liabilities	583,636
NET DIFFERENCE	**272,627,459**

35.60% EQUITY INTEREST	**97,055,375**
PURCAHSE PRICE	**96,710,539**
CASH	**(8,843,677)**
NET INFLOW	**87,866,862**
FINANCIAL REVENUE (disclosure 5.5.7.2 (28))	**4,693,778**
FINANCIAL EXPENSES (disclosure 5.5.7.2 (29))	**(5,049,018)**

5.5.6.3 ASSETS AND LIABILITIES INCLUDED IN THE DISPOSAL GROUP

The company TET – in liquidation was included in the Group on 31 December 2014 in a manner that all its assets and liabilities, disclosed under items of assets and liabilities, have been included in the disposal group.

EFFECT OF RECLASSIFYING ASSETS AND LIABILITIES OF TET – IN LIQUIDATION

in EUR

	2014
Intangible assets	(39,389)
Property, plant and equipment	(6,622,254)
Investment property	(120,173)
Inventories	(441,913)
Operating receivables	(229,144)
Long-term investments	(385,115)
Cash and cash equivalents	(46,887)
Assets included in the disposal group	**7,884,876**
Provisions for jubilee and termination benefits	(1,063,033)
Other provisions	(4,721,130)
Short-term operating liabilities	(3,951,181)
Other short-term liabilities	(718,279)
Liabilities included in the disposal group	**10,453,623**

MOVEMENT IN 2014

in EUR

	Balance at 1 Jan 2014	Change in 2014	Assets included in the disposal group	Balance at 31 Dec 2014
Intangible assets	107,886	(68,497)	(39,389)	0
Total	**107,886**	**(68,497)**	**(39,389)**	**0**

in EUR

	Balance at 1 Jan 2014	Change in 2014	Assets included in the disposal group	Balance at 31 Dec 2014
Land	859,732	248,183	(1,107,915)	0
Buildings	8,669,672	(6,705,921)	(1,963,751)	0
Production plant	13,803,431	(10,626,311)	(3,177,120)	0
Other equipment	55,006	(24,079)	(30,927)	0
Property, plant and equipment being acquired	1,571,124	(1,228,582)	(342,542)	0
Total	**24,958,965**	**(18,336,710)**	**(6,622,255)**	**0**

in EUR

	Balance at 1 Jan 2014	Change in 2014	Assets included in the disposal group	Balance at 31 Dec 2014
Investment property	231,497	(111,324)	(120,173)	0
Total	**231,497**	**(111,324)**	**(120,173)**	**0**

in EUR

	Balance at 1 Jan 2014	Change in 2014	Assets included in the disposal group	Balance at 31 Dec 2014
Long-term investments	911,125	(602,452)	(308,673)	0
Long-term financial receivables and loans	67,072	1,870	(68,942)	0
Shares and interests in Group companies	7,500	0	(7,500)	0
Total	**985,697**	**(600,582)**	**(385,115)**	**0**

in EUR

	Balance at 1 Jan 2014	Change in 2014	Assets included in the disposal group	Balance at 31 Dec 2014
Provisions for jubilee and termination benefits	758,548	304,485	(1,063,033)	0
Total	**758,548**	**304,485**	**(1,063,033)**	**0**

in EUR

	Balance at 1 Jan 2014	Change in 2014	Assets included in the disposal group	Balance at 31 Dec 2014
Provisions for lawsuits	3,658,674	(2,008,674)	(1,650,000)	0
Other provisions	4,179,629	(1,108,499)	(3,071,130)	0
Total	**7,838,303**	**(3,117,173)**	**(4,721,130)**	**0**

5.5.7 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5.5.7.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

INTANGIBLE ASSETS (1)

in EUR

	31 Dec 2014	31 Dec 2013
Emissions coupons	5,891,538	10,415,106
Other long-term property rights	4,287,695	8,690,035
Goodwill	12,387,056	12,389,845
Other intangible assets	1,200	5,855
Total	**22,567,489**	**31,500,841**

Goodwill represent more than 50% of total intangible assets, whereas a quarter of the amount refers to emission coupons and software. The Group purchased emission coupons for the purposes of electricity production in the Group in the next years.

MOVEMENT OF INTANGIBLE ASSETS (IA) IN 2014

in EUR

	Emissions coupons	Other long-term property rights	Goodwill	Other intangible assets	Total
Cost at 1 Jan 2014	**10,415,106**	**19,996,922**	**12,389,845**	**10,835**	**42,812,708**
Acquisitions	20,958,329	2,844,089			23,802,418
Disposals, write-offs	(25,481,897)	(652,711)			(26,134,608)
Disposal of Group company		(5,860,493)	(2,789)		(5,863,282)
Assets included in the disposal group		(669,588)			(669,588)
Transfers - restatements		(37,231)		(4,655)	(41,886)
Exchange rate differences		(27)			(27)
Cost at 31 Dec 2014	**5,891,538**	**15,620,961**	**12,387,056**	**6,180**	**33,905,735**
Write-downs at 1 Jan 2014		**11,306,887**		**4,980**	**11,311,867**
Disposals, write-offs		(420,356)			(420,356)
Disposal of Group company		(460,669)			(460,669)
Assets included in the disposal group		(630,200)			(630,200)
Amortisation		1,520,463			1,520,463
Exchange rate differences		(16)			(16)
Impairments		17,157			17,157
Write-downs at 31 Dec 2014		**11,333,266**		**4,980**	**11,338,246**
Carrying amount at 1 Jan 2014	**10,415,106**	**8,690,035**	**12,389,845**	**5,855**	**31,500,841**
Carrying amount at 31 Dec 2014	**5,891,538**	**4,287,695**	**12,387,056**	**1,200**	**22,567,489**

MOVEMENT OF INTANGIBLE ASSETS (IA) IN 2013

in EUR

	Emissions coupons	Other long-term property rights	Goodwill	Other intangible assets	Total
Cost at 1 Jan 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 - restatements		203,251			203,251
Exchange rate differences		(3)			(3)
Cost at 31 Dec 2013	**10,415,106**	**19,996,922**	**12,389,845**	**10,835**	**42,812,708**
Write-downs at 1 Jan 2013		**9,867,374**		**6,148**	**9,873,522**
Disposals		(211,481)		(1,168)	(212,649)
Transfers - restatements		1,151			1,151
Amortisation		1,649,845			1,649,845
Exchange rate differences		(2)			(2)
Write-downs at 31 Dec 2013		**11,306,887**		**4,980**	**11,311,867**
Carrying amount as at 1 Jan 2013	**26,585,736**	**7,627,026**	**12,387,056**	**5,855**	**46,605,673**
Carrying amount as at 31 Dec 2013	**10,415,106**	**8,690,035**	**12,389,845**	**5,855**	**31,500,841**

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 the subsidiary SENG. The recoverable amount of the CGU, from which the goodwill arises, was assessed as at 31 December 2014 by internal impairment testing. Value in use was calculated by using the present value of expected free cash flow on the basis of company's operations projected up till 2030. It was established that the CGU's value in use, which includes goodwill, exceeds their carrying amount, hence no reasons for impairing the goodwill existed. The estimate took into account the real required rate of yield i.e. from 7.24% in 2014 to 5.35% from 2018 onwards (in 2014 7.24%, in 2015 6.36%, in 2016 and 2017 5.66%, 5.35% from 2018 onwards). The calculated value in use is based among others also on long-term projected movement of market prices for electricity and emission coupons, which are prepared by the internationally renowned institution. The recoverable amount of the 100% equity interest in the company SENG is as at 31 December 2014 recorded at EUR 483,652,000. Should the discount rate increase by 20%, the recoverable amount would be EUR 363,853,000; if the NOPLAT (which is largely impacted by deviations of electricity prices from the planned electricity prices used in the impairment testing) would decline by 20% the recoverable amount would be recorded at EUR 394,654,000, whereas if CAPEX would increase by 20% the recoverable amount would amount to EUR 474,532,000. The reduced goodwill in the amount of EUR 2,789 is the result of disposing the sub-group HESS in 2014.

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 5,283,146 coupons or EUR

10,415,106. In 2014, 8,887,324 emission coupons were purchased (EUR 20,958,329) and 9,869,797 coupons were sold or used (EUR 25,481,897). As a result, the Group still had 4,300,673 emission coupons in the amount of EUR 5,891,538 at the year-end of 2014.

The largest amount among other long-term property rights refers to the licenced software, which the Group uses for information support. In 2014, additions hereunder amounted to EUR 2,844,089 and write-offs were recorded at EUR 232,355. Other long-term property rights declined by EUR 5,399,824 as a result of eliminating the company HESS from the Group. The amount of EUR 39,389 was transferred from intangible assets to assets included in the disposal group (regular liquidation of the company TET).

Amortisation of long-term property rights for 2014 amounted to EUR 1,520,463. In 2014, the useful lives of significant software was checked and according to findings made the useful lives of certain software were not properly assessed. The useful lives of the said software were accordingly extended. Due to extended useful lives, amortisation charge in 2014 totalled to EUR 103,692.

Other intangible assets include long-term deferred costs of development.

In 2014 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 long-term easement in the amount of EUR 110,713 is pledged by the Group as collateral for the borrowing taking. The Group records no intangible assets under finance lease.

At the end of 2014, the Group has a total of EUR 81,300 of contracts concluded for purchase of intangible assets in the coming years.

In 2014, the Group impaired long-term property rights in the amount of EUR 17,157 based on the valuation made by a certified appraiser.

PROPERTY, PLANT AND EQUIPMENT (2)

in EUR

	31 Dec 2014	31 Dec 2013
Land	30,406,678	34,655,131
Buildings	433,982,417	589,644,528
Production equipment	388,494,137	584,910,681
Other equipment	40,110,441	13,831,756
Property, plant and equipment being acquired	1,348,273,338	1,214,496,542
Total	**2,241,267,011**	**2,437,538,638**

Most of the Group companies are engaged in the 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 significant among investments in fixed assets of Group companies in 2014 are the investments made in the replacement Unit 6 at TEŠ (at the year-end of 2014 the investments are recorded under the item 'Property, plant and equipment' in the amount of EUR 1,322,655,243), in the construction of the middle Sava HPP, and the renovation and upgrade of HPP equipment and other production appliances. More details on Group's investments are outlined in the business report (section 2.11 Investments).

Cost of property, plant and equipment recorded by Group companies in the reporting period include also EUR 34,248,549 of borrowing costs.

The useful lives of significant fixed assets were checked in 2014 and according to the analysis of balances relating to plants and the anticipates operational arrangements it was established that useful lives of certain HPP extended, whereby in case of TPP they were reduced (buildings and equipment). Consequently, the depreciation expenses for buildings amounted to EUR 838,007, for production plant EUR 3,559,793 and depreciation expenses for other equipment amounted to EUR 160,630.

At the year-end, the Group carried out impairment testing on property, plant and equipment of companies that are in the process of regular liquidation or whose operations generate losses. In case of the company undergoing compulsory liquidation, the certified appraisers have valued the company's liquidation value, whereby in case of other companies they have established the replaceable value of assets. With respect to the type of assets, the value in use or the fair value less selling expenses was used as the replaceable value. During impairment testing the Group applied the value in use as replaceable value which took into account also the real required rate of yield i.e. from 6.37% in 2015 to 5.36% from 2018 onwards. The impairment testing is based on long-term projections for CGU's operations for which impairment testing was carried out. The calculated value in use is based

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT (PPE) IN 2014

in EUR

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost at 1 Jan 2014	**38,588,048**	**1,344,176,409**	**2,131,259,984**	**59,072,063**	**1,214,502,544**	**4,787,599,048**
Acquisitions					226,688,481	226,688,481
Disposals, write-offs	(445,514)	(5,772,857)	(9,433,240)	(963,835)	(114,118)	(16,729,564)
Disposal of a Group company	(67,000)	(135,854,777)	(123,173,650)	(1,972,693)	(25,255,262)	(286,323,382)
Transfer from investments	764,333	10,697,565	26,063,046	26,933,829	(64,508,735)	(49,962)
Transfers - restatements	936,615	(2,705,577)	(2,180,034)	3,479,011	(2,449,255)	(2,919,240)
Assets included in the disposal group	(1,107,915)	(95,254,010)	(142,846,811)	(30,927)	(342,542)	(239,582,205)
Exchange rate differences				(1,125)		(1,125)
Impairments	(456,852)	(105,732)	(897,617)	(24,079)	(204,041)	(1,688,321)
Cost at 31 Dec 2014	**38,211,715**	**1,115,181,021**	**1,878,791,678**	**86,492,244**	**1,348,317,072**	**4,466,993,730**
Write-downs at 1 Jan 2014	**3,932,917**	**754,531,881**	**1,546,349,303**	**45,240,307**	**6,002**	**2,350,060,410**
Disposals, write-offs	(13,991)	(4,590,367)	(9,153,565)	(743,553)		(14,501,476)
Disposal of a Group company		(10,022,246)	(21,498,105)	(1,052,961)		(32,573,312)
Transfers - restatements	842,480	(1,630,119)	4,955,210	(4,809,397)	5,998	(635,828)
Assets included in the disposal group		(93,027,700)	(139,932,250)			(232,959,950)
Depreciation		21,919,307	59,255,793	5,787,952		86,963,052
Exchange rate differences				(1,068)		(1,068)
Impairments	3,043,631	14,017,848	50,321,155	1,960,523	31,734	69,374,891
Write-downs at 31 Dec 2014	**7,805,037**	**681,198,604**	**1,490,297,541**	**46,381,803**	**43,734**	**2,225,726,719**
Carrying amount at 1 Jan 2014	**34,655,131**	**589,644,528**	**584,910,681**	**13,831,756**	**1,214,496,542**	**2,437,538,638**
Carrying amount at 31 Dec 2014	**30,406,678**	**433,982,417**	**388,494,137**	**40,110,441**	**1,348,273,338**	**2,241,267,011**

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT (PPE) IN 2013

in EUR

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost at 1 Jan 2013	**38,912,736**	**1,291,223,594**	**2,066,732,172**	**58,419,482**	**1,059,410,676**	**4,514,698,660**
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	(151,955,117)	2,344
Transfers - restatements	5,197	361,885	3,596,367	(3,463,760)	(511,518)	(11,829)
Exchange rate differences			1	(165)	1	(163)
Impairments	(63,124)	(3,106,672)	(1,561,001)	(84,665)	(1,297,579)	(6,113,041)
Cost at 31 Dec 2013	**38,588,048**	**1,344,176,409**	**2,131,259,984**	**59,072,063**	**1,214,502,544**	**4,787,599,048**
Write-downs at 1 Jan 2013	**297,739**	**733,293,693**	**1,506,375,528**	**42,923,452**	**2**	**2,282,890,414**
Acquisitions		306	5,658			5,964
Disposals		(4,047,673)	(20,012,120)	(3,004,645)		(27,064,438)
Transfers - restatements		61,694	33,204	(32,430)		62,468
Depreciation		22,201,818	59,947,033	5,354,083		87,502,934
Exchange rate differences				(153)		(153)
Impairments	3,635,178	3,022,043			6,000	6,663,221
Write-downs at 31 Dec 2013	**3,932,917**	**754,531,881**	**1,546,349,303**	**45,240,307**	**6,002**	**2,350,060,410**
Carrying amount at 1 Jan 2013	**38,614,997**	**557,929,901**	**560,356,644**	**15,496,030**	**1,059,410,674**	**2,231,808,246**
Carrying amount at 31 Dec 2013	**34,655,131**	**589,644,528**	**584,910,681**	**13,831,756**	**1,214,496,542**	**2,437,538,638**

among others also on long-term projected movement of market prices for electricity and emission coupons, which are prepared by the internationally renowned institution. The total amount of impairments made to Group's property, plant and equipment were recorded at EUR 71,063,212. Impairment of land were recorded at EUR 3,500,483, buildings at EUR 14,123,580, of production plant at EUR 51,218,772, the value of other equipment was impaired in the amount of EUR 1,984,602, and investments in course of construction at EUR 235,775.

Due to the already mentioned regular liquidation of a Group company, the Group impaired the latter's property, plant and equipment in the amount of EUR 2,308,049, whereas the largest part of these assets' impairment was already included in the 2012 consolidated at EUR 15,764,589.

Write-offs of property, plant and equipment at EUR 2,228,088 relate primarily to write-offs made due to reconstructions. Some property, plant and equipment were also sold.

The elimination of the company HESS from the Group lowered the value of property, plant and equipment by EUR 253,750,070. Transfers to assets included in the disposal group were recorded at EUR 6,622,255 and refer to the regular liquidation of the company TET.

The Group had EUR 26,160 of production equipment and other equipment under finance lease, but no property.

The Group's property and equipment are mortgaged in total amount of up to EUR 131,273,279. A significant increase over the previous year in the amount of EUR 95,635,900 refers to the pledge of the HPP due to change of the creditor.

At the end of 2014, the Group has a total of EUR 53,300,510 of contracts concluded for purchase of property, plant and equipment in the coming years (excluding costs of financing).

OTHER LONG-TERM INVESTMENTS AND LOANS (3)

in EUR

	31 Dec 2014	31 Dec 2013
Long-term investments in associated companies	134,711,253	1,596,044
Long-term investments in jointly controlled companies	451,683	470,489
Available-for-sale long-term financial assets	161,798	1,068,328
Other long-term investments	7,191	2,000
Long-term financial receivables and loans	216,089	187,099
Total	**135,548,014**	**3,323,960**

Other long-term investments and loans have gone up if compared to 2013 which is attributable to the sale of the controlling company's majority holding in the company HESS in 2014 and the transfer of the non-controlling interest (49%) to long-term investments in associates. DEM and SENG are namely also owners of the company HESS.

MOVEMENT OF OTHER LONG-TERM INVESTMENTS

in EUR

	2014	2013
Balance at 1 Jan	**3,136,861**	**3,795,623**
Acquisitions	14,191	
Disposals	(603,303)	
Transfers, restatements	128,714,645	1,234,069
Assets included in the disposal group	(308,673)	
Increase in value	5,159,724	393,675
Impairments	(781,520)	(2,286,506)
Balance at 31 Dec	**135,331,925**	**3,136,861**

A) INVESTMENTS IN ASSOCIATES

in EUR

Associated company	31 Dec 2014	31 Dec 2013
ELDOM d.o.o.	128,153	104,591
ERICO d.o.o.	422,514	402,111
PLP d.o.o.	203,952	173,354
SIPOTEH d.o.o.	103,383	191,911
PV Fairwood	2,200	2,200
RCE d.o.o.		721,877
HESS d.o.o.	133,851,051	
Total	**134,711,253**	**1,596,044**

In addition to stated companies the Group discloses investments in companies Filvoteh, Tehnoveter, Karboteh, Tešing and Enraz, established and impaired in 2014. The company RCE is the co-owner of these companies.

MOVEMENT OF OTHER LONG-TERM INVESTMENTS IN ASSOCIATES

in EUR

	2014	2013
Balance at 1 Jan	**1,596,044**	**853,938**
Acquisitions	9,000	612,500
Acquisition HESS	128,908,000	
Attributable gains under the equity method	4,979,729	141,593
Attributable losses under the equity method	(118,378)	(11,987)
Impairments	(663,142)	
Balance at 31 Dec	**134,711,253**	**1,596,044**

Transfer of the non-controlling interest in the company HESS in the amount of purchase cost at EUR 128,908,000 accounts for the largest change in movement of long-term investments in associates. The remaining part refers to the write-ups of profits based on the applied equity method (most thereof due to the changed disclosure of the investment in HESS – the company was prior to the sale of the controlling interest included in the Group as a subsidiary, while as an associate after the sale of the controlling interest). Investment in the company RCE was at the end of 2014 impaired in its full amount due to the MGRT's position that the Agreement on co-financing was allegedly breached.

The controlling company is entitled to repurchase the entire equity interest (35.6% and not less) which it sold in 2014 at any time by 31 December 2019 (right to repurchase can be enforced solely in its entire amount, together and concurrently from both buyers). The repurchase procedure is subject to the same method and manner of valuation as made during the sale of the equity interest

DATA ON ASSOCIATES AS AT 31 DECEMBER 2014

Company	Address	Activity	Co-owner company	% co-owership
ELDOM d.o.o.	Vetrinjska ulica 2, Maribor, Slovenija	property management for payment or under contract	DEM d.o.o.	50%
ERICO d.o.o.	Koroška cesta 58, Velenje, Slovenija	ecologic research, monitoring	TEŠ d.o.o. PV d.d.	26% 23%
PLP d.o.o.	Partizanska 78, Velenje, Slovenija	timber activity	PV d.d.	26%
SIPOTEH d.o.o.	Partizanska 79, Velenje, Slovenija	production of technological and mining equipment	PV d.d.	42%
PV Fairwood	Singapur	coal mining modernisation	PV d.d.	40%
RCE d.o.o.	Preloška cesta 1, Velenje, Slovenija	R&D in natural science and technology	TEŠ d.o.o.	20.83%
FILVOTEH d.o.o.	Cesta Simona Blatnika 18, Velenje, Slovenija	engineering activity, advisory	HTZ d.o.o.	24%
TEHNOVETER d.o.o.	Cesta Simona Blatnika 18, Velenje, Slovenija	engineering activity, advisory	PV d.d.	24%
KARBOTEH d.o.o.	Cesta Simona Blatnika 18, Velenje, Slovenija	engineering activity, advisory	PV d.d.	24%
TEŠING d.o.o.	Preloška cesta 1, Velenje, Slovenija	engineering activity, advisory	TEŠ d.o.o.	24%
ENRAZ d.o.o.	Preloška cesta 1, Velenje, Slovenija	engineering activity, advisory	TEŠ d.o.o.	24%
HESS d.o.o.	Cesta bratov Cerjakov 33a, Brežice, Slovenija	electricity production in HPPs	DEM d.o.o., HSE d.o.o., SENG d.o.o.	30.8%, 15.4%, 2.8%

i.e. at fair market price valid during the repurchase.

The company GEN Energija (one of the co-owners of the company HESS that repurchased in 2014 the interest in the company HESS from the controlling company) has in case of long-lasting (several months) unplanned electricity failure by NEK, whose liabilities to NEK would for GEN Energija exceed EUR 20,000,000, the right to sell a 20.9% equity interest in HESS, whereby the controlling company is obliged to repurchase it at any time by 31 December 2019. In case of enforcing the sales option by GEN Energija, the latter must inform the controlling company on the intended sale at least within 6 months prior to the sale. The price of such a repurchase is determined by means of the same method and manner of valuation as applied with the sale of the interest in HESS (fair market price). GEN Energija is not entitled to sell the share in HESS if it is no longer owned by the Republic of Slovenia.

Companies ERICO and HESS were audited while other associates were not subject of the audit.

SIGNIFICANT AMOUNTS FROM THE FINANCIAL STATEMENTS OF ASSOCIATES IN 2014

in EUR

Company	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
HESS d.o.o.	279,539,231	6,774,032	15,975,835	3,052,325	272,765,199
RCE	7,823,931	10,614,326	2,668,265	(2,188,368)	(2,790,395)
SIPOTEH d.o.o.	2,047,832	1,923,617	2,636,546	(247,244)	124,215
ERICO d.o.o.	1,804,417	423,220	2,001,527	50,445	1,381,197
PLP d.o.o.	1,613,762	677,996	2,838,974	117,682	935,766
ELDOM d.o.o.	431,265	174,194	824,615	47,125	256,301
PARTNER d.o.o	59,338	18,853	193,838	17,676	40,485
TEHNOVETER d.o.o.	10,516	2,648	8,500	368	7,868
KARBOTEH d.o.o.	9,507	1,975	6,000	32	7,532
FILVOTEH d.o.o.	9,183	5,063	12,600	(3,380)	4,120
TEŠING d.o.o.	6,466	2,299	3,010	(3,333)	4,167
ENRAZ d.o.o.	6,331	2,284	3,024	(3,453)	4,047
Total	**293,361,779**	**20,620,507**	**27,172,734**	**839,875**	**272,740,502**

B) JOINTLY CONTROLLED COMPANIES

INVESTMENTS IN JOINTLY CONTROLLED COMPANIES include the 25% equity interest in the company Soenergetika in the amount of EUR 255,000. The company concluded the fiscal year 2014 with profit of EUR 698,196.

The value of the investment (equity method) increased during consolidation procedures by EUR 174,549 and decline by paid profits from previous years in the amount of EUR 193,355. The company was subject audited.

MOVEMENT OF LONG-TERM INVESTMENTS IN JOINTLY CONTROLLED COMPANIES

in EUR

	2014	2013
Balance at 1 Jan	**470,489**	**300,637**
Pay-out of attributable profits	(193,355)	
Attributable profits under the equity method	174,549	169,852
Balance at 31 Dec	**451,683**	**470,489**

DATA ON JOINTLY CONTROLLED COMPANIES AS AT 31 DECEMBER 2014

Company	Address	Activity	% of ownership	% voting rights
SOENERGETIKA d.o.o.	Stara cesta 3, 4000 Kranj	heat and electricity production	25%	25%

SIGNIFICANT AMOUNTS OF JOINTLY CONTROLLED COMPANIES FOR 2014

in EUR

Company	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
SOENERGETIKA d.o.o.	5,361,155	3,554,472	3,877,812	698,196	1,806,683
Total	**5,361,155**	**3,554,472**	**3,877,812**	**698,196**	**1,806,683**

C) AVAILABLE-FOR-SALE FINANCIAL ASSETS

in EUR

	2014	2013
Company shares	49,833	646,839
Company stakes	111,965	420,638
Bank shares		851
Other		
TOTAL	**161,798**	**1,068,328**

The Group's available-for-sale financial assets include shares and interests in companies. The decline is the result of selling shares and equity interests, as well as the transfer to assets included in disposal groups. Based on the relevant sales, the Group generated EUR 559,607 of financial revenue.

MOVEMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

in EUR

	2014	2013
Balance as at 1 Jan	**1,068,328**	**2,639,048**
Disposal	(603,303)	
Transfers, restatements		(620,000)
Assets included in the disposal group	(308,673)	
Increases in value	5,446	82,230
Impairments		(1,032,949)
Balance as at 31 Dec	**161,798**	**1,068,329**

DEFERRED TAX ASSETS (4)

in EUR

Basis for caculating deferred tax assets	31 Dec 2014	31 Dec 2013
Provisions	482,938	1,225,609
Impairment	4,380,689	982,982
Amortisation and depreciation expense	7,658	383,932
Other	299,850	2,652,702
Total	**5,171,135**	**5,245,225**

Change in deferred tax assets was disclosed in 2014 at EUR – 74,090 and was recognised in the consolidated profit or loss in the amount of EUR 222,452 and at EUR -296,542 under equity.

MOVEMENT OF DEFERRED TAX ASSETS

in EUR

	Provisions	Impairment	Depreciation and amortisation expense	Other	Total
Balance at 1 Jan 2013	**4,039,689**	**735,505**	**261,189**	**4,430,339**	**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		264,664		(334,871)	(70,207)
Balance at 31 Dec 2013	**1,225,609**	**982,982**	**383,932**	**2,652,702**	**5,245,225**
Balance at 1 Jan 2014	**1,225,609**	**982,982**	**383,932**	**2,652,702**	**5,245,225**
To debit/(credit) of profit or loss	(725,487)	3,398,107	(363,177)	(2,086,991)	222,452
To debit/(credit) of other comprehensive income		(400)		(265,861)	(266,261)
Disposal of a Group company	(17,184)		(13,097)		(30,281)
Balance at 31 Dec 2014	**482,938**	**4,380,689**	**7,658**	**299,850**	**5,171,135**

Changes in deferred tax asstes relating to provisions are attributable to jubilee and termination benefits and to changes with other provisions.

Changes in deferred tax asstes relating to impairment are attributable primarily to impairment of the investment in a subsidiary, which in 2014 started regular liquidation procures.

Changes in deferred tax asstes relating to amortisation and depreciation arise from differences established between the operating and tax depreciation in 2014.

Other changes in deferred tax assets primarily refer to reversal of deferred tax assets for unused tax losses in PV Group companies and the company TEŠ due to the estimate made that there will be no positive tax bases in the predictable near future against which these receivables could be charged against.

ASSETS INCLUDED IN THE DISPOSAL GROUP (5)

Assets included in the disposal group amounting to EUR 9,304,315 mostly refer to the transfer of assets of the company that started regular liquidation procedures, which is in detail disclosed in section 5.5.6 Changes in the Group in 2014.

ASSETS INCLUDED IN THE DISPOSAL GROUP

in EUR

	Assets included in the disposal group	Assets held for sale	Total
TET - in liquidation	7,884,876		7,884,876
DEM		3,251	3,251
TEŠ		201,723	201,723
HTZ		871,247	871,247
Golte		343,218	343,218
TOTAL	**7,884,876**	**1,419,439**	**9,304,315**

INVENTORIES (6)

in EUR

	31 Dec 2014	31 Dec 2013
Material	15,301,424	21,928,556
Work-in-progress	33,573	31,544
Products and merchandise	8,308,701	5,444,505
Total	**23,643,698**	**27,404,605**

Most 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 18,127. Since the amount was immaterial it was not taken into account in the consolidated income statement.

Adjusting inventories' carrying amount to their net realisable value is disclosed at EUR 3,506,618 EUR. Quality of inventories of material has changed, hence a write-off was carried out at EUR 70,353. Both is disclosed in the consolidated income statement among write-downs in value (impairment of inventories).

Inventories of products mostly include coal.

No inventories have been pledged as collateral.

INVENTORY SURPLUSES AND DEFICITS

in EUR

	31 Dec 2014	31 Dec 2013
Surpluses in year-end count	205,668	386,053
Deficits in year-end count	(174,782)	(201,128)

SHORT-TERM INVESTMENTS AND LOANS (7)

A) SHORT-TERM INVESTMENTS

At the year-end of 2014, the Group records no short-term investments in shares of other companies.

B) SHORT-TERM FINANCIAL RECEIVABLES AND LOANS

The largest share among short-term financial receivables and loans refers to short-term deposits with banks at the controlling company.

in EUR

	31 Dec 2014	31 Dec 2013
Short-term financial receivables and loans to associates	49,000	331,677
Short-term financial receivables and loans to others	42,997	61,340
Short-term deposits to others	5,932,011	33,155,166
Total	**6,024,008**	**33,548,183**

SHORT-TERM OPERATING RECEIVABLES (8)

in EUR

	31 Dec 2014	31 Dec 2013
Short-term operating receivables due from associates	807,918	243,004
Short-term operating receivables due from jointly controlled companies	2,050	299,907
Short-term trade receivables	142,353,296	163,648,158
Short-term advances	6,705,124	7,316,685
Short-term operating receivables due from state and other institutions	29,697,336	36,527,457
Short-term operating receivables due from others	6,457,193	1,220,777
Total	**186,022,917**	**209,255,988**

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 the replacement Unit 6 at TEŠ, which were in January 2015 offset with liabilities for retained assets based on the court settlement concluded.

Most of receivables from state and other institutions comprise input VAT.

Disclosures in relation to maturity of receivables, allowances for receivables and insuring short-term operating receivables are represented in the section on financial risk management hereunder.

OTHER SHORT-TERM ASSETS (9)

in EUR

	31 Dec 2014	31 Dec 2013
Short-term deferred costs and expenses	3,587,687	1,892,316
Accrued revenue	5,921,270	3,130,399
Total	**9,508,957**	**5,022,715**

Other short-term assets include short-term deferred costs (mostly in connection with electricity trading) and shot-term accrued revenue (mostly relating to test launching of the replacement Unit 6 at TEŠ and to revenue from electricity trading).

CASH AND CASH EQUIVALENTS (10)

in EUR

	31 Dec 2014	31 Dec 2013
Cash in hand and cheques received	29,590	23,941
Bank balances	8,990,095	7,060,539
Call deposits	76,981,463	42,085,069
Deposits tied up to 3 months	2,297,025	26,014,774
Total	**88,298,173**	**75,184,323**

Call deposits include Group's assets that shall be used in 2015 for settling current liabilities and surplus in cash since interest rates are more favourable than with longer term deposits.

EQUITY (11)

in EUR

	31 Dec 2014	adjusted 31 Dec 2013
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Revenue reserves	413,856,350	413,856,350
Fair value reserve	(1,802,255)	(4,416,429)
Retained earnings	461,050,199	485,887,092
Consolidation equity adjustment	(1,366,493)	(1,243,072)
Minority interest	9,007,644	61,901,157
Total	**1,471,547,419**	**1,546,787,072**

Value of Group's share capital and revenue reserves remained unchanged in 2014.

CAPITAL SURPLUS

in EUR

	31 Dec 2014	31 Dec 2013
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 represent a part of transferred profits of the controlling company and are disclosed in detail in the statement of changes in equity of the company. Due to the elimination of material error at the controlling company for 2013, other revenue reserves were as at 31 December 2013 disclosed in the amount of EUR 413,856,350 EUR (EUR 30,204,272 less than disclosed prior to the adjustment). Elimination of material error is in detail outlined in the controlling company's accounting report under the section 4.5.2. (f).

MOVEMENT OF FAIR VALUE RESERVE

in EUR

	Standard futures for electricity	Forward contracts for emission coupons	Interest rate swaps	Currency swaps	Available-for-sale financial assets	Actuarial gains/losses in severance upon retirement	Other	Total
Balance at 1 Jan 2013	**(2,303,451)**	**(3,004,948)**	**(3,711,668)**	**(40,860)**	**160,157**		**11,565**	**(8,889,205)**
Formation, increase	442,292	7,362,700	702,547	58,619	55,673	63,403		8,685,234
Decrease	(2,046,584)	(11,593,660)	334,124	(71)		(28,691)	(1,495)	(13,336,377)
Transfer to expenses	1,888,015	7,235,908						9,123,923
Balance at 31 Dec 2013	**(2,019,728)**	**0**	**(2,674,997)**	**17,688**	**215,830**	**34,712**	**10,070**	**(4,416,425)**
Balance at 1 Jan 2014	**(2,019,728)**	**0**	**(2,674,997)**	**17,686**	**215,830**	**34,712**	**10,070**	**(4,416,427)**
Formation, increase	298,002		1,053,635	(37,401)			1,495	1,315,731
Decrease	(702,687)			(17,686)	4,520	(235,022)		(950,875)
Disposal of a Group company						(4,081)		(4,081)
Transfer to profit or loss for the period	2,440,838				(187,438)			2,253,400
Balance at 31 Dec 2014	**16,425**	**0**	**(1,621,362)**	**(37,401)**	**32,912**	**(204,391)**	**11,565**	**(1,802,252)**

At the end of 2014, the Group's fair value reserve comprises:

- fair value of derivative financial instruments (standard forward contracts for electricity, interest rate and currency swaps) in the total value of EUR -1,642,338,
- change in available-for-sale financial assets in the amount of EUR 32,912,
- actuarial losses from termination benefits upon retirement in the amount of EUR -204,391, and
- revaluation of land in the amount of EUR 11,565.

RETAINED EARNINGS OR LOSSES

in EUR

	31 Dec 2014	adjusted 31 Dec 2013
Net profit or loss for the period	(24,831,823)	68,981,896
Retained earnings or losses	485,882,022	416,905,196
Total	**461,050,199**	**485,887,092**

Retained earnings or losses were for 2013 adjusted due to the elimination of material error in 2013 at the controlling company; thus, retained earnings or losses increased by EUR 30,204,272 (transfer from other revenue reserves). Elimination of material error is in detail outlined in the controlling company's accounting report. Retained earnings or losses declined in 2014 by:

- the Group's net loss for 2014 in the amount of EUR 24,831,823, and
- exchange losses arising upon the elimination of the subsidiary abroad due to voluntary liquidation in the amount of EUR 5,070.

Consolidation equity adjustment represents exchange differences in translation of financial statements of subsidiaries abroad into presentation currency of the Group.

The equity of minority owners represents the value of non-controlling interests of subsidiaries. The decline over 2013 mostly refers to the sale of the non-controlling interest in the subsidiary that also had minority owners.

PROVISIONS FOR TERMINATION BENEFITS UPON RETIREMENT AND JUBILEE BENEFITS (12)

in EUR

	31 Dec 2014	31 Dec 2013
Provisions for termination benefits upon retirement	10,128,106	10,201,918
Provisions for jubilee benefits	3,541,563	4,076,193
Total	**13,669,669**	**14,278,111**

Group discloses provisions for termination and jubilee benefits that were formed on the basis of the actuarial calculation as at 31 December 2014. Compared to 2013, these provisions decreased mostly as the result of transferring a part of these provisions to liabilities included in the disposal group.

MOVEMENT IN 2014

in EUR

	Provisions for termination benefits	Provisions for jubilee benefits	Total
Balance at 1 Jan 2014	**10,201,918**	**4,076,193**	**14,278,111**
Formation - increase	2,652,551	515,423	3,167,974
Decrease - utilisation	(694,674)	(616,211)	(1,310,885)
Decrease - reversal	(887,420)	(328,734)	(1,216,154)
Liabilities included in the disposal group	(1,063,033)		(1,063,033)
Disposal of a Group company	(81,236)	(105,108)	(186,344)
Balance at 31 Dec 2014	**10,128,106**	**3,541,563**	**13,669,669**

The actuarial calculation was based on:

- the number of employees in the company as at 30 September 2014 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period July – September 2014);
- method for calculating termination and jubilee benefits in individual company;
- average salary growth of 0.5% for 2015, 2016 and 2017 and 2.0% p.a. from 2018 onwards;
- discount interest rate of 3.2%, and
- employee turnover by age category.

MOVEMENT IN 2013

in EUR

	Provisions for termination benefits	Provisions for jubilee benefits	Total
Balance at 1 Jan 2013	**10,164,253**	**4,345,328**	**14,509,581**
Formation - increase	918,231	439,983	1,358,214
Decrease - utilisation	(812,195)	(670,527)	(1,482,722)
Decrease - reversal	(68,371)	(38,591)	(106,962)
Balance at 31 Dec 2013	**10,201,918**	**4,076,193**	**14,278,111**

SENSITIVITY ANALYSIS FOR PROVISIONS FOR TERMINATION BENEFITS UPON RETIREMENT AND JUBILEE BENEFITS

in EUR

	2014			
	Discount rate		Growth of wages	
	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	512,135	(474,113)	(417,558)	465,685
Provisions for jubilee benefits	120,423	(113,189)	(96,130)	101,964
Total	**632,558**	**(587,302)**	**(513,688)**	**567,649**

OTHER PROVISIONS (13)

in EUR

	31 Dec 2014	31 Dec 2013
Provisions for lawsuits	5,080,471	8,126,093
For closing works on mining caves	28,993,052	28,993,052
For compensations	43,293	43,293
Other provisions	3,444,439	5,433,468
Total	**37,561,255**	**42,595,906**

The largest share among Group's other provisions refers to provisions formed for closing works in the coal mining sites.

The decrease in other provisions over the 2013 balance is primarily the result of transferring a part of these provisions to liabilities included in the disposal group.

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 within the Group.

The values in this expert report were checked at the year-end of 2014 and according to findings made, no changes to provisions are required.

Provisions for legal actions are created on the basis of assessed liabilities from legal actions, in which the Group acts as the defendant. Formation of these provisions refers also to the increase due to new lawsuits and charged default interest on the part of damage amounts claimed. Reversal of provisions primarily refers to environmental-related lawsuits. Transfer to liabilities included in the disposal group was also carried out within the framework of provisions for lawsuits.

Most of other provisions in 2014 relates to provisions formed under the liability of handing over properties to the Farmland and Forest Fund of the Republic of Slovenia (SKZG RS) and provisions for unpaid Christmas bonuses in previous years. The elimination largely refers to the restoration of disposal site of waste products. Transfer to liabilities included in the disposal group was also carried out within the framework of other provisions.

MOVEMENT OF OTHER PROVISIONS

in EUR

	For lawsuits	For closing works on mining caves	For compensations	Other provisions	Total
Balance at 1 Jan 2013	**11,250,027**	**28,716,337**	**43,293**	**5,103,950**	**45,113,607**
Formation - increase	601,923	276,715		769,019	1,647,657
Decrease - utilisation	(277,186)			(418,222)	(695,408)
Decrease - reversal	(3,448,671)			(21,279)	(3,469,950)
Balance at 31 Dec 2013	**8,126,093**	**28,993,052**	**43,293**	**5,433,468**	**42,595,906**
Balance at 1 Jan 2014	**8,126,093**	**28,993,052**	**43,293**	**5,433,468**	**42,595,906**
Formation - increase	799,666			3,121,090	3,920,756
Decrease - utilisation				(405,704)	(405,704)
Decrease - reversal	(2,195,288)			(1,633,285)	(3,828,573)
Liabilities included in the disposal group	(1,650,000)			(3,071,130)	(4,721,130)
Balance at 31 Dec 2014	**5,080,471**	**28,993,052**	**43,293**	**3,444,439**	**37,561,255**

OTHER LONG-TERM LIABILITIES (14)

in EUR

	31 Dec 2014	31 Dec 2013
Emissions coupons	338,138	
State aids received	7,842,476	11,061,743
Others		16,244
Total	**8,180,614**	**11,077,987**

The largest portion of other long-term liabilities include government grants received, where of EUR 4,255,064 refers to the 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. The second largest item among government grants relates to assets received for co-financing fixed assets that are reduced by accumulated depreciation.

MOVEMENT OF OTHER LONG-TERM LIABILITIES IN 2014

in EUR

	Emissions coupons	State aids received	Others	Total
Balance at 1 Jan 2014	**0**	**11,061,743**	**16,244**	**11,077,987**
Acquisitions	446,856	6,842,912	65,587	7,355,355
Disposals	(108,718)	(9,219,468)	(1,891)	(9,330,077)
Disposal from a Group company			(24,499)	(24,499)
Reversal		(842,711)	(55,441)	(898,152)
Balance at 31 Dec 2014	**338,138**	**7,842,476**	**0**	**8,180,614**

MOVEMENT OF OTHER LONG-TERM LIABILITIES IN 2013

in EUR

	Emissions coupons	State aids received	Others	Total
Balance at 1 Jan 2013	**215,305**	**12,966,891**	**95,238**	**13,277,434**
Acquisitions	132,157	6,860,294	54,921	7,047,372
Disposals	(347,462)	(8,765,442)	(81,607)	(9,194,511)
Reversal			(52,308)	(52,308)
Balance at 31 Dec 2013	**0**	**11,061,743**	**16,244**	**11,077,987**

LONG-TERM FINANCIAL LIABILITIES (15)

in EUR

	31 Dec 2014	31 Dec 2013
Long-term financial liabilities to banks	875,587,140	890,846,843
Other long-term financial liabilities	2,034,991	3,382,116
Total	**877,622,131**	**894,228,959**

Long-term financial liabilities to banks include long-term borrowings, while other long-term financial liabilities refer mostly to financial liabilities under concluded contracts for interest rate swaps.

Loans have been taken with Slovene and foreign banks, and interest rates range between 0.17% and 5.97%, depending on the type of the loan, maturity and the timing of borrowing. They also include borrowings 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.

No new borrowings were raised within the Group in 2014.

The Group transferred short-term loans (the maturity of which changed in 2014) retrospectively from short-term to long-term financial liabilities. Most thereof refers to the portion of the long-term borrowing of SENG in the amount of EUR 15,104,224 which was as at 31 December 2013 transferred pursuant to the loan agreement with EIB, due to unsuitable guarantor and consequently breach of provisions and obligations, to the short-term portion. Based on the signed agreement between SID bank and EIB on taking over the existing debt of SENG to EIB, the matter of unsuitable guarantor was finally settled in October 2014.

IAS 1.74 stipulates that long-term loans recognised under long-term financial

MOVEMENT OF LONG-TERM FINANCIAL LIABILITIES IN 2014

in EUR

	Long-term financial liabilities to banks	Other long-term financial liabilities	Total
Balance at 1 Jan 2014	**890,846,843**	**3,382,116**	**894,228,959**
Acquisitions		82,153	82,153
Transfer to short-term liabilities	(30,820,194)	(13,535)	(30,833,729)
Transfer from short-term liabilities	15,774,625		15,774,625
Repayments	(214,134)	(55,038)	(269,172)
Other		(1,360,705)	(1,360,705)
Balance at 31 Dec 2014	**875,587,140**	**2,034,991**	**877,622,131**

MOVEMENT OF LONG-TERM FINANCIAL LIABILITIES IN 2013

in EUR

	Long-term financial liabilities to banks	Other long-term financial liabilities	Total
Balance at 1 Jan 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)
Balance at 31 Dec 2013	**890,846,843**	**3,382,116**	**894,228,959**

liabilities should be classified as short-term financial liabilities, if before the end of the reporting period the recipient of the loan violates a provision or an obligation under the loan agreement, based on which the liability could be settled on bank's demand but the recipient of the loan has therefore on date of the statement of financial position not the unlimited right to defer settlement of the liability for at least twelve months from the date of the statement of financial position.

Management of HSE Group's controlling company has established that as at 31 December 2014 certain deviations from obligations in loan contracts or contracts on the guarantee issue occur (presented in detail below), whereby the Group has as at the date of the statement of financial position no written confirmations from the bank partners on the waivers of its liabilities to banks. Further, the management of the controlling company assesses that within twelve months from the date of the statement of financial position, the settlement of long-term financial liabilities under the loans contracts signed with EIB in the amount of EUR 739,142,857 (EUR 440,000,000 and EUR 110,000,000; totalling to EUR 550,000,000) and EBRD (EUR 200,000,000 – the long-term portion thereof is disclosed at EUR 189,142,857) will actually not be required. This estimate led to the decision that Group's financial liabilities under the stated loan contracts were as at 31 December 2014 not allocated in their full amount to short-term financial liabilities.

In the first quarter of 2015, the companies TEŠ and HSE forwarded the two lending banks (EIB and EBRD) or the GFA banks (banks that issued a 5-year bank guarantee for the long-term borrowing extended by EIB to TEŠ in the amount of EUR 110 million) an application for the waiver of its liabilities under the relevant financial contracts.

Both companies received answers from banks, namely:

1. TEŠ and HSE received a letter from EBRD on 3 June 2015 on the waiver of their financial liabilities. The respective waiver refers to the higher price of coal for the period of one year and the breach of the financial ratio at the HSE Group level for 2014. According to the letter, the EBRD requires the realisation of the planned share capital increase in TEŠ by HSE not later than by 30 June 2015, which has also been implemented.
2. TEŠ and HSE received a letter from the agent of the GFA banks on 11 June 2015 on the waiver of the liability regarding the higher price of coal and the breach of the financial ratio at the HSE Group level. The consent in the letter is conditioned by the payment of a compensation and a letter on the liability's waiver, as well as a consent by EIB. TEŠ has settled the required compensation on 23 June 2015. As of 28 July 2015, TEŠ and HSE received a draft letter from EIB on the liability's waiver, hence the terms and conditions set out in the letter on the respective waiver from GFA are currently not yet met.
3. TEŠ and HSE received a draft letter from EIB on 28 July 2015 on the waiver of liabilities under certain conditions, which are not yet met. The waiver's validity is conditioned by an approval of the Ministry of Finance, the agent of the GFA banks, the HSE company and the TEŠ company. An additional condition that must be met is the submission of an opinion by the state attorney's office regarding the validity of the government guarantee provided for the loan worth EUR 440 million. Once the stated terms and conditions are met, the EIB shall agree with the project's amended financial plan and the deadline for the project's completion.

Deviations from contractual obligations relating to the implementation of the Unit 6 project as at 31 December 2014 are following:

1. Loan contract signed between EIB and TEŠ worth EUR 110 million and EUR 440 million, and the contract on the guarantee issue for a borrowing worth EUR 110 million:

Increase of project-related costs: In case of cost increase by more than 10% TEŠ is required pursuant to the loan agreement to submit the financial plan to the bank in a timely manner. TEŠ informed the bank on the increased project costs and submitted the NIP6, audit 5, December 2014 issue, which includes also the financing plan. In its application for the waiver of its liabilities, TEŠ requested for the consent on the project's financing plan and for an increase of investment costs. As previously stated, TEŠ submitted the EIB a draft letter on the waiver of liabilities at the end of July 2015 which, however, is currently not valid yet due to additional terms and conditions.

Breach of financial ratios: In line with the GFA between TEŠ, HSE and the banks issuing the GFA in the amount of EUR 110 million, the HSE Group has breached the debt/EBITDA financial ratio in 2014. As already stated, the GFA banks sent a letter on 11 June 2015 regarding the waiver of liabilities which, however, is currently not valid yet due to additional terms and conditions.

2. Loan contract signed between EBRD and TEŠ in the amount of EUR 200 million and the contract on issuing a guarantee between HSE and EBRD for the stated loan:

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 the option to repair such breach in additional 30 days from the date of the EBRD request. The price of coal for 2014 was higher than defined in the long-term trilateral contract applicable until 31 December 2014; the bank was informed about the latter.

Breach of financial ratios: In line with the contract on issuing a guarantee between HSE and EBRD, the HSE Group has breached the debt/EBITDA financial ratio in 2014.

As stated above, EBRD sent a letter on 3 June 2015 on the waiver of liabilities.

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.

Interest rate swaps are concluded for a portion of long-term loans based on which the risk of interest rate fluctuations is mitigated. Their fair value are due to the fall of interest rates disclosed among other long-term financial liabilities and as a negative fair value reserve. Further details are provided in the section on interest rate risk.

Maturities of long-term liabilities by period are disclosed within the section on liquidity risk.

LIABILITIES INCLUDED IN THE DISPOSAL GROUP (16)

Liabilities included in the disposal group in the amount of EUR 10,453,623 include liabilities of the subsidiary that started liquidation procedures in 2014; they are in detail outlines in section 5.5.6.

SHORT-TERM FINANCIAL LIABILITIES (17)

in EUR

	31 Dec 2014	31 Dec 2013
Short-term financial liabilities to banks	57,575,366	70,405,106
Other short-term financial liabilities	1,199,321	258,160
Total	**58,774,687**	**70,663,266**

Short-term financial liabilities to bank include a portion of Group's long-term borrowings that mature one year after the date of the consolidated statement of financial position, and short-term loans. Interest rates range from 1.18% to 7.55%. Accounted interest due and relating to loans amounted at the end of the reporting period to EUR 462,258.

Decline in short-term financial liabilities over the 2013 balance is primarily the result of transferring the subsidiary's loan to long-term financial liabilities (disclosure in section 15).

MOVEMENT IN 2014

in EUR

	Short-term financial liabilities to banks	Other short-term financial liabilities	Total
Balance at 1 Jan 2014	**70,405,106**	**258,160**	**70,663,266**
Increase	139,391,066	1,892,925	141,283,991
Transfers from long-term liabilities	30,820,194	13,535	30,833,729
Transfer to long-term liabilities	(15,274,625)		(15,274,625)
Repayments	(167,596,129)	(965,349)	(168,561,478)
Other	329,754	50	329,804
Balance at 31 Dec 2014	**57,575,366**	**1,199,321**	**58,774,687**

MOVEMENT IN 2013

in EUR

	Short-term financial liabilities to banks	Other short-term financial liabilities	Total
Balance at 1 Jan 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
Balance at 31 Dec 2013	**70,405,106**	**258,160**	**70,663,265**

SHORT-TERM OPERATING LIABILITIES (18)

in EUR

	31 Dec 2014	31 Dec 2013
Short-term operating liabilities to associates	1,956,084	1,189,302
Short-term operating liabilities to jointly controlled companies	110,285	106,753
Short-term operating liabilities to suppliers	189,468,380	180,219,215
Short-term operating liabilities from advances	305,596	186,415
Short-term operating liabilities to employees	9,535,910	11,676,832
Short-term operating liabilities to state and other institutions	24,093,469	28,728,368
Short-term operating liabilities to others	4,307,050	4,062,899
Total	**229,776,774**	**226,169,784**

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 (19)

in EUR

	31 Dec 2014	31 Dec 2013
Short-term deferred revenue	82,636	
Short-term accrued costs and expenses	18,971,751	15,772,420
Total	**19,054,387**	**15,772,420**

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 (20)

in EUR

	31 Dec 2014	31 Dec 2013
Performance/warranty guarantees	2,305,786	6,840,524
Other	50,000	1,057,824
Total	**2,355,786**	**7,898,348**

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.

Other contingent liabilities, therefore, include the Group's guarantees to third parties and the estimated value of lawsuits 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.

5.5.7.2 CONSOLIDATED INCOME STATEMENT

NET SALES REVENUE (21)

in EUR

	2014	2013
On the domestic market	**581,189,642**	**610,649,659**
Electricity	528,880,474	558,879,032
Heat energy	3,354,696	3,841,638
Other products	366,970	407,769
Other merchandise and material	19,381,685	6,238,208
Other services	29,205,817	41,283,012
On the foreign market	**677,201,468**	**951,670,620**
Electricity	651,372,735	904,399,417
Other products	132,270	140,071
Other merchandise and material	5,664,534	24,145,368
Other services	20,031,929	22,985,764
Total	**1,258,391,110**	**1,562,320,279**

Most of the net sales revenue refers to the revenue generated through the sale of electricity by the controlling company.

Revenue from heat energy fully relates to TEŠ that produces heat energy.

Revenue from other merchandise and material refers to sales of emission coupons, fly ash and gypsum, gas and waste material.

Group's revenue from services provided is generated through services in connection with electricity, construction and maintenance services, sale of hotel and catering services, rents and other services.

CAPITALISED OWN PRODUCTS AND OWN SERVICES (22)

Capitalised own products and services recorded at EUR 30,501,902 mostly include:

- construction of the Unit 6 at TEŠ and the implementation of test launching,
- engineer services rendered during the construction and reconstruction of HPPs, and
- worked relates to pit sites.

OTHER OPERATING REVENUE (23)

in EUR

	2014	2013
Revenue from the reversal of provisions	5,637,918	4,783,086
Drawing of deferred revenue	9,173,325	8,312,019
Profit from sales of fixed assets	4,269,098	1,857,749
Reversed impairment of receivables	3,694,381	268,233
Revenue from compensations and contractual penalties	459,674	5,030,921
Other operating revenue	1,237,170	1,978,764
Total	**24,471,566**	**22,230,772**

Revenue from utilisation of deferred revenue account for the largest share among other operating revenue and represent assigned allowances for disabled persons as well as revenue relating to depreciation costs of co-financing property, plant and equipment.

Significant amount among other operating revenue refers also to gains on the sale of fixed assets, revenue from the elimination of receivables' impairment (disclosure in section 5.5.7.8.1), and revenue from reversal of provisions which primarily relates to the subsidiary that started liquidation procedures in 2014.

COSTS OF GOODS, MATERIALS AND SERVICES (24)

in EUR

	2014	2013
Cost of goods sold	759,997,713	968,263,939
Contingent costs of goods sold	47,136,966	44,396,410
Total cost of goods sold	**807,134,679**	**1,012,660,349**
Total costs of material	**59,241,738**	**75,848,159**
Total costs of services	**69,026,684**	**84,657,646**
Total	**935,403,101**	**1,173,166,154**

The costs of goods sold in the amount of EUR 807,134,679 mostly comprise expenses for purchase of electricity and contingent costs of electricity purchase.

The largest share among costs of material recorded at EUR 59,241,738 relates to costs energy products that are necessary for the production of electricity and heat energy, and costs of spare parts and maintenance material. Compared to 2013, costs of material declined by one fifth which is attributable mostly to lower costs of energy products by the subsidiary in liquidation with a lower volume of operations in 2014.

Most of costs of services in the amount of EUR 69,026,684 are represented by the costs of services in creating products, costs of maintenance of Group's fixed assets, insurance premiums and utility services. Costs of services decreased by one fifth in view of 2013 which is the result of lower costs of services in creating products recorded by the PV Group; these refer to services rendered by sub-contractors in connection with constructing the business housing units as the scope of work on foreign market-related projects significantly dropped in 2014 due to the ongoing crisis in the construction industry.

In 2014, the financial statements of the HSE Group companies in Slovenia were audited by the audit firm KPMG Slovenija d.o.o., which carried out also a review of financial information of subsidiaries abroad that are included in consolidation; however, their financial statements were not audited in the country of residence. Three companies registered abroad were audited by the audit companies in their respective countries i.e. one by PKF d.o.o. and two by audit companies of the KPMG Group.

AUDITOR'S FEE

in EUR

	2014	2013
Audit of the Annual Report	146,050	141,758
Other non-audit services		5,058
Total	**146,050**	**146,816**

LABOUR COSTS (25)

in EUR

	2014	2013
Wages and salaries	106,360,566	105,946,871
Pension insurance costs	17,939,757	18,680,883
Other insurance costs	7,635,878	7,349,137
Other labour costs	14,986,883	12,634,694
Total	**146,923,084**	**144,611,585**

Labour costs comprise salaries and wage compensations, social insurance contributions, additional pension insurance and other labour costs (meal allowance, commuting allowance, annual leave allowance, financial support, provisions for jubilee and termination benefits, etc.). Costs of compensations for unutilised leaves in 2014, which can be utilised by 30 June 2015, are accounted as well.

For the purpose of a unified presentation of meal allowances of employees in the Group companies providing hot meal, EUR 574.576 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 the annual report hereof.

WRITE-DOWNS IN VALUE (26)

in EUR

	2014	2013
Amortisation of intangible assets	1,520,463	1,649,845
Depreciation of property, plant and equipment	86,963,052	87,502,934
Depreciation of investment property	12,234	14,848
Allowance for or write-down in receivables	4,627,446	2,254,740
Sale and write-down in property, plant and equipment and intangible assets	72,302,670	14,667,909
Total	**165,425,865**	**106,090,276**

The majority of write-downs in value relates to depreciation and impairment of property, plant and equipment.

The Group applies similar rates of depreciation to intangible assets and fixed assets 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 operating receivables and inventories refer to impairment of inventories to their net realisable value, whereas a quarter to doubtful operating receivables.

Write-downs of property, plant and equipment mainly represent impairment of fixed assets of the HSE Group companies based on impairment testing, which is in detail disclosed in the section 5.5.7.1 (2).

OTHER OPERATING EXPENSES (27)

in EUR

	2014	2013
Provisions	3,356,993	598,080
Fee for building site use	8,901,067	8,754,503
Concessions	21,175,006	19,061,015
Environmental charges	33,259,928	54,664,676
Donations	666,285	1,010,121
Other operating expenses	9,232,510	7,870,178
Total	**76,591,789**	**91,958,573**

The most important among other operating expenses are the environmental levies (costs of emission coupons and water recovery), the concession contribution paid to the state, and charge for the use of construction land. If compared to 2013, the cost of emission coupons declined mostly due to lower production in the TPPs and the lower coupon prices.

Expenses for creation of provisions refers to items of other provisions (formation of other provisions is in part relating to unpaid Christmas bonuses in previous periods disclosed among labour costs).

FINANCIAL REVENUE (28)

in EUR

	2014	2013
Dividends and other profit shares	18,341	120,292
Participation in the profit of associates and jointly controlled companies, calculated using the equity method	5,148,809	311,445
Financial revenue from loans granted and deposits	928,608	3,790,320
Financial revenue from sale of investments	559,607	
Net exchange gains from financing activities		11,960
Other financial revenue	100,753	29,934
Total	**6,756,118**	**4,263,951**

The largest share among financial revenue refers to the accompanying share in profits of the associate HESS in the amount of EUR 4,693,778, based on the equity method applied. The company HESS was namely eliminated from the full consolidation in 2014 due to the sale of the minority holding of the controlling company.

FINANCIAL EXPENSES (29)

in EUR

	2014	2013
Financial expenses from loans received	7,076,417	11,773,301
Change in fair value of investments through profit or loss	622,792	48,874
Financial expenses from disposal of investments	5,049,543	984,077
Participation in the loss of associates and jointly controlled companies, calculated using the equity method	197,906	11,987
Net exchange losses from financing activities	15,367	
Other financial expenses	416,970	403,673
Total	**13,378,995**	**13,221,912**

Financial expenses mostly refer to expenses for interest on long-term and short-term loans, which include also the interest rate swaps in the amount of EUR 1,747,380 (further details in section 5.5.7.8.4 – interest rate risk).

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 these assets (further details in section 5.5.7.1 (2)).

Most of financial expenses from sale of investments relate to the negative effects caused by eliminating the company HESS from the full consolidation in 2014 in the amount of EUR 5,049,018.

TAX (30)

The HSE Group companies are liable to pay corporate income tax, VAT, financial services tax and excise duties.

In 2014, five out of fifteen Group companies in Slovenia were liable to pay corporate income tax, as well as four out of six companies abroad. Owing to tax incentives or the utilisation of tax losses and financial loss, the remaining companies did not determine the tax base.

Current tax of Group companies in 2014 amounts to EUR 21,225,488. On the basis of current tax at the end of 2014, Group companies disclose EUR 112,178 of current tax assets and EUR 2,000,029 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 5,171,135 and EUR 4,015 of deferred tax liabilities. Further details on deferred tax assets are disclosed in section 4 hereunder.

MOVEMENT OF DEFERRED TAX LIABILITIES

in EUR

	Financial assets	Other	Total
Balance at 1 Jan 2013	**37,237**	**93**	**37,330**
To debit/(credit) of other comprehensive income	14,272	3,623	17,895
Balance at 31 Dec 2013	**51,509**	**3,716**	**55,225**
Balance at 1 Jan 2014	**51,509**	**3,716**	**55,225**
Liabilities included in the disposal group	(48,513)		(48,513)
To debit/(credit) of other comprehensive income	926	(3,623)	(2,697)
Balance at 31 Dec 2014	**3,922**	**93**	**4,015**

At the end of 2014, the Group companies' unutilised tax losses amounted to EUR 163,456,221 for which no deferred tax assets were formed.

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

in EUR

	2014	2013
Profit or loss before tax	(14,735,912)	91,215,799
Tax calculated at applicable tax rate	(2,494,178)	20,693,938
Tax from revenue reducing tax base	(947,921)	(9,055)
Tax from tax relief	(788,026)	(2,156,034)
Tax from expenses reducing tax base	(1,503,078)	(246,936)
Tax from non-deductible expenses	1,712,904	2,718,595
Tax from other changes in tax calculation	620,097	(281,793)
Tax effect of non-deductible deferred receivables for tax losses	24,625,691	
Current taxes	**21,225,488**	**20,718,715**
Deferred tax	**(270,965)**	**3,886,625**
Total tax	**20,954,523**	**24,605,340**
Effective tax rate	**(142.20%)**	**26.97%**

NET PROFIT OR LOSS (31)

in EUR

	2014	2013
Gross operating income	1,316,230,803	1,616,000,347
Operating profit or loss	(8,113,035)	100,173,760
Financial result	(6,622,877)	(8,957,961)
Profit or loss before tax	(14,735,912)	91,215,799
Net profit or loss for the period	**(35,690,435)**	**66,610,459**

Due to the changed market conditions, particularly the fall of electricity prices, the Group companies checked in 2014 the value of their assets and consequently made certain impairments which mostly contributed to the loss in previous year in addition to extraordinary events (launch of the replacement Unit 6 and the changed manner in operations of the old units, and troubles occurring at PV coal pits). Without the impairments made and the extraordinary events, the Group's operating result and its net result for 2014 would be positive. Detailed reasons for the loss are clarified in the business report.

5.5.7.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Deferred taxes arising from items of other comprehensive income are not recorded separately in the sole statement; the tax amount for each individual item is instead disclosed in notes.

The consolidated statement of other comprehensive income includes changes in fair value of hedges against cash flow fluctuations, change in fair value of available-for-sale investments, actuarial 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 2014 amounts to EUR 2,444,143.

Items subsequently not reclassified to profit or loss include:

- actuarial loss from liabilities to employees for jubilee and termination benefits in the amount of EUR 268,265, and
- negative effect from translations of items in financial statements of subsidiaries operating abroad in the amount of EUR 129,496.

Items subsequently reclassified to profit or loss include:

- changes in fair value of available-for-sale financial assets in the amount of EUR 225,945 (most of it refers to reversal due to the sale of shares) which are already inclusive of deferred tax liabilities in the amount of EUR 51,510,
- change in fair value of hedges against changeability of cash flows in the amount of EUR 3,067,849, already including EUR -296,542 of deferred tax assets. Most of them refer to the controlling company, as disclosed in detail in the controlling company's accounting report.

Considering the above-mentioned facts, the total comprehensive income (which includes the net loss in the amount of EUR 35,690,435 and changes in other comprehensive income in the amount of EUR 2,444,143) is negative and amounts to EUR -33,246,292 at the end of 2014, whereof EUR -22,347,146 is attributable to the majority owner and EUR -10,899,146 to the minority interest.

5.5.7.4 CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flows statement comprises changes in the balance of cash and cash equivalents for the period for which it was compiled. In the part relating to operating activities, the Group's cash flow statement is prepared by using the indirect method and data from statements of financial position and the income statements of Group companies, whereas in the part referring to investing and financing activities, the cash flow statement is compiled under the direct method.

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

Group's cash comprises cash on hand, deposit money on bank 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 BY TYPE

in EUR

	2014	2013
Cash flows from operating activities	106,418,125	220,253,996
Cash flows from investing activities	(58,657,352)	(500,339,889)
Cash flows from financing activities	(34,538,001)	348,539,974
Net cash for the period	**13,222,772**	**68,454,081**

5.5.7.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

In 2014, the following changes in equity in total amount of EUR -41.993.362 arose from transactions with owners:

- sale of the controlling equity interest in the company HESS, whereof the minority interest mounted to EUR 41,989,130,
- exchange gains from profit sharing by subsidiaries abroad in the amount of EUR 1,005, and
- profit sharing by the subsidiary, where of the minority interest amounted to EUR 5,237.

Group's total comprehensive income for the period decreased in 2014 by EUR 33,246,292, which is attributable to following:

- net loss for the period attributable to the majority owner in the amount of EUR -24,831,824,
- net loss for the period attributable to the minority interest in the amount of EUR -10,858,611,
- change in the fair value reserve in the amount of EUR 2,614,174 (further details provided in the section on Group's equity),
- loss arising from translation of financial statements of foreign operations in the amount of EUR -129,496, and
- minority interest's share in the fair value reserve of subsidiaries in the amount of EUR -40,535.

In the reporting period, individual items of the Group's equity changed due to following:

- transfer of net profit for 2013 to retained earnings or losses in the amount of EUR 68,981,896 (due to the elimination of material error in 2013 at the controlling company, the net profit for 2013 increased by EUR 30,204,272, whereby other revenue reserves decrease – prior to the respective adjustment, the Group's net profit for 2013 was EUR 38,777,624),
- with the exclusion of the subsidiary abroad, exchange losses from previous periods in the amount of EUR 5,070 were transferred from the consolidation capital adjustment to retained earnings or losses.

Accumulated profit is not determined at the Group level.

5.5.7.6 RELATED COMPANIES

The items of sales and purchases show the turnover of all transactions (excluded VAT), comprising financial revenue and expenses.

in EUR

	Sales in 2014	Purchases in 2014	Loans granted as at 31 Dec 2014	Other receivables as at 31 Dec 2014	Other liabilities as at 31 Dec 2013
Associates	443,570	3,611,839	49,000	991,779	1,956,084
Jointly controlled companies	1,680	567,341	0	2,050	110,285
Total	**445,250**	**4,179,180**	**49,000**	**993,829**	**2,066,369**

5.5.7.7 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 Supervisory Board changed during the year), including travel expenses related to the performance of tasks in the SB and the Audit Committee.

In 2014, 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 2014

in EUR

	Salary	Other receipts	Bonuses	Cost reimbursement	Total
Members of the Management Board	1,223,092	145,296	41,824	26,608	1,436,820
Members of the Supervisory Boards and the Audit Committees		246,533		11,970	258,503
Employees who are not subject to the tariff part of the collective agreement	3,531,185	367,656	89,492	65,382	4,053,715
Total 2014	**4,754,277**	**759,485**	**131,316**	**103,960**	**5,749,038**

RECEIPTS IN 2013

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 Boards and the Audit Committees		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**

RECEIPTS OF MANAGEMENT

in EUR

		Gross salary	Other receipts - financial support	Bonuses	Voluntary additional pension insurance	Cost reimbur-sement	Total
Košorok Blaž	HSE	139,867	5,007	1,921	2,537	1,709	151,041
Nikolić Stojan (since 1 October 2014)	HSE	21,005	0	1,762	470	257	23,495
Pozeb Viljem	DEM	112,032	17,785	5,106	2,819	1,608	139,350
Gabrijelčič Vladimir	SENG	127,523	9,790	6,913	0	2,294	146,520
Dermol Peter (from 1 January 2014 to 5 December 2014)	TEŠ	106,451	789	1,853	1,767	0	110,860
Eberlinc Matjaž (from 3 November 2014 to 31 December 2014)	TEŠ	9,336	0	373	0	149	9,858
Blaznek Franc	TET	95,665	789	3,576	2,819	1,334	104,183
Ritlop Sandi	HSE Invest	84,024	11,599	3,407	2,819	1,753	103,602
Sahadžić Zlatko	HSE BH	12,271	511	0	8,205	2,990	23,977
Medved Milan (until 5 March 2014, from 6 March 2014 to 30 June 2014)	PV	49,347	56,411	0	1,220	918	107,896
Pohorec Ivan (from 6 March 2014 to 22 September 2014, from 23 September to 31 October 2014)	PV	68,944	2,973	2,471	1,503	842	76,733
Golob Ludvik (since 22 September 2014)	PV	32,387	279	1,237	892	503	35,298
Štefančič Boris (since 28 July 2014)	PV	39,126	0	0	0	2,826	41,952
Malenković Vladimir (until 6 June 2014)	PV	51,925	395	3,149	1,269	698	57,436
Kugonič Sonja (until 6 June 2014)	PV	43,726	395	0	1,269	957	46,347
Radovanović Dejan (until 30 November 2014)	HTZ	60,860	789	2,951	2,326	1,268	68,194
Koželjnik Suzana (since 1 December 2014)	HTZ	4,655	0	0	223	73	4,951
Potočnik Drago	PV Invest	61,675	789	3,937	2,490	1,297	70,188
Hudej Marjan	RGP	64,151	789	3,168	2,678	1,566	72,352
Kovač Ernest	GOLTE	38,122	900	0	0	3,566	42,588
Total receipts		**1,223,092**	**109,990**	**41,824**	**35,306**	**26,608**	**1,436,821**

RECEIPTS OF SUPERVISORY BOARD MEMBERS

in EUR

		Gross attendance fee	Travel costs	Total
Jančar Boštjan	HSE	17,405	54	17,459
Kralj Peter (until 21 January 2014)	HSE	2,480	240	2,720
Krmelj Vlasta (until 7 January 2014)	HSE	1,786	275	2,061
Markoli Boštjan (since 21 January 2014)	HSE	15,985	29	16,014
Otič Jernej (since 30 June 2014)	HSE	7,105	640	7,745
Pantoš Miloš (since 21 January 2014)	HSE	19,800	31	19,831
Prevalnik Stanislav (29 June 2014)	HSE	10,025	152	10,177
Slokan Črt (since 21 January 2014)	HSE	14,481	286	14,767
Štefe Drago (since 21 January 2014)	HSE	15,031	483	15,514
Zidanšek Marko (until 7 January 2014)	HSE	2,236	0	2,236
Ziherl Milenko (until 7 January 2014)	HSE	1,674	26	1,700
Kirbiš Marjan (until 5 May 2014)	DEM	924	0	924
Tandler Marko (5 May 2014)	DEM	1,201	0	1,201
Jug Miran (until 5 May 2014)	DEM	924	0	924
Eberlinc Matjaž (until 30 April 2014)	SENG	1,287	112	1,399
Trkulja Nenad (until 30 April 2014)	SENG	990	339	1,329
Medveščček Silvester (until 30 April 2014)	SENG	990	0	990
Šturm Roman (until 29 April 2014)	TEŠ	7,579	530	8,109
Špiler Janja (29 April 2014)	TEŠ	4,983	177	5,160
Janež Herman (until 29 April 2014)	TEŠ	5,412	353	5,765
Penšek Marijan (until 29 April 2014)	TEŠ	5,385	72	5,457
Ramšak Janez (until 29 April 2014)	TEŠ	5,792	149	5,941
Višnar Andrej (until 29 April 2014)	TEŠ	5,792	145	5,937
Eberlinc Matjaž (until 2 December 2014)	TET	4,891	190	5,081
Dolanc Borut (until 2 December 2014)	TET	3,762	708	4,470
Gerčar Aleš (until 2 December 2014)	TET	3,762	648	4,410
Cenc Gregor	HSE Invest	1,925	0	1,925
Rejec Katja	HSE Invest	1,925	0	1,925
Polak Drago	HSE Invest	1,925	221	2,146
Tumpej Andrej	HSE Invest	2,008	0	2,008
Rejec Alida	HSE Invest	1,925	0	1,925
Šlemic Irena	HSE Invest	2,145	0	2,145
Ravnikar Marjan (until May 2014)	PV	2,851	0	2,851
Arlič Rajko (until May 2014)	PV	1,914	588	2,502
Verbič Kristjan (until May 2014)	PV	1,171	0	1,171
Vrtovec Trček Jana (until May 2014)	PV	1,435	0	1,435
Bregar Marko (until May 2014)	PV	2,135	0	2,135
Brcar Bojan	PV	6,996	1,942	8,938
Kaligaro Jože (since June 2014)	PV	6,740	0	6,740
Potisek Klemen (since June 2014)	PV	5,854	0	5,854
Lajlar Bojan	PV Invest	2,794	0	2,794
Berlot Zdenka	PV Invest	2,151	0	2,151
Žavbi Aleš	PV Invest	2,151	2,093	4,244
Vovk Matija	PV Invest	2,151	0	2,151
Potočnik Drago	GOLTE	780	0	780
Lukner Janko	GOLTE	560	0	560
Blazinšek Tina	GOLTE	560	0	560
Total		**213,778**	**10,483**	**224,261**

RECEIPTS OF MEMBERS OF AUDIT COMMITTEES AND SUPERVISORY BOARDS

in EUR

		Gross attendance fee	Travel costs	Total
Jančar Boštjan (since 30 June 2014)	HSE	1,801	0	1,801
Kralj Peter (until 28 January 2014)	HSE	440	0	440
Markoli Boštjan (since 24 February 2014)	HSE	4,481	13	4,494
Prevalnik Stanislav (from 24 February 2014 to 29 June 2014)	HSE	2,125	0	2,125
Ziherl Milenko	HSE	661	0	661
Virant Darinka (since 24 February 2014)	HSE	7,409	86	7,495
Rakela Damir (since 24 February 2014)	HSE	7,409	745	8,154
Mlinarič Franjo	TEŠ	338	84	422
Špiler Janja	TEŠ	429	0	429
Ramšak Janez	TEŠ	330	0	330
Total		**25,423**	**928**	**26,351**

RECEIPTS OF MEMBERS OF THE HUMAN RESOURCES AND THE NOMINATION COMMITTEE

in EUR

		Gross attendance fee	Travel costs	Total
Jančar Boštjan	HSE	1,879	0	1,879
Pantoš Miloš	HSE	2,269	11	2,280
Slokan Črt	HSE	1,879	23	1,902
Zadel Aleksander	HSE	1,305	525	1,830
Total		**7,332**	**559**	**7,891**

5.5.7.8 FINANCIAL INSTRUMENTS AND RISKS

This section refers to section 5.5.5. Financial risk management as well as to the section on financial risks in the business report.

5.5.7.8.1 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. 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 74% of short-term receivables from buyers, which represent the majority of Group's total receivables.

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

At the end of 2014, the Group has a total of EUR 4,739,586 of doubtful and disputable short-term operating receivables.

In 2014, the Group received payments of doubtful and disputable short-term operating receivables in total amount of EUR 3,694,381.

Allowances for short-term operating receivables formed in 2014 mainly refer to receivables of Group companies due from construction companies and total to EUR 1,184,291.

LONG-TERM RECEIVABLES BY MATURITY AS AT 31 DECEMBER 2014

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 deposits to others	167,224	22,212	26,653	216,089
Long-term operating receivables due from associated companies	183,861			183,861
Long-term trade receivables		5,447		5,447
Long-term advances	9,146	27,439	45,734	82,319
Long-term operating receivables due from others	541,777	5,926		547,703
Balance at 31 Dec 2014	**902,008**	**61,024**	**72,387**	**1,035,419**

LONG-TERM RECEIVABLES BY MATURITY AS AT 31 DECEMBER 2013

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 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 trade receivables	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
Balance at 31 Dec 2013	**1,062,795**	**273,621**	**29,254**	**1,365,670**

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY AS AT 31 DECEMBER 2014

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 MPNTHS (from 271 to 360 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	TOTAL*
Short-term operating receivables due from associates	689,299	53,750	28,162	27,968	16,846		816,025
Short-term operating receivables due from jointly controlled companies	2,050						2,050
Short-term trade receivables	131,441,536	10,544,638	457,046	55,712	326,310	3,682,804	146,508,046
Short-term advances	4,182,205					2,729,650	6,911,855
Short-term operating receivables due from state and other institutions	29,697,336						29,697,336
Short-term operating receivables due from others	6,457,192					369,999	6,827,191
Short-term financial receivables and loans to associates		49,000					49,000
Short-term financial receivables and loans to others	17,109	8,479	146	243	15,000	2,020	42,997
Short-term deposits to others	5,775,136	34,591	120,000		2,284	0	5,932,011
Balance at 31 Dec 2014	**178,261,863**	**10,690,458**	**605,354**	**83,923**	**360,440**	**6,784,473**	**196,786,511**

*Gross values without allowances and value adjustments

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY AS AT 31 DECEMBER 2013

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 MPNTHS (from 271 to 360 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	TOTAL*
Short-term operating receivables due from associates	239,078	9,278					248,356
Short-term operating receivables due from jointly controlled companies	299,907						299,907
Short-term trade receivables	147,466,043	11,519,149	2,703,300	2,354,023	36,793	3,497,086	167,576,394
Short-term advances	6,669,594	9,561	234	85		4,416,020	11,095,494
Short-term operating receivables due from state 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
Balance at 31 Dec 2013	**226,229,610**	**11,579,288**	**2,716,972**	**2,356,962**	**36,793**	**7,932,442**	**250,852,067**

*Gross values without allowances and value adjustments

MOVEMENT OF ALLOWANCES FOR SHORT-TERM OPERATING RECEIVABLES

in EUR

	2014	2013
Balance at 1 Jan 2014	**8,047,900**	**7,309,076**
Collected written-off receivables	(3,694,381)	(268,233)
Formation of allowances for receivables	1,184,291	1,191,688
Final write-off of receivables	(798,224)	(184,631)
Balance at 31 Dec 2014	**4,739,586**	**8,047,900**

5.5.7.8.2 LIQUIDITY RISK

Liquidity or solvency risk is the risk associated with insufficient financial sources and the subsequent inability of the Group to settle its liabilities in due time. In accordance with Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP), the Group companies manage their liquidity risks by preparing and exercising the policy of regular liquidity management, which is confirmed by managements of individual Group companies and complies with the Annual Business Plan. A monthly liquidity analysis has been compiled in order to provide for an easier and more effective liquidity management by Group companies, which was also accompanied by a 3-year solvency plan prepared for the controlling company and the Group for monitoring the solvency. The Audit Committee and the Supervisory Board of the controlling company are regularly updated on the liquidity and solvency situation. Measures applied within the liquidity risk management aim to ensure the Group's optimum liquidity for settling its current liabilities not only in normal but also critical circumstances.

For the purpose of managing the liquidity risk, cash management is implemented within the Group which aims at optimising Group companies' liquidity and is conducted in form of borrowing among Group companies: the primary sources of financing of short-term deficits of Group companies are surpluses of available cash in other Group companies. Better terms are thereby ensured in case of borrowing as well as investments, whereas primarily the synergy effects of the Group as a whole are used so that the position of an individual company on the financial markets does not significantly worsen. Cash management is performed in accordance with the adopted Internal Regulations of the HSE Group companies for cash management and the Group's cash pooling.

The fiscal year 2014 was quite difficult for the Group in view of liquidity management as activities in the field of liquidity risk management had to be intensified. Much of the attention focused in 2014 on the planning of short-term and long-term cash flow at the Group level as the poor payment discipline on the side of customers represented a possible danger due to fierce economic conditions. Each change in the cash flow on the side of Group companies, primarily PV and TEŠ, materially impacts the Group's entire cash flow. Group companies are strongly aware of the aforesaid fact and therefore monitor and plan cash flows on a daily, monthly, yearly or 3 yearly basis, whereby also the balance of due receivables are monitored on an ongoing basis. Risks related to possible delays by customers are accordingly considered as much as possible which makes the planning of inflows difficult.

Liquidity risk is in 2014 assessed as efficiently monitored and maintains the Group's good reputation as a result of successful operations, ongoing harmonisation of maturity of receivables and liabilities, consistent collection of due receivables, liquidity reserves, availability of credit lines, and the possibility of permanent creations of cash flows from operating activities.

Maturity of Group's long-term and short-term liabilities by maturity is presented in tables below.

LONG-TERM LIABILITIES BY MATURITY AS AT 31 DECEMBER 2014

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	62,502,029	185,454,281	627,630,830	875,587,140
Other long-term financial liabilities	1,996,069	38,922		2,034,991
Long-term trade payables to suppliers	22,041	2,180		24,221
Long-term operating liabilities from advances		1,350	5,759	7,109
Other long-term operating liabilities	62,097		150,052	212,149
Balance at 31 Dec 2014	**64,582,236**	**185,496,733**	**627,786,641**	**877,865,610**

LONG-TERM LIABILITIES BY MATURITY AS AT 31 DECEMBER 2013

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 trade payables 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
Balance at 31 Dec 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 referring to TEŠ and the PV Group companies.

SHORT-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY AS AT 31 DECEMBER 2014

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 MPNTHS (from 271 to 360 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	TOTAL
Short-term operating liabilities due from associates	1,875,803	42,152		11,826	26,302		1,956,083
Short-term operating liabilities due from jointly controlled companies	110,285						110,285
Short-term trade liabilities	177,738,242	4,773,278	1,624,579	200,659	3,373,906	1,757,714	189,468,378
Short-term advances	305,596						305,596
Short-term payables to employees	9,535,910						9,535,910
Short-term operating liabilities due from state and other institutions	24,093,469						24,093,469
Other short-term operating liabilities	4,307,050						4,307,050
Short-term financial liabilities to banks	49,036,845	1,540,670	2,343,743	1,583,036	3,071,072		57,575,366
Other short-term financial liabilities	1,173,652	8,730	8,320			8,619	1,199,321
Balance at 31 Dec 2014	**268,176,852**	**6,364,830**	**3,976,642**	**1,795,521**	**6,471,280**	**1,766,333**	**288,551,458**

SHORT-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY AS AT 31 DECEMBER 2013

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 MPNTHS (from 271 to 360 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	TOTAL
Short-term operating liabilities due from associates	900,974	288,329					1,189,303
Short-term operating liabilities due from jointly controlled companies	106,753						106,753
Short-term trade liabilities	149,734,633	28,908,531	1,048,014	190,724	16,014	321,297	180,219,213
Short-term advances	177,156	2,474	4,878			1,907	186,415
Short-term payables to employees	11,676,832						11,676,832
Short-term operating liabilities due from state and other institutions	28,386,120	342,248					28,728,368
Short-term operating liabilities due from others	3,685,468	377,431					4,062,899
Short-term financial liabilities to Group companies	0	0	1	(1)	0	0	0
Short-term financial liabilities to banks	69,638,726				766,380		70,405,106
Other short-term financial liabilities	250,332				7,828		258,160
Balance at 31 Dec 2013	**264,556,994**	**29,919,013**	**1,052,893**	**190,723**	**790,222**	**323,204**	**296,833,049**

Solvency risk is a risk of providing long-term liquidity. It arises from the risk of providing capital adequacy due to long-term operations making loss and risk of short-term or long-term insolvency, which harms the reputation, and often also the long-term operation of the company. PV Group companies have faced a lack of long-term sources of financing for years. The companies cannot take any new long-term bank loans. Due to the loss made in the years 2013 and 2014 PV, HTZ, Golte and TET became insolvent because of capital inadequacy from the aspect of loss that exceeded 50% of initial capital and this loss cannot be covered by retained earnings or reserves. The company Gost is in the process of establishing insolvency.

The company TET has proposed to cover the loss by means of the simplified lowering of share capital. Given the provisions of ZFPPIPP and the circumstances on the electricity market or the low price of electricity, the owner adopted during the Shareholders' Meeting the decision on TET's liquidation.

PV Group companies regularly monitored the solvency risk during the year. In PV the Management Board preliminary took measures for financial and business restructuring and proposed an increase in capital, which will enable efficient operation in medium-term and long-term.

All Operational and Financial Restructuring Plans are directed towards measures that are necessary for stabilising operations in the future. These measures are classified into four main segments:

- cost streamlining,
- operational restructuring,
- financial restructuring,
- divestment of non-core assets or investments.

Following key measures should be emphasises:

1. Short-term measures that shall focus on stabilising operations and ensuring short-term and long-term liquidity as well as conditions for coal production in line with the plans.
2. Medium-term or long-term measures that will provide for:

- PV to maintain also in the future its image as the top coal mine with an underground exploitation of coal, and
- PV to ensure anticipated quantities of coal under competitive conditions until the replacement Unit 6 at TEŠ end its operations, which is also tied to closing the business operations in PV.

The company PV is compiling a Report on measures of the financial restructuring in compliance with Article 35 of ZFPPIPP. Based on activities set, the company estimates that the insolvency risk will be managed in 2015.

The respective measures under ZFPPIPP were implemented also in the company HTZ, which at the year-end of 2014 successfully ensured sources for managing long-term liquidity.

The companies Gost and Golte have already prepared the Operational and Financial Restructuring Plan and are currently compiling a Report on measures of the financial restructuring pursuant to Article 35 of ZFPPIPP.

5.5.7.8.3 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 2014	Closing exchange rate in EUR for 2013
Bosnia and Herzegovina	BAM	1,9558	1,9558
Croatia	HRK	7,6580	7,6265
Macedonia	MKD	61,6950	61,9360
Romania	RON	4,4828	4,4710
Serbia	RSD	120,6000	114,1400

EXPOSURE TO FOREIGN EXCHANGE RATE FLUCTUATIONS AS AT 31 DECEMBER 2014

in EUR

	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	206,089		10,000	216,089
Long-term operating receivables	639,052		180,278	819,330
Short-term financial receivables and loans	5,977,314		46,694	6,024,008
Short-term operating receivables	184,425,554		1,597,363	186,022,917
Long-term financial liabilities	(877,622,131)			(877,622,131)
Long-term operating liabilities	(243,479)			(243,479)
Short-term financial liabilities	(58,774,687)			(58,774,687)
Short-term operating liabilities	(229,466,864)	(161)	(309,749)	(229,776,774)
Net exposure of the statement of financial position at 31 Dec 2014	**(974,859,152)**	**(161)**	**1,524,586**	**(973,334,727)**

EXPOSURE TO FOREIGN EXCHANGE RATE FLUCTUATIONS AS AT 31 DECEMBER 2013

in EUR

	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	187,099			187,099
Long-term operating receivables	996,222		182,349	1,178,571
Short-term financial receivables and loans	33,501,317		46,866	33,548,183
Short-term operating receivables	208,949,875		300,587	209,250,462
Long-term financial liabilities	(894,228,959)			(894,228,959)
Long-term operating liabilities	(331,146)			(331,146)
Short-term financial liabilities	(70,663,235)		(31)	(70,663,266)
Short-term operating liabilities	(225,061,824)	(883,912)	(141,076)	(226,086,812)
Net exposure of the statement of financial position at 31 Dec 2013	**(946,650,651)**	**(883,912)**	**388,695**	**(947,145,868)**

CURRENCY SWAP CONTRACTS BY MATURITY

in EUR

	31 Dec 2014	31 Dec 2013
Contracts for currency swaps by maturity - up to 12 months	1,796,030	971,717
Total	**1,796,030**	**971,717**

The effect of currency swaps is shown below.

EFFECTS OF CURRENCY SWAPS

in EUR

	2014	2013
Unrealised profit on effective swaps	0	21,309
Unrealised loss on effective swaps	45,061	0
Realised profit on effective swaps	11,091	84,076
Realised loss on effective swaps	(30,517)	(106,650)
Total	**25,635**	**(1,265)**

5.5.7.8.4 INTEREST RATE RISK

The Group companies HSE, SENG, PV and TEŠ are exposed to interest rate risk from financial liabilities, since they have contracts concluded for long-term loan agreements at variable interest rate tied to Euribor, which is changing on daily basis. In accordance with the Implementation Policy of Interest Rate Risk Management within the 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 swaps) 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.

INTEREST RATE SWAP CONTRACTS BY MATURITY

in EUR

	31 Dec 2014	31 Dec 2013
1 to 5 years	62,792,992	69,185,795
Total	**62,792,992**	**69,185,795**

EFFECTS OF INTEREST RATE SWAPS

in EUR

	2014	2013
Unrealised loss on effective swaps	(1,969,366)	(3,330,071)
Realised loss on effective swaps	(1,747,380)	(1,906,489)
Total	**(3,716,746)**	**(5,236,560)**

CASH FLOW SENSITIVITY ANALYSIS WITH FINANCIAL INSTRUMENTS BEARING A VARIABLE INTEREST RATE

The change in interest rate for 50 b.p. 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 AT THE VARIABLE INTEREST RATE

in EUR

	Net profit/loss 2014		Net profit/loss 2013	
FINANCIAL INSTRUMENTS	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial instruments at variable interest rate	**(1,024,356)**	**985,757**	**(1,493,794)**	**1,462,338**
Financial assets	53,162	(53,162)	28,518	(28,518)
Financial liabilities	(1,077,518)	1,038,919	(1,522,312)	1,490,856

5.5.7.8.5 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 by monitoring of developments on the electricity and CO_2 emission coupons markets and regulatory changes, with an 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, and by monitoring business operations of Group's subsidiaries with an emphasis on operating cost optimisation. Thus, the controlling company observes a separate strategy for selling electricity produced in TPPs and HPPs for several years ahead, while it concurrently purchases CO_2 emission coupons and thereby insures the difference in price or the result from trading.

The risk of changes in the sales price of coal was managed through the rationalisation and optimisation of PV Group's business operations. In December 2014, the Supervisory Board of PV approved the realistic and feasible plan of the financial and operational restructuring of the PV Group, which clearly defines all the necessary activities for meeting the contractual obligations that result from the signed Long-term contract on purchasing coal, lease of power and on purchasing electricity, and which aims at assessing the real sales price of coal in view of acceptable PV Group's business operations by taking into account the optimisation and rationalisation of the Group's business processes, divestment of Group's non-core assets, and disposal of subsidiaries that are not directly tied to the coal industry's core activity, etc. PV has started with an action plan for monitoring the implementation of measures.

Considering the Group's perspective, a predominant part of the price risk results from the controlling company's operations.

5.5.7.9 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 capital of Group companies is ensured not only by normal business operations and the trust of their creditors and markets but also the future development of activities.

The Group monitors changes in equity by using the financial leverage ratio, which is calculated by dividing total net liabilities with 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. The ratio was at the end of 2014 on the 2013 level. Group's equity declined due to loss incurred through the impairments of assets of TEŠ, TET – in liquidation and PV, as well as extraordinary events that resulted in higher costs in TPPs and the coal mine), and the HSE's sale of the 35.6% equity interest in HESS, whereby also the Group's indebtedness declined due to repayment of borrowings. The Group already adopted numerous measures for optimising business operations which shall show relevant effects and results in the coming years.

CAPITAL MANAGEMENT

in EUR

	31 Dec 2014	31 Dec 2013
Long-term financial liabilities	877,622,131	894,228,959
Short-term financial liabilities	58,774,687	70,663,266
Total financial liabilities	936,396,818	964,892,225
Equity	1,471,547,419	1,546,787,072
Financial liabilities/capital	**0.64**	**0.62**
Net financial liability	848,098,645	889,707,902
Net debt/equity	**0.58**	**0.58**

5.5.7.10 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 VALUE OF FINANCIAL INSTRUMENTS

in EUR

	31 Dec 2014		31 Dec 2013	
Financial instruments	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**168,989**	**168,989**	**1,070,328**	**1,070,328**
Available-for-sale financial assets	168,989	168,989	1,070,328	1,070,328
Derivative financial assets at fair value	**0**	**0**	**21,309**	**21,309**
Derivative financial instruments (assets)	0	0	21,309	21,309
Non-derivative financial assets at amortised cost	**281,380,517**	**281,380,517**	**319,354,164**	**319,354,164**
Financial receivables	6,240,097	6,240,097	33,735,282	33,735,282
Operating receivables	186,842,247	186,842,247	210,434,559	210,434,559
Cash	88,298,173	88,298,173	75,184,323	75,184,323
Total	**281,549,506**	**281,549,506**	**320,445,801**	**320,445,801**
Derivative financial liabilities at fair value	**1,975,853**	**1,975,853**	**3,330,071**	**3,330,071**
Derivative financial instruments (liabilities)	1,975,853	1,975,853	3,330,071	3,330,071
Non-derivative financial liabilities at amortised cost	**1,164,441,218**	**1,164,441,218**	**1,188,063,084**	**1,188,063,084**
Bank borrowings	933,162,506	933,162,506	961,251,949	961,251,949
Other financial liabilities	1,258,459	1,258,459	310,205	310,205
Operating liabilities	230,020,253	230,020,253	226,500,930	226,500,930
Total	**1,166,417,071**	**1,166,417,071**	**1,191,393,155**	**1,191,393,155**

FINANCIAL ASSETS CARRIED AT FAIR VALUE BY HIERARCHY

in EUR

	31 Dec 2014	31 Dec 2013
Financial assets at first-level fair value	27,942	625,799
Financial assets at second-level fair value	0	21,309
Financial assets at third-level fair value	141,047	444,529
Financial liabilities at second-level fair value	1,975,853	3,330,071

5.5.8 EVENTS AFTER THE REPORTING DATE

No events occurred after the date of the consolidated statement of financial position that could affect the amounts in the consolidated financial statements for 2014. For the purpose of disclosure, following significant events occurred after the date of statement of financial position.

Significant events after the balance sheet date:

- the controlling company plans to transfer the long-term borrowing from EIB to the SID bank in October 2015. Under the respective loan contract with the EIB, the controlling company is liable to extend the existing guarantee (maturing in 2015) or provide a new collateral within 90 days prior to the expiry of the existing guarantee's validity. Given the fact that the bank, which issued the guarantee is withdrawing from financial markets in Slovenia, the controlling company acceded to seek new guarantees from banks that are deemed acceptable by EIB. As the controlling company received no offer by the scheduled date, it started proceedings for long-term borrowing. The controlling company acted in line with Article 22, Point 2 of the Decree on conditions and methods of borrowing by legal entities referred to in Article 87 of the Public Finance Act (hereinafter: Decree), since it will receive the loan from an institution that is financing the loan by means of funds from an international financial institution i.e. SID bank. In the respective case, the SID bank will act as the acquirer of the loan or owner to EIB, whereas the company will record a debt to the SID bank with its total amount remaining unchanged. HSE has obtained all the necessary consents required under the Decree. The binding offer of the SID bank was confirmed while the EIB agreed to the relevant conversion. As additional insurance, the controlling company made a fixed deposit in the amount of EUR 5,000,000 at the bank that issued the guarantee, which shall not be released until all contractual relations in the loan agreement with the EIB are settled. Accordingly, no additional or unexpected complications are expected;
- the controlling company raised short-term loans in 2015 at the total amount of EUR 120,000,000;
- the controlling company lost a lawsuit in May 2015 filed by the company TDR-Metalurgija d.d. – in liquidation and thus utilised the provision formed for this event in the amount of EUR 675,822;
- as at 30 June 2015, the controlling company increased the share capital of the company TEŠ in the amount of EUR 248,552,790 i.e. a conversion of financial receivables into a long-term investment by HSE in the company TEŠ;
- at the end of July 2015, the controlling company carried out a share capital increase in PV in the amount of EUR 71,603,954. A portion of capital thereunder was ensured by a non-cash contribution in form of purchasing coal in the amount of EUR 21,603,954 (purchased by HSE from PV in 2014) and in form of a loan given in the amount of EUR 16,000,000.

Significant events at the year-end of 2014 in other companies are outlined below:

- in the first quarter of 2015 the state authorities and banks were submitted following documents: the NIP 6, audit 5, and December 2014 issue, long-term projections on the business operations of TEŠ and the Group for the 2015-2030 period. Based on the aforesaid documentation, the companies TEŠ and HSE sent the banks (EIB, EBRD in GFA banks) applications for the waiver of their liabilities under the relevant financial contracts;

- as of 1 June 2015, the company Tešing d.o.o. was based on the final decision deleted from the companies' register by applying the summary procedure;
- as of 3 June 2015, the companies TEŠ and HSE received from EBRD a letter on the waiver of liabilities. The respective waiver relates to the liability on the higher price of coal for the period of one year and the financial ratio at the HSE Group level for 2014.
- the contractual relationship between TEŠ and EBRD was additionally harmonised by concluding the annex no.2 to the loan agreement no. 40417 dated 24 July 2015, which includes a consent on the estimated costs of the project, the planned financial construction and the project's deadline;
- as of 11 June 2015, the companies TEŠ and HSE received from the agent of GFA banks a letter on the waiver of liabilities regarding the price of coal and the financial ratios under terms and conditions that are not yet entirely implemented.
- as of 19 June 2015, TEŠ has after successfully completed test launching taken over from the main supplier (Alstom) the core building of Unit 6. The aforesaid indicates that the production capacities of the Unit 6 are at the full disposal of TEŠ and its owner HSE, which enables maximum utilisation and the optimisation of production capacities of Unit 6 in terms of achieving the best possible financial effects,
- as of 24 June 2015, the company Enraz d.o.o. was based on the final decision deleted from the companies' register by applying the summary procedure;
- as of 29 June 2015, the HSE Italia S.r.l. was deleted from the companies' register;
- as of 28 July 2015, TEŠ received a draft letter from EIB on the waiver of liabilities under certain conditions, which are not yet met. The waiver's validity is conditioned by an approval of the Ministry of Finance, the agent of the GFA banks, the HSE company and the TEŠ company. An additional condition that must be met is the submission of an opinion by the state attorney's office regarding the validity of the government guarantee provided for the loan worth EUR 440 million. Once the stated terms and conditions are met, the EIB shall agree with the project's amended financial plan and the deadline for the project's completion;
- the company GOLTE d.o.o. started simplified compulsory composition procedures on the basis of the decision dated 8 July 2015 and issued by the District Court in Celje.

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ABBREVIATIONS

BAT	International standard for the Best Available Technology
BDP	Gross domestic product
BIH	Bosnia and Herzegovina
BSP	BSP Regional Energy Exchange
BP	Basic point
CO NOT	Centre of Excellence for low carbon technologies
CRM	Mechanisms to ensure sufficient production capacity
PSP	Pump-storage power plant
DEM	Dravske elektrarne Maribor d.o.o.
DPN	National spatial plan
DRSC	Slovenian Roads Agency
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EECS	European energy certificate system
EEU	Efficient energy use
EEX	European Energy Exchange
EFET	Standard electricity trading contract
EIB	European Investment Bank
ELES	ELES d.o.o., sistemski operater prenosnega elektroenergetskega omrežja
EMIR	European Market Infrastructure Regulation
ERP	Enterprise resource planning
ESC	Economic and Social Council
ETS	Emission trading system
EU	European Union
EUR	Euro
EXAA	Energy Exchange Austria
EZ	Energy Act
EZS	Energy Chamber of Slovenia
FFC	Family friendly company
GFA	Guarantee Facility Agreement
GG	Greenhouse gases
GPO	Main operating facility
GTO	Main technological facility
HESS	Hidroelektrarne na spodnji Savi d.o.o.
HPP	Hydro-power plant
HSE	Holding Slovenske elektrarne d.o.o.
HSE BE	HSE Balkan Energy d.o.o.
HSE BH	HSE BH Energetsko preduzeće d.o.o.
HTZ	HTZ harmonija tehnologije in znanja, invalidsko podjetje d.o.o. Velenje
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	Interpretations issued by International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IRS	Interest rate swap
IS	Information system
ISDA	International Swaps and Derivatives Association
ISO	International Organization for Standardisation
IT	Information technology
LECS	Levy Exemption Certificate for Great Britain
MF	Ministry of Finance
MG	Ministry of Commerce
MGRT	Ministry of Economic Development and Technology
MKO	Ministry of Agriculture and the Environment
MOP	Ministry of the Environment and Spatial Planning
MSR	Market Stability Reserve
MTE	Main technology equipment
MTM	Mark to market
MZI	Ministry of Infrastructure
MZIP	Ministry of Infrastructure and Spatial Planning
MW	Megawatt
NEK	Krško Nuclear Power Plant
NDEP	National Development Energy Plan
NFPP	Operational and Financial Restructuring Plan
NIP 6	Amended investment programme; audit 6
OAN	Committee for Active Supervision of Investments
ODOS	Electronic document system
OHSAS	Occupational health and safety management system
OSH	Occupational safety and health
OTC	Over the counter
OTE	Czech electricity gas marker operator
PIT	Private Investigator Test
PR	Protection reley
PSP	Pumped-storage power plant
PV	Premogovnik Velenje d.d.
PXE	Czech Power Exchange Central Europe
RCE	Regional Centre of Energy
RECS	Renewable Energy Certificates System
REMIT	Regulation on Wholesale Energy Markets Integrity and Transparency
RES	Renewable energy sources
R&D	Research and development
RGP	RGP d.o.o., rudarski gradbeni programi
RMC	Risk Management Committee
ROA	Return on assets
ROE	Return on equity
RS	Republic of Slovenia
SAP	Systems, Applications & Products in Data Processing
SAP CRM	SAP Customer Relationship Management

SAS	Slovenian Accounting Standards
SB	Supervisory Board
SCADA	Supervisory control and data acquisition
SDE	Trade Union of Energy Sector Workers in Slovenia
SDH	Slovenski državni holding d.d.
SEE CAO	The Coordinated Auction Office for South East Europe
SEL	Savske elektrarne Ljubljana d.o.o.
SENG	Soške elektrarne Nova Gorica d.o.o.
SHPP	Small hydro-power plant
SIC	Standard Interpretations Committee
SID	Slovenian Export and Development Bank
SIR	Slovenian Institute of Auditors
SKZG	Farmland and Forest Fund of the Republic of Slovenia
SOD	Slovenska odškodninska družba d.d.
SODO	Electricity distribution system operator
SPESS	Independence and the Union of Coal Miners of Slovenia
SPP	Solar power plant
SRESA	Srednjesavske elektrarne d.o.o.
SSD	Workers' Councils and Joint Workers' Council of the HSE Group
SURS	Statistical Office of the Republic of Slovenia
SUVI	System of managing information security
TEB	Termoelektrarna Brestanica d.o.o.
TEŠ	Termoelektrarna Šoštanj d.o.o.
TET	Termoelektrarna Trbovlje d.o.o. in liquidation
TC	Telecommunications
TP	Technological platform
TPP	Thermal power plant
TSO	System operator of transmission networks
UMAR	Slovenian Institute of Macroeconomic Analysis and Development
USD	US dollar
UVK	Competition Protection Office
VAR	Value at risk
VAT	Value added tax
ZDIJZ	Public Information Access Act
ZFPPIPP	Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
ZGD	Companies Act
ZGO	Construction Act
ZJNVETPS	Act Regulating Public Procurement in Water, Energy, Transport and Postal Services
ZOPSPU-A	Provision of Payment Services to Budget Users
ZPODPTEŠ	Act Regulating Guarantee of Republic of Slovenia for Liabilities under Long-Term Loan of EUR 440 Million Made to Termoelektrarna Šoštanj, d.o.o. by European Investment Bank for Financing Termoelektrarna Šoštanj 600 MW Replacement Unit-6 Installation Project
ZSDU	Worker Participation in Management Act
ZSSS	Slovenian Association of Free Trade Unions
ZUPEVIP	Act on Spatial Planning of Energy Infrastructure
ZUPUDPP	Act regarding the siting of spatial arrangements of national significance in physical space
ZV-1	Water Act
WACC	Weighted average cost of capital

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