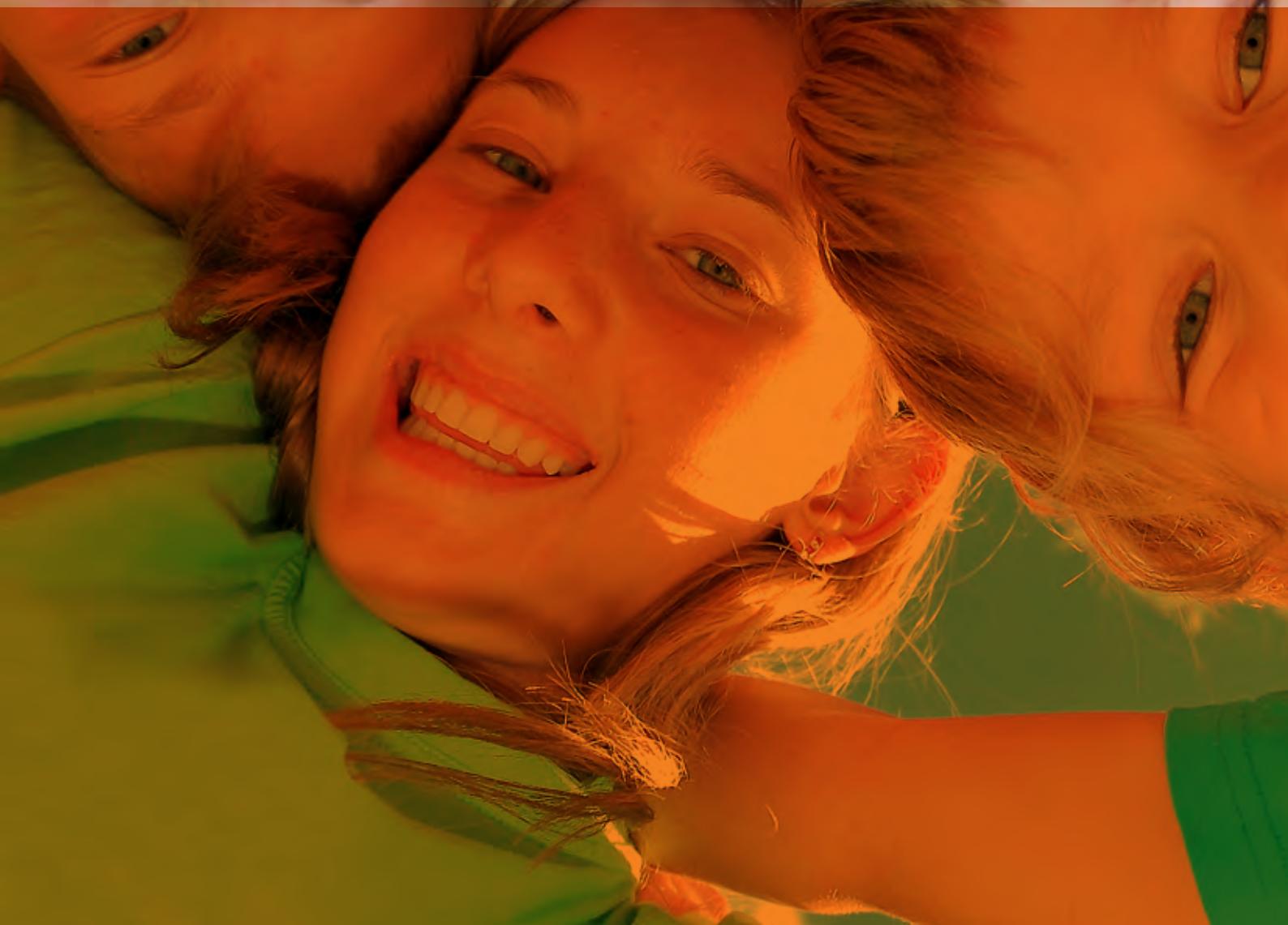


ENERGY FOR THE FUTURE





Our days are filled with various situations and moods. Throughout the day, our mood changes and our energy levels vary. A loving look, a child's smile, help for our nearest and dearest or business success: energy is all this and more. We are proud to have so much enthusiasm for our work, development and the changes we are introducing. Our business success is the result of good human relations. We are introducing new technologies to make our production more effective and environmentally sound. Our aim is to establish a company that is friendly to its employees and to the environment. Always with a lot of energy.

CONTENTS

1. LETTER FROM THE MANAGING DIRECTOR	7
2. REPORT OF THE SUPERVISORY BOARD	8
3. CORPORATE GOVERNANCE STATEMENT	9
4. MANAGEMENT'S REPORT OF RELATIONS WITH THE CONTROLLING COMPANY AND OTHER SUBSIDIARIES IN THE GROUP	12
5. SIGNIFICANT EVENTS	13
6. BUSINESS REPORT	15
6.1 General information	15
6.2 Mission and strategic goals	16
6.3 Business climate in 2008	16
6.4 Sales and customers	17
6.5 Purchasing and suppliers	18
6.6 Production	19
6.7 Financial operations	20
6.7.1 Ratios	21
6.8 Risk management	24
6.9 Business performance analysis	25
6.9.1 Operating performance	25
6.9.2 Revenue and expenses	25
6.9.3 Assets and liabilities	26
6.9.4 Operating performance by business segment	27
6.10 Development of the company	27
6.11 Investments	28
6.12 Maintenance	31
6.13 Employees	33
6.14 Quality management system	34
6.15 Environment protection activities	34
6.16 Protection of working environment	35
6.17 Responsibility to the community	36
6.18 Informatics	36
6.19 Important events after the end of the financial year	37

7. FINANCIAL REPORT	40
7.1 General notes	40
7.1.1 Foreign exchange rate and method of conversion to the national currency	40
7.1.2 Business and geographical segments	40
7.2 Important events after the end of the financial year	41
7.3 Statement by Managing Director	41
7.4 Auditor's report	42
7.5 Financial statements	44
7.6 Disclosure and valuation of items in the financial statements	50
7.6.1 Intangible assets and long-term accrued revenue and deferred costs	50
7.6.2 Property, plant and equipment	50
7.6.3 Investments	51
7.6.4 Operating receivables	51
7.6.5 Deferred tax assets	51
7.6.6 Assets (disposal groups) held for sale	51
7.6.7 Inventories	51
7.6.8 Cash	52
7.6.9 Off-balance sheet records	52
7.6.10 Equity	52
7.6.11 Long-term provisions and long-term accrued costs and deferred revenue	52
7.6.12 Debts	52
7.6.13 Short-term accruals and deferrals	53
7.6.14 Recognition of revenue	53
7.6.15 Recognition of expenses	53
7.6.16 Cash flow statement	53
7.6.17 Statement of changes in equity	53
7.7 Notes to the financial statements	54
7.7.1 Notes to the balance sheet	54
7.7.2 Notes to the income statement	63
7.7.3 Cash flow statement	67
7.7.4 Statement of changes in equity	67
7.8 Other disclosures	70
7.8.1 Information about specific employee categories	70
7.9 Appendices to the annual report	71
7.9.1 Balance sheet presented by business segment as at 31/12/2008	71
7.9.2 Income statement presented by business segment for the year 2008	71



LETTER FROM THE MANAGING DIRECTOR

Dear Stakeholders,

Several years ago, the company set itself an ambitious development plan. The ambition is now becoming a reality. In May, the first gas turbine was put into operation; the other was launched in autumn.

All is going as planned.

The 2008 business plan was also ambitious. I am very pleased to note that we have been able to accomplish the task. There is no doubt in my mind that this will also be the case in future.

When all employees are aware of the company's common goal, the latter can be achieved very quickly.

Let's get used to the pace that is taking us to a bright future.

dr. Uroš Rotnik
Managing Director



2 REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD OF TPP ŠOŠTANJ, d.o.o.

In accordance with Article 13 of the Articles of Incorporation of the limited liability company Termoelektrarna Šoštanj d. o. o., the Supervisory Board has provided the sole member of the company, Holding Slovenske elektrarne d. o. o., with a written report on the findings in relation to the review of the 2008 Annual report, as follows.

1. Monitoring of the company's performance in the financial year 2008

2008

In the 2008 financial year the Supervisory Board comprised of the following members:

- Djordje ŽEBELJAN, MSc – Chairman
- Franc ROSEC – Deputy Chairman, Employee representative
- Franc SEVER – member until 20 November 2008
- Dr. Jože ZAGOŽEN – member since 1 December 2008

During that time the company was represented and managed by Managing Director Dr. Uroš ROTNIK.

In the year under consideration the Supervisory Board monitored and supervised the management and performance of the company by ways of 9 regular, 4 extraordinary and 2 correspondence sessions. The Supervisory Board called another 3 failed correspondence sessions.

In the course of its work, the Supervisory Board discussed the following key issues:

1.1. Business plan for 2008

The business plan for 2008 was discussed by the Supervisory Board at its 28th regular meeting on 11 February 2008 and at its 29th regular meeting on 5 May 2008, when it was also adopted. At its 32nd regular meeting held on 11 September 2008, the Supervisory Board approved the revised business plan for 2008, which had been elaborated on grounds of significantly higher indemnification claimed by the Šoštanj municipality, as agreed between the Holding Slovenske elektrarne d. o. o., TPP Šoštanj d. o. o. and Šoštanj municipality.

1.2. Investments

In 2008 the attention of Supervisory Board was again particularly focused on investments and the assessment of their justifiability and compliance with the development plan, especially as regards the Unit 6 project. The investment activity report was a regular item on the agenda of every Supervisory Board meeting. Another regular item put on the agenda dealt with the issue of current business operations.

As part of that discussion the Supervisory Board approved the resolution of the managing director to sign the Contract for supply of Power Island for 600 MW Unit 6 with consortium Alstom Power Centrals S.A. and Alstom Power Systems GmbH, signed on 27 June 2008.

The Supervisory Board took note on the procedure of selecting qualified Tenderers for supply of FGD unit for 600 MW Unit 6. Start-up tests of the first 42 MW gas units were carried out in April (3 April). On 15 April, successful synchronization of the Gen-set with the network was carried out, on 9 May the official start of operation of the first 42 MW gas unit took place. On 3 September, the generator of the second 42 MW gas unit was successfully synchronised, meaning that the company has successfully completed the investment related to the installation of the gas turbines on Units 4 and 5.

1.3. Current Business Operation

In the course of the business year the Supervisory Board monitored and supervised the business operations of the company on a regular basis. It discussed the reports on business operations for the periods 1-3, 1-6 and 1-9 of the year 2008. In April the company started with the project of introductory yearly interviews, and in May the company was awarded the accreditation for testing laboratory for coal and desulphurisation.

Article 19 of the Articles of Incorporation of the limited liability company Termoelektrarna Šoštanj d. o. o. provides that the Managing Director shall seek and obtain approval of the Supervisory Board for any business deals and decisions made in relation to legal transactions and borrowings in excess of EUR 333,834.08 for a single line of business in the current financial year, disinvestment and mortgaging of property, and legal transactions pertaining to capital investments of the company in other legal entities. In line with the above provision the Supervisory Board scrutinised the contract awards procedures and selection of suppliers, focusing in particular on the verification of the relevant facts and data by accessing the data directly from the commercial documents. In the period under consideration, the Supervisory Board adopted decisions, effectively giving its consent for the legal transactions to be carried out.

In February the Supervisory Board took note of the activities related to co incineration of the wood biomass, and in October on the supply and transport of wood briquettes.

In February, March, May, September and December the Supervisory Board approved the legal actions related to the purchase of coal, futures contracts and purchase of electric energy, as well as natural gas; in March the Supervisory Board approved the signing of the Agreement on contracts transfer between the company and sole partner.

On its 33rd regular meeting, the Supervisory Board approved replacement of the stator and rotor of Unit 5; at the November

meeting it approved the purchase of CAT 988 H wheel loader.

2. 2008 Annual report review

The Supervisory Board has established that the annual report was submitted in due time, and that its composition and contents show realistic picture of the company's operations. The Supervisory Board has also acknowledged the fact that the net profit in the amount of EUR 18,037,177.06 EUR was appropriated for constitution of statutory reserves from the profit amounting to EUR 901,859.85 and for constitution of other reserves from the profit in the amount of EUR 8,567,659.10.

The members of the Supervisory Board carried out particularly detailed review of the report by the management on the relationships of the company with the controlling company and other subsidiary companies in the Group, and concluded that the transaction had not involved any acts or omissions potentially damaging for the company; consequently, the report was approved by the Supervisory Board.

The members of the Supervisory Board also carried out a review of the annual report. No objections to the annual report were recorded; hence it was approved by the Supervisory Board at its 29th regular meeting held on 12 March 2009.

The Supervisory Board was acquainted in detail with the auditor's report. The financial statements for 2008 were audited by Deloitte Revizija d. o. o., Ljubljana. In the report the auditor was of the opinion that the financial statement and notes to the financial statements provided a true and fair view of the financial situation of the company as at 31 December 2008.

The Supervisory Board concurred with the auditor's report.

Following the review, the Supervisory Board had no objections to the annual report. The Supervisory Board has approved the Annual report of Termoelektrarna Šoštanj d. o. o. for 2008 and has proposed to the owner that, in line with the provisions of the Articles of Incorporation of the limited liability company, a discharge from liability be granted to the Managing Director and the Supervisory Board.

Chairman of the TEŠ Supervisory Board:
Djordje ŽEBELJAN, MSc

Šoštanj, 22. 6. 2009

CORPORATE GOVERNANCE STATEMENT 3

The company is run in accordance with applicable legal standards, Articles of Incorporation adopted by HSE d.o.o. as the sole member of Termoelektrarna Šoštanj d.o.o. on 14 February 2006, and in line with the principles of good business practice. As provided in the Articles of Incorporation, the company is managed by the company member and its corporate bodies, i.e. Supervisory Board and Managing Director.

Company member:

In accordance with the Companies Act (ZGD-1), the company member has sole discretion to decide on the following matters:

- amendments to the Articles of Incorporation;
- adoption of the fundamentals of corporate policy and company development plan;
- adoption of the annual report if the Supervisory Board does not approve it or if the Managing Director and the Supervisory Board leave the adoption of the annual report to the company member;
- business plan of the company;
- allocation of accumulated profit;
- giving discharge to the Managing Director and Supervisory Board;
- allocation and termination of interests;
- changes to the company's nominal capital;
- changes to the Articles of Association and dissolution of the company;
- appointment and dismissal of Supervisory Board members;
- appointment of company auditor;
- appointment of the procurator and proxies; and
- other matters as provided in regulations and Articles of Incorporation.

Pursuant to Article 526 of the Companies Act, decisions adopted by the company member are entered into the register of decisions.

Supervisory Board:

The Supervisory Board has three members, of which two represent the interests of the owner and are appointed and dismissed by the owner, while one represents the interests of employees and is appointed in accordance with the Workers Participation in Management Act. Supervisory Board members are appointed for a term of four years and can be re-appointed when their term of office expires. As provided in the Articles of Incorporation, the Supervisory Board's responsibility is to:

- monitor the management of the company's business operations;
- verify the contents of the annual report and proposed allocation of accumulated profit;
- prepare a written report on findings relating to the verification of the annual report for the company member;
- approve the annual report or raise objections to it;
- issue opinions on the fundamentals of corporate policy and company development plans;
- approve company business plans;
- recommend the company member to adopt decisions within its field of competence and issue opinions on recommendations regarding the adoption of the company member's decisions proposed by the Managing Director;
- appoint and dismiss the Managing Director;
- approve the Managing Director's business transactions;

- conclude a contract of employment with the Managing Director;
- adopt the Supervisory Board Rules of Procedure.

The Supervisory Board may also request reports on other matters and can perform other duties as provided in regulations and decisions adopted by the company member. The Supervisory Board operates in accordance with the Supervisory Board Rules of Procedure.

Managing director:

The company is managed and represented by the Managing Director, who is appointed by the Supervisory Board for a period of four years and selected following a call for applications. When his or her term of office expires, the Managing Director may be reappointed. As provided in the Articles of Incorporation, the Managing Director shall seek and obtain approval of the Supervisory Board in relation to the following business transactions and decisions:

- legal transactions and borrowing in excess of EUR 333,834.08 for the same item in a financial year;
- disposal and mortgaging of property; and
- equity investments made by the company in other legal entities.



**TRUST IS THE FOUNDATION
FOR A COMMON FUTURE**



The complexity of modern life makes co-operation inevitable. At the Šoštanj thermal power plant, we are proud of our many successful partnerships. At the end of last year, we reached a new milestone in the production of electricity ■

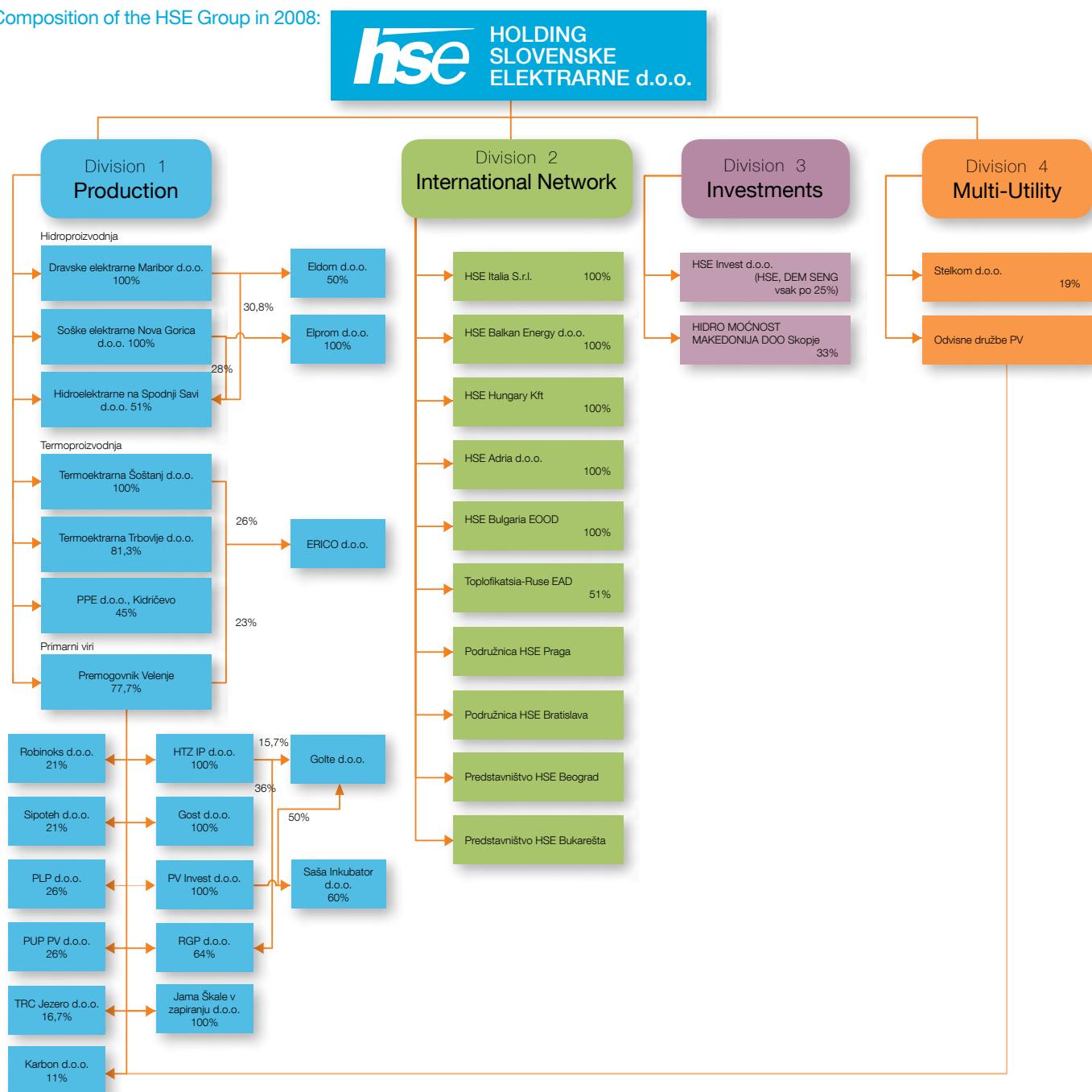
4 MANAGEMENT'S REPORT OF RELATIONS WITH THE CONTROLLING COMPANY AND OTHER SUBSIDIARIES IN THE GROUP

Termoelektrarna Šoštanj, d.o.o. is part of the Holding Slovenske elektrarne Group. As at 31/12/2008, Holding Slovenske elektrarne d.o.o., which is

Composition of the HSE Group in 2008:

based in Ljubljana at Koprská 92, was the company's sole member and the controlling company that prepared the consolidated annual report 2008 for

the group of the companies under its control.



In accordance with Articles 545 and 546 of the Companies Act, the company's management submitted a report on relations with the controlling company and other subsidiaries in the Group, establishing that given the cir-

cumstances known at the time of legal transactions TEŠ d.o.o. estimates that it had not been disadvantaged in any such transaction with the controlling company and parties related to the controlling company and that in 2008

no legal transaction, act or omission that could be potentially damaging to the company had taken place as a result of influence exercised by Holding Slovenske elektrarne d.o.o.

SIGNIFICANT EVENTS

JANUARY

TEŠ introduced wood biomass as a supplementary energy source.

FEBRUARY

In February, the 2007 annual report was audited by DELOITTE REVIZIJA d.o.o., an auditing firm.

MARCH

In March, the training of 50 employees that are to operate gas plants was launched.

APRIL

On 3 April, trial runs of the first 42 MW gas unit were launched; on 15 April the turbo generator of the first gas unit was successfully synchronised with the grid.

As part of the implemented competence system, the company began to carry out introductory annual interviews in April.

The first group of employees took part in the medical and prevention active break programme, which is carried out as an additional measure for ensuring occupational health and safety.

MAY

The Supervisory Board of TEŠ adopted the business plan of Termoelektrarna Šoštanj for the year 2008.

An external assessment of the integrated management system was carried out, but no shortcomings were identified.

On 9 May, a ceremonial opening of the first 42 MW gas unit took place.

The company acquired an accreditation for coal and desulphurisation testing laboratory.

JUNE

On 27 June, a contract for the supply of main technological equipment for the 600 MW Unit 6 was signed with the consortium Alstom Power Centrals S.A. and Alstom Power Systems GmbH. The company member HSE d.o.o. adopted a decision to grant a discharge to the managing director and Supervisory Board of the company.

AUGUST

At the beginning of the year, a defibrillator – a resuscitation device used in the event of cardiac arrest – was purchased; in August, 60 employees were trained to use the device.

SEPTEMBER

On 3 September, the generator of the second 42 MW gas unit was successfully synchronised. Termoelektrarna Šoštanj was successful within a public call for proposals for the co-financing of employee education and training in the field of competitiveness and employability in 2008, thus becoming eligible to draw funds from the European Social Fund aimed at contributing towards employer costs arising from performance of education programmes in the period September 2007–September 2008.

OCTOBER

On 9 October, the company participated at a conference on quality held in Velenje, which was organised by Savinja-Šalek Chamber of Commerce and Industry. Termoelektrarna Šoštanj was presented as an example of good practice in the area of occupational health and safety.

NOVEMBER

Dr Jože Zagožen, Managing Director of Holding Slovenske elektrarne, was appointed as new member of the Supervisory Board of Termoelektrarna Šoštanj.

DECEMBER

At the end of the month, the 2009 contract for the purchase of coal, lease of capacity and purchase of electricity was signed.

The company generated the second highest output to date, with electricity supplied to the grid amounting to 3,850 GWh.

The employee satisfaction survey yielded encouraging results relative to the previous years.

Business highlights

Termoelektrama Šoštanj operated successfully in 2008, and the goals were achieved or even exceeded. In the

past year, the company continued to follow its development path, successfully completing the installation of gas

turbines 2x42 MW at Units 4 and 5, and continuing activities related to the construction of Unit 6.

KEY INFORMATION	Accomplished in 2008	Business plan for 2008	Accomplished in 2007	Accomplished in 2006	IND AC-COMPL. in 2008 / BP for 2008	IND AC-COMPL. in 2008 / AC-COMPL. in 2007	IND AC-COMPL. in 2008 / AC-COMPL. in 2006
Net sales revenue in €	251,042,990	201,005,746	202,420,254	184,980,643	125	124	136
* domestic market in €	250,965,983	200,973,746	202,381,792	184,946,893	125	124	136
* foreign market in €	77,007	32,000	38,462	33,750	241	200	228
Net profit or loss in €	18,037,177	21,280	10,391,053	1,650,347	84,761	174	1,093
Revenue in €	256,940,041	201,963,721	215,071,253	187,068,580	127	119	137
EBIT = operating profit or loss in €	24,071,948	3,931,499	13,726,735	4,538,592	612	175	530
EBITDA = EBIT + DEPR/AM in €	50,580,717	31,581,499	39,760,430	29,902,517	160	127	169
Assets in €	404,351,280	424,110,420	365,064,846	301,219,215	95	111	134
Equity in €	258,858,911	323,363,744	228,827,734	197,572,681	80	113	131
Capital investments in €	30,301,115	27,884,000	66,341,589	20,920,260	109	46	145
Number of employees at period end	490	496	508	537	99	96	91
Electricity production in GWh	3,850	3,692	3,756	3,749	104	103	103
Heat production in GWh	409	363	399	425	113	102	96

In 2008 net sales revenue increased by 24.0% compared with 2007. Higher output and selling prices of electricity accounted for the greater part of the increase.

Net profit or loss for the period, i.e. net profit of EUR 18,037,177, was the highest in the last couple of years. It was the result of higher electricity revenue (higher output, higher selling prices) and successful management of increases in the prices of input raw materials, materials and services. A portion of net profit or loss allocated to other revenue reserves was earmarked for own funds that are to be used for capital investments.

Investments in the installation of gas turbines and preparations for the construction of Unit 6 accounted for the largest share of the increase in the company's assets. By installing the gas turbines, the company increased the units' total output, decreased CO₂ emissions, decreased the consumption of coal (by replacing it with gas) and increased the production of electricity. The new 600 MW Unit 6 represent a new production capacity which will replace older plants. Using state-of-the-art technology, TEŠ will not only maintain but also increase the volume of electricity production while using domestic coal as planned. At the same time, it will decrease its emission factor (CO₂/kWh) and increase efficiency (over 40%).

The number of employees was 490 as at 31/12/2008, which is 18 people less than in the previous year. The number decreased owing to the retirement of a large number of employees and several terminations of employment contracts due to business reasons.

In 2008 the company continued to increase its net electricity production.

BUSINESS REPORT

6.1 General information

Full company name	TERMOELEKTRARNA ŠOŠTANJ, d.o.o.
Abbreviated name	TEŠ, d.o.o.
Legal form	Limited liability company with a single company member
Address	Šoštanj, Cesta Lole Ribarja 18
Telephone	03 8993 100
Fax	03 8993 485
Companies Register entry no.	10051100 - District Court in Celje
Nominal capital	EUR 118,021,759.00
Size	Large company
Year of establishment	1956
Transaction account	UNI CREDIT no. TR 290000003080383
	NLB no. TR 024260017217937
	Banka Koper no. TR 101000038312861
Tax number	92189903
VAT ID number	SI92189903
Registration number	5040388
Website	www.te-sostanj.si
E-mail	info@te-sostanj.si
Economic activity code	35.112
Managing director	Dr Uroš Rotnik
President of the Supervisory Board	Djordje Žebeljan, MSc, appointed on 29 March 2007 for a term of office ending in August 2009.
Members of the Supervisory Board	Dr Jože Zagožen, appointed for a four-year term of office beginning on 01/12/2008, i.e. when the term of office of the previous SB board member, Franc Sever, expired.
	Franc Rosec, appointed on 23 August 2005 for a four-year term of office.
Ownership structure (owner name and interest)	Holding Slovenske elektrarne, d.o.o.; 100%

6.2 Mission and strategic goals

TEŠ's mission is to supply customers with adequate quantities of energy through the production of electricity and heat, thus contributing to a higher quality of work and life of its customers.

TEŠ's strategy is derived from the implementation of its mission and is future-oriented. TEŠ aims to remain the largest thermal energy system in Slovenia. The main long-term objective is to increase production capacities and ensure a reliable, safe and environment friendly production of electricity and heat from various primary sources.

In its business plan for 2008, the company set itself annual targets and also accomplished them.

Production of electricity and heat

In 2008 the total generator output of electricity amounted to 4,358.6 GWh, of which 508.5 GWh (11.7% of total output) were used for own consumption and 3,850.1 GWh were supplied to the grid.

The quantity of electricity produced in 2008 represents 49% of the total HSE Group output and 34% of Slovenia's total electricity production.

In 2008 productivity amounted to 7.7 GWh per employee, up 7.3% from 2007 (7.2 GWh per employee). Plant operating availability stood at 99%.

In 2008 heat production totalled 408.8 GWh, an increase of 9.5 GWh on the previous year.

Sales of electricity and heat

Thanks to market demand for additional quantities and higher prices of electricity, the measurable electricity sales target was exceeded. The quantity of electricity sold was 4.3% higher than planned, resulting in a 24.9% increase in revenue from electricity sales. The planned quantity of heat sold was exceeded by 12.3%, with heat sales revenue increasing by 10.6%.

Ensuring appropriate structure, skills, efficiency and availability of human resources

According to measurable indicators, the target of ensuring appropriate structure, skills, efficiency and availability of human resources was achieved. The trend of decreasing employee numbers continued in 2008, with the number of employees being reduced by 18. As at 31/12/2008, the company had 490 employees. This decline is the result of implemented and planned organisational changes.

Purchasing of primary resources, spare parts, materials and services

The target was achieved by successfully negotiating the most favourable purchasing conditions with suppliers. Purchasing criteria are set by assessing supplier competitiveness, the quality of products from different suppliers, carrying out business analyses of selected and potential suppliers and by negotiating the best possible terms and conditions.

Ensuring liquidity and cost efficiency of operations

To achieve this goal, the company adopted measures in the area of liquidity management to be able to settle its liabilities as they fell due. It operated in line with fundamental principles of long-term and short-term solvency. In 2008 expenses were higher than planned. However, with sales revenue also being higher than planned, the company ended the year with a higher profit.

6.3 Business climate in 2008

In 2008 Slovene economy was mainly affected by the economic downturn.

The growth in Slovenia's gross domestic product decreased compared with the previous year and is estimated to amount to 4.1%.

In 2008 foreign trade growth was similar to the previous year, but due to the growth in imports exceeding the growth in exports trade deficit increased.

In the previous year, prices did not change significantly. Import prices decreased by 1.1% year-on-year, while industrial producer prices increased by 2% year-on-year. In the domestic market, the industrial product prices of Slovene producers rose by 3.1%, exceeding the increase in the industrial

product prices of Slovene producers in the foreign market (0.8%).

The year 2008 was also characterised by the price of oil. After oil exceeded USD 147 per barrel in July, the price decreased significantly as a result of the economic crisis, which pushed the price down to around USD 40 per barrel at the end of 2008.

In the first half of the year, Slovenia's main concern were substantial increases in food and petroleum product prices and, consequently, inflation, which in June reached 7% year-on-year. As a result of the economic crisis, the prices decreased, bringing inflation down to 2.1% at the end of 2008.

Trends in international financial markets had a considerable impact also on local

stock exchange trends, with the SBI20 index dropping by almost 70% and reaching its lowest value since 2003.

According to the exchange rate as at 31/12/2008, 1 euro was worth 1.2591 US dollars.

Despite the economic crisis, the number of the unemployed decreased in 2008. The registered unemployment rate for the year stood at 6.7%.

In terms of average income per capita, Slovenia lags considerably behind the EU average.

As for the energy sector, the gas crisis arising from a dispute between Russia and Ukraine was most certainly one of the most important events of 2008. It

has highlighted yet another aspect of the importance of local energy sources in energy supply.

In 2008 electricity production increased considerably (by 9.7%), while the consumption decreased (by 5.4%). Net electricity exports also increased, amounting to 10.6% of total electricity consumption, the highest since 2001. Hydropower plant output rose by a quarter and nuclear power plant output by a tenth, with the output of thermal

power plants remaining practically the same.

The energy sector is currently facing a turning point as far as sustainable energy consumption is concerned. The competitiveness of the Slovene economy depends on energy, whereas the quality of people's lives depends on its price.

In broader international environment, the efforts to reduce the adverse impact of

human actions on the environment, in which energy plays an important role, certainly deserve mentioning. At the end of 2008, a climate and energy package was adopted which defines EU's environment policy in the period after 2012, when the Kyoto Protocol expires. This package is to ensure a 20-percent decrease in greenhouse gas emissions by 2020 relative to 1990 and an increase in the use of renewable sources to 20% of total energy consumed.

6.4 Sales and customers

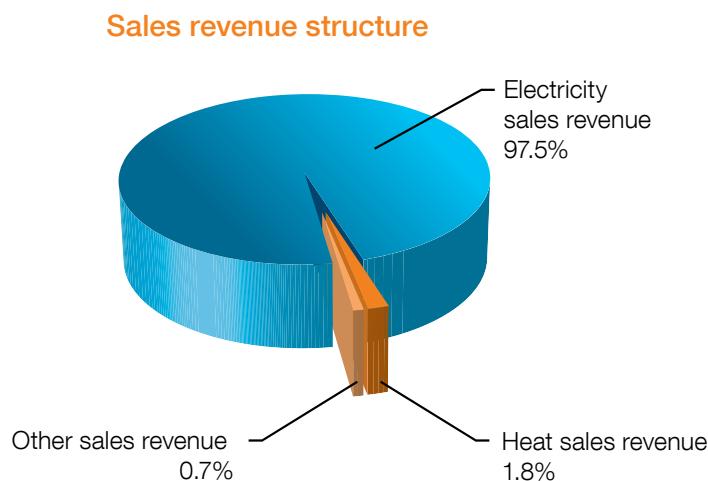
In 2008 Termoelektrarna Šoštanj's revenue from electricity sold in the market (3,850 GWh) was generated through the company Holding Slovenske elektrarne d.o.o., an important electricity trader. TEŠ is the largest production facility in the HSE Group and provides a significant share of electricity sold by the HSE Group.

With a 97.5% share in the sales revenue structure, Holding Slovenske elektrarne d.o.o. was the company's largest customer.

Sales of electricity

The company generates most of the sales on the basis of the Long-term contract for the purchase of coal, lease of capacity and purchase of electricity signed by Holding Slovenske elektrarne, Premogovnik Velenje and TEŠ, which remains in force until 2015. The contract lays down standard and additional quantities of coal in GJ that the company will purchase from Premogovnik Velenje, while Holding Slovenske elektrarne as a buyer purchases all electricity produced at prices agreed in annual contracts.

For the year 2008, an annual contract for the purchase of coal, lease of capacity and purchase of electricity was signed by Termoelektrarna Šoštanj, Holding Slovenske elektrarne and Premogovnik Velenje. The parties also signed Annexes 1, 2 and 3 to the contract, laying



down changes in contractual quantities and changes in electricity prices.

The sale of electricity produced by gas turbines GT1 and GT2 was conducted on the basis of monthly contracts.

In the period January to December 2008, the company sold 3,850.1 GWh of electricity, of which the electricity produced from coal and biomass totalled 3,760.8 GWh and electricity produced from gas 89.3 GWh.

Under the contract with ELEKTRO-SLOVENIJA d.o.o. of 22 January 2008, the company, having the status of qualified wood biomass electricity producer, received a premium of 0.04558 EUR/kWh for electricity produced from wood biomass.

Sales of heat

The sales are made on the basis of the Contract no. PP01-08 for the sale and purchase of heat concluded by Termoelektrarna Šoštanj and the utility company Komunalno podjetje Velenje.

In 2008 the amount of heat sold totalled 408.8 GWh, which is 12.3% more than envisaged in the contract. Revenue from the sale of heat was 10.6% higher than planned.

Other sales

The company increases sales revenue also by selling industrial water to Komunalno podjetje Velenje and by selling fly ash, REA gypsum and slag at home and abroad.

6.5 Purchasing and suppliers

Suppliers play a prominent role in the implementation of the company's development and strategic goals. Premogovnik Velenje acts as the company's strategic supplier, with the purchase of coal for the generation of electricity and heat accounting for the largest share of purchases.

The purchasing of coal for the production of electricity is carried out on the basis of the long-term contract for the purchase of coal, lease of capacity and purchase of electricity entered into by Holding Slovenske elektrarne, Premogovnik Velenje and TEŠ.

The purchasing of wood biomass, i.e. wood pellets, wood chips and sawdust, is made on the basis of contracts

entered into with wood biomass suppliers.

The purchasing of natural gas is based on a long-term contract for the purchase and sale of natural gas concluded by Termoelektrarna Šoštanj and Geoplín Ljubljana and on annexes to the said contract.

At the same time, a contract for access to the natural gas transmission network has been entered into with the company Geoplín Plinovodi d.o.o., based on which Termoelektrama Šoštanj, being a network user, has access to the gas transmission network.

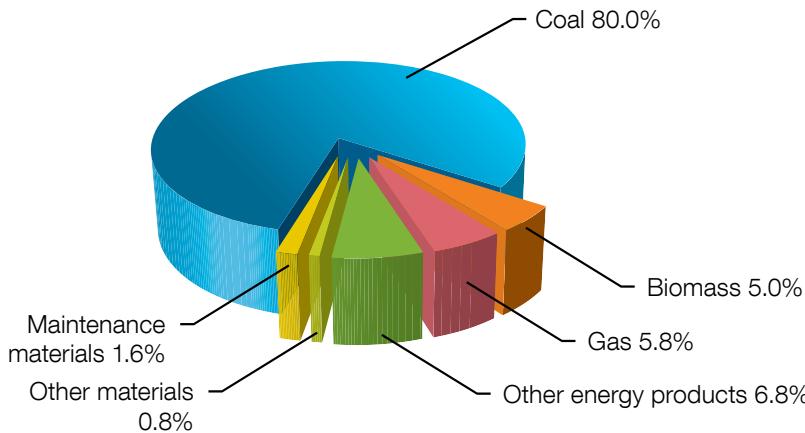
The coal consumed in the generation of heat is supplied by Premogovnik

Velenje. The purchasing is based on an estimated annual quantity of coal.

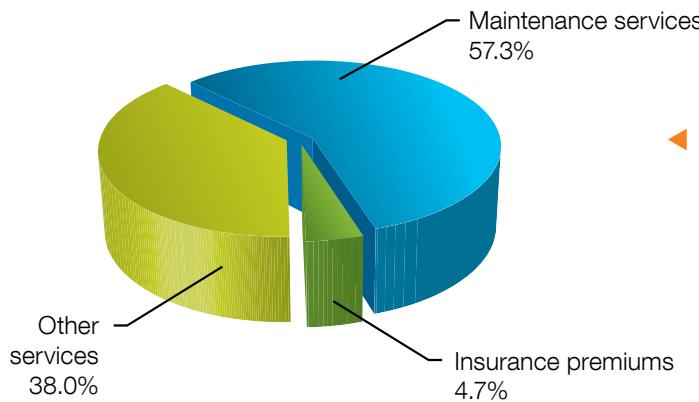
The purchases in 2008 can be divided into two periods. The first period covers the period from January to September, in which the majority of suppliers expected an increase in prices due to inflation, making it impossible to keep prices fully on a par with previous years. Deliveries from the main suppliers with which the company concluded long-term contracts were made at agreed contract prices.

The second period was marked by the onset of recession, but there were no signs of lower prices of raw materials, especially the prices of steel, iron and other metals.

Materials purchasing structure



Services purchasing structure



► Contracts for the supply and delivery of services connected with two gas turbo generators TG1 and TG2 at Units 5 and 4, which were entered into with the companies Siemens from Ljubljana and Slovenske energetičke strojarnje a.s., Tlmače, from Slovakia, account for the largest share of capital investments.

A contract for the preventive maintenance of gas turbines, supply of consumables and requisite spare parts, and purchase of specialised tools was entered into with the company Siemens.

6.6 Production

Plant information

Power plant	Launch year	No. Of turbines	Generator output (MW)	Net output (MW)	Q annual production - 5 years (GWh)
- Unit 1	1956	1	27,000	25,000	518
- Unit 2	1956	4	27,000	25,000	
- Unit 3	1960	1	60,000	55,000	
- Unit 4	1972	1	275,000	248,000	1.402
- Unit 4 (gas)	2008	1	42,500	41,900	12
- Unit 5	1977	1	338,000	305,000	1.772
- Unit 5 (gas)	2008	1	42,500	41,928	5
Total 1-5		4	700,000	633,000	3.692
Total 1-5 (gas)		6	785,000	716,828	3.709

At the beginning of 2008, Unit 2 was shut down, but the two gas turbines were put into service.

Electricity production

In 2008 the company generated 3,850.1 GWh of electricity, which is 158.1 GWh or 4.3% more than envisaged in the revised business plan for 2008 and 2.5% more than in 2007. This was the second highest output in Termoelektrama Šoštanj's history. Out of the above figure, 3,632.9 GWh of electricity were produced from coal and 127.9 GWh from wood biomass. The two gas turbines generated 89.3 GWh of electricity.

In 2008 the company began to use natural gas to produce electricity, installing two gas turbines to this end. The first turbine (GT1) was first synchronised with the grid in April 2008, the second (GT2) was synchronised in September 2008.

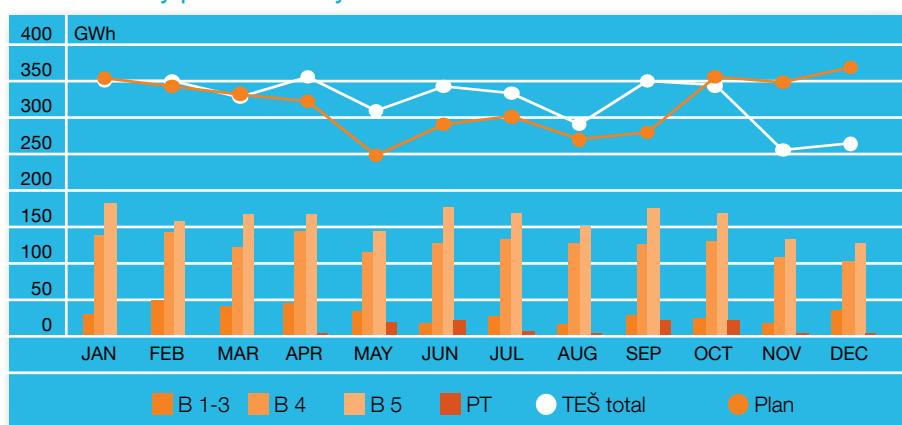
Production of heat

In 2008 TEŠ produced 408.8 GWh of heat used for heating, which is 12.3% more than planned and 2.4% more than in 2007.

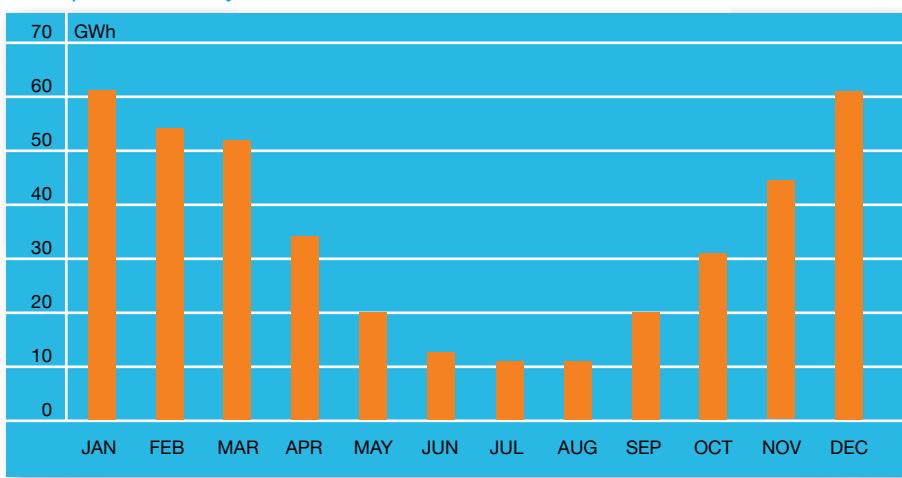
Consumption of energy products

In 2008 the company used 3,911.0 thousand tons of coal, 86.1 thousand tons of biomass and 26.1 million Sm³ of natural gas to produce electricity and 126.7 thousand tons of coal to produce heat. The average calorific value of coal supplied totalled 10,949 kJ/kg, with the average calorific value of biomass amounting to 15,250 kJ/kg.

Net electricity production by month in 2008



Heat production by month in 2008



Emission coupons

Article 130(1) of the Environment Protection Act (ZVO-1) provides that on the basis of a national plan and at the request of plant operator the Ministry of the Environment and Spatial Planning shall determine the overall quantity of emission coupons attributable to a plant operator in a certain period.

Termoelektrama Šoštanj, d.o.o. is entitled to free emission coupons pursuant to the Ordinance on the National Plan for the Allocation of Emission Coupons for the Period 2008-2012 as part of which

the Government of the Republic of Slovenia adopted a national emission coupon allocation plan. In October 2007, Termoelektrama Šoštanj received a decision from the Environmental Agency of the Ministry of the Environment and Spatial Planning, according to which it was entitled to 21,504,120 CO₂ coupons in the period 2008-2012 or to 4,300,824 coupons a year.

In 2008 TEŠ released 4,798,171 tons of CO₂ through the production of electricity. In accordance with the Environment Protection Act, the company was

thus obliged to pay the environment pollution tax (1 coupon per ton of CO₂). The company still has 4,300,824 free coupons at its disposal to settle this tax. The difference of 497,347 coupons will be offset with a purchase of emission coupons from HSE.

Owing to the use of gas and biomass in the production of electricity, CO₂ emissions were cut by 46,686 tons and 137,975 tons, respectively. The overall decrease in CO₂ emissions thus stood at 184,661 tons, which is equivalent to EUR 2,954,576.

6.7 Financial operations

The basic task of financial management is to ensure long-term and short-term solvency, which in turn enables uninterrupted business operations of other business functions.

TEŠ conducts a financial policy that ensures optimum conduct of business in the areas of liabilities and receivables management, financing and investing, financial risk management and cooperation with financial institutions.

In 2008 financial management was focused primarily on the provision of funds for economically viable operations and investments in fixed assets.

The company's short-term solvency was ensured through efficient financial management of cash and systematic planning and monitoring of cash flows. Due to a gap between the planned receipts and disbursement, the company managed daily liquidity by resorting to

an overdraft facility on its transaction account open with a commercial bank. In June, the parent company increased the capital of TEŠ by EUR 15,794,000 as planned.

The analysis of cash flows for the year 2008 reveals that the greater part of receipts (93.3%) was generated through operating activities (of which 93.9% from electricity sales); receipts from financing activities accounted for 6.6% of total receipts (of which 79.1% from the planned paying-up of capital by the parent company and 20.9% from short-term financing through the overdraft facility on the transaction account); receipts from investing activities accounted for 0.1% of total receipts.

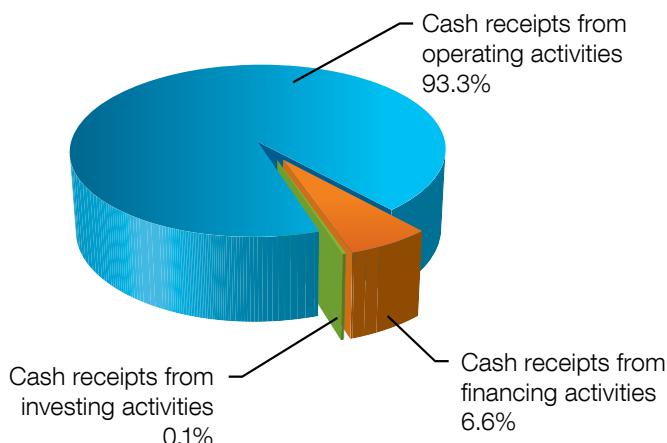
The company made 77.2% of disbursements to maintain its operating capacity (of which 67.6% were made to purchase fuel used in the production

of electricity, 15.8% to carry out maintenance and purchase materials and services, while 7.6% of the disbursements relates to salaries and 3.2% to other charges, which include disbursements for the purchase of emission coupons for the year 2007); 11.9% of the disbursements were made for investing activities and 10.9% for financing activities.

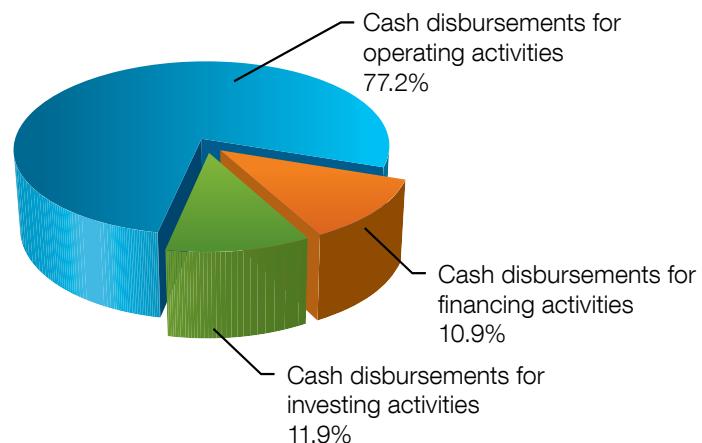
All disbursements for investing activities were made to acquire intangible assets (0.8%) and property, plant and equipment (99.2%), with their largest share (74.9%) being allocated to the capital investment in Unit 5 and Unit 4 gas combined system.

The disbursements for financing activities were made to repay principal amounts and interest on a short-term loan and long-term loans taken out for the construction of production units and purification plants and for refinancing and restructuring.

Cash receipts 1-12-2008



Cash disbursements 1-12-2008



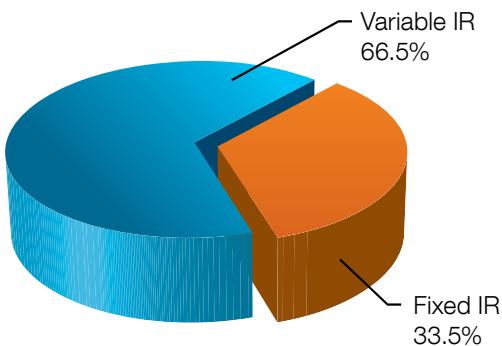
TEŠ operates in accordance with business and financial standards and rules laid down in the Financial Operations of Companies Act. A vertical and horizontal analysis of the structure of assets and liabilities for the year 2008 shows that the company improved its liabilities structure thanks to increases in capital made in 2007 and 2008 as all long-term assets were financed from long-term sources, which were also used to finance a portion of current assets (14.4%).

Due to the repayment of principal amounts in accordance with loan repayment plans, the company reduced its long-term debts by EUR 21,037,531 in 2008. Financial liabilities arise from the financing of the construction of production units and purification plants, reconstructions and refinancing in the past years, and from borrowing in 2007 to finance investments in fixed assets. According to the structure of loans received as at 31/12/2008, 31.6%

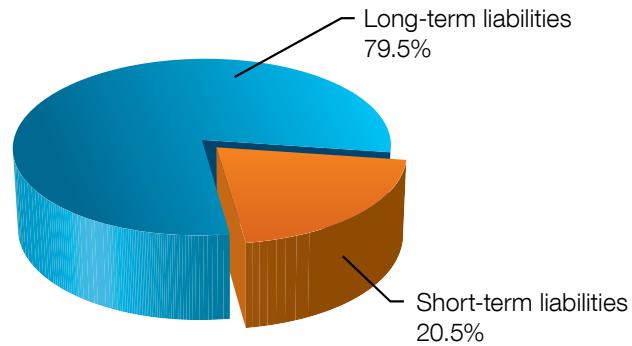
relates to loans received from foreign banks and 68.4% to loans received from domestic banks.

On 27 September 2007, the company signed a EUR 350.0 million financial agreement with the European Investment Bank for the financing of the construction of Unit 6.

Long-term and short-term debt ratio as at 31/12/2008 by interest rate type



Financial liabilities structure by maturity as at 31/12/2008 (balance sheet)



6.7.1 Ratios

Equity financing rate

EQUITY FINANCING RATE	31.12.2008	31.12.2007
1. Liabilities	404,351,280	365,064,846
2. Equity	258,858,911	228,827,734
Equity financing rate = 2 / 1	64.02%	62.68%

The company's equity accounts for 64.02% of total liabilities. The company's operations are financed from both own and external sources. Compared with 2007, the rate increased as a result of an increase in equity (capital increase and profit for the year).

Long-term financing rate

LONG-TERM FINANCING RATE	31.12.2008	31.12.2007
1. Equity	258,858,911	228,827,734
2. Long-term liabilities	44,025,915	55,761,670
3. Provisions and Long-term accrued costs and deferred revenue	26,989,758	10,498,468
4. Total (1 + 2 + 3)	329,874,584	295,087,872
5. Liabilities	404,351,280	365,064,846
Long-term financing rate = 4 / 5	81.58%	80.83%

The company finances more than 81.58% of its assets from long-term sources.

Operating fixed assets rate

OPERATING FIXED ASSETS RATE	31.12.2008	31.12.2007
1. Property, plant and equipment	296,907,851	295,543,704
2. Intangible assets and Long-term accrued revenue and deferred costs	22,150,085	4,561,635
3. Total fixed assets at carrying amount (1 + 2)	319,057,936	300,105,339
4. Assets	404,351,280	365,064,846
Operating fixed assets rate = 3 / 4	78.91%	82.21%

Property, plant and equipment and intangible fixed assets account for 78.91% of the company's assets. The decrease in the rate in comparison with 2007 is the result of an increase in current assets.

Long-term assets rate

LONG-TERM ASSETS RATE	31.12.2008	31.12.2007
1. Property, plant and equipment	296,907,851	295,543,704
2. Intangible assets and Long-term accrued revenue and deferred costs	22,150,085	4,561,635
3. Investment property	0	0
4. Long-term investments	213,636	213,636
5. Long-term operating receivables	161,921	175,150
6. Total (1 + 2 + 3 + 4 + 5)	319,433,492	300,494,125
7. Assets	404,351,280	365,064,846
Long-term assets rate = 6 / 7	79.00%	82.31%

The long-term assets rate represents the share of long-term assets in total assets. Due to an increase in current assets, the rate for 2008 was lower than the one for 2007.

Equity to operating fixed assets ratio

EQUITY TO OPERATING FIXED ASSETS RATIO	31.12.2008	31.12.2007
1. Equity	258,858,911	228,827,734
2. Property, plant and equipment	296,907,851	295,543,704
3. Intangible assets and Long-term accrued revenue and deferred costs	22,150,085	4,561,635
4. Total fixed assets at carrying amount (2 + 3)	319,057,936	300,105,339
Equity to operating fixed assets ratio = 1 / 4	0.81	0.76

The rate represents the relation between equity and fixed assets. In 2008 the rate stood at 0.81, meaning that the company used equity to finance the majority of its most illiquid assets. The rate increased somewhat in 2008 due to an increase in the company's capital.

Acid test ratio

ACID TEST RATIO	31.12.2008	31.12.2007
1. Cash	47,573	901
2. Short-term investments	0	0
3. Total liquid assets (1 + 2)	47,573	901
4. Short-term liabilities	66,767,734	66,408,745
Acid test ratio = 3 / 4	0.00	0.00

The acid test ratio equals 0, meaning that the company had minimum liquid assets at its disposal as at 31/12/2008.

Quick ratio

QUICK RATIO	31.12.2008	31.12.2007
1. Cash	47,573	901
2. Short-term investments	0	0
3. Short-term operating receivables	61,942,385	36,978,940
4. Total (1 + 2 + 3)	61,989,958	36,979,841
5. Short-term liabilities	66,767,734	66,408,745
Quick ratio = 4 / 5	0.93	0.56

The quick ratio shows whether the company finances current assets only through short-term liabilities or also through the long-term ones. The ratio for 2008 stood at 0.93, up from 2007. The ratio was higher due to an increase in short-term operating receivables.

Current ratio

CURRENT RATIO	31.12.2008	31.12.2007
1. Current assets	73,736,941	47,587,976
2. Short-term accrued revenue and deferred costs	10,753,104	16,538,002
3. Total (1 + 2)	84,490,045	64,125,978
4. Short-term liabilities	66,767,734	66,408,745
Current ratio = 3 / 4	1.27	0.97

The current ratio describes the financing of current assets from short-term liabilities. Due to an increase in current assets, the 2008 ratio increased relative to 2007.

Operating efficiency ratio

OPERATING EFFICIENCY RATIO	2008	2007
1. Operating revenue	256,644,088	214,940,525
2. Costs of goods, materials and services	170,768,633	144,781,289
3. Labour costs	17,396,561	16,284,384
4. Write-downs in value	26,560,388	29,271,900
5. Other operating expenses	17,846,558	10,876,218
6. Total operating expenses (2 + 3 + 4 + 5)	232,572,140	201,213,790
Operating efficiency ratio = 1 / 6	1.10	1.07

In 2008 the company's operating revenue exceeded its operating expenses by 10%. The ratio increased relative to 2007.

Net return on equity

NET RETURN ON EQUITY	2008	2007
1. Net profit for the period	18,037,177	10,391,053
2. Average equity	258,858,911	228,827,734
Net return on equity = 1 / 2	0.07	0.05

The ratio shows that in 2008 the company closed the year with a profit, generating 7 units of profit per 100 units of equity. The ratio increased relative to 2007 due to an increase in profit.

Debt-to-equity ratio

DEBT-TO-EQUITY RATIO	31.12.2008	31.12.2007
1. Short-term debts	11,368,562	20,672,400
2. Long-term debts	44,011,497	55,745,190
3. Total (1+2)	55,380,059	76,417,590
4. Equity	258,858,911	228,827,734
Debt-to-equity ratio = 3/4	0.21	0.33

The ratio shows the relation between the company's debts and equity. The higher the value, the higher the debt ratio. In 2008 the ratio stood at 0.21, down from 2007 due to an increase in equity and decrease in debts.

EBITDA/interest paid and debt-to-assets ratio

EBITDA / INTEREST PAID	2008	2007
1. Operating profit or loss	24,071,948	13,726,735
2. Depreciation or amortisation	26,508,769	26,033,695
3. EBITDA (1+2)	50,580,717	39,760,430
4. Interest paid	3,890,602	3,210,844
EBITDA / interest paid = 3/4	13.00	12.38

DEBT-TO-ASSET RATIO	31.12.2008	31.12.2007
1. Short-term liabilities	66,767,734	66,408,745
2. Long-term liabilities	44,025,915	55,761,670
3. Total (1+2)	110,793,649	122,170,415
4. Assets	404,351,280	365,064,846
Debt-to-asset ratio = 3/4*100	27.40	33.47

The company satisfies conditions laid down by the European Investment Bank upon the granting of the loan for the construction of Unit 6, i.e. EBITDA may not be lower than three-times the interest paid and debts may not exceed 60% of the company's assets.

6.8 Risk management

Timely identification, regular monitoring and management of risks are a precondition for effective and efficient achievement of business objectives. However, it is up to the management personnel to ensure an appropriate relationship between anticipated profitability and risks, taking into account current business conditions and circumstances.

The company encounters various risks in its business operations, but the most prevailing are as follows:

Business risks, which relate to the ability to generate revenue and contain costs as well as to the ability to maintain the value of the company's assets.

■ **Quantity risk** comprises the risk, which originates from the uncertainty of energy product supply and production as well as from the uncertainty of electricity supply. The uncertainty of production is mostly related to the question whether or not energy can be produced. Production failures can occur due to unplanned shutdowns, technological and ecological limitations of production and insufficient supply of energy products. Quantity risk is managed through timely and professional performance of planned maintenance work on the existing facilities and equipment, and through new investments. To control the coal supply risk, the company concluded an annual contract for the purchase of coal, lease of capacity and purchase of electricity with Premogovnik Velenje which is obliged to sell and deliver coal based on the envisaged monthly consumption of coal used for electricity production. To manage the gas supply risk, a long-term contract for the purchase and sale of natural gas has been concluded by Termoelektrarna Šoštanj and Geoplín.

■ **Market risk** comprises the risk to which TEŠ is exposed due to uncertainty arising from the environment pollution charge and the possibility of losing the sales market. The company intends to reduce the market risk arising from the environment pollution charge primarily by introducing new technologies that were adopted as part of the development plan of the HSE Group for the period 2004-2013 and which outline measures for improving environment protection and people's health. The proportionate share of the emission

coupons allocated for the period 2008-2012 (under the Environment Protection Act) was insufficient to cover the production in 2008. The purchase of the remaining emission coupons has been ensured by the parent company. The company hedged against market risks by entering into the Long-term contract for the purchase of coal, lease of capacity and purchase of electricity with Holding Slovenske elektrarne and Premogovnik Velenje in 2004. The contract lays down standard and additional quantities of coal in GJ that the company will purchase from Premogovnik Velenje, while Holding Slovenske elektrarne as a buyer purchases all electricity produced by TEŠ at prices agreed in annual contracts.

■ **The risk of a decrease in the value of assets** relates to the risk of destruction, obsolescence or other decreases in assets. All of TEŠ's major assets are sufficiently insured with an insurance company for all types of risk.

Financial risks relate to the company's ability to generate finance income, control finance expenses, maintain the value of financial assets, control financial liabilities and ensure long-term solvency.

■ **Credit risk** is defined as a possibility that receivables from buyers and other business partners arising from deferred payments will be collected with a delay or will not be collected at all. The company manages the risk through regular monitoring of outstanding receivables, monitoring of weak payers, default interest, and credit insurance. If problems arise in the collection of receivables, the company actively pursues chain compensations. The credit risk of the company is moderate because an annual contract has been concluded with the biggest buyer, which includes the elements of credit insurance. In 2008 there was no need to make applications for enforcement against non-payers.

■ **Liquidity risk** is defined as a possibility that at a given moment there may not be enough liquid funds to meet current obligations. The risk is low because the company generates most of its sales revenue in the domestic market, where payments are predictable and stable. Moreover, trade liabilities and financial obligations are known in advance.

The company controls the liquidity risk through financial management, mainly by planning future cash flows, through constant contacts with the biggest buyer and good business relationships with big Slovene banks.

■ **Interest rate risk** arises from a possibility of unfavourable interest rate movements and is considered moderate. Due to the fact that the company has a variable interest rate on some of the loans it received, these loans are sensitive to interest rate movements. In order to solve such problems, TEŠ pursues a hedging policy which consists of the use of derivatives and the replacement of existing loans with loans taken out on more favourable terms.

■ **Inflation risk** arises from the risk of an increase in purchase prices of materials and services which cannot be quickly passed on to the end prices of electricity and heat. The company controls the inflation risk by monitoring macroeconomic policy and by concluding purchase contracts at fixed prices.

Operational risks mainly relate to the design, implementation and supervision of the company's business processes and activities. Risk exposure is low because the company implemented the ISO 9001 quality management system, the ISO 14001 environmental management system and the OHSAS 18001 occupational health and safety system. These systems define the implementation of business activities and processes as well as responsibilities and authorisations. The appropriateness of their implementation is assessed through internal and external audits. To prevent software and application failures, the company devotes significant attention to the development and operation of its information infrastructure.

Regulatory risk is the risk related to the changes in and ambiguity of legislation and regulations that are beyond the company's control. Due to constant legislative changes, the company ensures proper application of regulations through constant functional and professional training performed by authorised and qualified institutions. The company's annual reports have to be audited by external auditors.

6.9 Business performance analysis

The main factors which influenced the business operations of TEŠ in 2008 are as follows:

- Long-term contract for the purchase of coal, lease of capacity and purchase of electricity signed by TEŠ d.o.o., HSE d.o.o. and Premogovnik Velenje d.d. on September 2004. Having signed the contract, the parties agreed their mutual relations in the period 2005 to 2015. The contract lays down standard and additional quantities of coal in GJ that the company will purchase from

Premogovnik Velenje, while Holding Slovenske elektrarne as a buyer purchases all electricity produced by Termoelektrarna Šoštanj at prices agreed in annual contracts.

- Annual contract for the purchase of coal, lease of capacity and purchase of electricity signed by Termoelektrarna Šoštanj, Holding Slovenske elektrarne and Premogovnik Velenje

in May 2008, and Annexes 1, 2 and 3 to this contract.

- Business plan of Termoelektrarna Šoštanj for 2008 adopted by the Supervisory Board on 5 May 2008 and revised business plan of Termoelektrarna Šoštanj for 2008 adopted on 11 September 2008.

6.9.1 Operating performance

	2008	2007	2006	2005
Operating efficiency ratio = operating revenue/operating expenses	1.10	1.07	1.02	1.02
Return on sales = profit/revenue	0.07	0.05	0.009	0.002
Revenue per employee in EUR	511,833	409,660	337,565	331,592
Added value per employee in EUR	171,067	133,383	95,006	87,721

TEŠ ended the year 2008 with a net operating profit for the accounting period of EUR 18,037,177.

6.9.2 Revenue and expenses

Revenue

Operating revenue was 19.4% higher than in 2007. The difference arises from higher revenue from the sale of electricity (higher output and prices) and other operating revenue (emission coupons). The structure of operating revenue was as follows:

■ revenue from the sale of electricity	95.4%
■ revenue from the sale of heat	1.7%
■ other sales revenue	0.7%
■ other operating revenue	2.1%
■ capitalised revenue	0.1%

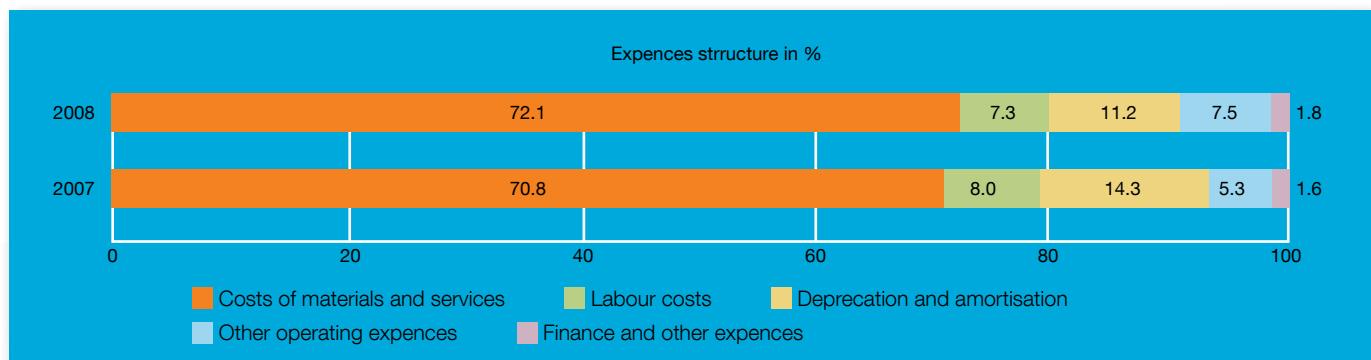
In addition to operating revenue, TEŠ also generated in 2008 revenue from investments of short-term liquidity surpluses and of some other revenue.

Expenses

Expenses incurred in 2008 were 15.8% higher than in 2007. The increase in expenses is the result of:

- increased fuel costs arising from higher output and use of gas and biomass in the production process;
- maintenance costs arising from Unit 3 turbine failure;

- increased salary costs (harmonisation of basic salaries in accordance with provisions of the industry's collective labour agreement);
- increased costs of emission coupons;
- increased damages paid;
- increased interest expense.



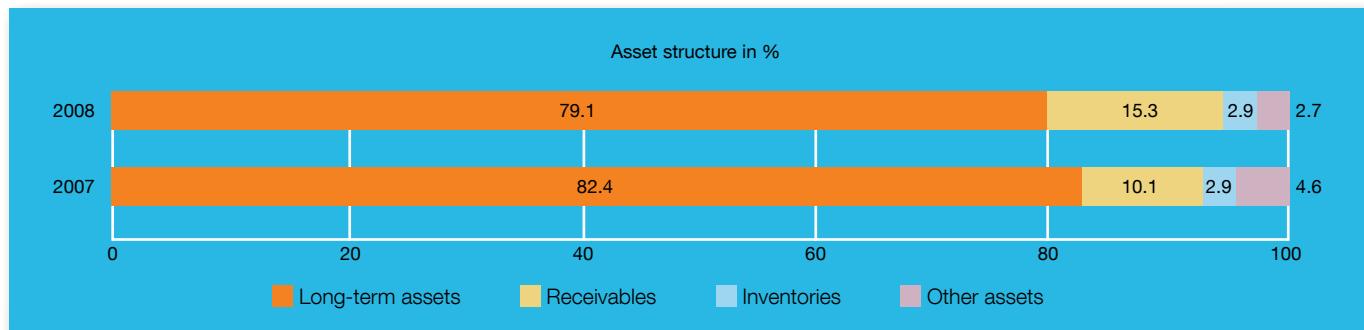
6.9.3 Assets and liabilities

The company's assets stood at EUR 404,351,280 as at 31/12/2008, up 10.8% from the year 2007. Taking into account the inflation rate, which stood at 2.1% (December 2008/December 2007), they increased by 8.5% in real terms. The increase in total assets is the

result of an increase in current assets, intangible assets (emission coupons) and property, plant and equipment.

The share of long-term assets in total assets decreased despite a 6.3% nominal increase from 2007.

Among current assets, the share of which increased by 20.9% (up from 17.6% in 2007), short-term operating receivables from Group companies and other buyers increased.

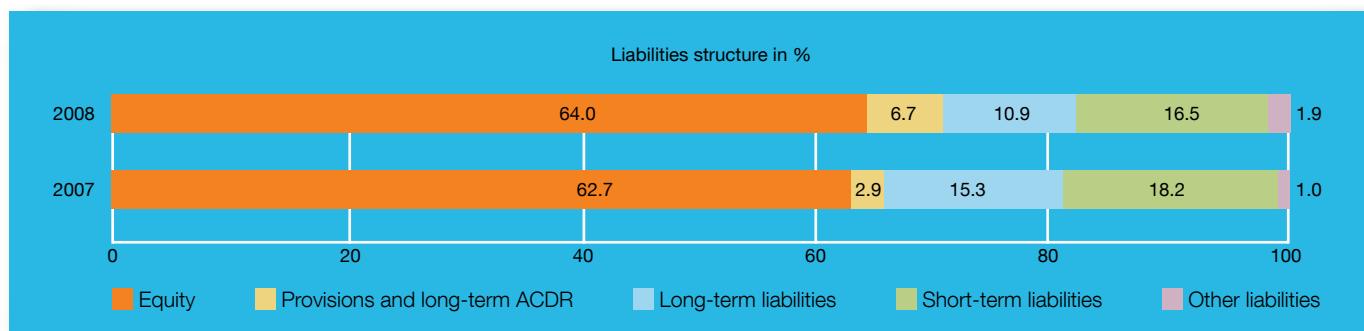


The share of equity in liabilities was 64.0% at the end of 2008 (up from 62.7% in 2007). In comparison with its balance at the end of 2007, equity

increased nominally by 13.1%; in real terms, i.e. taking inflation into account, it increased by 10.8%.

In 2008 the owner increased the

company's capital by EUR 15,794,000. Another factor contributing to the increase in equity was profit for the year.



Had equity been adjusted for the increase in consumer prices (2.1%), the company would have generated a profit of EUR 13,059,722 in 2008.

Profit or loss of the company after the restatement of equity:

	Equity in EUR	Percentage of in- crease/ decrease*	Effect in EUR	Decreased profit or loss – net profit in EUR
Equity – all com- ponents other than current profit and distributed retained earnings	237,021,644	2.1	4,977,455	13,059,722

* Increase in consumer prices December 2008/December 2007; source: Statistical Office of RS

Provisions and long-term accrued costs and deferred revenue increased on account of emission coupons that the company received free of charge from the state for the period 2008 to 2012.

Compared to 2007, long-term liabilities decreased by 21% (repayment of long-term loans). Also lower were short-term liabilities, owing to a decrease in short-term financial liabilities to banks (short-term portion of long-term loans), but

short-term operating liabilities to Group companies and short-term accrued costs and deferred revenue increased.

6.9.4 Operating performance by business segment

Business segment	Revenue in EUR	Expenses, corpora- te income tax and deferred taxes in EUR	Net profit or loss	Return on sales = profit/revenue
Electricity production	251,947,443	234,330,079	17,617,364	0.0699
Steam and hot water supply	4,413,560	4,185,600	227,960	0.0517
Canteen	979,139	974,056	5,083	0.0052
Social standard	353,394	166,624	186,770	0.5285

In 2008 all business segments operated at a profit. Revenue and expenses broken down by business segment also include own services and materials.

6.10 Development of the company

TEŠ is in the middle of a new investment cycle (construction of Unit 6) which is driven by the need for technological renovation. Technological renovation will result in the closure of units that are coming to the end of their service life, and will make possible for units (Unit 5) which will continue to operate after the year 2020 to have the best available technologies.

Increasingly higher net electricity efficiency is the aim of the technological

renovation at new units, and it also represents guidance for implementing measures at existing units.

As in previous years, the company focused on the above goals at two levels. The first level represents the preparation of study documents, expert papers dealing with the operation of technological plants, and preparation of assessments. In planning documents, this is referred to as "investments in the upgrading of technological procedures".

The second level consists of study documents dealing with TEŠ's development over a longer period. Before each significant development step, it is necessary to organise the vision which is supported by research into electricity market development, energy resources, broader environment policy and practice, and by the development of electricity production technologies in the world.

6.11 Investments

Some plants at TEŠ are nearing the end of their service life. Some have been operating since 1956, when Units 1 and 2 were constructed, while the newest have been in operation since 1977, when Unit 5 was constructed. As a result of increased utilisation in the past years, the life of Units 1 and 2 expired in 2007. Unit 2 was shut down in 2008 whereas Unit 1 is expected to continue to operate until the end of

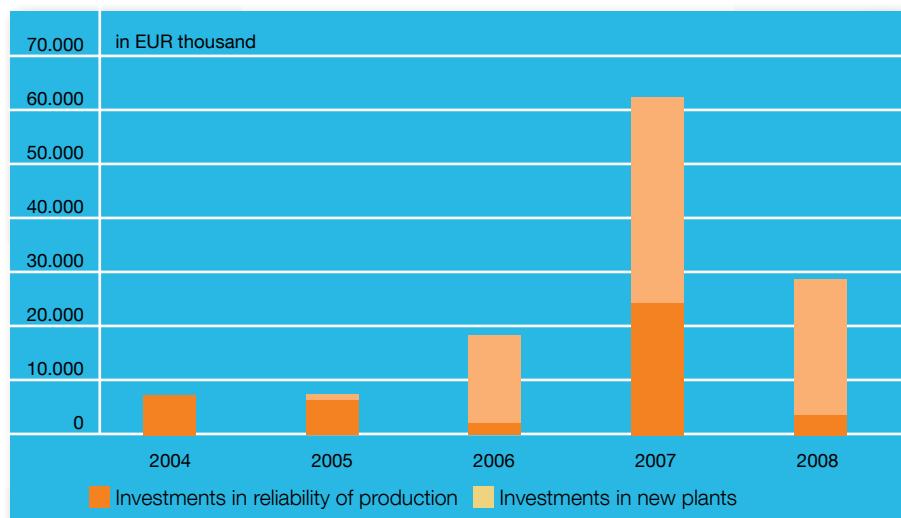
2009. Unit 3 will operate until 2014 and Unit 4 until 2017, while Unit 5 is expected to operate until 2025.

Based on the condition of individual plants and the company's strategic aims, it has been decided to upgrade the plants to such an extent that they will operate safely and reliably until the end of their expected service life. The upgrading project is being carried out

on the basis of the analysis of plant operations, operational events, estimation of the remaining service life, and safe operation.

With investments in operational units the company ensures the required level of electricity production and eventual additional utilisation, and achieves safety and operational availability equivalent to those in previous years.

TEŠ's investments 2004-2008



In 2004 work began on the projects for the gas combined system of Units 4 and 5. Works were mostly completed with the synchronisation of the first ge-

nerator in the first half of the year 2008 and the synchronisation of the second generator in the second half of 2008. In 2005 preliminary work was begun on

the projects concerning the new Unit 6. Works will be completed with the synchronisation of the generator in 2014.

Capital investments in 2008

No.	CAPITAL INVESTMENT	BP 2008 revision	Accomplished in January-December 2008					IND RE 2008 / Reb. PN 2008
			Deprecia- tion and amortisa- tion	Other own funds	Loans		Total	
foreign	domestic							
1.	NEW BUILDINGS	20,229,000	9,057,964	15,794,000			24,851,964	122.9
1.1.	Unit 5 gas combined system	16,066,000	7,694,089	15,794,000			23,488,089	146.2
1.2.	UNIT 6	4,163,000	1,363,875				1,363,875	32.8
2.	INVESTMENTS IN PRODUCTION RELIABILITY	4,680,000	1,748,623				1,748,623	37.4
2.1.	Replacement of re-superheater 2 at U 4	500,000					0	0.0
2.2.	Refurbishment of Unit 4 FGD	250,000					0	0.0
2.3.	Replacement of U 5 transformer	250,000					0	0.0
2.4.	Replacement of U 5 generator	750,000					0	0.0
2.5.	Replacement of U 5 mill rotors	780,000	430,337				430,337	55.2
2.6.	Refurbishment of hydrogen plant	250,000	96,867				96,867	38.7
2.7.	Optimisation of transport of combustion and desulphurisation by-products	200,000	393,989				393,989	197.0
2.8.	Optimisation of compressed air supply	300,000					0	0.0
2.9.	Refurbishment of industrial water distribution system	500,000	612,866				612,866	122.6
2.10.	Noise elimination at TES	450,000	124,640				124,640	27.7
2.11.	Removal of solid matter from wastewater	200,000	36,750				36,750	18.4
2.12.	Refurbishment of sewage system	250,000	53,174				53,174	21.3
3.	CAPITAL INVESTMENT STUDY DOCUMENTS	200,000	61,720				61,720	30.9
4.	MINOR CAPITAL INVESTMENTS	1,175,000	297,759				297,759	25.3
5.	BUSINESS INFORMATION SYSTEM	1,600,000	2,827,975				2,827,975	176.7
5.1.	INFO - software	350,000	285,774				285,774	81.6
5.2.	INFO - hardware	450,000	739,686				739,686	164.4
5.3.	Completion of backup computer centre construction	800,000	1,802,515				1,802,515	225.3
6.	CAPITAL INVESTMENTS FROM PREVIOUS YEARS NOT INCLUDED IN BP 2008 (PRODUCTION RELIABILITY INVESTMENTS)		513,074				513,074	
6.1.	Biomass dispenser		317,012				317,012	
6.2.	Refurbishment of coal conveyor video surveillance system		73,663				73,663	
6.3.	Industrial water surveillance instruments		32,727					
6.4.	Refurbishment and optimisation of Unit 5 boiler		89,672				89,672	
TOTAL		27,884,000	14,507,115	15,794,000			30,301,115	108.7

In 2008 the amount used for capital investments stood at EUR 30,301,115, of which 77.5% was used for construction, 7.5% for investments in the reliability of production, 9.3% for the business information system and 5.7% for other investments.

Unit 6

Based on calls for higher electricity production as a result of increasing electricity consumption by end-users, a new production capacity, Unit 6, with the expected output of 600 MW, will be added to the existing units at TEŠ. At the same time older units, which are nearing the end of their service life and are technologically obsolete, will be replaced.

Because the new Unit 6 will be coal-fired, the issue of burdening the environment with greenhouse CO₂ gas emissions remains, but compared with the existing technology they are specifically lower (lower quantity of CO₂/kWh) thanks to significantly improved efficiency of new technologies. The construction of Unit 6 has been confirmed by the owner (HSE Group development plan for 2006-2015 and looking ahead to 2025).

Timeline of important events:

- At the 12th General Meeting of the company held on 11 June 2004, Termoelektrama Šoštanj's development plan was adopted, as part of which the construction of a new energy facility, i.e. Unit 6, was confirmed.
- In April 2006, the investor Termoelektrama Šoštanj prepared a capital investment programme "Construction of a 600 MW Unit 6 at TEŠ". The capital investment programme was based on a pre-feasibility study and basic design. In May 2007, the investor revised the capital investment programme (rev. 0) and adjusted equipment prices and construction date to the situation in the market for such equipment.
- In 2006 the investor published a periodic information notice for the selection of competent suppliers for the supply of main technological equipment for the 600 MW Unit 6. Based on the applications received, the investor recognised the companies Alstom Power Centrales and Siemens AG, acting in consortium with Hitachi Power Europe and Siemens Ljubljana, as competent candidates.
- In April 2007, the investor sent both candidates tender documentation for the supply and installation of main technological equipment for Unit 6, requesting that proposals for the first tender phase be returned by 10 August 2007. The responses of both suppliers to the investor's request for the confirmation of readiness to submit a tender were negative and the suppliers suggested that due to insufficient availability of capacities and increased market demand

for this type of equipment an exclusive agreement should be concluded in order to reserve their capacities. The investor acknowledged the situation and adjusted the tender procedure, calling on the candidates to submit their tenders in the form of a draft retainer contract until 13 July 2007. The investor evaluated the tenders received and selected the one from Alstom as the most appropriate. This proposal was used as a basis for revising the capital investment programme. On 19 September 2007, a retainer contract was signed with Alstom, by means of which TEŠ ensured the construction of the technological unit in the second half of 2014.

- In September, Termoelektrama Šoštanj and the European Investment Bank signed in Ljubljana a EUR 350 million loan agreement for the construction of the 600 MW Unit 6. The remaining funds will have to be provided from the company's own sources and loans taken out with commercial banks. At the end of 2008, Termoelektrama Šoštanj began the process of obtaining a bank guarantee for the purpose of securing the loan taken out the EIB, which is necessary for the drawing of the first tranche of the loan that is expected to take place in the last four months of 2009.
- In September 2007, a revised Unit 6 capital investment programme was prepared. The investor decided to revise the capital investment programme due to changes made to the time schedule of works, increased budget value of the facility and the changed structure and conditions of financing.
- In June 2008, the contract for the supply of main technological equipment was signed with Alstom.
- The confirmation of a municipal detailed spatial plan for a spatial arrangement of common interest of Unit 6 and its accompanying facilities and for a spatial arrangement of common interest of the chimney and the cooling tower, as well as the ordinance on amendments to the municipal spatial plan made for the purpose of expanding TEŠ's industrial zone represent a legal basis for issuing building permits for the construction of Unit 6. The ordinance was adopted in September 2008 by the Council of the Šoštanj municipality.
- In March 2008, a call for the supply of a flue gas desulphurisation plant (FGD) for TPP Šoštanj 600 MW Unit 6 was published in the Official Gazette of the EU. Four suppliers submitted their ten-

ders in accordance with requirements and by the date set, and based on a decision of 12 August 2008 they were recognised as qualified FGD plant suppliers. In addition to the above decision, all qualified suppliers were also sent FGD tender documents. The tender submission deadline expired on 12/01/2009, and negotiations are currently underway with all qualified suppliers on the technical and commercial conditions, based on which the best bidder will be selected and with which the contract will be signed, probably by the end of 2009.

- In September 2008, a call for the supply and assembly of TPP Šoštanj 400 kV GIS substation was also published in the Official Gazette of the EU. Tenders that were submitted in accordance with requirements and by the date set were sent by two suppliers with which negotiations are currently underway. Based on their outcome, the best bidder will be selected with which the contract will be signed.
- In connection with the construction of the cooling tower and the performance of other preparatory work, the preparation of tender documents for the supply of a cooling water system and preparatory construction work is currently underway. The calls for tenders are to be published by mid-2009, and contracts concluded with the best bidders by the end of 2009.

Upgrading of Units 4 and 5 through installation of gas turbines

Due to environmental considerations, in particular the Kyoto protocol, TEŠ is forced to cut coal consumption, while at the same time the energy system requires an increase in electricity production. In order to meet both requirements, the only solution is to make a transition to a combined gas/heat system, which increases units' total output, lowers specific CO₂ emissions and, thanks to the use of gas, decreases the consumption of coal while increasing the production of electricity.

During preliminary work (pre-feasibility study, basic design), the option to install gas turbines, thus converting production into a combined gas/heat process in which the feedwater of the steam unit is heated, proved to be the optimal solution. In a combined gas/heat cycle, the heat of flue gases emitted from the exhaust of gas turbines is channelled into an exhaust-gas-heated water boiler consisting of high-pressure and low-pressure parts. Water boilers are

connected in parallel with the existing steam-unit recovery boilers, enabling normal operation of the steam unit in the event of gas unit failures.

Based on a call for tenders from qualified suppliers, the investor decided to install two 42 MW Siemens gas turbines SGT 800. The turbines use natural gas as a primary energy source. The gas turbines and heat recovery steam generators have been installed on a platform south of the Unit 5 boiler room.

Further research showed that it was more economical to install one gas turbine at Unit 5 and another at Unit 4, thus making better use of the turbines' power and achieving a higher amount of operational hours and electricity produced with a minimum increase in the cost of the capital investment. On the expiry of Unit 4 service life this unit's turbine will be connected with Unit 5 as originally envisaged.

The estimated value of the capital investment is EUR 51.5 million. The work on the project was completed in accordance with the time schedule.

The project consisted of the overall construction works, construction of the support wall, and construction of foundations for the gas turbines, heat recovery steam generator and connecting pipelines. Constructed was a drive unit building with a roofed steel structure and a facade; mechanical installations in the drive unit building and the electrical equipment building were also completed. The second SGT800 gas turbine was supplied, and the installation of mechanical and electrical equipment and of PT52 gas turbine controls was completed. The second heat recovery steam generator UT52 and connecting pipelines were delivered. The assembly of the second heat recovery steam generator, including a steel structure and connecting pipelines to Unit 4, was completed. All necessary HV and LV equipment was delivered and assembled

(transformer NT 66000-115.5 kV, dry-type transformers 10.5/0.4kV-630kVA, 10kV cells (ABB)) as were all electrical installations. The delivery and assembly of the connecting pipeline between the measurement and regulation station and gas turbines were completed as well.

At the beginning of April 2008, a technical inspection was carried out as part of the procedure to issue an operating permit for the support wall, connecting gas pipeline, PT51 gas turbine, and UT51 heat recovery steam generator and connecting pipelines to Unit 5. On 9 April 2008, a one-year trial run was launched.

In mid-July, a technical inspection was carried out as part of the procedure to issue an operating permit for PT52 gas turbine, UT52 heat recovery steam generator and connecting pipelines to Unit 4. The trial run was launched on 29 July 2008. The company expects to obtain operating permits for both turbines at the beginning of April 2009.

6.12 Maintenance

The production plant maintenance strategy is designed to facilitate the achievement of the company's short-term and long-term objectives.

Short-term objectives include:

- safe and healthy working conditions for workers,
- economical use of materials,
- economical allocation of working hours,
- shorter deadlines for repairs of individual plants,
- prevention of the occurrence and recurrence of same failures through preventive measures,
- the best possible operational availability of the power plant as a whole,
- environment friendly electricity and heat production.

Long-term objectives include:

- lower of cost price in real terms,
- competitiveness in the electricity market,
- maintaining the status of electricity and heat producer using lignite technology,
- ensuring operation until the target service lives of individual units expire (Unit 1 will be shut down at the end of 2009; Unit 2 was shut down at the beginning of 2008, but due to Unit 3 failure it continued to operate between June and November (in the event of a major Unit

3 failure, Unit 2 could continue to operate until the end of 2014, subject to certain modifications); Unit 3 is expected to operate until the end of 2014; Unit 4 is expected to operate until 2015 (or until 2017 as a backup facility), Unit 5 is expected to operate until 2025).

The strategy is based on our own and other experience, and is adapted to modern trends in the industry. The maintenance system is supported by the MAKSIMO information system. For several years, we have been performing maintenance by considering the condition of plants and by carrying out preventive maintenance (overhauls). Thanks to an optimal utilisation of funds allocated to maintenance activities, the maintenance strategy has been slowly changing in favour of maintenance carried out on the basis of the condition of plants. That is evident from the frequency of overhauls of individual units, which has changed from a rigid two-year interval to three or six-year periods. It is also evident from overhauls of individual unit assemblies, which are carried out in addition to the planned overhauls. The precondition for an efficient maintenance under this strategy and for achieving the above objectives is by all means good knowledge of plants and experience of technical and maintenance personnel.

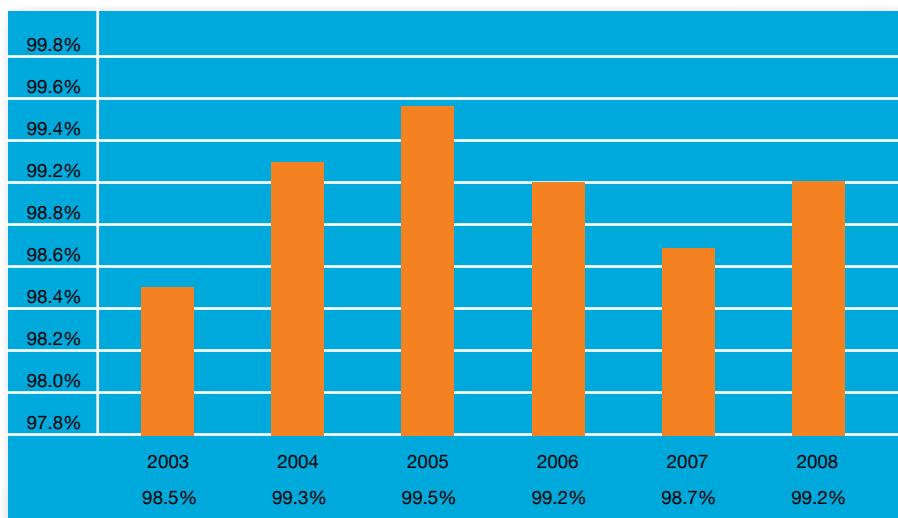
Considering their age and hours of operation, TEŠ's plants already require comparatively intensive maintenance. Maintenance is done on the basis of plant operation monitoring, operational events and assessment of the remaining service life through the use of demolition and non-demolition methods of material control, and subject to compliance with requirements for safe and reliable operations as well as accepted guidelines or strategy for plant operations and maintenance.

The entire maintenance system is divided into:

- Regular preventive maintenance consisting of inspections, controls, analyses and interventions, which all ensure reliable operations of all plants. It also includes repairs and replacements of individual plant assemblies. Unavoidable work on the plants is performed during unit shutdown time, which is mainly at weekends.
- Overhaul of production units and individual assemblies; overhaul in this sense means a series of maintenance activities, such as inspections, measurements, installing and dismantling, repairs and replacements of machines and plant spare parts, which require the elimination of machines and plants or of the entire production unit from the operation.

The unit availability trend shows a very high level of unit availability, which indicates that the maintenance concept is appropriate.

OPERATING AVAILABILITY OF UNITS



Overview of maintenance costs by unit:

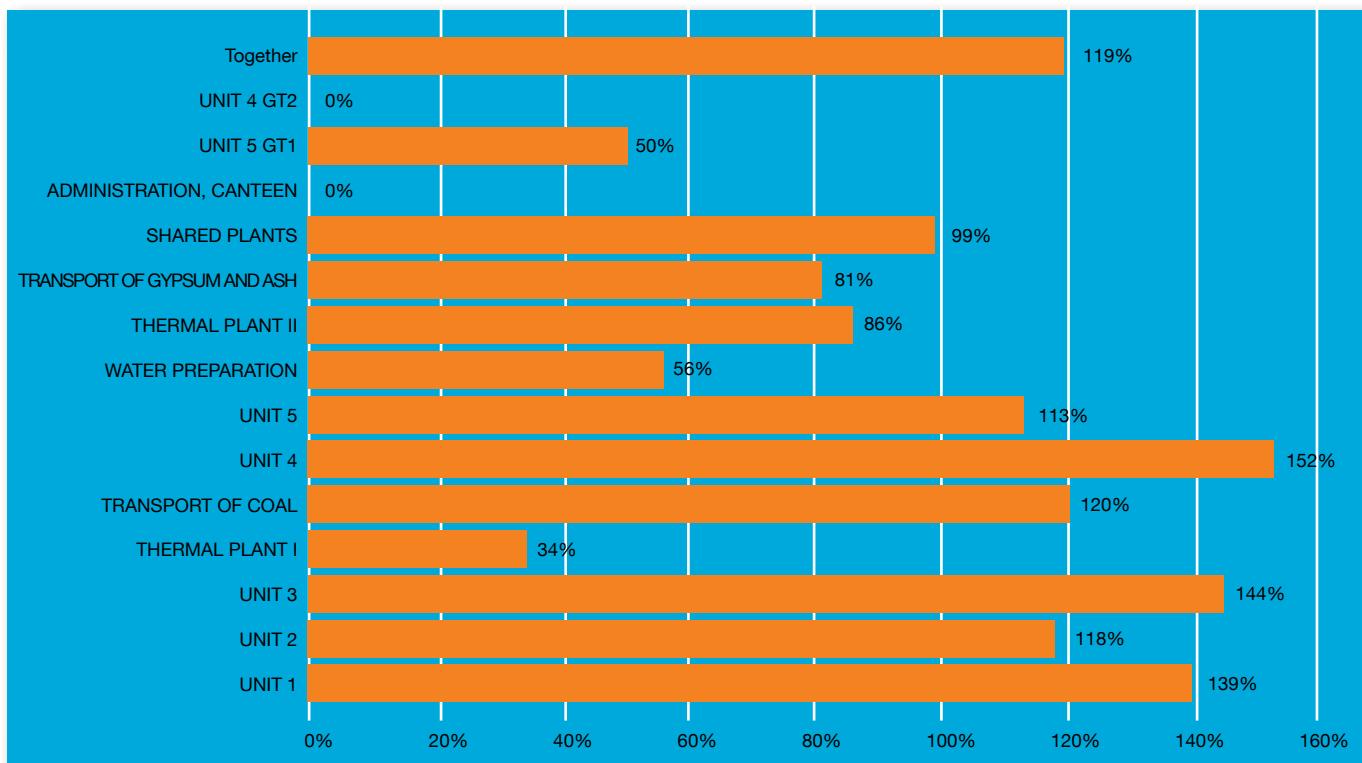
■ The costs of Unit 1 and Unit 2 maintenance were higher than planned because both units operated significantly longer than envisaged in the annual plan. Due to Unit 3 turbine failure, Unit 2 operated between June and November. Additional costs were incurred also as a result of establishing outgoing feeders to the 110kV network. To this end, the general own consumption bay was transformed into the unit's outgoing feeder, resulting also in adjustments to other units (Units 2 and 3).

- The envisaged costs of Unit 3 maintenance were significantly exceeded due to a failure of the unit's turbine in May, which has been repaired by the supplier. Since its re-launch in October, Unit 3 has been fully operational. A procedure to have the repair costs (approximately EUR 700,000) reimbursed by an insurance company is currently underway.
- Unit 4 maintenance costs were exceeded by good 50%. In spring it was determined that the travelling grate was in such a condition that safe and reliable operation of the unit was not

fully ensured until the 2009 overhaul. Another unexpected issue was the failure of a mill shaft and the mill's bearing housing. The failure occurred due to the overheating of the mill as a result of biomass combustion.

- The Unit 5 maintenance cost overrun arises entirely from the high prices of materials, in particular from expensive spare parts and high costs of services.

Maintenance Costs by Plant



To sum up:

■ Production plants were maintained in a quality manner, which is also evident from a very high contractual availability of power units, which stood at 99.2%. The damaged Unit 3 turbine, the not yet resolved matter with the insurance company and continuous adjustments to Unit 1, 2 and 3 outgoing feeders to the transmission network have considerably increased the costs associated with these units.

■ Unexpected technical events that took place at production units rapidly increase maintenance costs, which was evident in the case of Unit 4.

■ In the 2007 annual report, we predicted that it was unrealistic to expect a trend of continuous reduction in maintenance costs. The output is very high, but the production plants are ageing. What is more, the increase in the market prices of services and materials was enormous in previous years.

■ Regardless of the above, we can conclude that all repairs were performed economically and in accordance with the objective to optimise electricity prices.

6.13 Employees

The number of permanent employees was 479 as at 31/12/2008, which is 18 less than at the end of 2007. The trend of the declining number of employees was more prominent in 2008 as a result of organisational changes effected in 2007 and 2008.

In addition to 479 permanent employees, the company also had 10 fixed-term employees and 1 apprentice at the end of December 2008, bringing the total number of employees to 490 at the end of 2008. As at 31 December 2008, the average age structure of permanent staff was 45 years and 6 months, whereas their average period of service was 25 years and 4 months. On 31/12/2008, the company had 422 male permanent employees and 57 female permanent employees.

Training

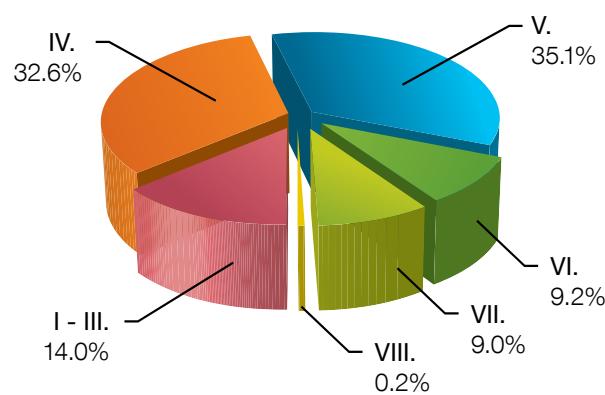
In the school year 2008/2009, 27 or 5.5% of employees took part in part-time education. In the year 2008, nine employees finished their educational process and obtained a higher level of professional education. The average age of employees included in part-time education is 37 years and 4 months. In addition to part-time studies, there were also 23,243 hours of internal and external training performed in 2008, or on average 40 hours per employee.

The project to obtain funds for the co-financing of education from European funds is in the phase of reporting and drawing of funds.

Matters related to disabled persons

In the year 2008, the number of employees with disabilities decreased by four from the previous year. The company thus has 44 disabled workers (8.7%);

Educational structure of permanent staff as at 31/12/2008



among these 14 were employed half-time and 30 full-time. During the year, the employment relationship of seven disabled workers was terminated due to retirement or business reasons.

Sickness benefits

In 2007 sick leave absence stood at 55,100 hours (down from 58,528 in 2007) or 6,888 working days (down from 7,316 in 2007). As for permanent staff, the share of sick leave absence stood at 5.4%, which is less than in the previous year (5.5%).

Scholarships

Caring for broader social environment is part of TEŠ's mission, which is particularly important due to its environmental impacts. The company accomplished this mission also through scholarship policy and funds earmarked for this purpose. By allocating the planned amount

of funds to this purpose, we also create and ensure the possibility of obtaining the best staff. By granting scholarships to the children of employees we maintain and develop a high degree of loyalty, which is extremely important given the specifics of our business activity, i.e. the production of electricity. At the end of 2008, TEŠ had 81 scholarship-receiving students.

6.14 Quality management system

TEŠ has established an integrated management system which is comprised of the SIST ISO 9001:2000 quality management system, SIST EN ISO 14001:2004 environment management system, and OHSAS 18001:1999 occupational health and safety management system.

Performance and efficiency of the management system

The performance and efficiency of the management system is determined on the basis of integrated internal assessments, external assessments carried out by a certification body, and the achievement of the goals planned. During the 2008 external assessment, five minor discrepancies were identified and four recommendations for improvement were made.

Internal assessments

In 2008, 12 integrated internal assessments were carried out. The assessments were carried out throughout the year. Eight non-critical and two critical

instances of non-compliance were identified. Based on internal assessment results, three corrections and two corrective measures were prepared.

In December 2008, 14 internal assessments were carried out for the first time on the basis of the standard ISO/IEC 27001:2005 information security management system. 129 instances of compliance, 67 non-critical instances of non-compliance and two critical instances of non-compliance were identified. Following the internal assessment, 33 corrective measures were designed, of which 13 have already been successfully implemented.

Introduction of the ISO/IEC 27001:2005 information security management system

The following activities were carried out in 2008:

- valuation of assets,
- risk assessment for individual assets,
- framework information security policy was defined and implemented,

- individual information security policies were defined and implemented,
- necessary instructions for the information security system were prepared and implemented,
- training for all employees,
- internal assessment,
- necessary measures were defined.

Development of the management system

Transition was made from ISO 9001:2000 to ISO 9001:2008 and from OHSAS 18001:1999 to OHSAS 18001:2007.

The aim of the ISO/IEC 27001:2005 project is to carry out in 2009 internal assessments as well as level 1 and 2 certification assessment under the ISO/IEC 27001:2005 standard.

Top management encourages and supports further development of the management system, gradually passing it on to business partners.

6.15 Environment protection activities

Successful implementation of environment protection measures in previous years enabled TEŠ to further reduce emissions from flue gases at most of its combustion plants.

At the large combustion plant 1, which did not operate more than 115 days and was used as non-spinning reserve for the rest of the time, emission limits were also no longer exceeded in 2008.

Thanks to measures taken so far, we managed keep annual and monthly averages of pollutants, such as NOx, CO, SO₂ and dust, under emission thresholds at all large combustion plants. All large combustion plants operated within the tolerance margin of 120 hours (the so-called purification plant shutdown status).

We also managed to reduce the number cases where the immissions of sulphur dioxide in air were exceeded at the most exposed sites around the company. For the second successive year, the 24-hour tolerance margin has not been exceeded at any of the sites. There has also been a marked decrease in SO₂ concentration at Veliki vrh, which used to be the only site

where larger concentration values were recorded. This year, the recorded value was 8 µg/m³.

Although in general the results were favourable, we need to highlight the increase in dust concentrations on the shutdown of LCP 2 and 3. It is a fact that electrostatic precipitators perform worse when flue gases do not contain SO₃, which is the case when a boiler is cooled quickly as a prerequisite for safe maintenance work. As a result, the shutdown time of the dust particle removal plant amounted to 53 hours at LCP 2. Because a different approach is used at LCP 3, no data is available at shutdown, which is why this status is not monitored. Nevertheless, after a detailed analysis, we determined at the end of the year that the situation was similar. We began to address the LCP 2 issue relatively early by reducing airflow during cooling. But because the tests did not yield satisfactory results, a different solution will have to be sought in the next period.

This year, the company acquired two new combustion plants – LCP 4 (at gas turbine 1) and LCP 5 (at gas turbine 2), fitting them with a new emission control station

which enables a continuous measurement of CO and NOx. Both plants operated within allowed emission thresholds.

As for CO₂ emissions and the issue of global warming, this year was similar to the previous one, except that 3.3% of electricity was produced from CO₂-neutral biomass in 2008. Nevertheless, the number of the coupons allocated was too small, and the company had to purchase additional ones. After the first trading period, the prices first increased dramatically, decreasing somewhat afterwards. More favourable prices in the recent period were also the result of global recession. Despite the above, we should remain active as the European Parliament adopted a very ambitious climate and energy package which envisages a further 20 to 30% decrease in CO₂ emissions in the EU, provided that the biggest non-European countries join the initiative. The decision to build a new highly efficient Unit 6 was taken at the right time as the period after 2012 is just around the corner. Unit 6 will enable TEŠ to generate 30% more energy while emitting the same quantity of CO₂, or to produce the same amount of electricity and reduce CO₂ emissions by 30%, depending on what seems more appropriate.

TEŠ gives priority to new technologies and thus extremely cautiously invests in the reconstruction of the existing plants. In the area of noise emissions, we still have to deal with numerous obsolete facilities that will soon be shut down but still require immediate noise-related repairs.

This year, the company therefore began the construction of an anti-noise screen for incoming combustion air at Unit 5 and anti-noise screen for draw fans at Units 1 to 3. Owing to these measures, the company reduced noise levels at all immission sites, but still one site remains where the noise level exceeds the prescribed limit.

As for the replacement of the rather worn out transformer of Unit 5 and other noise related to the cooling tower of Unit 4, which is on a par with numerous naturally occurring phenomena, we will try to persuade the competent ministry to consider our arguments and obtain more time to resolve problems with the transformer.

To be able to efficiently exploit combustion residue, the company monitored production in accordance with the Slovene Technical Approval (STA) issued in

connection with TEŠ's stabilised material. Through regular warnings and actions, we managed to achieve that 95% of the stabilised material contained the right share of gypsum. We were unable to properly mix the remaining quantity mainly due to problems arising from ash and gypsum sale dynamics and extremely large quantities of slag produced at Unit 4. To improve this, certain transport combinations, mainly the transport of ash from Unit 5 to Unit 4 and slag from Unit 4 to Unit 5, will have to be introduced in the next period.

As part of our efforts to cut water losses, we tried to seal the pre-sedimentation chamber in 2008, but it turned out that the initial solution was extremely expensive. Therefore another solution had to be found, which had not been designed before the end of the year. Doubtless the removal of accumulated materials will additionally improve the chemical composition of lake water and, consequently, its ecological condition. The sealing based on the new design will be implemented next year.

As for separate collection of other maintenance waste, we paid particular attention to the trends regarding the generation of mixed construction and municipal waste and their disposal at the municipal waste dump. Although the numbers show that we were successful, we cannot be pleased with the condition due to the lack of overhaul.

At the end of the year, the canteen was provided with several additional containers for the separate collection of glass, tins and wooden and cardboard packaging, but no tangible results were recorded in the current period.

As part of obtaining a comprehensive environmental permit, our application had to be completed several times with various supporting documents and opinions. The procedure still not being completed, this shows the extreme complexity of Slovene legislation.

TEŠ is aware of the obsoleteness of the existing plants and of the fact that the market offers improved, better-quality, efficient and environment-friendly technologies which are at the same time becoming more affordable.

6.16 Protection of working environment

Protection of working environment

The company's activities in this area are based on the principles of the Occupational Safety and Health Act which imposes on the employer to ensure the safety and health of workers at work. Every employer is bound to implement measures required for assuring safety and health of workers. This includes the prevention of accidents at work, and informing and training of workers through appropriate organisation and necessary material resources.

In the past year, the company's department for occupational safety implemented preventive measures to ensure a higher level of safety and better health protection at all organisational levels, in compliance with the acquired OHSAS 18001 certificate.

Education and training

A training course was prepared for new employees at which workers were acquainted with the basics of occupational and fire safety, basics of safe work at a working place, rights arising from work contracts, and duties that should be fulfilled during work. The same training course was prepared for trainees and apprentices. For

those workers who were transferred to different positions within the company, a training course for occupational and fire safety was carried out depending on the change in position.

Training was also provided to twenty outworkers, who manage TEŠ's energy plants.

Healthcare

At the occupational medicine clinic, preliminary and preventive medical check-ups were performed. 37 workers were examined altogether.

Accidents at work

The goal to maintain the number of accidents at work at the level from the previous year was largely achieved. We recorded 13 accidents at work (down from 18 in 2007), all of them minor.

Impact of the operation of production units on the environment

On the basis of noise measurement results, a noise elimination project was partly completed at Unit 5. We remedied the source of noise generated by fresh air ventilators.

In the area of ionising radiation we managed to replace radiation sources with equivalent but harmless technologies. The sources of ionising radiation, i.e. gypsum density meters at Unit 4 and 5 FGD, were removed. The removed isotopes were stored with the Agency for Radioactive Waste Management. Having removed Cz137 and obtained the approval of the Slovene Nuclear Safety Administration and Agency for Radiation Practice in the Republic of Slovenia, the company discontinued its radiation practice.

Statement of safety and risk assessment

The company proceeded with the adjustment of the safety and risk assessment statement to the actual state in the company. Major changes that were recorded and will be considered relate to the construction of a new facility fitted with gas units.

Fire safety

Three minor fires were recorded, which were put out by workers and did not cause major damage.

6.17 Responsibility to the community

The company is aware of its impact on the environment in which it operates, in particular because of the environmental considerations of electricity production. It therefore has an active role in the development of the town by actively participating in various projects and providing financial support. The company cooperates with numerous educational institutions, supports the "Young Researcher" project, donates to art associations; it sponsors the TEŠ Octet, mixed choir Svoboda from Šoštanj, and brass band "Zarja" from Šoštanj. Moreover, it

sponsors the basketball team "ELEKTRA" Šoštanj, volleyball team Šoštanj-Topolšica and many other clubs and associations. It actively participates in various humanitarian campaigns, supporting institutions and individuals. TEŠ also recognises its social responsibility through its efforts to introduce new and cleaner technologies. Accordingly, the installation of two gas turbines was successfully completed in 2008. By partly replacing coal with gas at Unit 5, greenhouse gas emissions will be reduced by almost 18% per kWh. Although TEŠ

is the largest fossil-fuel fired thermal power plant in Slovenia, it obtained the status of qualified producer for wood biomass co-combustion at the end of 2007, which further reduces CO₂ emissions. Ultimately, the efforts for the construction of Unit 6, fitting it with the newest coal technology to replace the oldest and environmentally unacceptable production facilities, signify a responsible attitude not only to the local but also to broader environment.

6.18 Informatics

ODOS

ODOS is used for the management of more and more documents and processes. The company introduced numerous internal electronic forms and procedures for their approval, as well as a process of electronic settlement of received invoices that are accompanied with necessary supporting documents (contracts, purchase orders, delivery notes, receiving slips, etc.). ODOS serves as an electronic archive for numerous documents and is linked to other information systems.

E-archive

The company purchased necessary hardware and software equipment to set up a permanent document archive.

New backup computer centre

Because TEŠ's office building will be torn down in 2009, the company needs to provide information support for all business processes of Termoelektrama Šoštanj and Holding Slovenske elektrarne from another site before the demolition takes place.

To ensure business continuity, the company ordered and set up, physically and logically, necessary hardware and network equipment in HSE's WAN environment at the site of Premogovnik Velenje (PV).

The following systems were integrated (TEŠ, HSE and PV):

- domain model,
- SQL data warehouse,
- Exchange messaging system,
- internet access,
- system security and antivirus protection,

- portals (intranet),
- distributed file system.

ISO processes

In connection with the ISO 9001 standard, the company prescribed all necessary procedures in accordance with ITIL recommendations. Processes were integrated into the ODOS document management system.

A common access point was established for the reporting of hardware and software malfunctions or for submitting requests for hardware and software changes through the service centre, which is physically established at the site of Premogovnik Velenje.

The management of changes, configurations and updates of system and application software is conducted using workflows in the ODOS environment.

KOPA ERP

Decisions regarding capital investments are among the most important business decisions of a company because these are long-term investments which affect business operations and can make or break the company.

In practice, efficient management and monitoring of capital investments largely depends on information. At all levels of the company's business, i.e. from operations to management, information has to be provided in a timely, appropriate and accessible manner.

Because capital investments are of vital importance for the company, TEŠ began to design a computer-based capital investment management system in March 2008. Using a software solution, the following three technologies were integrated: the standard transaction

system was integrated with the document management system; both systems then had to be upgraded with an analysis and reporting system included in Oracle BI (Business Intelligence) technology (Oracle Business Intelligence, Oracle 10g application server, Oracle 10g data server).

Thanks to the integrated system, the company was able to standardise reporting and improve the quality of data, thus ensuring prudent management of investments of national importance.

Implementation of monitoring systems for IT infrastructure management (ITM)

IT monitoring was implemented in a gradual, multi-stage process and is based on Microsoft software. In the first stage, tools for the monitoring of workstations and servers were implemented. The core of the control centre was set up. Afterwards, change management processes were implemented.

Ongoing projects

In 2008 certain activities were launched, which will be continued and intensified in 2009:

- deployment of software for the monitoring of IT infrastructure, service availability measurement and reporting,
- access management – NAC (Network Access Control),
- identity management – ILM (Identity Lifecycle Management),
- ISO 27001 – acquisition of the data protection standard,
- E-archive – launching of accreditation acquisition procedure.

6.19 Important events after the end of the financial year

Important events after the end of the year have been disclosed in the financial report.



A THIRST FOR KNOWLEDGE
BRINGS OUT NEW IDEAS





Success stories are usually created by people who are never satisfied with the current state of things, instead preferring to explore new possibilities. We see new possibilities in technological progress. We are currently introducing improvements that will enable us to produce more electricity while reducing our strain on the environment ■

7 FINANCIAL REPORT

7.1 General notes

In this report, the financial statements and the notes thereto have been presented in accordance with the Companies Act (ZGD-1) and Slovene Accounting Standards (2006) and for the financial year 2008, which is the same as the calendar year. The company has no subsidiaries and does not prepare consolidated financial statements.

In the recording and valuation of items in the financial statements, provisions of Slovene Accounting Standards (2006) were applied directly, except in the valuation of items for which the standards allow different valuation methods. In such cases, the company applied valuation methods laid down in the Accounting Rules.

In the preparation of the financial statements, the company considered general valuation rules:

- going concern;
- consistency;
- prudence;
- recording of revenue and expenses irrespective of their payment;
- individual valuation of assets and liabilities.

as well as fundamental accounting assumptions:

- accrual basis,
- going concern.

The qualitative characteristics of the financial statements and consequently

of the entire accounting process are essentially understandability, relevance, reliability and comparability.

TPP Šoštanj is a large company and is therefore obligated to prepare an annual report at the end of the year. In accordance with provisions of Article 54 of the Companies Act, the report has to be examined by an auditor in the manner and under conditions laid down in the Auditing Act.

The financial statements were drawn up in euros and rounded to one unit.

The issue of the financial statements was approved by the Managing Director on 31/03/2009.

7.1.1 Foreign exchange rate and method of conversion to the national currency

In the balance sheet and the income statement, accounting items expressed in a foreign currency were converted using the reference exchange rate

of the ECB as at the day of business event.

The balance of assets and liabilities expressed in a foreign currency on the

balance sheet date was converted to euros using the reference exchange rate of the ECB as at the balance sheet date.

7.1.2 Business and geographical segments

Accounting information about operations is presented according to business and geographical segments.

A geographical segment consists of countries in a given area. Considering that the company's operations are limited to the geographical segment of the

Republic of Slovenia, such information is not separately disclosed.

A business segment is an autonomous organisational unit which is responsible for the achievement of operating results. It is a market-oriented part of the company's organisational structure and generates profit or loss through

its operations. Information used for reporting by business segment is based on data collected for external reporting purposes and also on data collected by the company for internal reporting purposes.

The company has the following business segments:

Business segment	Main products and services of business segment
Electricity production	Electricity
Steam and hot water supply	Heat, industrial water
Canteen	Lunches, restaurant services
Social standard	Renting of apartments and holiday facilities

Criteria for the allocation of revenue and expenses are as follows:

- revenue is normally allocated directly,

- expenses are always allocated directly. Indirect expenses (general costs of production and costs of specialist services) are allocated to business segments based on keys.

The assets and liabilities allocated to segments contain items that are directly attributable to the segment as well as items that are attributable to the segment on a justifiable basis.

7.2 Important events after the end of the financial year

Business plan of Termoelektrarna Šoštanj for the year 2009

The proposed Business plan of Termoelektrarna Šoštanj for the year 2009 was discussed and approved by the company's Supervisory Board in December 2008. The proposed business plan was then submitted to Holding Slovenske elektrarne d.o.o., the sole owner of the company, which needs to confirm it in accordance with Article 10 of the Articles of Incorporation.

Selection of supplier for FGD and 400 kV GIS substation

In January 2009, the Technical Committee in charge of the performance of contracts awarded as part of TEŠ Unit 6 project analysed reports on tenders for the supply of Unit 6 desulphurisation plant and a 400 kV gas-insulated substation (GIS). Two tenders were received per each of the calls. The Committee determined that all tenders contained certain deviations from tender

documents but that the deviations were not so significant that would prevent tenderers from being invited to negotiations. The main technical committee decided to invite all tenderers to negotiations, at which the tenders will have to be brought into line with requirements from the tender documents.

7.3 Statement by Managing Director

The Managing Director of Termoelektrarna Šoštanj d.o.o. confirms the Annual Report for 2008, which comprises the business report, the financial report and appendices to the Annual Report.

Šoštanj, 31/03/2009

Managing Director
Dr Uroš Rotnik



7.4 Auditor's report



DELOITTE REVIZIJA D.O.O.
Davčna ulica 1
1000 Ljubljana
Slovenija

Tel: +386 (0) 1 3072 800
Fax: +386 (0) 1 3072 900
www.deloitte.si

INDEPENDENT AUDITORS' REPORT to the owners of Termoelektrarna Šoštanj d.o.o.

Report on the Financial Statements

We have audited the accompanying financial statements of the company Termoelektrarna Šoštanj d.o.o., which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovenian Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company Termoelektrarna Šoštanj d.o.o. as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards.

Report on Other Legal and Regulatory Requirements

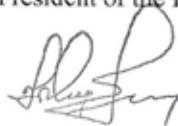
Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the Company's business report. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj 
Certified Auditor

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

Yuri Sidorovich
President of the Board



Ljubljana, 22. Maj 2009

7.5 Financial statements

Balance sheet

in EUR

	ITEM	Note	31.12.2008	31.12.2007
	ASSETS		404,351,280	365,064,846
A.	LONG-TERM ASSETS		319,861,235	300,938,868
I.	Intangible assets and long-term accrued revenue and deferred costs	1	22,150,085	4,561,635
1.	Long-term property rights		22,128,227	4,543,521
5.	Other long-term accrued revenue and deferred cost items		21,858	18,114
II.	Property, plant and equipment	2	296,907,851	295,543,704
1.	Land and buildings		41,802,469	39,226,777
	a) Land		2,823,679	2,823,679
	b) Buildings		38,978,790	36,403,098
2.	Manufacturing plant and equipment		215,255,987	183,300,995
3.	Other plant and equipment		4,250,791	2,258,272
4.	Property, plant and equipment being acquired		35,598,604	70,757,660
	a) Property, plant and equipment in the course of construction		33,729,768	66,692,660
	b) Advances for acquisition of property, plant and equipment		1,868,836	4,065,000
IV.	Long-term investments	3	213,636	213,636
1.	Long-term investments, excluding loans		213,636	213,636
	b) Shares and interests in associates		59,503	59,503
	c) Other shares and interests		154,133	154,133
V.	Long-term operating receivables	4	161,921	175,150
3.	Long-term operating receivables from others		161,921	175,150
VI.	Deferred tax assets	5	427,742	444,743
B.	CURRENT ASSETS		73,736,941	47,587,976
I.	Assets (disposal groups) held for sale	6	201,723	201,723
II.	Inventories	7	11,545,260	10,406,412
1.	Materials		11,519,724	10,379,454
4.	Advances for inventories		25,536	26,958
IV.	Short-term operating receivables	8	61,942,385	36,978,940
1.	Short-term operating receivables from group companies		57,485,015	28,426,046
2.	Short-term operating trade receivables		1,994,410	1,828,730
3.	Short-term operating receivables from others		2,462,960	6,724,164
V.	Cash	9	47,573	901
C.	ACCRUED REVENUE AND DEFERRED COSTS	10	10,753,104	16,538,002
	OFF-BALANCE SHEET RECORDS	11	277,562,012	296,224,079

in EUR

ITEM		Note	31.12.2008	31.12.2007
LIABILITIES			404,351,280	365,064,846
A.	EQUITY	12	258,858,911	228,827,734
I.	Called-up capital		118,021,759	102,227,759
1.	Nominal capital		118,021,759	102,227,759
II.	Capital surplus		116,883,008	116,883,008
III.	Revenue reserves		15,374,920	5,095,336
1.	Legal reserves		1,387,129	485,270
5.	Other revenue reserves		13,987,791	4,610,066
IV.	Revaluation surplus		11,565	11,565
VI.	Net profit or loss for the period		8,567,659	4,610,066
B.	PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE		26,989,758	10,498,468
1.	Provisions for pensions and similar liabilities	13	2,190,121	2,021,558
3.	Long-term accrued costs and deferred revenue	14	24,799,637	8,476,910
C.	LONG-TERM LIABILITIES		44,025,915	55,761,670
I.	Long-term financial liabilities	15	44,011,497	55,745,190
2.	Long-term financial liabilities to banks		44,011,497	55,745,190
II.	Long-term operating liabilities	16	14,418	16,480
5.	Other long-term operating liabilities		14,418	16,480
D.	SHORT-TERM LIABILITIES		66,767,734	66,408,745
II.	Short-term financial liabilities	17	11,368,562	20,672,400
2.	Short-term financial liabilities to banks		11,368,562	20,667,280
4.	Other short-term financial liabilities			5,120
III.	Short-term operating liabilities	18	55,399,172	45,736,345
1.	Short-term operating liabilities to group companies		26,404,985	20,051,413
2.	Short-term operating trade liabilities		15,399,112	16,088,868
4.	Short-term operating liabilities from advances		1,029	184
5.	Other short-term operating liabilities		13,594,046	9,595,880
E.	ACCRUED COSTS AND DEFERRED REVENUE	19	7,708,962	3,568,229
	OFF-BALANCE SHEET RECORDS		277,562,012	296,224,079

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

Income statement

	ITEM	Note	Leto 2008	Leto 2007
1.	Net sales revenue	1	251,042,990	202,420,254
a)	Domestic market		250,965,983	202,381,792
	- from relations with group companies		240,329,093	196,760,493
	- from relations with others		10,636,890	5,621,299
b)	Foreign market		77,007	38,462
3.	Capitalised own products and own services	2	185,044	6,175,100
4.	Other operating revenue (including revaluation operating revenue)	3	5,416,054	6,345,172
5.	Costs of goods, materials and services	4	170,768,633	144,781,289
a)	Cost of goods and materials sold and costs of materials used		153,737,311	129,862,172
b)	Costs of services		17,031,322	14,919,117
6.	Labour costs	5	17,396,561	16,284,384
a)	Payroll costs		12,786,995	11,677,254
b)	Social security costs		2,749,132	2,525,046
	- of which pension insurance costs		1,779,280	1,635,793
c)	Other labour costs		1,860,434	2,082,084
7.	Write-downs in value	6	26,560,388	29,271,900
a)	Depreciation and amortisation		26,508,769	26,033,695
b)	Revaluation operating expenses associated with intangible assets and property, plant and equipment		33,043	3,216,945
c)	Revaluation operating expenses associated with operating current assets		18,576	21,260
8.	Other operating expenses	7	17,846,558	10,876,218
	- provisions for termination and jubilee benefits		306,508	
	- other costs		17,540,050	10,876,218
OPERATING PROFIT OR LOSS			24,071,948	13,726,735
9.	Finance income	8	293,266	103,673
b)	Finance income from loans given		198,166	85,227
c)	Finance income from operating receivables		95,100	18,446
10.	Finance expenses	9	3,899,182	3,212,076
a)	Finance expenses for financial liabilities		3,890,648	3,211,189
b)	Finance expenses for operating liabilities		8,534	887
PROFIT OR LOSS FROM ORDINARY ACTIVITIES			20,466,032	10,618,332
15.	Other revenue		2,687	27,054
16.	Other expenses		245,140	1,960
TOTAL PROFIT OR LOSS			20,223,579	10,643,426
17.	Corporate income tax	10	(2,169,401)	
18.	Deferred taxes		(17,001)	(252,373)
19.	NET PROFIT OR LOSS FOR THE PERIOD		18,037,177	10,391,053

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

Cash flow statement (direct method)

in EUR

	ITEM	Year 2008	Year 2007
A	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Cash receipts from operating activities	281,179,520	223,584,723
1.	Cash receipts from electricity operations	263,721,474	216,757,362
a)	Domestic market	263,721,474	216,757,362
2.	Cash receipts from heat operations	5,095,299	4,419,940
3.	VAT-related cash receipts	4,900,000	
4.	Other cash receipts from operating activities	7,462,747	2,407,421
b)	Cash disbursements for operating activities	(232,485,351)	(185,414,886)
1.	Cash disbursements for electricity operations	(157,131,695)	(128,178,410)
a)	Domestic market	(157,131,695)	(128,178,410)
2.	Cash disbursements for heat operations	(3,921,691)	(3,251,294)
3.	VAT-related cash disbursements	(5,854,263)	(2,775,177)
4.	Cash disbursement for other duties	(7,459,853)	(3,119,004)
5.	Cash disbursements for maintenance, materials and services	(36,705,470)	(30,285,504)
6.	Cash disbursements for salaries and employee profit participation	(17,705,820)	(16,386,639)
7.	Other cash disbursements for operating activities	(3,706,559)	(1,418,858)
c)	Net cash from operating activities	48,694,169	38,169,837
B	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	Cash receipts from investing activities	247,734	444,169
1.	Interest and dividends received from investing activities	198,163	85,227
2.	Cash receipts from disposal of property, plant and equipment	49,571	358,942
b)	Cash disbursements for investing activities	(35,877,586)	(81,737,047)
1.	Cash disbursements to acquire intangible assets	(292,758)	(75,282)
2.	Cash disbursements to acquire property, plant and equipment	(35,584,828)	(81,661,765)
c)	Net cash from investing activities	(35,629,852)	(81,292,878)
C	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	Cash receipts from financing activities	19,966,974	104,439,514
1.	Cash proceeds from paid-in capital	15,794,000	20,864,000
2.	Cash proceeds from increase in long-term financial liabilities		42,500,000
3.	Cash proceeds from increase in short-term financial liabilities	4,172,974	41,075,514
b)	Cash disbursements for financing activities	(32,984,619)	(61,319,272)
1.	Interest paid on financing activities	(3,973,877)	(3,166,035)
2.	Cash repayments of long-term financial liabilities	(21,037,768)	(17,077,723)
3.	Cash repayments of short-term financial liabilities	(4,172,974)	(41,075,514)
4.	Dividends and other profit shares paid	(3,800,000)	
c)	Net cash from financing activities	(13,017,645)	43,120,242
D	CLOSING BALANCE OF CASH	47,573	901
x)	Net cash flow for the period	46,672	(2,799)
y)	Opening balance of cash	901	3,700

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

Statement of changes in equity for 2008 in EUR

ITEMS	Revenue reserves			Retained earnings		Net profit or loss for the period	
	Nominal capital	Capital surplus	Legal reserves	Other revenue reserves	Retained net profit	Retained net loss	Net loss for the year
A. Opening balance for the period	102,227,759	116,883,008	485,270	4,610,066	11,565	4,610,066	228,827,734
B. Movements to equity	15,794,000						33,831,177
d) Additional paid-in capital	15,794,000						15,794,000
e) Net profit or loss for the period							18,037,177
C. Movements within equity				901,859	9,377,725	(810,066)	(9,469,518)
a) Allocation of net profit as a component of equity in accordance with management board and supervisory board decision				901,859	8,567,659		(9,469,518)
b) Allocation of net profit to additional reserves in accordance with general meeting resolution					810,066	(810,066)	
D. Movements from equity						(3,800,000)	(3,800,000)
a) Payment of dividends						(3,800,000)	(3,800,000)
E. Closing balance for the period	118,021,759	116,883,008	1,387,129	13,987,791	11,565		8,567,659
ACCUMULATED PROFIT							258,858,911
							8,567,659

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

Statement of changes in equity for 2007 in EUR

ITEMS	Nominal capital	Capital surplus	Legal reserves	Other revenue reserves	Revenue reserves	Retained earnings		Net profit or loss for the period	Total	
						Revaluation surplus	Retained net profit	Retained net loss	Net profit for the year	Net loss for the year
A. Opening balance for the period	81,363,759	116,883,008			11,565	(685,651)			197,572,681	
B. Movements to equity	20,864,000						10,391,053		31,255,053	
a) Additional paid-in capital	20,864,000								20,864,000	
b) Net profit or loss for the period									10,391,053	10,391,053
C. Movements within equity					485,270	4,610,066		685,651	(5,780,987)	
a) Allocation of net profit as a component of equity in accordance with management board and supervisory board decision					485,270	4,610,066		685,651	(5,780,987)	
D. Movements from equity										
E. Closing balance for the period	102,227,759	116,883,008	485,270	4,610,066	11,565				4,610,066	228,827,734
ACCUMULATED PROFIT									4,610,066	

7.6 Disclosure and valuation of items in the financial statements

7.6.1 Intangible assets and long-term accrued revenue and deferred costs

The company's intangible assets comprise investments in long-term property rights obtained. These include software licences obtained for the performance of individual functions over a period that is longer than a year and CO₂ emission coupons.

Long-term property rights have a finite useful life, while the useful life of emission coupons is indefinite.

After recognition, the assets are measured using the cost model.

On initial recognition, these assets are carried at cost. The cost also includes import and non-refundable purchase taxes. In accordance with Interpretation 1 to SAS 2 Emission Coupons issued by the Expert Council of the Slovene Institute of Auditors, emission coupons are carried at 1 euro per coupon.

The company calculates amortisation charge on an individual basis, using the straight-line method, and by taking into account the useful life of individual intangible fixed assets. Amortisation

begins when an intangible asset is available for use.

Long-term accrued revenue and deferred costs include payments made by the company, being an apartment owner, in the reserve fund which will be used to cover the costs of future maintenance under the Housing Act.

In relation to the above, a method of direct decreases in value via cost accounts is used instead of using allowance accounts.

7.6.2 Property, plant and equipment

The company's property, plant and equipment items comprise land, buildings, production and other equipment, as well as immovable property and property, plant and equipment in the course of construction.

After recognition, all groups of property, plant and equipment are measured using the cost model.

An item of property, plant and equipment is initially recognised at cost. The cost comprises its purchase price, import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use, especially the costs of transportation and installation. The cost also includes interest on loans taken out to acquire an item of property, plant and equipment which had been charged until the asset was ready for use. The cost is reduced by the amount of discounts received.

Recognition of an item of property, plant and equipment in the bookkeeping records and the balance sheet is reversed if an asset is disposed of. The difference between the net selling price and the carrying amount of a disposed of item of property, plant and equipment is recorded as revaluation operating revenue or expense.

Subsequent costs related to property, plant and equipment

Subsequent costs incurred in relation to an item of property, plant and equi-

pment increase the item's cost if they increase its future economic benefits in excess of the ones originally assessed; subsequent costs allowing for the extension of the useful life of an item of property, plant and equipment initially reduce previously accounted for accumulated depreciation.

Repairs or maintenance of property, plant and equipment are carried out to restore or maintain future economic benefits expected on the basis of the originally assessed standard of performance of the assets. As such, they are recognised as an expense when incurred.

The anticipated costs of major regular inspections and repairs (overhauls) of property, plant and equipment are considered as parts of property, plant and equipment. They include repairs that are usually carried out every few years (periodically) and require substantial resources.

Depreciation

The carrying amount of an item of property, plant and equipment is decreased through depreciation. The depreciation of property, plant and equipment items begins on the first day of the month following the month in which an item becomes available for its intended use. Spare parts of higher value are treated as items of property, plant and equipment which are depreciated regardless of when they have been put into use.

The company uses the straight-line method of depreciation. The items of property, plant and equipment are depreciated individually. Land is not subject to depreciation.

On the basis of an assessment of fixed assets in 2001, depreciation rates of property, plant and equipment were adjusted in 2002 to reflect the estimated useful life of individual production units. The depreciation rates of individual types of property and equipment thus differ with regard to the expected useful life of individual fixed assets.

Below are depreciation rates which significantly affect the amount of depreciation charge per production unit:

Name	Property depreciation rate	Production equipment depreciation rate	Depreciation rate of production equipment parts (overhauls)
Unit 4	1.28% - 3.75%	1.3% - 10%	
Unit 5	1.67% - 5%	1.5% - 7.2%	25%
Gas unit 1 and 2	4%	4% - 6.6%	20%

The depreciation rates of other property, plant and equipment acquired in the current and comparable period are as follows:

■ vehicles	10% - 20%
■ furniture	12.5% - 20%
■ computer equipment	20% - 33.3%
■ other equipment	12.5% - 20%.

Revaluation of property, plant and equipment

The revaluation of property, plant and equipment items represents a change in their carrying amount. It occurs due to impairment.

When their carrying amount exceeds their recoverable amount, the items of property, plant and equipment have to be revalued to account for their impairment. The recoverable amount is the higher of the net sales value or the value in use.

7.6.3 Investments

Investments are assets held by the company to increase its finance income through returns on investments over the short or long term.

In accounting for an ordinary purchase or sale of financial assets, such assets are recognised based on their settlement date (payment date).

After initial recognition, investments are carried at cost in the company's financial statements.

7.6.4 Operating receivables

Operating receivables mostly include receivables from products sold, services provided and from other assets sold. Long-term receivables fall due within a period that is longer than a year, whereas short-term receivables fall due within a year.

Receivables of all kinds are initially carried at amounts arising from relevant documents (invoices, debit notes, contrac-

ts) under the assumption that they will be collected. Original receivables may be subsequently increased or reduced by any contractually justified amount, irrespective of received payments or another form of settlement. In the balance sheet, receivables expressed in a foreign currency are converted at the reference exchange rate of the ECB for a corresponding currency on the last day of the accounting period.

Advances are recognised in the balance sheet in connection with items to which they relate.

The receivables for which it is assumed they will not be settled by their due date or in their full amount are considered doubtful receivables; if they result in legal action, they are considered disputed receivables. Allowances for receivables are made on an individual basis.

7.6.5 Deferred tax assets

Deferred tax assets are not recognised in the accounting records if, individually or collectively, the amounts of deferred tax assets are deemed immaterial or

insignificant. As a rule, deferred tax assets are recognised if the amounts are material (significant), to the extent it is probable that future taxable profit will be

available against which a deferred tax asset can be used in the future.

7.6.6 Assets (disposal groups) held for sale

A disposal group comprises assets whose carrying amount can be reasonably expected to be obtained primarily through disposal rather than their further use.

The items of property, plant and equipment and intangible assets which are valued using the cost model and which qualify for classification as available-for-sale assets (disposal group) are no lon-

ger depreciated or amortised; instead they are measured at the lower of their carrying amount or fair value less costs of sales.

7.6.7 Inventories

Inventories of materials are comprised of materials in the warehouse, in the process of completion or processing, or in transit from a supplier if already recorded by the company. Materials also include small tools (and packaging) with a useful life of up to one year, but may

also comprise small tools with a useful life exceeding one year if their individual cost does exceed EUR 500.

Inventories of materials are initially valued at cost, which is made up of the purchase price, import duties and other non-refundable purchase taxes, and

indirect purchase expenses. Non-refundable purchase taxes also include non-refundable value added tax. The purchase price is decreased by discounts obtained. The company has the following types of inventories: materials, small tools and unfinished or semi-fini-

shed products. Inventories also include advances for inventories.

The company uses the weighted average cost formula to assess the value of materials and small tools inventories

and to record costs and expenses.

The FIFO method is only used to assess the value of coal, gas and biomass used because coal, gas and biomass

that are purchased first are also used first. The company does not record coal, gas and biomass inventories.

7.6.8 Cash

Cash comprises ready cash, deposit money and cash in transit. Ready cash comprises cash on hand in the form of banknotes, coins and cheques received. Deposit money is money in accounts with banks or other financial institutions that can be used for payments. It comprises all readily available cash

and cash available at notice or with a maturity of up to three months. Cash in transit is cash being transferred from the cash register to an appropriate account held with a bank or other financial institution and which is not recorded as a credit balance in accounts with those institutions on the same day.

The carrying amount of an item of cash equals its initial nominal value, which can change if cash is denominated in foreign currencies, owing to changes in foreign exchange rates.

7.6.9 Off-balance sheet records

Off-balance sheet records include business events that have no direct impact on the items in the financial statements but are significant in terms of informing annual report users.

7.6.10 Equity

Equity represents funds provided by company owners as well as the company's liability to its owners. It com-

prises the amounts that the owners have invested in the company and the amounts that have been generated by

the company in its operations.

7.6.11 Long-term provisions and long-term accrued costs and deferred revenue

The purpose of provisions is to accumulate, in the form of accrued costs or expenses, the amounts that will be available to cover future costs or expenses when incurred. Such provisions include provisions for jubilee benefits and termination benefits on retirement. Provisions are set aside on the basis of a calculation prepared by a certified actuary.

Long-term accrued cost and deferred revenue items are created on the basis of assets obtained free of charge for investments in property, plant and equipment and in intangible fixed assets. Deferrals made in connection with investments in property, plant and equipment are credited to operating revenue based on the amount of accumulated depreciation.

Long-term accrued cost and deferred revenue items created in connection with emission coupons are credited to operating revenue based on the allocated share of coupons received free of charge in a financial year.

7.6.12 Debts

Debts can be financial and operating, and short-term and long-term.

On initial recognition, all debts are valued at amounts arising from relevant documents evidencing the receipt of cash or settlement of an operating debt.

Short-term and long-term liabilities of all kinds are initially carried at amounts which are evident from the relevant documents, on the assumption that

creditors demand their repayment. Liabilities are subsequently increased by accrued returns (interest, other considerations) if an agreement to that effect has been concluded with the creditor. Liabilities are reduced by the amounts repaid and any other settlements that may be agreed upon with the creditor. Long-term liabilities are also decreased by the portion that will have to be repaid in less than a year, this being recorded as a short-term liability.

Debts are not adjusted for the purchasing power of the national currency unless they are expressed in a foreign currency and there is a change in the foreign exchange rate, or if they are expressed in the national currency and the contracting parties have agreed on the revaluation to maintain the real value of debts.

7.6.13 Short-term accruals and deferrals

On the balance sheet date, the item of short-term accrued revenue and deferred costs comprised short-term deferred costs and short-term accrued revenue. The amounts of short-term deferred costs and short-term accrued revenue are justified and evident from relevant documents containing information on their inception.

On the balance sheet date, short-term accrued costs and deferred revenue specifically included accrued costs or expenses and value added tax on advances paid. They are evident from relevant documents containing information on their inception or are determined or estimated on the basis of the actual amount of these costs. If in real terms

these items are subsequently changed, costs incurred up to that moment or regular expenses are adjusted for the difference.

7.6.14 Recognition of revenue

Revenue is recognised if increases in economic benefits during the accounting period are associated with increases in assets or decreases in liabilities and those increases can be reliably measured. Revenue is recognised when it can be reasonably expected it will result in receipts, unless such receipts arose when the revenue was recorded. Revenue is comprised of operating, finance and other revenue.

Revenue from the sale of own products and services is measured on the basis of selling prices indicated in invoices and other documents, less discounts given at the time of the sale or afterwards.

Capitalised own products and services comprise services created within the company and recognised as property, plant and equipment together with the materials used.

Other operating revenue comprises government grants received for the purpose of acquiring fixed assets, emission coupons received from the state free of charge (under the Environment Protection Act), and premiums received for exceeding the disabled persons employment quota laid down in the Vocational Rehabilitation and Employment of Disabled Persons Act.

Revaluation operating revenue is revenue recognised upon the disposal of property, plant and equipment, and revenue recorded upon a decrease in the reversal of allowances for short-term receivables.

Finance income is revenue arising in connection with short-term investments and receivables. Finance income is recognised upon the settlement of accounts irrespective of receipts, unless there is reasonable doubt as to its amount, maturity and recoverability.

Other revenue is comprised of extraordinary items. They are disclosed in actual amounts.

7.6.15 Recognition of expenses

Expenses are recognised if decreases in economic benefits during the accounting period are associated with decreases in assets or increases in liabilities and such decreases can be reliably measured. Expenses are comprised of operating, finance and other expenses.

Operating expenses are recognised upon the purchase of goods or the completion of services.

Revaluation operating expenses represent the surplus of the carrying amount over the selling price of property, plant and equipment, as well as write-downs of property, plant and equipment and operating receivables.

Finance expenses are incurred in relation to debts, short-term investments and short-term receivables. They are recognised when statements of account

are prepared, regardless of payments associated with them.

Interest is recognised in proportion to the past year and with regard to the outstanding amount of the principal balance and the agreed-upon interest rate.

Other expenses are comprised of extraordinary items.

7.6.16 Cash flow statement

The cash flow statement is prepared using the direct method.

7.6.17 Statement of changes in equity

The statement of changes in equity is prepared according to Format II, i.e. in the form of a composite spreadsheet which presents changes in all equity components.

7.7 Notes to the financial statements

7.7.1 Notes to the balance sheet

Note 1

Intangible assets and long-term accrued revenue and deferred costs

EUR 22,150,085

in EUR	31.12.2008	31.12.2007	Index
Intangible assets	22,128,227	4,543,521	487
Other long-term accrued revenue and deferred cost items	21,858	18,114	121
TOTAL	22,150,085	4,561,635	486

Intangible assets

EUR 22,128,227

in EUR	31.12.2008	31.12.2007	Index
Licences and other software	624,107	432,769	144
Emission coupons	21,504,120	4,110,752	523
TOTAL	22,128,227	4,543,521	487

Amortisation rates of licences range between 7.6% and 50%, depending on their useful lives.

Pursuant to the Environment Protection Act, Ordinance on the National Plan for the Allocation of Emission Coupons for the period 2008-2007 and Decision on Emission Coupons, the state allocated to the company 21,504,120 emission coupons free of charge. The quantity of emission coupons divided proportionately by year is 4,300,824 coupons.

The company does not have any intangible fixed assets under finance lease or mortgage.

Changes in intangible fixed assets

COST	As at 01/01/2008	Increases	Disposals	Transfers between accounts	As at 31/12/2008
Licences and other software	510,129	199,069		194,785	903,983
Licences and other software in development	173,625	86,705		(178,558)	81,772
Emission coupons	4,110,752	22,302,185	(4,908,817)		21,504,120
TOTAL	4,794,506	22,587,959	(4,908,817)	16,227	22,489,875

VALUE ADJUSTMENT	As at 01/01/2008	Amortisation	As at 31/12/2008	NET CARRYING AMOUNT AS AT 31/12/2008	NET CARRYING AMOUNT AS AT 01/01/2008
Licences and other software	250,985	110,663	361,648	542,335	259,144
Licences and other software in development				81,772	173,625
Emission coupons				21,504,120	4,110,752
TOTAL	250,985	110,663	361,648	22,128,227	4,543,521

Note 2**Property, plant and equipment** EUR 296,907,851

in EUR	31.12.2008	31.12.2007	Indeks
Land	2,823,679	2,823,679	100
Buildings	38,978,790	36,403,098	107
Manufacturing plant and equipment	215,255,987	183,300,995	117
Other plant and equipment	4,250,791	2,258,272	188
Property, plant and equipment in the course of construction	33,729,768	66,692,660	51
Advances for acquisition of property, plant and equipment	1,868,836	4,065,000	46
TOTAL	296,907,851	295,543,704	100

The value of assets was assessed by certified appraisers based on the balance as at 31/12/2001. There was no indication of the impairment of assets in 2008.

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

Changes in property, plant and equipment

COST	As at 01/01/2008	Acquisitions	Disposals	Transfers between accounts	As at 31/12/2008
Land	2,823,679				2,823,679
Buildings	211,634,560		(2,605)	5,971,419	217,603,374
Manufacturing plant and equipment	953,503,655	154,474	(23,779)	53,794,665	1,007,429,015
Other plant and equipment	8,925,510	353,731	(222,521)	2,649,040	11,705,760
Property, plant and equipment in the course of construction	66,692,660	29,507,136	(23,000)	(62,447,028)	33,729,768
TOTAL	1,243,580,064	30,015,341	(271,905)	(31,904)	1,273,291,596

VALUE ADJUST-MENT	As at 01/01/2008	Deprecia-tion	Disposals	Trans-fers be-tween ac- counts	As at 31/12/2008	NET CARRYING AMOUNT AS AT 31/12/2008	NET CARRYING AMOUNT AS AT 01/01/2008
Land					2,823,679	2,823,679	
Buildings	175,231,462	3,409,573	(776) (15,675)	178,624,584	38,978,790	36,403,098	
Manufacturing plant and equipment	770,202,660	21,993,848	(23,480)	792,173,028	215,255,987	183,300,995	
Other plant and equipment	6,667,238	994,686	(206,955)	7,454,969	4,250,791	2,258,272	
Property, plant and equipment in the course of construction					33,729,768	66,692,660	
TOTAL	952,101,360	26,398,107	(231,211) (15,675)	978,252,581	295,039,015	291,478,704	

Land

There were no changes in the current year.

EUR 2,823,679

Buildings

The preponderant share of the increase in the value of buildings relates to the buildings and foundations of capitalised gas units in the amount of EUR 3,599,331, additional capitalisation of industrial water distribution system of EUR 1,034,854, and capitalisation of construction bases for flue gas recirculation at Unit 5 in the amount of EUR 758,484.

Production plant, machinery and other equipment

EUR 215,255,987

The bulk of the increase relates to the transfer of gas unit production equipment of EUR 46,586,544 from property, plant and equipment in the course of construction. Upon capitalisation, the company added the cost of a large overhaul performed after five years of operation to the value of this asset. Increases in the value of the production equipment also include the capitalisation of Unit 5 flue gas recirculation equipment in the amount of EUR 5,444,972.

Advances for property, plant and equipment

EUR 1,868,836

Advances for fixed assets represent advances given to suppliers in connection with investments in the reliability of production of Units 1-5 and the construction of the new Unit 6, and advances for other projects. The advances are disclosed in their gross amounts.

Property, plant and equipment in the course of construction

EUR 33,729,768

The bulk of the increase in fixed assets in the course of construction relates to investments in the construction of Unit 5 gas combined cycle amounting to EUR 23,488,089. Thanks to this investment, the company increased the unit's capacity by 84 MW and improved its efficiency. During the year, the plant was completed, tested and transferred to property, plant and equipment.

In 2008 the amount of capitalised projects totalled EUR 62,447,028. The total value of unfinished projects is EUR 33,729,768. The major part relates to a contract for an ongoing capital investment in 2007, which ensures that Unit 6 main technological unit will be delivered to TEŠ in the second half of 2014.

Changes in investments in property, plant and equipment in the course of construction

in EUR	As at 31/12/2008	Increases	Disposals	Transfers between accounts	As at 01/01/2008
Unit 5 gas combined system and GCS 5/gas	905,383	23,488,089		(50,185,875)	27,603,169
Investments in production reliability	1,284,731	2,261,697		(9,094,794)	8,117,828
Capital investment documents	384,625	61,720	(23,000)	(5,842)	351,747
Investments in Unit 6	29,254,674	1,363,875		(188,894)	28,079,693
PPE being acquired	1,900,355	2,331,755		(2,971,623)	2,540,223
TOTAL	33,729,768	29,507,136	(23,000)	(62,447,028)	66,692,660

The company financed the investments in property, plant and equipment from the capital increase by HSE of EUR 15,794,000 and from depreciation assets.

Note 3**Long-term investments**

EUR 213,636

in EUR	31.12.2008	31.12.2007	Index
Interests in associates	59,503	59,503	100
Other interests	154,133	154,133	100
TOTAL	213,636	213,636	100

Long-term investments are classified as available-for-sale financial assets. The value of long-term investments recorded in the balance sheet represents their cost.

Investments in interests of associates include a 26% interest in the company Erico.

Other interests represent funds invested in holiday homes (Krvavec, Rab, Portorož). The funds were invested and pooled at EGS Maribor (the legal successor of ELDOM d.o.o. Maribor).

Note 4**Long-term operating receivables**

EUR 161,921

in EUR	31.12.2008	31.12.2007	Index
Long-term advances given	98,144	94,823	104
Long-term receivables from apartment buyers	63,777	80,327	79
TOTAL	161,921	175,150	92

Long-term operating receivables are not secured and have not yet fallen due.

Breakdown of long-term operating receivables by maturity

in EUR	Amount of receivables	Up to 3 years	3 to 5 years	Over 5 years
Long-term advances given	98,144	3,679	3,000	91,465
Long-term receivables from apartment buyers	63,777	28,296	23,290	12,191

Note 5**Deferred tax assets**

EUR 427,742

in EUR	31.12.2008	31.12.2007	Index
Deferred tax assets	427,742	444,743	96

Deferred tax assets are recorded solely in connection with the creation of long-term provisions for jubilee benefits and termination benefits on retirement.

Note 6**Assets (disposal groups) held for sale**

EUR 201,723

in EUR	31.12.2008	31.12.2007	Index
Assets held for sale	201,723	201,723	100

Assets held for sale include a part of the Crikvenica holiday complex because it can be reasonably expected it will be settled with a sale.

Note 7**Inventories**

EUR 11,545,260

in EUR	31.12.2008	31.12.2007	Index
Materials	11,347,429	10,222,393	111
Small tools and packaging	172,295	157,061	110
Advances given for inventories	25,536	26,958	95
TOTAL	11,545,260	10,406,412	111

Inventories are mostly comprised of spare parts in the amount of EUR 8,444,777 and maintenance materials in the amount of EUR 2,245,069. These are needed to repair defects on the production equipment as soon as possible, thus ensuring the reliability of operation. Inventories mainly increased due to the purchasing of spare parts needed for the maintenance of new gas units.

After the inventory count of materials, surpluses of EUR 33,872 and shortages of EUR 7,731 were determined. The carrying amount of inventories does not exceed their realisable value.

Note 8**Short-term operating receivables**

EUR 61,942,385

in EUR	31.12.08	31.12.2007	Index
Short-term operating receivables from group companies – HSE	57,433,255	28,355,854	203
Short-term operating receivables from group companies – other	51,760	70,192	74
Short-term operating trade receivables	2,031,856	1,884,200	108
Short-term operating receivables from others	2,466,099	6,724,637	37
Allowance for operating receivables	(40,585)	(55,943)	73
TOTAL	61,942,385	36,978,940	168

On the balance sheet date, the fair value of operating receivables was equal to their carrying amount.

The greater part of receivables from group companies consists of receivables from Holding Slovenske elektrarne d.o.o. They arise from the sale of electricity and are secured with a blank bill of exchange.

The collateralisation of other receivables is not required due to their specific nature.

Breakdown of short-term operating receivables by maturity

in EUR	Amount of receivables	Not yet due	Up to 3 months overdue	3 to 6 months overdue	6 to 9 months overdue	More than 9 months overdue
Receivables from group companies – HSE	57,433,255	57,433,255				
Receivables from group companies – other	51,760	51,760				
Trade receivables	2,031,856	1,547,125	452,550	4,537	3,213	24,431
Receivables from others	2,466,099	2,378,728	17,049	26,872	40,194	3,256

Overdue and outstanding trade receivables represent receivables from a buyer of heat and from apartment rents.

Changes in allowances for receivables

in EUR	31.12.2008	Used	Created	1.1.2008
Trade receivables	37,446	33,562	15,538	55,470
Interest receivables	3,139	371	3,037	473
TOTAL	40,585	33,933	18,575	55,943

Allowances for receivables are made following an individual assessment of each receivable.

Note 9**Cash**

EUR 47,573

in EUR	31.12.2008	31.12.2007
Cash on hand	296	551
Cash in transaction account	1,277	350
Cash equivalents - deposits with maturity of up to 3 months	46,000	
TOTAL	47,573	901

Note 10**Short-term accrued revenue and deferred costs****EUR 10,753,104**

in EUR	31.12.2008	31.12.2007	Index
Short-term deferred costs and expenses	160,699	133,249	121
Short-term accrued revenue	10,592,405	16,404,753	65
TOTAL	10,753,104	16,538,002	65

Short-term deferred costs relate to services that were invoiced but not provided in 2008.

The preponderant share of short-term accrued revenue of EUR 10,430,004 relates to revenue arising from a change in the quantity of leased capacity in 2008 and the settlement of costs arising from the purchase of additional CO2 emission coupons based on Annex 3 to the contract 4/08/HSE/N for the purchase of coal, lease of capacity and purchase of electricity.

Note 11**Off-balance sheet records****EUR 277,562,012**

in EUR	31.12.2008	31.12.2007	Index
Off-balance sheet records	277,562,012	296,224,079	94

The company uses off-balance sheet records to record guarantees, collaterals, assignments of receivables, damages and other liabilities, liabilities to the company member and receivables from employee debts incurred in relation to small tools, tools, protective equipment and other.

The amount of liabilities to group companies recorded in off-balance sheet records totalled EUR 271,945,178. The liabilities mostly include liabilities to the company member HSE d.o.o. Ljubljana.

Note 12**Equity****EUR 258,858,911**

The company's total equity comprises nominal capital, capital surplus, revenue reserves, revaluation surplus and temporarily unallocated net profit for the year.

The accounting amount of the company's nominal capital is determined in the Articles of Incorporation and has been duly registered with the Court.

The nominal capital of the company totals EUR 118,021,759. In 2008 it was increased by an additional contribution of the company member in the amount of EUR 15,794,000. The payment was made on 17/06/2008, and on 03/07/2008 it was entered in the Companies Register.

Capital surplus totals EUR 116,883,008. It arises from the reversal of general equity revaluation adjustment.

Revenue reserves of EUR 15,374,920 comprise:

- legal reserves of EUR 1,387,129, which increased by EUR 901,859 in 2008 (in accordance with provisions of the Companies Act) pursuant to a decision of Managing Director and Supervisory Board;
- other revenue reserves of EUR 13,987,791. In accordance with a decision of the company member, other revenue reserves increased in 2008 by a portion of the 2007 retained earnings of EUR 810,066. Moreover, in accordance with a decision of Managing Director and Supervisory Board, other revenue reserves were also increased by a portion of the 2008 net profit of EUR 8,567,659.

In accordance with a decision of the company member, the 2007 retained earnings of EUR 4,610,066 were allocated as follows: EUR 810,066 to other revenue reserves and EUR 3,800,000 to the owner.

In accordance with a decision of Managing Director and Supervisory Board, the 2008 net profit or loss of EUR 18,037,177 was allocated as follows: EUR 901,859 to legal reserves, EUR 8,567,659 to other revenue reserves and EUR 8,567,659 to the company's accumulated profit.

Note 13**Provisions for pensions and similar liabilities****EUR 2,190,121**

in EUR	As at 31/12/2008	Created	Decreased	As at 01/01/2008
Provisions for jubilee benefits	813,192	122,552	(89,013)	779,653
Provisions for termination benefits	1,376,929	183,956	(48,932)	1,241,905
TOTAL	2,190,121	306,508	(137,945)	2,021,558

Long-term provisions represent provisions for jubilee benefits and termination benefits on retirement as determined by the actuarial calculation of 31/12/2008. At the end of the year, long-term provisions were adjusted to the amount needed for the settlement of envisaged future obligations.

The actuarial calculation is based on the following assumptions:

- 4.5% annual increase in average salary in the Republic of Slovenia,
- 7.65% annual discount interest rate.

Note 14

Long-term accrued costs and deferred revenue

EUR 24,799,637

in EUR	Funding source	As at 31/12/2008	Increases/ transfers between accounts	Decrease	As at 1.1.2008
Unit 4 flue gas desulphurisation plant	State budget	2,719,415		(388,492)	3,107,907
	EKO fond	2,830,411		(404,349)	3,234,760
Unit 5 flue gas desulphurisation plant	State budget	1,729,135		(133,010)	1,862,145
Unit 4 control system	Deferral of 1994 revenue	144,055		(14,407)	158,462
Emission coupons		17,203,296	21,504,120	(4,300,824)	-
Assigned contributions - the disabled		173,325	59,689		113,636
TOTAL		24,799,637	21,563,809	(5,241,082)	8,476,910

Long-term accrued costs and deferred revenue in the amount of EUR 7,423,016 arise from government grants received for the acquisition of fixed assets. They are utilised in proportion to accumulated depreciation.

Deferrals include emission coupons received free of charge from the state for the period 2008 to 2012. By the end of the year, the balance of emission coupons decreased by 4,300,824, which represents the proportionate share of the coupons for the year 2008. The proportionate share for individual years is laid down in the decision on emission coupons issued by the Environmental Agency of the Ministry of the Environment and Spatial Planning.

Deferrals arising from the exemption from the payment of contributions were created in accordance with the Employment of Disabled Persons Act. They are used to settle the costs indicated in the above Act.

Note 15

Long-term financial liabilities

EUR 44,011,497

in EUR	31.12.2008	31.12.2007	Index
Long-term loans taken out with domestic banks	30,416,667	38,266,080	79
Long-term loans taken out with foreign banks	13,594,830	17,479,110	78
TOTAL	44,011,497	55,745,190	79

Long-term loans are denominated in EUR. In 2008 the nominal interest rate on the loans ranged between 2.8% and 6.6%.

Maturity of long-term financial liabilities

in EUR
Maturity by 31/12/2010
Maturity between 01/01/2011 and 31/12/2012
Maturity after 01/01/2013

Changes in long-term financial liabilities

in EUR	As at 01/01/2008	Repayment of principal balances	Revalu- ation/ increase	As at 31/12/2008	Short-term portion	Long-term portion
Long-term loans taken out with foreign banks	25,809,076	8,329,966		17,479,110	3,884,280	13,594,830
Long-term loans taken out with domestic banks	50,603,393	12,701,934	(510)	37,900,949	7,484,282	30,416,667
Long-term loans taken out with others	5,121	5,147	26			
TOTAL	76,417,590	21,037,047	(484)	55,380,059	11,368,562	44,011,497

In 2008 the repayments of principal amounts and interest were made by observing the dates of maturity and in accordance with existing depreciation plans.

The portion of long-term financial liabilities of EUR 11,368,562, which falls due in 2009, was recorded under short-term financing liabilities.

Collateralisation of financial liabilities

in EUR	31.12.2008	31.12.2007
State guarantees	17,479,110	28,203,494
Assignments, pledge of receivables	26,095,393	35,708,976
Bills of exchange	11,805,556	12,505,120
TOTAL	55,380,059	76,417,590

On the balance sheet date, 31.6% of TPP Šoštanj's financial liabilities were secured with a state guarantee, 47.1% with assignments or pledged receivables, and 21.3% with bills of exchange.

Note 16

Long-term operating liabilities

EUR 14,418

in EUR	31.12.2008	31.12.2007	Index
Long-term operating liabilities	14,418	16,480	87

Long-term operating liabilities include liabilities to the Housing Fund of the Republic of Slovenia and the Slovene Compensation Fund arising from the sale of apartments under the Housing Act (OG RS 18/91).

Note 17

Short-term financial liabilities

EUR 11,368,562

in EUR	31.12.2008	31.12.2007	Index
Short-term portion of long-term loans taken out with domestic banks	7,484,282	12,337,314	60
Short-term portion of long-term loans taken out with foreign banks	3,884,280	8,329,966	47
Short-term portion of long-term loans taken out with other domestic entities		5,120	
TOTAL	11,368,562	20,672,400	55

On the balance sheet date, short-term financial liabilities consisted of principals of long-term debts that fall due in 2009 in accordance with loan agreements.

Note 18

Short-term operating liabilities	EUR 55,399,172		
in EUR	31.12.2008	31.12.2007	Index
Short-term liabilities to group companies	26,404,985	20,051,413	132
Short-term trade liabilities	15,400,141	16,089,053	96
Short-term liabilities to employees	1,261,859	1,219,024	104
Short-term liabilities to state and other institutions	12,221,464	8,160,875	150
Other liabilities	110,723	215,980	51
TOTAL	55,399,172	45,736,345	121

The largest share of liabilities to group companies consists of liabilities to Premogovnik Velenje d.d. for coal supplied between November and the end of the year, which totalled EUR 26,355,901. The liabilities were not yet due on the balance sheet date.

Trade liabilities relate to the materials supplied, services rendered and investments in property, plant and equipment.

The largest share of short-term liabilities to state and other institutions relates to VAT liabilities for December 2008 amounting to EUR 5,051,192 and corporate income tax liabilities amounting to EUR 2,169,401.

Short-term liabilities to state and other institutions also include a carbon tax liability. In 2008 the liability totalled EUR 4,798,171 (1 coupon per ton of CO₂) and has to be settled by 30/04/2009.

The company normally settles its liabilities in due time; overdue or outstanding liabilities amount to only EUR 8,643.

Note 19

Short-term accrued costs and deferred revenue	EUR 7,708,962		
in EUR	31.12.2008	31.12.2007	Index
Accrued costs and expenses	7,708,962	3,568,229	216

The predominant share of the increase in accrued cost and deferred revenue items relates to the accrued costs of emissions coupons.

7.7.2 Notes to the income statement

Costs by functional group	EUR 232,335,478		
in EUR	2008	2007	Index
Production costs of quantities sold	220,544,343	181,948,902	121
General and administrative costs	11,755,923	9,823,119	120
Cost of sales	35,211	28,464	124
TOTAL	232,335,477	191,800,485	121

In accordance with SAS 25.25, the company broke down the costs by functional group because the income statement was prepared using Format I.

Note 1

Net sales revenue	EUR 251,042,990		
in EUR	2008	2007	Index
Sales of electricity and heat	249,923,883	200,750,647	124
Sales in foreign markets	77,007	38,462	200
Sales of services - other	696,574	1,173,387	59
Sales of materials	345,526	457,758	75
TOTAL	251,042,990	202,420,254	124

Net sales revenue in the amount of EUR 251,042,990 was carried at invoiced amounts. The predominant share of revenue (99.6%) was generated through electricity and heat sales.

Note 2

Capitalised own products and own services	EUR 185,044		
in EUR	2008	2007	Index
Capitalised own products and own services	185,044	6,175,100	3

Capitalised own products and services relate to materials used and internal work performed in relation to capital investments in the combined cycle and other investments. In 2007 capitalisation included capital expenditure on Unit 5 (overhaul).

Note 3

Other operating revenue	EUR 5,416,054		
in EUR	2008	2007	Index
Revenue from reversal of provisions		896,667	
Subsidies, grants - for FA	940,258	1,015,848	93
Emission coupons	4,300,824	4,190,176	177
Premium for exceeding disabled persons employment quota	20,474	11,585	177
Revaluation operating revenue	154,498	230,896	67
TOTAL	5,416,054	6,345,172	85

Under the decision on emission coupons issued by the Ministry of the Environment and Spatial Planning, revenue from emission coupons in the amount of EUR 4,300,824 was recognised in the proportionate share for 2008.

Note 4

Costs of materials and services

EUR 170,768,633

in EUR	2008	2007	Index
Costs of materials	150,072,021	120,899,936	124
Costs of energy	27,204	25,899	105
Other costs of materials	3,638,086	8,936,337	41
Costs of PPE maintenance services	9,766,678	7,867,463	124
Costs of other services	7,264,644	7,051,654	103
TOTAL	170,768,633	144,781,289	118

The predominant share of the 2008 costs of materials relates to the consumption of coal as an energy product used for the production of electricity and heat, and contingent costs of coal. In addition to coal, the company also used gas and biomass to produce electricity.

The costs of services associated with the maintenance of property, plant and equipment include the costs of regular maintenance of EUR 6,961,656 and the costs of overhaul (periodic and repair of Unit 3 turbine) of EUR 2,805,022.

Other costs include the costs of:

- annual report audit of EUR 33,316,
- tax consulting services of EUR 3,457.

Note 5

Labour costs

EUR 17,396,561

in EUR	2008	2007	Index
Salaries	10,152,209	9,299,277	109
Salary compensation	2,634,786	2,377,977	111
Costs of supplementary pension insurance	595,390	550,278	108
Other employee receipts, benefits, refunds	1,576,927	1,594,848	99
Employer's contributions on overall employee receipts	2,153,742	1,974,768	109
Payroll tax	283,507	487,236	58
TOTAL	17,396,561	16,284,384	107

Labour costs are based on the collective labour agreement and employment contracts. Salaries are comprised of the fixed pay, allowances (for less favourable working hours, environment impacts, etc.) and the variable pay which reflects performance.

Salary compensations include compensations for absence resulting from illness, annual leave, training and other. Employees are entitled to compensation either on the basis of the Employment Relationship Act, collective labour agreement or employment contract.

The costs of supplementary pension insurance relate to the co-funding of the pension scheme by the employer under the contract for the establishment of voluntary supplementary pension insurance scheme entered into by Termoelektrarna Šoštanj d.o.o. and TPP Šoštanj trade union. The pension scheme labelled PN1 is operated by the company Kapitalska družba pokojninskega in invalidskega zavarovanja d.d., Ljubljana.

Other employee receipts, benefits and refunds relate to annual leave allowances, termination benefits and other.

Note 6

Write-downs in value

in EUR	2008	2007	Index
Depreciation and amortisation	26,508,769	26,033,695	102
- intangible fixed assets	110,663	99,491	111
- buildings	3,409,573	4,272,231	80
- equipment and spare parts	22,988,533	21,661,973	106
Revaluation operating expenses	51,619	3,238,205	2
- property, plant and equipment	33,043	3,216,945	1
- receivables	18,576	21,260	87
TOTAL	26,560,388	29,271,900	91

Accumulated depreciation or amortisation for the year 2008 totals EUR 26,508,769 and was accounted for at depreciation/amortisation rates determined after the appraisal or impairment of fixed assets in 2001 or at rates applicable to new purchases and required by an internal customer.

Revaluation operating expenses of EUR 51,619 relate to:

- revaluation operating expenses of EUR 23,000 arising from the write-down of investments and study documents before 2008. The documents were written down because no further economic benefits were expected to arise from them;
- write-down of unusable goods in the amount corresponding to their net carrying amount (EUR 10,043). The assets were written down because they were worn out, and technologically and economically obsolete. The assets were discontinued or disposed of;
- impairment of receivables due to doubt as to their repayment or due to the excess of the carrying amount over expected realisable value of receivables, which amounted to EUR 18,576.

Note 7

Other operating expenses

in EUR	2008	2007	Index
Charges unrelated to labour costs or other costs	2,577,739	2,785,524	93
Environment protection expenditure	14,874,430	7,997,966	186
Provisions for termination and jubilee benefits	306,508		
Other costs	87,881	92,728	95
TOTAL	17,846,558	10,876,218	164

The predominant share of charges relates to the liability arising from the payment of the building site fee.

Environment protection expenditure comprises emission coupon costs of EUR 12,186,819. According to estimates, the company produced 4,798,171 tons of CO₂ during the year. In accordance with the Environment Protection Act, the company is obliged to hand over to the state 4,798,171 emission coupons.

The costs thus include 4,300,824 coupons worth 1 euro each. The costs of EUR 7,887,923 relate to accrued operating expenses for additional emission coupons purchased in 2008. The decrease in the costs by EUR 1,928 relates to the deletion of emission coupons from the register in April 2008.

Note 8**Finance income**

EUR 293,266

in EUR	2008	2007	Indeks
Income from loans given	198,166	85,227	233
Income from operating receivables	95,100	18,446	516
TOTAL	293,266	103,673	283

Income from loans given relates to interest on time deposits with commercial banks.

Note 9**Finance expenses**

EUR 3,899,182

in EUR	2008	2007	Indeks
Expenses for financial liabilities	3,890,648	3,211,189	121
Expenses for operating liabilities	8,534	887	962
TOTAL	3,899,182	3,212,076	121

The predominant share of financial liabilities is comprised of interest expense of EUR 3,890,648 arising from long-term loans. Interest was accounted for in accordance with the contract entered into by the lender and the borrower.

Note 10**Taxes**

EUR -2,186,402

in EUR	2008	2007
Corporate income tax	(2,169,401)	
Deferred taxes	(17,001)	(252,373)
TOTAL	(2,186,402)	(252,373)

In accordance with provisions of the Corporate Income Tax Act, the company's 2008 profit was taxed at 22% of the taxable base reported in the company's tax return.

Deferred tax assets were created on the basis of the amount of long-term provisions for jubilee benefits and termination benefits on retirement. Deferred tax assets increased by EUR 17,001 compared with the previous year.

7.7.3 Cash flow statement

The cash flow statement for 2008 was prepared in accordance with SAS 26 Format I and comprises all cash receipts and disbursements for the period 1 January to 31 December 2008.

Cash broken down by subgroup was as follows:

in EUR	2008	2007
Cash flows from operating activities	48,694,169	38,169,837
Cash flows from investing activities	(35,629,852)	(81,292,878)
Cash flows from financing activities	(13,017,645)	43,120,242

The cash flow statement shows that net cash from operating activities totalled EUR 48,694,169. The entire amount was used to cover disbursements arising from investing and financing activities. The bulk of all receipts relates to operating activities (93.3%), followed by receipts from financing activities (6.6%), and receipts from investing activities (only 0.1%). The company did not take out additional loans in 2008, but there was a EUR 15,794,000 capital increase carried out by the parent company.

7.7.4 Statement of changes in equity

The statement of changes in equity is prepared according to Format II, i.e. in the form of a composite spreadsheet which presents changes in all equity components.

The composite spreadsheet containing changes in equity shows:

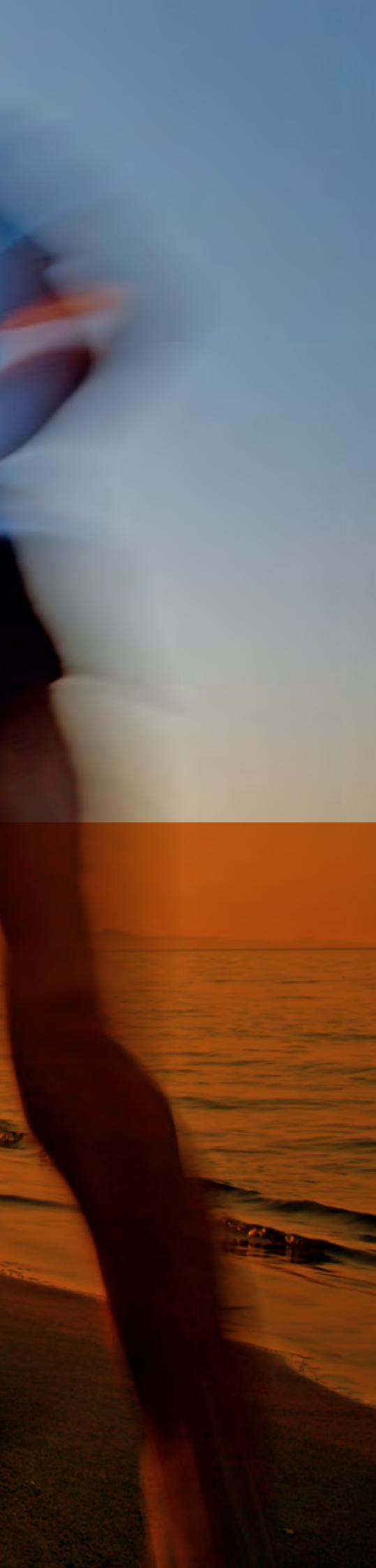
■ the balance of equity as at 01/01/2008	EUR 228,827,734	
■ movements to equity	additional paid-in capital in the amount of	EUR 15,794,000
	net profit or loss for the year in the amount of	EUR 18,037,177
■ movements within equity	allocation of portion of net profit or loss for the year 2007 to other revenue reserves in the amount of	EUR 810,066
	creation of legal reserves in the amount of	EUR 901,859
	allocation of portion of net profit for 2008 to other revenue reserves in the amount of	EUR 8,567,659
■ movements from equity	payment of portion of retained earnings for the year 2007 to the company member in the amount of	EUR 3,800,000
■ the balance of equity as at 31/12/2008	EUR 258,858,911.	

Presentation of accumulated profit/loss:

in EUR	
Net profit or loss for the period	18,037,177
- creation of legal reserves from profit	901,859
- increase in other revenue reserves	8,567,659
= Accumulated profit	8,567,659

A wide-angle photograph capturing a stunning sunset or sunrise over a coastal landscape. The sky is filled with warm, golden-orange hues, transitioning into a darker blue at the top right. In the foreground, dark, silhouetted hills roll towards the horizon. To the right, a large expanse of water reflects the vibrant colors of the sky. The overall atmosphere is serene and hopeful.

**NATURE GIVES US HOPE
FOR TOMORROW**



The environment is full of sources of energy, large and small. They might seem self-evident today, but tomorrow they will be priceless. At the Šoštanj thermal power plant, we have long been aware that caring for the environment is the key to a good future. We try to spread awareness that the energy we gain from our environment is an important gift ■

7.8 Other disclosures

7.8.1 Information about specific employee categories

Information about management, Supervisory Board and employees with contracts that are not subject to the tariff part of the collective labour agreement

Remuneration

in EUR	2008	2007
Management Board	135,229	107,925
Employees with contracts not subject to the tariff part of the collective agreement	548,792	471,717
Supervisory Board Members	34,923	19,817

Remuneration of management and employees who are not subject to the tariff part of the collective labour agreement comprises:

- gross receipts contained in the income tax return notice,
- other receipts,
- premiums paid for voluntary supplementary pension insurance.

The receipts of Supervisory Board members relate to gross amounts of meeting fees and travel costs.

Operating receivables

in EUR	Interest rate	Repay- ment date	2008	2007
Other employees with contracts not subject to the tariff part of the collective agreement	Value of unit used for determining the value of apartments	2020	23,724	26,065

7.9 Appendices to the annual report

7.9.1 Balance sheet presented by business segment as at 31/12/2008

in EUR	TEŠ total	Electricity production BS	Steam and hot water supply BS	Canteen BS	Social standard BS
TOTAL ASSETS	404,351,280	400,147,734	2,910,601	369,959	922,986
Long-term assets	319,861,235	318,009,513	928,020	348,321	575,381
Current assets	73,736,941	71,385,117	1,982,581	21,638	347,605
Short-term accrued revenue and deferred costs	10,753,104	10,753,104			
TOTAL LIABILITIES	404,351,280	398,659,928	2,962,827	567,321	2,161,204
Equity	258,858,911	253,477,491	2,798,390	470,787	2,112,243
Provisions and long-term accrued costs and deferred revenue	26,989,758	26,910,929	32,512	46,317	
Long-term liabilities	44,025,915	44,011,497			14,418
Short-term liabilities	66,767,734	66,551,049	131,925	50,217	34,543
Short-term accrued costs and deferred revenue	7,708,962	7,708,962			
RECEIVABLES FROM/LIABILITIES TO BUSINESS SEGMENTS	1,487,807	-52,226	-197,362	-1,238,218	

7.9.2 Income statement presented by business segment for the year 2008

in EUR	TEŠ TOTAL	Electricity production BS	Other business segments
Net sales revenue	251,042,990	246,202,730	4,840,260
Other revenue	6,650,546	5,744,713	905,833
TOTAL REVENUE	257,693,536	251,947,443	5,746,093
TOTAL EXPENSES	237,469,957	232,194,793	5,275,164
Total taxes	-2,186,402	-2,135,286	-51,116
PROFIT OR LOSS	18,037,177	17,617,364	419,813

Note: In the income statement presented by business segment, revenue and expenses also include internal sales.



TERMOELEKTRARNA ŠOŠTANJ, d.o.o.

Šoštanj, Cesta Lole Ribarja 18
T: +386 3 8993 100
F: +386 3 8993 485
www.te-sostanj.si