Skupina hse

TERMOELEKTRARNA
ŠOŠTANJ

FOR ME
FOR YOU
FOR SLOVENIA

ANNUAL REPORT 2011

FOR ME. FOR YOU. FOR SLOVENIA.

TERMOELEKTRARNA
ŠOŠTANJ

Skupina hse

... since 1956

For life full of energy. For a sense of freedom and satisfaction. For meeting our needs and desires.
In the Šoštanj Thermal Power Plant we have been producing electric energy since 1956 and we provide from ⅓ to ½ of electricity to cover the needs of entire Slovenia. Since we cannot afford to run out of electricity, the auto-production is of even greater importance. For reliable, economic and safe supply.

For me. For you. For Slovenia. A full circle connecting us all. For all the best now and in the future.

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PROLOGUE

Termoelektrarna Šoštanj d.o.o. is the largest thermal production facility in the Holding Slovenske elektrarne Group. Its core activity is the electricity and thermal energy production for district heating. With a net output of 687 MW, TEŠ produces approximately one third of the country's energy and in critical periods it can meet more than half of national demand. The average annual electricity production ranges between 3,500 and 3,800 GWh. The average annual thermal energy production for Šalek Valley district heating ranges from 400 to 450 GWh. The abovementioned annual electricity and thermal energy production requires between 3.5 and 4.2 million tons of coal and approximately 60 million Sm3 of natural gas. In terms of output, TEŠ is comparable to similar thermal power plants in Europe, while in terms of unit operating availability it even outperforms them. Construction of the replacement Unit 6, a 600 MW production facility, will further contribute to TEŠ's efficiency.

The cornerstone of our activities is respect for past achievements, taking into account our experience and previous work. On the basis of experience and expertise acquired, TEŠ is oriented towards the future taking into account the latest discoveries in our field.

The company's operations are based on the adopted long-term development plans with an emphasis on construction of 600 MW Unit 6 by the end of 2014. The replacement Unit 6 will use approximately 30 % less coal for the same amount of energy produced and therefore total environmental emissions will be considerably lower. The replacement Unit 6 will emit 35 % less CO2 than the existing units of TEŠ for the same amount of energy produced. The construction of Unit 6 will result in decreased level of environmental pollution, improved quality and energy efficiency and it will enable the power plant to achieve compliance with international standards of Best Available Techniques (BAT).

Dear all!

The financial year 2011 saw an additional exacerbation of circumstances on financial markets, which is reflected especially in the increased borrowing costs of growing number of EU member states in the Euro zone and in the limited access to financing resources of both countries and business entities. Despite difficult conditions on the markets, the Šoštanj Thermal Power Plant ended the financial year 2011 successfully.

Together we created 6.1 million EUR of net profit in 2011, which is by 1.8 million EUR more than a year before. A better result is to a great extent the consequence of efficient cost management. The highest cuts were made in the field of service costs while labour costs went slightly up, mainly due to the extreme commitment by the employees in implementing the investment.

The results of this financial report were made possible by all the employees of the Šoštanj Thermal Power Plant and I am convinced that without their commitment and responsibility we wouldn't be able to achieve these results. In 2011 we produced 3,778.7 GWh of electrical energy and generated income in the amount of 233,618,937 EUR.

In the Šoštanj Thermal Power Plant we will remember the year 2011 mostly for the initiation of construction works on the replacement Unit 6. By executing this high energy-efficient project, we will reduce both emissions and the consumption of coal, which in turn will contribute to substantially better operational efficiency after 2014.
In order to ensure a more successful operation in the future, we started adapting working processes in 2011 which was unavoidable due to the construction of the new Unit 6 and the imminent shutting-down of Units 3 and 4. I believe this was an important step in the development of our company.
Unfortunately, due to the political situation in Slovenia, in 2011, we were not able to attain an important goal, i.e. to obtain a sovereign guarantee for the insurance of European Investment Bank loan in the amount of 440 million EUR for Unit 6. The adoption of Sovereign Guarantee Act is – for the insurance of liabilities of a long-term loan under extremely favourable conditions – of key importance and is among our priorities in 2012.

Today more than ever before we can affirm that there is no easy solution to Unit 6, which could replace the production of one third to one half of electric energy to cover the needs of entire Slovenia and provide safety and independency of the Slovene power supply system. Natural resources available in Slovenia are limited. Furthermore, the siting of spatial arrangements in physical space is often a long-lasting process with unsuccessful outcome.

During the years of the construction of Unit 6 we will all be faced with additional workloads, which will be a long haul in terms of content, organization and logistics. In this context the contribution of every single employee is important and valuable. I am convinced that with a will, determination and positive attitude we can implement all the plans we made.

Simon Tot, MSc
Managing Director

FOR ME.

Because I am aware of the fact that without electricity the world around me no longer exists. Every single day, electricity starts up my way of life. I can work, create and grow. I can lead the life I want.

The need for electricity has become one of the key needs of everyday life. All the time, from morning till evening and even over night it fulfils our needs. From the first heating-up of water to make a cup of tea, electric shaver or hair dryer in the morning to working with computer or reading a book in the evening. It is like a fairy that makes our wishes come true - a fairy which is always there for us.

1 INTRODUCTION

1.1 REPORT OF THE SUPERVISORY BOARD

Pursuant to provisions of Article 282 of the Companies Act (ZGD-1), the Supervisory Board of Termoelektrarna Šoštanj d.o.o. hereby informs the founder of the following:

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

In the 2011 financial year, the Supervisory Board was comprised of:

- Janez KERŽAN, M.Sc. – president;
- Dr Dean BESEDNJAK – deputy president;
- Franc ROSEC – member, workers' representative;
- Dr Vladimir Malenković – member (since 6 April 2011);
- Aljoša Tomaž – member (since 6 April 2011);
- Branko Sevčnikar – member, workers' representative (since 10 May 2011).

In the 2011 financial year, the structure of the Supervisory Board was changed. Following the decision by the Supervisory Board adopted at the 15th irregular meeting on 5 January 2011, Janez KERŽAN, M.Sc., was elected president, while Dr Dean BESEDNJAK was elected deputy president.

In the 2011 financial year, the company was represented and managed by the Managing Director, Simon TOT, M.Sc., who was appointed by the Supervisory Board at its 12th irregular meeting on 11 November 2010.

In the 2011 financial year, the Committee for Active Supervision of the Investment Unit 6 at TEŠ was comprised of the following members: Dr Dean Besednjak (president), Dr Vladimir Malenković, Franc Rosec (until 10 October 2011), Anton Urankar, M.Sc., (since 11 October 2011) and Edvard Poš.

The Committee met regularly on a weekly basis, oversaw the activities associated with the project and regularly reported its findings to the company's Supervisory Board and TEŠ's and HSE's management.

1. Monitoring and supervision of company operations

In the period under consideration, the Supervisory Board monitored and oversaw the company's operations on 10 regular, 8 irregular and 2 correspondence meetings.

The company TEŠ d.o.o. is one of the key members of the HSE Group and therefore the corporate governance is significantly affected by the fact that the company is fully owned by HSE d.o.o. Taking into account the fact that the company TEŠ is the investor of the largest energy project in Slovenia, the replacement Unit 6, it is clear that due to the effect of its operations on the entire HSE Group its operations are also monitored by the controlling company's bodies. TEŠ's Supervisory Board is aware of the fact that by issuing a parent guarantee and providing for capital increases, both HSE as well as all the HSE Group – through HSE – have accepted a great deal of responsibility in relation to the investment in Unit 6 and therefore a lot of attention is being devoted to ensuring coordination at the level of the HSE Group. Quick exchange of key information is also enabled by meetings of HSE Group's managing directors which are held on a regular basis and contribute significantly to prompt response to changes. In order to allow for the greatest transparency possible, the founder introduced another mechanism for regular identification/alleviation of issues by appointing a Committee for Active Supervision of the Unit 6 investment in 2009 which reports to the management of HSE and the Supervisory Board of TEŠ on a weekly basis. In addition, a coordinating financial team of HSE and TEŠ for optimisation of financial construction of Unit 6 and minimising financing costs was appointed which is in charge of coordination of demanding financial activities on the Replacement Unit 6 project. All of this provides for systematic and comprehensive oversight of the company's operations.

The work of the Supervisory Board was focused on careful monitoring of financial, technical and other information required in order to assess the adequacy of the company's operations. While performing its duties, the Supervisory Board considered the recommendations of the Committee for Active Supervision of the Investment. The latter reports to the Managing Director of HSE. In this manner, the TEŠ's Supervisory Board, in accordance with its competences, contributed to the fundamental goal of the company's sole owner for the investment to be carried out in the best way possible and the negative developments to be neutralised.

The key points in relation to the project addressed by the company's Supervisory Board in 2011 were:

a) the approval of the requestor's decision on adopting tender documents for the performance of construction work for the main technological facility Unit 6 at TEŠ;
b) the approval of the lease of a long-term loan from the European Bank for Reconstruction and Development (EBRD) in the amount of EUR 200,000,000.00;
c) the approval of conclusion of Annex no. 2 to the Contract for the Supply of Main Technological Equipment for Unit 6 signed as at 27 June 2008 between Termoelektrarno Šoštanj d.o.o., Alstom Power Centrales S.A. and Alstom Power Systems GmbH;
d) an approval of conclusion of the contract on assignment of receivables and contract on pledge of accounts and account assets;
e) an approval of the proposition of the 2011 Business Plan of the company (3 March 2011, at 54th regular SB meeting at TEŠ);
f) approval of conclusion of the Contract for Insurance of the Construction of Unit 6;
g) performance of construction work for MTE of the Unit 6 facility;
h) approval of the Revised Investment Programme (4th Revision) to build a replacement of a 600 MW Unit 6 at TE Šoštanj;
i) getting acquainted with the findings from the report of the PWC company on managing transactions at TEŠ d.o.o., with a legal opinion on activities with regard to PWC d.o.o. report on the review of the Unit 6 project and with activities of the company's management. On the basis of its findings, the SB proposed to the company's management to adequately assess the findings in the sense of sound management and takes appropriate measures in order to protect the company's interests;
j) getting acquainted with studies and reports in relation to the investment in the replacement Unit 6 at TEŠ, among other things, with the final report on coal inventories and the study on revitalisation of Units 4 and 5 and reviews of the studies;
k) getting acquainted with legal opinions on the situation of public requestor under the Public Procurement Act with regard to water, energy, transport and post services as well as Directive 2004/17/ES;
l) the approval of conclusion of Annex no. 3 to the Contract for the Supply of Main Technological Equipment for Unit 6 signed as at 27 June 2008 between Termoelektrarna Šoštanj d.o.o., Alstom Power Centrales S.A. and Alstom Power Systems GmbH;
m) approval of the amendment to the Contract of the supply of MTE for Unit 6 signed as at 27 June 2008 among Termoelektrarna Šoštanj d.o.o., Alstom Power Systems S.A. and Alstom Power Systems GmbH – Annex no. 4 (Amendment no. 4) in variation no. 10.

The Supervisory Board thoroughly examined the bases for adopting decisions as well as compliance with Articles of Incorporation and the company's development plan, particularly with respect to the project for the construction of replacement Unit 6. When performing its supervisory function, the board also considered the implications of the financial and economic crisis which required even closer monitoring of operations on all levels. In addition, the Supervisory Board carefully monitored the company's liquidity and solvency management. It required that the company's management regularly informs the Supervisory Board on alternative financing sources in case of longer time delay or non-issuing of the government guarantee for financing of replacement Unit 6 and got acquainted with this information. It was also regularly informed on the effects of negotiations with the key supplier, the company Alstom. A special attention was also devoted to verification of management of risks, to which the company is exposed in the course of performing its engagements. Here, an important role is played by the Risk Management Committee, while the signed Constitutional Act on Internal Audit Operations within the companies of the HSE Group will also have a positive effect.

Other significant issues addressed by the company's Supervisory Board in 2011 are:

a) the 2010 Annual Report of the company is adopted;
b) quarterly reports on company's operations;
c) approvals for short-term borrowing within the HSE Group ("Cash Management");
d) legal transactions involving the purchase of coal, lease of capacity and purchase of electricity,
e) other legal transactions.

2. Position on the Auditor's Report and examination of the 2011 Annual Report of the company

The audit of the 2011 Annual Report of the company TEŠ was performed by Deloitte Revizija, d.o.o., which issued a positive, unqualified opinion.

From the independent auditor's report on the 2011 Annual Report it is evident that the financial statements present fairly, in all material respects, the financial position of the company and its financial performance and cash flows for the year 2011, and that the business report is consistent with the audited financial statements.

The TEŠ's Supervisory Board was also acquainted with the auditor's warning – "Emphasis on Matters", where the audit company Deloitte Revizija, without qualifying its opinion, drew attention to Note 4.12.2 "Liquidity Risk" to financial statements where the company TEŠ disclosed that it was exposed to high operational risk of non-issuing of the government guarantee or risk of time delay in issuing of the government guarantee to EIB for the loan in the amount of EUR 440 million. The abovementioned risk is connected to high liquidity risk. Management of the abovementioned risks by the management is disclosed in Note 4.12.2 to financial statements. The financial statements do not include potential adjustments that may have been the consequence of this uncertainty.
Within the framework of its operations, the TEŠ's Supervisory Board constantly devoted attention to the management of liquidity risk in the event of possible non-issuing of the government guarantee by the company's management and often required that the company's management, in accordance with sensible use of provisions of Article 30 and related articles of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP), performs all adequate and necessary measures for risk management to which the company is or could be exposed in the course of its operations.

Taking into account the review of the auditor's report and explanations given at Supervisory Board's meetings, the Supervisory Board of TEŠ has no objections to the auditor's report.
Within the scope of annual report examination, the Supervisory Board also reviewed the report on relations with related companies. Based on explanations received from the management and the auditor's findings that the information in the report are complete and correct, the Supervisory Board has no objections to the report of the Managing Director.

The 2011 annual report was discussed in detail also by the Audit Committee of the TEŠ's SB at its first regular meeting on 29 June 2012. The Audit Committee proposed to the Supervisory Board to approve the 2011 Annual Report.

Based on thorough review of the 2011 Annual Report and on the basis of explanations provided at the Supervisory Board's meeting, it is the Supervisory Board's assessment that the development goals determined by the founder are being met despite the unstable economic environment and not yet acquired government guarantee for financing of the replacement Unit 6 and that the company's operations were in line with the business plan of TEŠ for 2011 as adopted by the founder.

Based on regular monitoring of TEŠ's operations, a positive audit opinion, the achieved objectives from the 2011 business plan, opinion by the Audit Committee of TEŠ's Supervisory Board and in line with its competences, the Supervisory Board of the company TEŠ, after final review, raises no objections to and approves the Annual Report of TEŠ for 2011.

The company's Supervisory Board underlines the fact that from the issue of the independent auditor's report as at 17 May 2012 to the meeting of the Supervisory Board on 29 June 2012, where it approved the 2011 Annual Report, the National Assembly of the Republic of Slovenia has not yet adopted the key decision in relation to the government guarantee to EIB for the loan in the amount of EUR 440 million. However, the company's Managing Director expects the law to be adopted in June 2012.

3. Examination of the proposal on allocation of accumulated profit

The Supervisory Board was informed that the net profit for the 2011 financial year totalled EUR 6,060,686.74, of which EUR 303,034.34 was used for creation of legal revenue reserves, EUR 2,878,826.20 was used for creation of other revenue reserves, while the remaining, unallocated part in the amount of EUR 2,878,826.20 represents the company's accumulated profit.

Based on the company's strategic objectives and investment policy, the Supervisory Board of TEŠ agrees with the management's proposal submitted to the founder that the entire accumulated profit of EUR 2,878,826.20 be allocated to other revenue reserves.

Further on, the Supervisory Board proposes to the founder that a discharge from liability should be granted to the management and the Supervisory Board as regards the operations in the year 2011.

The Supervisory Board of the company prepared the report in accordance with Article 282 of the Companies Act. The report addressed to the company's founder.

On behalf of the Supervisory Board,

President of the
Supervisory Board:
Janez KERŽAN, MSc

Šoštanj, 29 June 2012

1.2 OPERATING HIGHLIGHTS OF THE COMPANY IN 2011

In 2011, the operations of Termoelektrarna Šoštanj were successful despite the deteriorated economic situation. The set goals were mainly achieved in many areas, which is also evident in net operating profit that exceeded the one projected in our business plan. The power plant operated safely and reliably, without unexpected major interruptions.

We are aware that we must continue our chosen path of development and that this path is riddled with challenges for which we must be prepared. Our priorities remain socially responsible activities, successful construction of 600 MW Unit 6, provision of sufficient financial sources for investment as well as day-to-day operations and further streamlining of operations.

ITEM	REALISATION 2011	REALISATION 2010	Index
Net sales revenue (in EUR)	233,618,937	242,009,537	97
Net profit or loss (in EUR)	6,060,687	4,202,406	144
Revenue (in EUR)	244,111,803	247,461,595	99
EBIT = operating profit or loss (in EUR)	8,818,335	6,657,120	132
Assets (in EUR)	859,641,851	541,317,060	159
Equity (in EUR)	362,807,700	348,575,114	104
Cash flow from operating activities (in EUR)	74,465,365	61,515,331	121
Investments (in EUR)	348,566,417	110,528,944	315
Number of employees at the end of the period	477	488	98
Electricity sold (in GWh)	3,779	3,946	96
Net return on equity ratio (ROE)	0.017	0.012	140
Net return on assets ratio (ROA)	0.009	0.008	104

In 2011, TEŠ generated EUR 233,618,937 in net sales revenue. Compared to 2010, the net sales revenue decreased by 3 % due to lower electricity production since the large-scale overhaul of Unit 5 was performed in 2011.

Company's net profit or loss amounted to EUR 6,060,687, which is 44 % more than in the previous year. In 2011, profit after tax increased in comparison with 2010, which is mostly the result of efficient cost management.

In 2011, the assets in the amount of EUR 859,641,851 increased by 59 %, mainly due to investments in construction of the replacement Unit 6. In 2011, it was particularly busy at the construction site where the preparatory work was completed, while the construction work began at the cooling tower and main technological facility. A great emphasis is given to quality assurance of work performed.

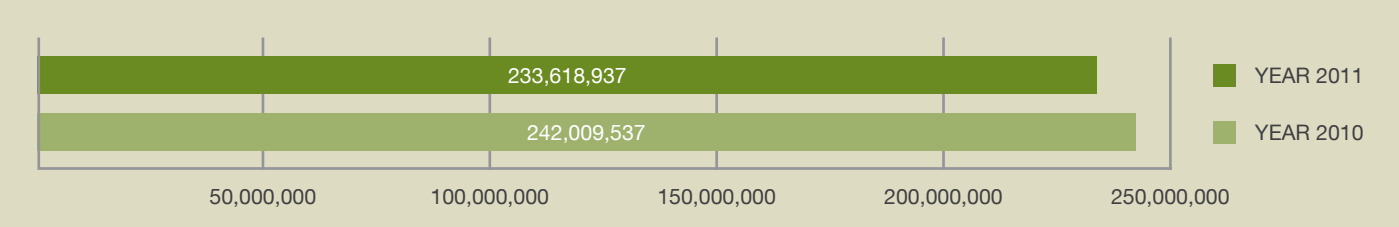
In terms of investments, we limited ourselves to most urgent issues. Thus, the large-scale overhaul of the Unit 5 and GT 2 was performed. The worn-out equipment of Unit 5 generator was replaced and some investments in reliable production were completed. We continued performing the activities related to construction of the replacement Unit 6. In 2012 we plan to begin major work related to the primary and secondary construction of boiler plants and construction of purification plant, while the work at cooling system will be completed. Investment will be mostly financed by means of debt capital.

As at 31 December 2011, 477 employees were employed at TEŠ. The number of employees decreased by 11 compared to the end of 2010.

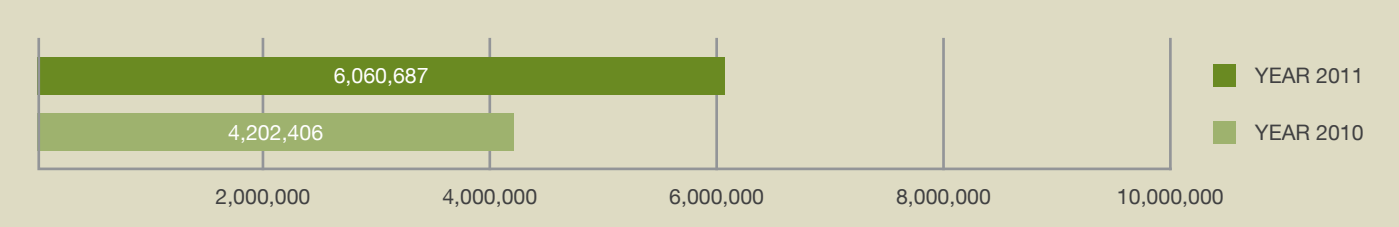
In 2011 TEŠ sold 3,779 GWh of electricity. The annual amount of energy produced is 4 % lower than in 2010. Due to performance of large-scale overhaul after approximately 30,000 hours of operation had passed since the previous overhaul, the Unit 5 was not operating for almost two months.

Net return on equity ratio in 2011 amounted to 1.7 % and exceeded the one from 2010 due to higher net profit or loss.

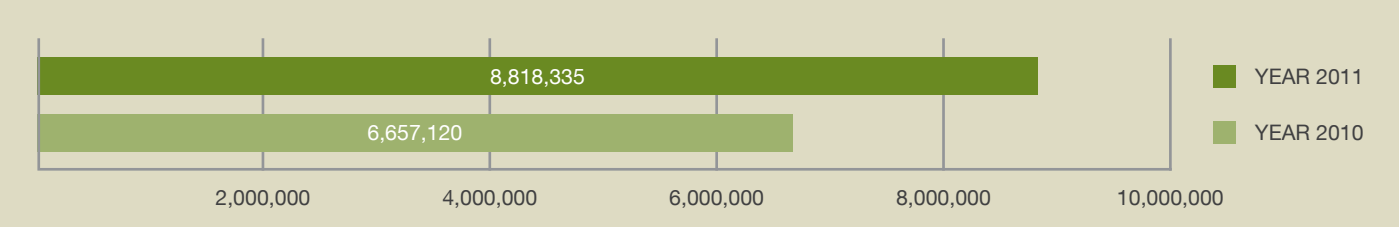
Net sales revenue (in EUR)



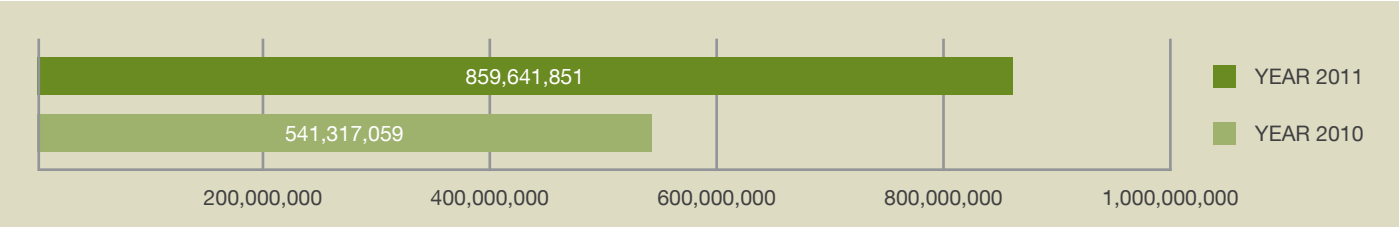
Net profit or loss (in EUR)



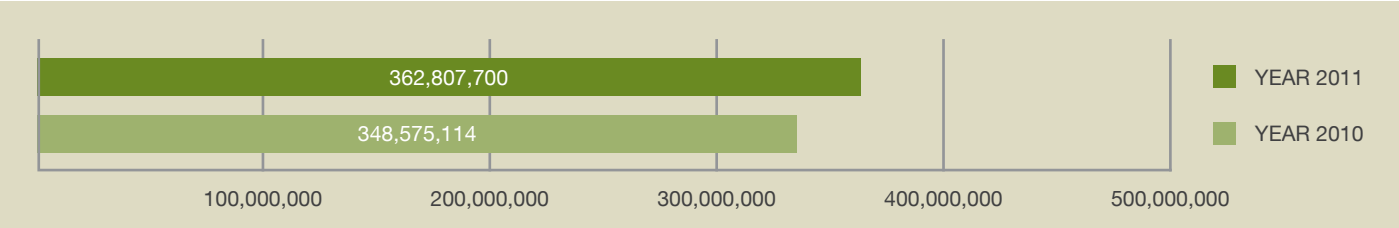
EBIT = operating profit or loss (in EUR)



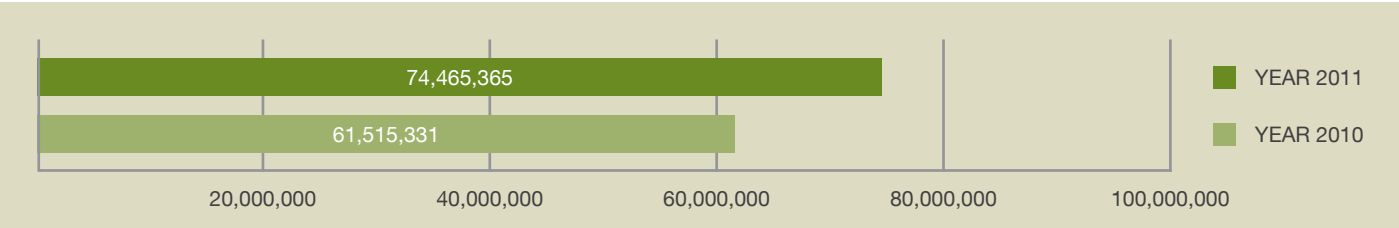
Assets (in EUR)



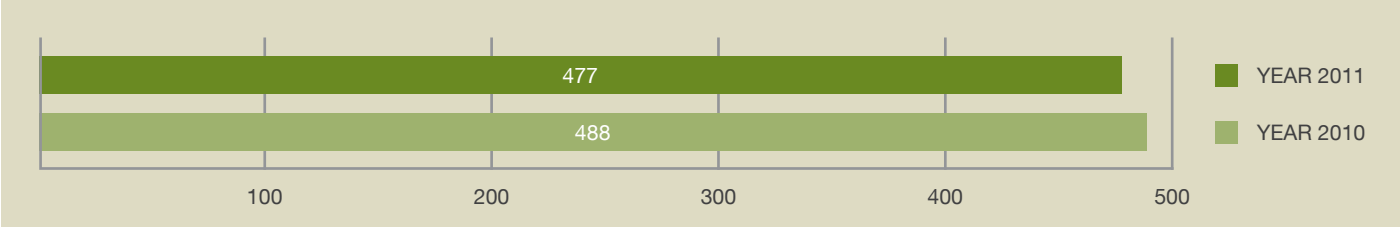
Equity (in EUR)



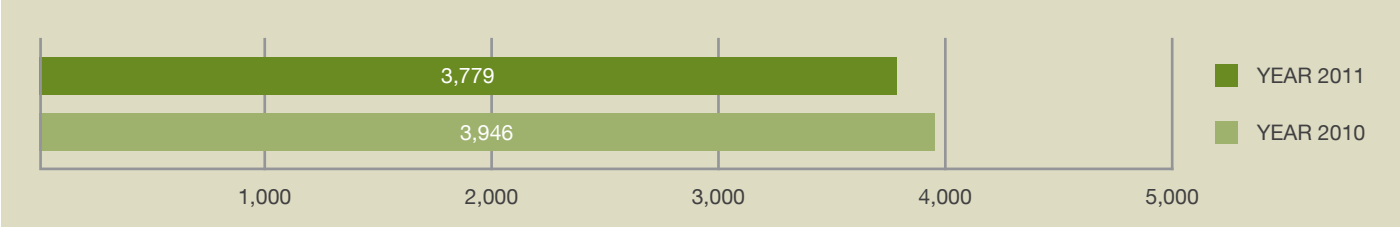
Cash flow from operating activities (in EUR)



Number of employees as at 31 December



Electricity sold (in GWh)



1.3 TIMELINE OF SIGNIFICANT DEVELOPMENTS IN 2011

On 12 January 2011, a loan agreement with EBRD in the amount of EUR 200 million was signed for the purposes of financing the replacement Unit 6.

On 19 January 2011, an expanded project team for the replacement Unit 6 was approved. New project managers were appointed, and Miran Žagar, MSc, became the project director with Branko Debeljak, MSc, as his deputy.

At the end of January, all the conditions to draw the loan in the amount of EUR 110 million from EIB were met as Slovenia and Austria had resolved the environmental issues on cross-border impacts of Unit 6. On 17 February 2011, the EIB remitted the loan to TEŠ.

On 16 February 2011, an Environmental Permit for Operation of the Large Combustion Plant - Unit 6 was obtained and became effective at the beginning of March 2011. With this permit all the conditions of issuing building permit for Unit 6 have been met.

At its 54th regular meeting on **3 March 2011**, TEŠ's Supervisory Board approved the proposed 2011 Business Plan of the company. The member adopted it on 23 March 2011.

On 5 March 2011, a Three-Party Agreement for the Purchase of Coal, Lease of Capacity and Purchase of Electricity was signed, which defines in detail the rights and obligations of individual contracting parties in purchase and processing of coal into electricity, lease of capacity and purchase and sales of electricity produced from coal and gas in 2011.

On 17 March 2011, we obtained a final and legally enforceable building permit for the cooling tower and main technological facility of Unit 6.

On 28 March 2011, the change in TEŠ's Articles on Incorporation was entered in the Companies Register. With this change the member expanded the number of Supervisory Board members, namely from previous three members to six members, of which four represent the interests of the owner, while two represent the interests of employees. On the basis of this change, the owner appointed his two new members on 6 April, while the other new member was appointed by the Worker's Council on 10 May.

In April 2011, the Risk Management Committee was appointed by TEŠ Managing Director.

On 8 April 2011, the contractor for performing construction work at the cooling tower and main technological facility of the Unit 6 was selected. After the prior approval of the European Bank for Reconstruction and Development (EBRD), which had granted a EUR 200 million loan for the TEŠ Unit 6 project, the Primorje d.d. Group was approved as a contractor.

In April we began the investment programme revision of the Unit 6 project (RIP 4), which was presented to the wider public in August.

On 20 April, the Project Council TEŠ Unit 6 held its first meeting. The representatives of the local community, non-governmental organisations and competent ministries were invited to join the Council. The Project Council that was established with the purpose of transparent and efficient management of Unit 6 investment is led by TEŠ Managing Director Simon Tot, MSc.

On 20 April and 19 October, an Open Day Event took place with the purpose to inform the wider public on the course of current and upcoming work that will be performed in the scope of Unit 6 construction. At the event, the representatives of TEŠ presented the Unit 6 project and organised sightseeing of the power plant and Unit 6 construction site.

On 11 and 12 May, the quality system assessments were performed in the company: second recertification audit under ISO-IEC 27001:2005, sixth recertification audit under BS OHSAS 18001:2007 and ISO 14001:2004 and eight recertification audit under ISO 9001:2008 without design.

On 16 May, we celebrated 55th anniversary of TEŠ's operations.

On 19 May, we started the overhaul of a 345 MW Unit 5, which was successfully prematurely completed as at 15 July 2011. The key work was performed at generator, audit and examination of boiler, boiler plants, turbine rotor and turbine plants, purification plant, electrical equipment and other items.

On 8 June, TEŠ Supervisory Board approved to sign the contract of members and agreed on the capital investment in the new legal entity for performing the operation "Razvojni center ENERGIJA" (»Development centre – ENERGY").

On 18 August 2011, the company's Supervisory Board approved the Revised investment programme "Construction of the replacement 600 MW Unit 6 at TEŠ", 4th revision.

On 31 August 2011, HSE – as the sole company member – reviewed the Annual Report of TEŠ for the 2010 financial year and adopted a decision to allocate the total TEŠ accumulated profit for 2010 in the amount of EUR 3,992,285.60 to other revenue reserves with the purpose to perform development projects.

On 28 September 2011, the National Assembly of the Republic of Slovenia started to consider the proposal of the Act on Government Guarantee of the Republic of Slovenia for liabilities arising from the long-term loan in the amount of EUR 440 million from the European Investment Bank in order to finance the project of the replacement 600 MW Unit 6 at TEŠ.

As a result of political crisis and in order to avoid political party pre-election activities, the Committee on Finance and Monetary Policy of the National Assembly of the Republic of Slovenia did not approve the proposal of the Act on Government Guarantee of the Republic of Slovenia for liabilities arising from the long-term loan in the amount of EUR 440 million on 5 October 2011. Termoelektrarna Šoštanj d.o.o. should take out the loan from the European Investment Bank in order to finance construction of the replacement 600 MW Unit 6. The proposal will be further considered. Thus, the government guarantee acquisition process in the National Assembly was temporarily suspended.

In autumn 2011, the negotiations on bridging loan for the first half of 2012 took place since the issue of government guarantee had been suspended. On 23 March 2011, the company signed the Appendix 4 to the Contract for the Supply of Main Technological Equipment for Unit 6 with Alstom consortium that deals with the abovementioned issues.

On 7 January 2011, the sole member adopted the amendments to TEŠ Articles of Incorporation. In December 2011, a capital increase was performed by Holding Slovenske elektrarne d.o.o. The share capital of the company thus amounts to EUR 211,652,459.00.

1.4 IMPORTANT EVENTS AFTER THE END OF FINANCIAL YEAR

In accordance with the member's decision, Klemen Potisek, MSc, was appointed in TEŠ Supervisory Board instead of Dr Vladimir Malenkovič. His term of office started as at 1 January 2012.

On 3 January 2012, an agreement on liability payment method for the period until the government guarantee is issued was signed with Alstom.

On 15 February 2012, TEŠ handed over the replacement Unit 6 boiler room area to Alstom and Alstom started installation preparations.

At its 3rd regular meeting on 23 February 2012, the Government of the Republic of Slovenia considered the Proposition of Opinion on the proposition of the Act on Government Guarantee of the Republic of Slovenia for the liabilities arising from the long-term loan in the amount of EUR 440 million that TEŠ shall take out from EIB. It adopted a decision that it would support the abovementioned proposal of the act if the proposal was amended in a manner that one of the basic conditions for conclusion of the guarantee contract was a prior conclusion of the contract arranging relations between the Republic of Slovenia and TEŠ, in which the frameworks of project performance shall be stipulated as determined in the Government decisions on Comprehensive Information on the Replacement Unit 6 Project (February 2012).

At its 64th regular meeting on 8 March 2012, TEŠ Supervisory Board approved the proposition of company's 2012 Business Plan with the additional plan for 2013 and 2014.

On 13 March 2012, Alstom started installing main steel construction of the Unit 6 boiler room.

At its 64th regular meeting on 8 March 2011, TEŠ Supervisory Board approved the 2012 Business Plan. On the basis of TEŠ Supervisory Board decision and statements given by TEŠ legal representative as at 14 March 2012, the member adopted the 2012 Business Plan of TEŠ with the additional plan for 2013 and 2014 on 27 March 2012.

As at 19 April 2012, the first discussion of proposal of Act on Government Guarantee of the Republic of Slovenia for liabilities arising from long-term loan in the amount of EUR 440 million took place. The National Assembly assessed that act proposal was appropriate for further discussion. The act proposal was submitted to the Committee on Finance and Monetary Policy of the National Assembly of the Republic of Slovenia.

FOR MY HOME.

Because without electricity the expected cosiness of home disappears. Electricity makes my home warm; it makes it a safe haven for me and my family. It chases away the dark and brings about immensurable moments of happiness.

It is not the electric switch that turns on the light; electricity does the trick. The food we store in a refrigerator is kept fresh and preserves its quality due to electricity. The television is no exception. Family life incorporates the use of various electrical appliances that facilitate, organize and spice up our lives. The saying 'There is no place like home' still applies. Electricity, which is always available, plays an important but often unnoticeable role in all of this.

2 BUSINESS REPORT
2.1 PRESENTATION OF THE COMPANY

Termoelektrarna Šoštanj is a limited liability company, in which the sole member is Holding Slovenske elektrarne.

2.1.1 Company's profile as at 31/12/2011

Full company name	TERMOELEKTRARNA ŠOŠTANJ d.o.o.		
Legal form	Limited liability company with a single company member		
Address	Cesta Lole Ribarja 18, 3325 ŠOŠTANJ		
Telephone	03 8993 200		
Fax	03 8993 485		
Companies Register entry no.	10051100 - Okrožno sodišče v Celju		
Nominal capital	211,652,459 EUR		
Size	Large company		
Year of establishment	1956		
Bank accounts	**Bank:**	**Account no.:**	
	BANKA KOPER	101000038312861	
	NLB	024260017217937	
	NOVA KBM	045150001707126	
	UNI CREDIT	290000003080383	
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	Simon Tot, MSc	Start: 11.11.2010	End: 10.11.2014
President of the Supervisory Board	Janez Keržan, MSc (President of the SB since 5/1/2011)	Start: 29.9.2009	End: 1.12.2012
Members of the Supervisory Board	Dean Besednjak, PhD	Start: 5.1.2011	End: 23.8.2013
	Franc Rosec	Start: 26.8.2009	End: 25.8.2013
	Vladimir Malenkovič, PhD	Start: 6.4.2011	End: 31.12.2011
	Aljoša Tomaž	Start: 6.4.2011	End: 5.4.2015
	Branko Sevčnikar	Start: 10.5.2011	End: 9.5.2015
Ownership structure (name and interest)	Holding Slovenske elektrarne d.o.o		100%

2.1.2 Company's business activities

The company has several registered activities. The core activity is electricity production in thermal and nuclear power plants.

2.1.3 Company bodies and representatives

The company has the following bodies:
- the Supervisory Board, and
- the Managing Director.

In accordance with the Articles of Incorporation and applicable legislation, the member has the function and all powers of a General Meeting provided that the legal form of a limited liability company with a single member is observed.

2.1.4 Corporate governance statement

The company Termoelektrarna Šoštanj, d.o.o., Cesta Lole Ribarja 18, 3325 Šoštanj in accordance with Paragraph 5 of Article 70 of the Companies Act (ZGD-1) expresses a Corporate Governance Statement. The statement refers to the period from 1 January 2011 to 31 December 2011.

As the Managing Director of the company TEŠ, I hereby declare that the governance of the company is in line with acts and other regulations, applicable Articles of Incorporation of the limited liability company TEŠ, internal governing documents of the company and in accordance with good business practice.

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

The statement of compliance with the Corporate Governance Code for Companies with State Capital Investments

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

As the Managing Director of the company Termoelektrarne Šoštanj d.o.o, I hereby declare in accordance with Point 73 of the Code, that the company TEŠ has opted to apply the AUKN Code on a voluntary basis.

Company bodies

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

Company member

The company member independently decides on the following matters:
- changes and amendments to the Articles of Incorporation;
- adoption of business policy bases and development plan of the company;
- adoption of the annual report when the Supervisory Board has not confirmed it and when the Managing Director and the Supervisory Board leave the decision on the adoption of the annual report to the company member;
- the business plan of the company;
- the allocation of accumulated profit;
- granting a discharge from liability to the Managing Directory and the Supervisory Board;
- division and termination of ownership interests;
- changes in the nominal capital of the company;
- status changes and dissolution of the company;
- election and dismissal of members of the company's Supervisory Board;
- the appointment of the company's auditor;
- the appointment of procurator and operations of representatives;
- other matters in accordance with regulations and the Articles of Incorporation.

The company member cannot decide on questions related to the handling of transactions unless the Managing Director requires so in the event the Supervisory Board disagrees with a certain type of transaction.

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

Managing Director

The company is managed and represented by the Managing Director who is appointed and dismissed by the Supervisory Board. When his or her term of office expires, the Managing Director may be reappointed. In accordance with the provisions of TEŠ's Articles of Incorporation,

the Managing Director manages the company's transactions on his own responsibility and independently represents the company.

Supervisory Board

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

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

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

- it supervises the management of the company;
- it examines the structure of the annual report and the proposal for allocation of accumulated profit;
- it prepares a written report on findings relating to the verification of the annual report for the company member;
- it confirms the annual report or makes comments thereon;
- it issues opinions on the fundamentals of corporate policy and company development plans;
- it approves the business plan of the company;
- it recommends the company member to adopt decisions within its field of competence or issues opinions on recommendations regarding the adoption of the company member's decisions proposed by the Managing Director;
- it appoints and dismisses the company's Managing Director;
- it gives approvals on the Managing Director's transactions in accordance with the Articles of Incorporation;
- it concludes a contract of employment with the Managing Director;
- it adopts the Rules governing the work of the Supervisory Board; and
- it may also request reports on other issues;
- it gives the TEŠ Managing Director a prior approval for:
  - legal transactions and borrowing exceeding EUR 333,834.08 for the same item in a financial year;
  - disposal and pledging of property,
  - equity investments made by the company in other legal entities,
  - the beginning of individual investment where the envisaged value exceeds EUR 100,000 (due to the needs for coordinated strategic plan of the HSE Group); and
  - the beginning of individual investment related to IT, where the envisaged value exceeds EUR 50,000 (due to the needs for coordinated development of IT within the HSE Group) after the acquisition of opinion by the head of IT department at the company's member.

SB can also manage other tasks in accordance with regulations and decisions by the company's member.

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

In view of ensuring accounting data, which comply with criteria of International Financial Reporting Standards, we have established internal controls that reduce risks related to accounting reporting.

By means of accounting controls, we ensure:

- credibility,
- correctness, and
- completeness

of financial data.

We provide regular professional training of employees, which enables that they provide quality, accurate and timely accounting data with their work. The central IT system Kopa ERP has a significant role in providing quality accounting information.

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

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

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

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

Managing Director of
Termoelektrarna Šoštanj d.o.o.
Simon Tot, MSc

Šoštanj, 17 May 2012

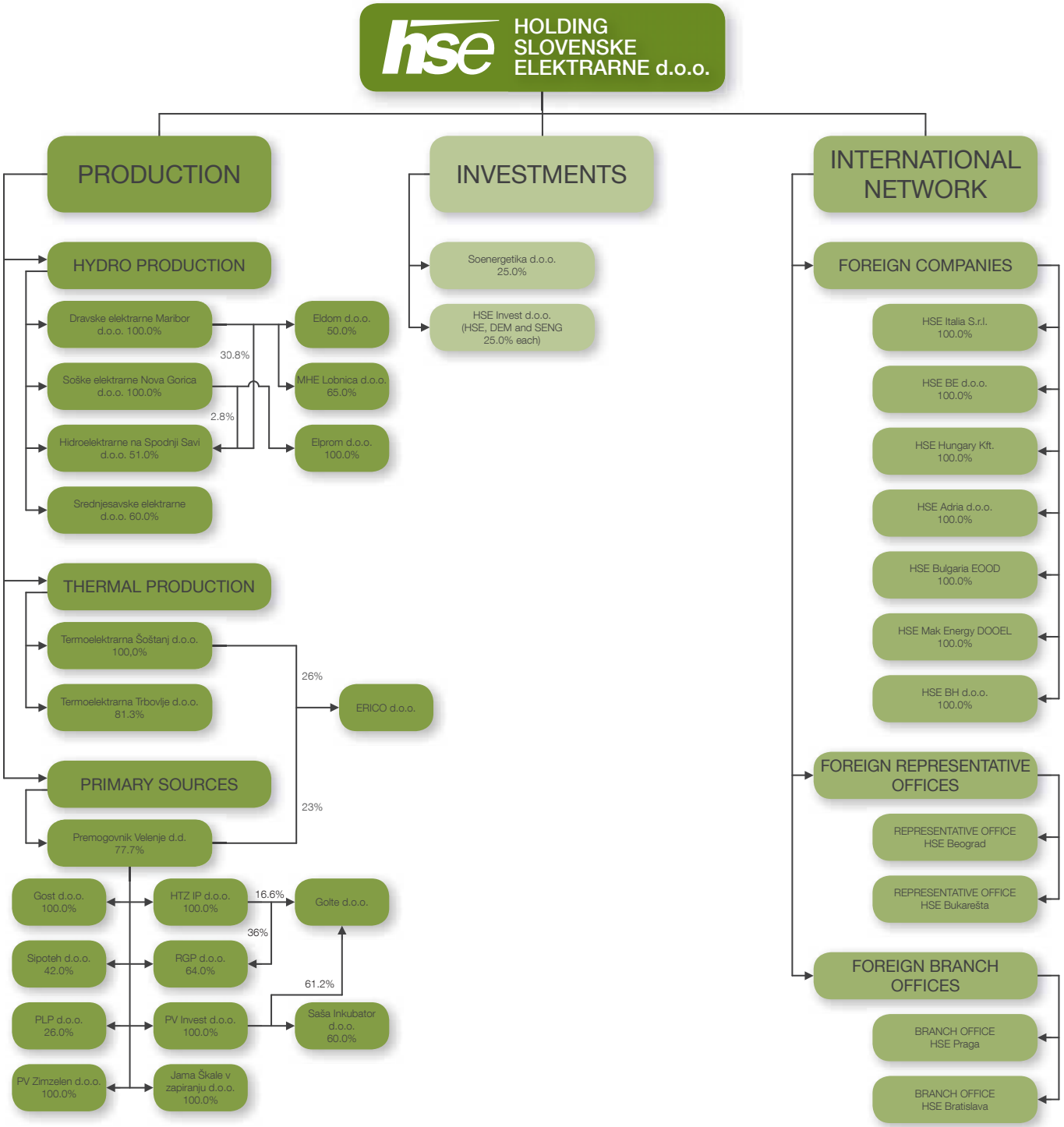
2.1.5 Report on implementation of AUKN recommendations in 2011

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

2.1.6 Relations with the controlling company and other subsidiaries

Termoelektrarna Šoštanj d.o.o. is a part of the Holding Slovenske elektrarne Group. As at 31 December 2011, Holding Slovenske elektrarne d.o.o., with its registered office at Koprska 92 in Ljubljana, was the company's sole member, i.e. the controlling company, which prepared the 2011 consolidated annual report for the group companies under its control.

Organisational chart of the HSE Group



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 within the Group, establishing that given the circumstances 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 2011 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.

2.1.7 Ownership links with other companies

Company	Registration number	Address	Year of establishment	Main activity	Value in EUR as at 31/12/2011		Controlling company's stake
					Total equity	Nominal capital	
ASSOCIATES							
Erico d.o.o.	5583055	Koroška cesta 58, Velenje	1.4.1992	74.900	1,267,374	278,494	26.00%

Erico d.o.o. was established in 1992 as an institution for scientific research in the area of environmental studies focused on environmental protection. It was founded by RLV Velenje, TEŠ and ESO Velenje with the purpose to form an institution in the Šalek Valley whose experts from various fields of environmental studies would prepare, manage, direct and verify environmental rehabilitation measures in the Šalek Valley.

In 2007, Erico was transformed into a limited liability company (d.o.o.) whose members are Gorenje GA d.o.o. (51 %), Premogovnik Velenje (23 %) and TEŠ (26 %).

2.2 COMPANY'S BUSINESS POLICY

Mission

The mission of TEŠ is to remain the leading electricity and thermal energy manufacturer in Slovenia. With its offer of reliable, safe, economically acceptable and environmentally sound electricity it represents and will represent a generator of the whole society's sustainable development.

Vision

By means of the replacement Unit 6Termoelektrarna Šoštanj wishes to ensure Slovenia a higher level of energetic independency on a long term basis.

Objectives

The company's main long-term objective is the optimal use of human, financial and production resources for the purpose of achieving reliable, safe, environmentally friendly and competitive electricity and thermal energy production based on existing and newly constructed production sources, while taking into account the potential synergies within the HSE Group.

With the help of the risk management system supporting our efforts to achieve these goals, we will ensure proper planning, execution and optimisation of all activities and therefore efficient use of all required resources.

2.3 MANAGEMENT SYSTEM POLICY

2.3.1 Achievement of objectives in the area of quality, environmental management, occupational safety and health, and information security

TEŠ has established an integrated management system which is comprised of:

- The quality management system as required by SIST ISO 9001:2008 (since 5 April 2000);
- The environmental management system as required by SIST EN ISO 14001:2004 (since 25 February 2003);
- The occupational safety and health management system as required by OHSAS 18001:2007 (since 6 July 2005), and
- The information security management system as required by ISO/IEC 27001:2005 (since 1 September 2009).

The performance and efficiency of the established management system is determined on the basis of integrated internal assessments, external assessments carried out by a certification body, independent reviews by certified institutions and through achievement of planned objectives. The external assessment was carried out in May 2011 and it covered all four standards.

The external reviewers estimated that the reviewed management system, in particular with regard to:

- Extent and policy;
- Identification and regular risk monitoring/measurement (risks jeopardising customers, information security, environmental safety, occupational health and safety), safety aspects of the organisation and legal or statutory requirements;
- Employee qualification, experience and competences related to the management system;
- Selected and introduced security controls;
- Activities for informing employees about the management system;
- Execution of internal assessments and managerial reviews; and
- Promoting the permanent improvement process

is effective and a basis has been provided to maintain and improve the management system.

2.3.2 Occupational safety and health and fire safety

Each employee is an important link in the company, who contributes to its successful performance. Safe and healthy working environment is thus one of the basic principles of the power plant's operations. It is also based on the Occupational Safety and Health Act which imposes on the employer to ensure the safety and health of workers at work.
In accordance with the acquired OHSAS 18001 certificate, the company's department for occupational and fire safety has been carrying out regular preventive measures to ensure a higher level of security and better health protection on all organisational levels.

Targeted preventive medical examinations have been performed.

Statement of safety and risk assessment

The Statement of safety and risk assessment was regularly updated and adjusted according to the actual state. The second risk assessment audit was completed, through which all existing data was thoroughly examined and all amendments and latest findings in the area of occupational health and safety were taken into account.

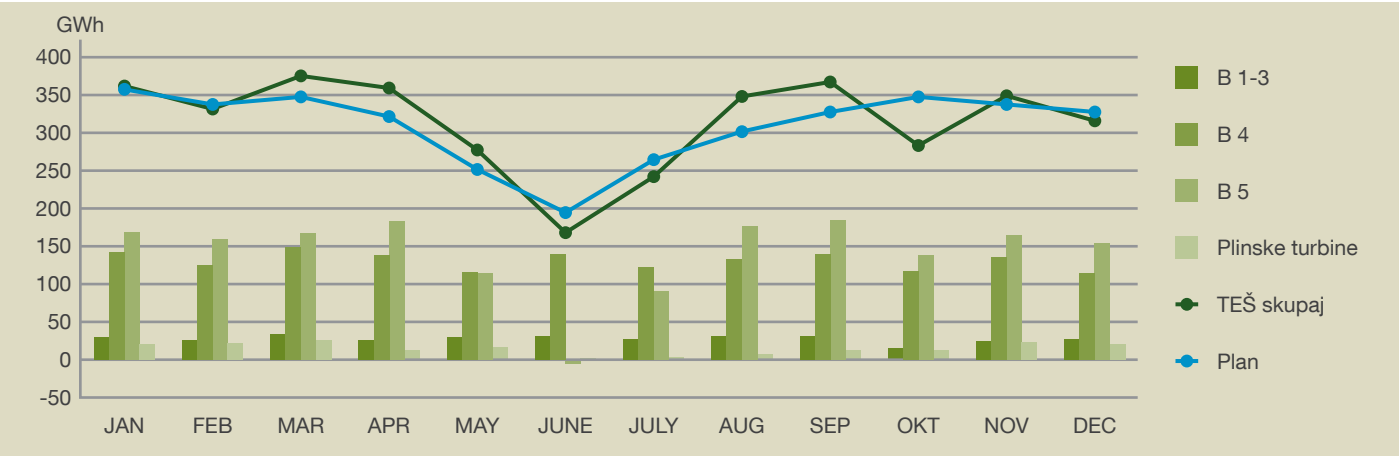
In 2012, a great deal of attention will also be devoted to employee occupational safety training. In given economic conditions we will certainly be particularly attentive to select programmes and activities, which will contribute to the safety and health of the working environment in the largest extent possible.

2.4 PRODUCTION

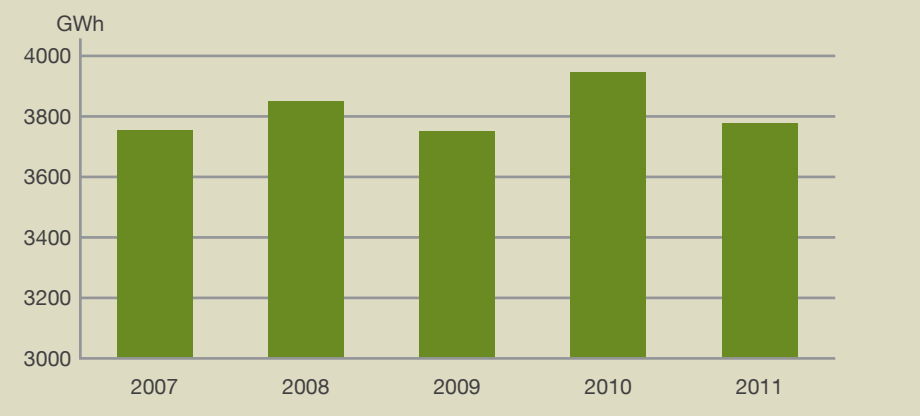
Electricity production

In 2011, TEŠ produced 3,779 GWh of electricity. This represents 167 GWh or 4 % less electricity than in 2010. The production is lower since the Unit 5 was not operating for almost two months due to the large-scale overhaul that was preformed after 30,000 hours of operation had passed since the previous overhaul. 3,605 GWh of electricity was produced from coal and 174 GWh from gas.

Net electricity production per month in 2011



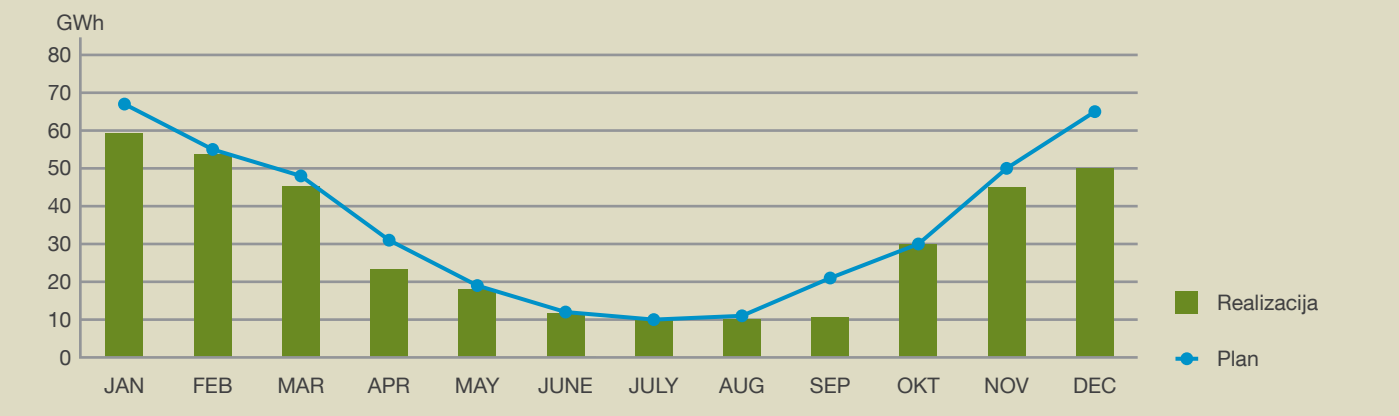
Net electricity production per year



Thermal energy production

In 2011, we produced 367 GWh of thermal energy used for heating, which is 40 GWh or 10 % less than in 2010. The system was reliably supplied without any interruptions and outages.

Thermal energy production per month in 2011



Energy product consumption

In 2011, we used 3,902 thousand tons of coal, 3,787 thousand tons of which were used for electricity production and 115 thousand tons for thermal energy production. The average calorific value of coal supplied amounted to 11,051 kJ/kg which is a little bit less than in 2010 when the calorific value amounted to 11,097 kJ/kg.

Emission coupons

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

In October 2007, Termoelektrarna 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 CO_2 coupons in the period 2008—2012 or 4,300,824 CO_2 coupons per year.

In 2011, TEŠ emitted 4,676,085 tons of CO_2 in the environment through electricity production. In accordance with the Environment Protection Act provisions, the company was thus obligated to pay the environment pollution tax (1 coupon per ton of CO_2). The company has 4,300,824 free coupons and 133 unused coupons from the previous year at its disposal to settle this tax. The difference in the amount of 375,128 emission coupons will be purchased from HSE.

CO_2 emissions in the amount of 120,961 tons will be saved on account of gas consumption.

2.5 MAINTENANCE

The plant maintenance strategy is designed to enable the company to achieve its short-term and long-term objectives.

Short-term objectives include:
- Ensuring occupational safety and health of employees at the workplace;
- Economical use of materials;
- Economical allocation of working hours;
- Shorter deadlines for individual plant repairs;
- Prevention of occurrence and recurrence of identical failures through preventive measures;
- The best possible operational availability of the power plant as a whole;
- Environment-friendly electricity and thermal energy production.

Long-term objectives include:
- Decrease in our own prices of electricity and thermal energy produced in real terms;
- Competitiveness in the electricity market;
- Maintaining the status as producer of electricity and thermal energy based on processing lignite;
- Ensuring operation until the target service lives of individual units are met (Units 3 and 4 will continue to operate until Unit 6 is put into service, presumably until the end of 2014; Unit 5 will most likely be designated as a backup facility from 2014 to 2027).

The strategy is based on our own and experience of others 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 carrying out preventive maintenance (large-scale overhauls). As a result of optimal utilisation of funds allocated to maintenance activity, the maintenance strategy has been slowly changing in favour of maintenance carried out depending on the plant condition. This is evident in the frequency of overhauls at individual units, which has changed from a rigid two-year interval to a four-year interval. It is also evident in major maintenance works on individual unit assemblies, which are carried out in addition to the planned overhauls. The precondition for efficient maintenance under this strategy and for achieving the above objectives is most of all good management of production plants and experience of technical and maintenance personnel.

Considering their age and hours of operation, TEŠ's plants already require fairly intensive maintenance. Maintenance is performed on the basis of plant operation monitoring, operational events, assessment of the remaining service life through the use of demolition and non-demolition methods of material control and in line with requirements for safe and reliable operation as well as accepted guidelines, i.e. strategy, for plant operation and maintenance.

Overall, EUR 8,059,589 was spent for the maintenance of all drive units, other facilities and plants, which is 22 % less than in 2010. We have mainly performed the preventive maintenance which included the reviews, controls, analysis and the performance of procedures enabling reliable operation of all plants. It also included repairs and replacements of individual plant assemblies. Within the framework of regular maintenance work, we have also performed various 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.

Changes in maintenance costs in the period 2007-2011

Maintenance costs comprise costs of services and materials.

Unit operating availability

The trend of changes in unit availability is shown in the chart of operating unit availability. Availability slightly decreased relative to the previous year, but it still seems that the maintenance concept is solid and effective. The plants are namely growing older. Unforeseen technical and technological events on individual units directly impact the maintenance picture. We are confident that all repairs were performed economically and in accordance with the objective of bringing our electricity prices to the optimum level.

With regard to experience and predictions, we believe that in the future at least the same amount of assets will be needed for maintenance as in 2011 since the preventive maintenance will become even more important, particularly from the perspective of reliable electricity delivery and supply.

2.6 MARKET POSITION

2.6.1 Characteristics of economic environment in 2011

In 2011, the economic activity recovery was interrupted. Gross domestic product decreased in real terms, where the positive impulses for growth were coming from the export economy segment, while the domestic consumption decreased. Investments, private and government consumption were lower than in the previous year. The access to financing sources also severely deteriorated.

Poor public finance condition, particularly the lack of plans for credible consolidation and deteriorated circumstances in the banking system, have, in the environment of general deterioration in bond markets of the Euro zone countries, contributed to the increase in the requested return on Slovenian bonds and therefore the State indebted itself in the domestic market at the end of the year. Net flow of loans to the companies in 2011 was negative for the second year in a row. In 2011, GDP decreased, namely to the level of 0.2 % compared to 2010. According to current prices, in 2011 GDP amounted to EUR 35,639 million. GDP per capita in EUR reached the amount of EUR 17,364.

Export increased by 6.8 % and import by 4.7 % in real terms. Export was preserved as the main factor of economic activity's recovery. However, this impulse decreased with decelerated growth of the economic activity in trade partner countries. The increase in domestic consumption deepened further and it was particularly prominent at the end of the year. The decrease in construction investments was affected by lower public investment disbursements and continued investment activity reduction in non-exchange and service economy segment.

Prices of industrial products of local manufacturers in the domestic market increased by 3.6 %, while the prices of the same manufacturers in Euro zone increased by 4.7 %. Towards the end of 2011, the prices of non-energy raw materials were decreasing.

In 2011, price of oil ranged between USD 79 and USD 113 per barrel. Despite the expected stabilisation of world conjuncture due to uncertain political conditions in oil producing countries, the prices remained high, while the risks of higher growth are also preserved.

Inflation in 2011 amounted to 2.0 %. Weak growth of economic activity is reflected in lower inflation pressures. The growth of prices resulted from the increase in energy product and food prices in relation to the growth of raw material prices in international markets.

According to the exchange rate, 1 euro was worth 1.2939 USD on 31 December 2011.

In 2011, the unemployment rate increased. At the end of the year, it amounted to 11.8 %. The average number of unemployed amounted to 110,692, which is one tenth more than in 2010. In most private sector activities, the decrease in the number of employed was stabilising. A larger decrease than in the previous year appeared mostly in the construction sector, real estate sector and agriculture. Due to the abovementioned public financial assets, the growth of the number of employees in the public sector decelerated.

Total electricity produced by Slovenian power plants in the previous year supplied to the grid amounted to 14,144 GWh, which is two percentage points less than in 2010. The hydropower plants supplied 3,361 GWh of electricity, the thermal power plants supplied 4,787 GWh of electricity and the nuclear power plant Krško supplied 5,899 GWh of electricity (100 %). Last year the users of the transmission network imported 10,472 GWh of electricity and exported 11,738 GWh of electricity.

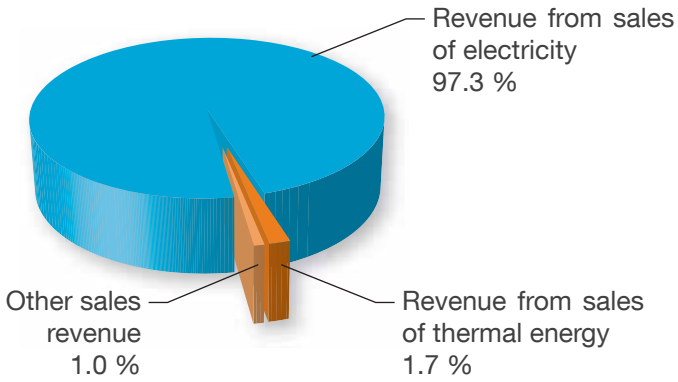
Thus, for the fourth year in a row more electricity was exported than imported.

2.6.2 Sales and customers

In 2011, Termoelektrarna Šoštanj generated EUR 233,618,937 in sales revenue. With the sales of electricity we are participating in the market as a part of our owner, the company Holding Slovenske elektrarne d.o.o. being the leading Slovenian producer and electricity trader. In terms of production in 2011, we are the largest production facility within the HSE Group.

Holding Slovenske elektrarne d.o.o. is the company's largest customer that purchases all of electricity produced, which accounts for 97.3 % of total sales.

Sales revenue structure 1-12/2011:



Thermal energy sold

In 2011, we generated the sales revenue in the amount of EUR 4,041,945 with the sales of thermal energy.

Other sales

Other revenue from sales of products and services comprise computer capacity rentals, revenue from hospitality services, royalties, industrial water and other revenue.

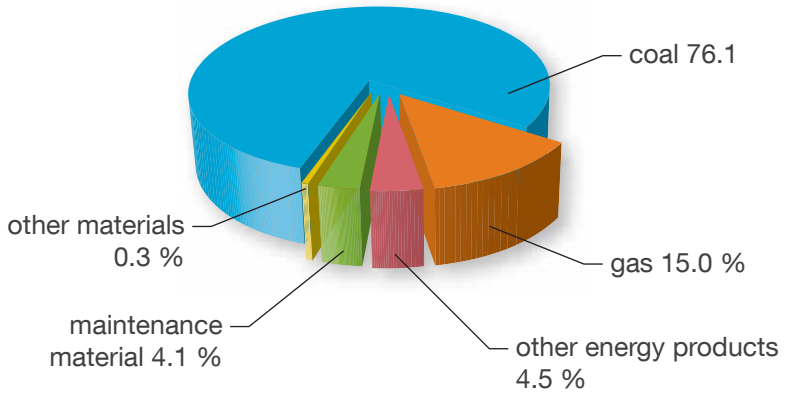
2.6.3 Purchase and suppliers

The main purchase objective is provision of raw materials, materials, spare parts, equipment and services required for regular operation and investment equipment purchase at lowest possible prices, most favourable payment and delivery, from most reliable sources and through optimal supply lines. Solely such approach enables the company to achieve its development and strategic goals.

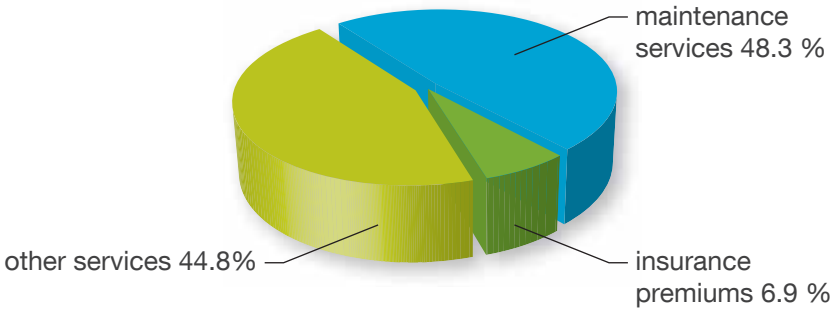
The most important company's strategic supplier is Premogovnik Velenje. Purchase of coal for electricity and thermal energy production accounts for 22 % of all purchases. In 2011, 41,863 TJ of coal were used in electricity production and 1,257 TJ of coal in thermal energy production.

One of the primary raw materials for electricity production is also natural gas.

Purchases of materials account for 29 % of all purchases. The materials purchasing structure is as follows:

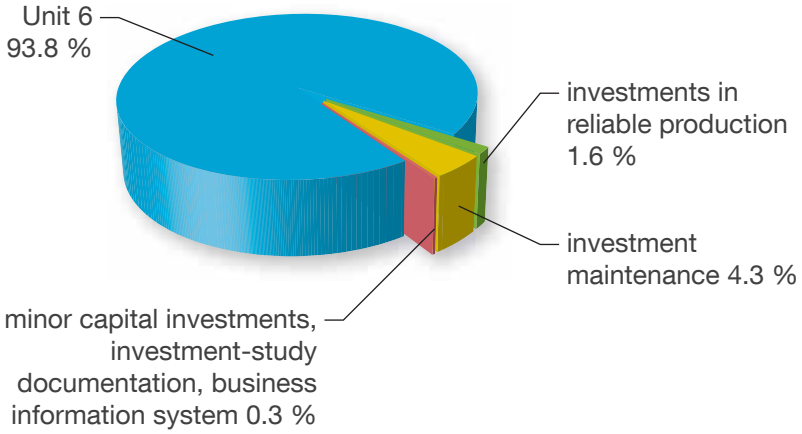


Purchases of services account for 3 % of all purchases. The services purchasing structure is as follows:



Other services comprise maintenance services, products disposal services, intellectual and personal services, insurance costs and other services.

The share of capital investment represents 68 % of entire purchase and mainly refers to the purchase for the purposes of replacement Unit 6 construction. The capital investment structure is as follows:



2.7 CAPITAL INVESTMENTS

Some of the company's plants are approaching the end of their service lives. Some have been operating since 1956, when Units 1 and 2 were constructed, while the most recent have been in operation since 1977, when Unit 5 was constructed. Unit 2 was shut down in 2008 and Unit 1 at the end of March 2010. Units 3 and 4 are going to remain in operation until Unit 6 is put into service, presumably by the end of 2014, while Unit 5 has been designated as a backup facility until 2027.

In 2005, preliminary work began on projects concerning the replacement Unit 6. Works will be completed with generator synchronisation in 2014.

Unit 6

Electricity market is becoming more and more complex, both in terms of suppliers, time dynamics of consumption and environment protection as well as with the goal to provide sustainable growth of energy activity and entire economy, national and global. Accelerated investment and subsidising of renewable sources also increase the demand for reliable production systems that enable stability of electricity system. Following contemporary orientations in the energy sector was of key importance when conceiving the replacement Unit 6.

The new replacement Unit 6 is constructed mainly due to the wear and tear of existing production units, as they are operating with an obsolete technology that will gradually not fulfil minimum requirements for such plants any more. In terms of assessing investment reasonableness, a key role is played by the energy location with all necessary infrastructure intended for electricity drainage and support by the local population. Nowadays it is very time-consuming to obtain new energy location in a relatively short period of time not only in Slovenia, but also abroad.

Today TEŠ provides approximately one third of electricity production in the Republic of Slovenia. Its role is almost irreplaceable due to the specific nature of operations being adapted to the needs of electricity system and consumers. The power of existing coal units is a bit more than 15 % higher than the power of the replacement Unit 6.

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

The key investment goals are:

- To maintain electricity production on TEŠ location using domestic coal;
- Electricity production of approximately 3,500 GWh with approximately 30 % lower coal consumption;
- To reduce the emission factor (kg CO_2 / kWh) from 1.25 to 0.87;
- To reduce the cost/own price of electricity for more than 20 EUR/MWh;
- To achieve return on equity in the amount of 10 % at least;
- To ensure further existence of energy sector in the Šalek Valley in relation to the coalmine Premogovnik Velenje;
- To fulfil environmental commitments within the EU;
- To achieve the internal rate of return (IRR) that would exceed 7 %.

Investment programme

From the ecological perspective, the decision about the construction of the replacement 600 MW Unit 6 means further ecological rehabilitation that TEŠ, in its extensive concern for the environment, initiated as early as in 1983.

According to the adopted strategic development plan (June 2004), the 600 MW Unit 6 will gradually replace technologically obsolete and uneconomic Units 1, 2, 3, 4 and 5. This is a project of national importance, which was included in the Resolution on the National Energy Programme and the Resolution on National Development Projects for the period 2007 – 2023, which Government adopted as at 12 October 2006 and revised in 2008. In spring 2009 it was also included in the Green Paper.

On the basis of the adopted development plan, we have started compiling the required investment documentation. The following documents have been prepared:

- Pre-feasibility study: Construction of Unit 6 at TEŠ (April 2005);
- Investment Project Identification Document (May 2005);
- Study entitled "The aspects of TEŠ Unit 6 incorporation into the Slovenian electricity system", (June 2005).

A pre-investment plan for Unit 6 was presented at the HSE strategic conference in September 2005, where the construction of Unit 6 at TEŠ was ranked among the HSE Group priority projects. All of the above served as a basis for the preparation of an investment programme for the replacement power plant facility – Unit 6 at TEŠ.

The investment programme (April 2006) considered the construction of the Unit using the selected ash heating technology with supercritical steam parameters (270 bar, 600/610°C) in a so-called BoA (Betriebsoptimierte Anlagen) technics and with the power of 600 MW on generator clamps.

Investment programme was based on:

- Pre-feasibility study: Construction of Unit 6 at TEŠ (April 2005);
- Investment Project Identification Document (May 2005);
- Pre-feasibility plan (July 2005);
- Conceptual design of Unit 6 (January 2006);
- Studies: "The aspects of TEŠ Unit 6 incorporation into the Slovenian electricity system", (June 2005);
- Studies: Konzeptstudie Referenzkraftwerk Nordrhein-Westfalen, VGB PowerTech (February 2004);
- Report on environmental impacts, EIMV (November 2005);
- Data of TEŠ professional departments;
- Data and recommendations of the STEAG firm;

- Investment comparison for 600 MW Unit and the Unit with the power of 520 or 650 MW (March 2006).

In November 2006, the investor published a periodic information notice for the selection of competent suppliers for main technological equipment supply for 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 submitted tender documentation for the supply and installation of main technological equipment to both candidates. 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 (1st Revision, September 2007).

The main reasons for investment programme revision were:
- Changes in the time schedule of work;
- Increase in the budget value of the facility;
- Changed structures and financing conditions.

The revised investment programme (2nd revision, March 2009) considered the construction of the Unit with the selected technology of ash heating with supercritical steam parameters (270 bar, 600/610°C) in a so-called BoA (Betriebsoptimierte Anlagen) technics and with the power of 600 MW on generator clamps.

The main reasons for the investment programme revision were:
- Increased price of main technological equipment;
- Postponement of deadline for performance and completion of work;
- Change in the value of construction facilities;
- Change in the equipment volume by packages;
- Changed financing conditions and consequently changed financing costs.

Reasons for adoption of the revised investment programme (3rd revision, October 2009) were:
- Change in investment value:
  - Lower contractual value of the main technological equipment for Unit 6;
  - Lower value of the flue gas desulphurisation plant for Unit 6;
  - Change in the method of electricity evacuation;
- Increase in the estimated selling price of electricity from 70 EUR/MWh to 71.5 EUR/MWh;
- Inclusion of total costs of emission coupons for CO_2 emissions after 2012;
- Shortened construction period (from 63 months to 60 months);
- Changed financing costs during the course of construction based on changed starting points related to the structure and dynamics of financing sources.

As a result of changed financing sources, Appendix 1 to the revised investment plan (NIP, 3rd revision) was prepared in November 2009.

In August 2011, TEŠ adopted the revised investment programme (4th revision) due to:
- Realistic assessment of costs from the Contract for the Supply of the Main Technological Equipment;
- Changes in value of construction facilities;
- Changes in volume of equipment by packages;
- Changed financing conditions and consequently changed financing costs;
- Inclusions of all units' dismantlement costs in the company's economics;
- More detailed determinations of all coal parameters; and
- Realisation of Government's decisions.

Administrative procedure

Parallel to the preparation, processing and approval of investment documents, other procedures have been underway for incorporation of the planned investment into the energy system and the environment.

As regards the Unit 6 construction, the investor has to consider the applicable legislation and conditions in the area of construction of the required energy facilities in the Republic of Slovenia.

Technical data

Unit 6 that should start its trial operation in 2015 ensures an evident economic effect since it provides a lower electricity price than it is currently reached at TEŠ and ensures a significant ecological impact. After the Unit 6 is launched in 2015, we will decrease the sulphur oxide emissions from 400 to 100 mg/Nm^3 and nitrogen oxide emissions from 500 to 150 mg/Nm^3 relative to achieved emission of both pollutants in 2008.

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

Delivery of equipment and services

On 2 December 2009, TEŠ paid the first instalment to the supplier of the main technological equipment (MTE), with which the contract between TEŠ, Alstom Power Centrals and Alstom Power Systems entered into force (Start date). With the contract entering into force, the implementation of contractual provisions, such as preparation of detailed plans required for the building permit, ordering of equipment, the start of contractual deadlines etc., began.

Due to the delay in obtaining Environmental permit, the construction work also started with a five-month delay. As a result, the Annex to the main contract with Alstom signed in September 2011 stipulated a 3.5-month delay of the time schedule. In accordance with the revised time schedule, on 15 February 2012 TEŠ handed over to Alstom the boiler room area with the purpose to begin installation. This is considered as one of the greatest turning points in project performance. Regular workshops are held with the supplier Alstom (expected at least once per month), on which activities performed are verified and individual activities are coordinated.

Based on the decision by the Government of the Republic of Slovenia dated 18 March 2010 on the need to renegotiate, i.e. lower, the price for the MTE, new negotiations took place between April and July 2010 which included improvement of contractual provisions, in particular the price, and the related escalation clauses, technical and technological improvements and shortened completion deadlines. The negotiations resulted in contractual value decreased by EUR 1million due to changed technological equipment and a fixation of 18.5 % of the contractual price which is no longer subject to an escalation formula. The escalation formula itself did not change. An Annex 2 to the contract was signed in January 2011.

In November 2009, a tender – Contract notice – entitled "The cooling system of Unit 6 at TEŠ" was published in the Official Journal of the European Union. The contract with the best bidder (the Rudis&SPX consortium) was signed in February 2010. By the end of 2011, the cooling tower was built up to the 31st ring or the height of 58 m. The construction work should be completed in April 2012 and it will be followed by equipment installation.

Activities involving the contractor for the supply of the flue gas desulphurisation plant are progressing according to the contract and the time schedule. Construction work began in September 2011, while the beginning of equipment installation is envisaged for June 2012.

With regard to preparatory works, selection of the best bidder for the performance of construction works involving the western importation platform at TEŠ took place in 2010. A contract was signed with the best bidder. The building permit was obtained.

A tender for other preparatory construction works (embankment and platform for the cooling tower and transformers) was published on 25 February 2010 in the Official Journal of the European Union no. 2010/S 39-057681. The construction permit was obtained and all work was completed in 2011.

The tender documents for MTE construction work were prepared by the HSE Invest in autumn 2010. The call for tender was published in January and March 2011. Since the beginning of construction work in April 2011 until the end of 2011 the following construction work was performed:

- The bunker facility was built up to the height of 29 m;
- The powerhouse was a completed plate at the height of 4 m;
- The boiler plant was a completed plate at the height of 0.08 m;
- The pilotage of electrostatic precipitators was completed;
- The foundation plate of the flue gas desulphurisation plant was completed;
- The south staircase was built up to the height of 92.8 m.

The content of other calls for tender (coal transport, preparation and transport of products, water preparation …) were prepared in 2011 and mostly published in the first half of 2012, except the call for tender for coal transport that was published in December 2011.

In 2009, the final stage of the procedure for the selection of a designer of project documentation for Unit 6 (BPP + IP) took place. An application for a building permit for Unit 6 was filed with MESP on 28 December 2010. A procedure for the preparation of IP documentation is also underway; the documentation will be prepared in phases, coinciding with the projected construction works.

Time schedule

Important milestones are:

- September 2007: Selection of MTE supplier and signing of the reservation agreement;
- June 2008: Singing of the contract for MTE;
- June 2009: Singing of the contract for FGD;
- December 2009: Signing of NTP and start date for MTE;
- March 2011: Construction permit for MTE and cooling tower;
- March 2011: Beginning of cooling tower construction;
- April 2011: Beginning of MTE construction work;
- March 2012: Beginning of boiler room installation;
- June 2012: Beginning of FGD installation;
- February 2013: Beginning of powerhouse installation;
- August 2014: First synchronisation;
- April 2015: Completed contractual trial run.

Project financing

Project financing is planned as a combination of equity and debt financing sources. Equity sources comprise TEŠ's own sources (profits and available depreciation) and a capital increase by the controlling company HSE d.o.o. For the purposes of investment, HSE d.o.o. already provided EUR 130.3 million of capital increase. Debt capital is planned in the form of long-term loans. In April 2010, a contract for a loan of EUR 440 million was signed with EIB and an annex to the contract from 2007, under which the amount of the loan was decreased from EUR 350 million to EUR 110 million. In connection to the issues regarding government grants,

it is planned that the government will issue a government guarantee for the EUR 440 million loan while the investor will provide a bank guarantee for the EUR 110 million loan to the bank. A guarantee agreement with five guarantor banks was concluded on 24 November 2010. At the end of January 2011, all the conditions for loan drawing have been met and on 17 February 2011 EIB remitted a loan in the amount of EUR 110 million.

In January 2011, a financial agreement for EUR 200 million was concluded with the EBRD bank. On 1 June 2011, the first tranche of EBRD loan in the amount of EUR 82.5 million was drawn. Due to the political crisis of the Republic of Slovenia and consequent withdrawal of the Act on Government Guarantee for EIB loan from the procedure, TEŠ decided for bridging financing of the replacement Unit 6 project for the period when the new government should approve and issue the Act on Government Guarantee for EIB loan. The bridging loan is agreed as a short-term loan from HSE and as deferral of payments by the supplier of the main technological equipment for Unit 6 – Alstom.

Description of business risk

The risk that the Republic of Slovenia does not issue the guarantee for EIB loan in the amount of EUR 440 million;

The risk that the bankruptcy of Primorje will cause increase in prices and delay the construction work performance.

Risk management

TEŠ constantly monitors procedures in relation to the government guarantee for EIB loan. It also proactively participates in communication with competent ministries in order to optimize the time schedule in relation to the issue of government guarantee. The Republic of Slovenia has already issued all necessary approvals for the performance of the project, a support letter to EBRD and a no-objection letter to EIB. Furthermore, the new government of the Republic of Slovenia has already approved the continuation of the process for the issue of a government guarantee for EIB loan. Due to all abovementioned facts, we believe that the probability that the Republic of Slovenia does not approve the guarantee for EIB loan is small, while, on the other hand, it is true that the risk level is high as well as its impact and therefore TEŠ and the parent company HSE are also examining other financing possibilities.

Numerous independent studies about the financing possibilities for the replacement Unit 6 in case of not issuing the government guarantee were performed. Moreover, informative interviews on potential participation in financing of the replacement Unit 6 were conducted with several financial institutions. Taken into account the fact that the government of the Republic of Slovenia decided to continue the procedures of issuing the guarantee for EIB loan, the alternative scenarios in this moment are less relevant, but still not excluded.

In 2011, Primorje – RGP Velenje consortium was established to perform construction work. The consortium partners are jointly reliable for contractual obligations. Thus, in case of Primorje bankruptcy, the consortium partner takes full responsibility for all contractual obligations and the bankruptcy does not affect project performance.

Investments

INVESTMENT IN REPLACEMENT UNIT 6

in EUR

	Budget value of RIP 4th revision	Agreements concluded as at 31/12/2011	Invoiced as at 31/12/2011	Paid as at 31/12/2011
Construction work	75,969,300	50,126,056	37,211,603	27,898,509
Equipment	1,063,121,115	975,664,335	483,286,138	395,978,298
Other	35,106,900	20,044,279	18,171,394	12,295,526
Financing costs	128,550,200	12,917,224	13,132,284	11,297,757
TOTAL	1,302,747,515	1,058,751,894	551,801,419	447,470,090

FINANCING SOURCES FOR UNIT 6 INVESTMENT

in EUR

	Budget value of RIP 4th revision	Paid as at 31/12/2011
Capital increase of HSE	324,927,700	130,288,700
EIB Loan	550,000,000	110,000,000
EBRD Loan	200,000,000	82,500,000
Short-term loans in HSE Group	83,000,000	102,300,000
TEŠ own sources	144,819,300	22,381,390
TOTAL	1,302,747,000	447,470,090

Large-scale overhauls

Large-scale overhauls represent major maintenance operations of production units carried out every few years – periodically. In 2011, the large scale overhaul at Unit 5 was performed after 30,000 hours of operation had passed since the previous overhaul. At the end of 2011, a large-scale overhaul of gas turbine 2 was performed in accordance with a long-term maintenance contract. For such maintenance EUR 14,931,733 were used.

Investments in reliable production

Investments in reliable production predominantly ensure a longer operating period, i.e. eliminate technological and technical risks related to production.

Absence of these investments would result in the following risks:

- Failure of individual production units;
- Failure to achieve planned electricity production for the year;
- Unreliable supply of electricity;
- Unavailability of production units;
- Failure to achieve target service lives of production units;
- Endangered health and lives of employees at the workplace.

Investments in 2011

INVESTMENTS

in EUR

	Realisation January - December 2011					
	Amortisation/ depreciation	Other own sources	Outstanding liabilities - envisaged source - loans	Foreign loans	Domestic loans	TOTAL
NEW FACILITIES	**1,260,595**	**12,374,306**	**98,734,215**	**112,200,000**	**102,300,000**	**326,869,116**
Unit 6 (with advance payment for MTE supply)	1,244,825	12,374,306	98,734,215	112,200,000	102,300,000	326,853,346
TK centre	15,770					15,770
INVESTMENT IN RELIABLE PRODUCTION	**5,692,898**					**5,692,898**
Replacement of Unit 5 generator	4,125,550					4,125,550
Elimination of dry substances from wastewater	157,020					157,020
Wastewater tank	994,958					994,958
Arrangement of coal disposal site	409,777					409,777
Hydrogen plant renovation	5,593					5,593
INVESTMENT-STUDY DOCUMENTATION	**4,375**					**4,375**
SMALL INVESTMENTS	**597,984**					**597,984**
BUSINESS INFORMATION SYSTEM	**470,311**					**470,311**
INVESTMENT MAINTENANCE	**14,931,733**					**14,931,733**
Unit 5	11,700,990					26,632,723
GT 2	3,230,743					3,230,743
TOTAL COMPANY	**22,957,896**	**12,374,306**	**98,734,215**	**112,200,000**	**102,300,000**	**348,566,417**

2.8 IT

TEŠ's primary process is electricity production which requires high-quality, reliable and safe information support. In 2011, all activities were coordinated together with the HSE IT department and thus the computer and communication equipment for common services was sold to HSE. However, we still remain mutual information system administrators.

SECURITY

We have implemented security policy for the use of strong security passwords on the systems of domain user account Maximo and Kopa ERP.

Security archiving is performed on regular basis.

The operating system Windows 7 Enterprise is being installed on new work stations. Such computers represent more than 30 % of all computers. DFS systems (file systems), mail systems (Exchange), SQL, active directory and Špica regularly record the audit trail.

Telecommunication line (TCL)

TCL is a safe place intended for operations of computer and other communication equipment. TEŠ enables the company HSE to lease the system room for 15 cabinets.

The room also contains a telephone exchange used by TEŠ. It is connected to the new system that enables easier maintenance in case of power or cooling system outages.

NETWORK

Modern switching equipment is used in the office building. The company also uses the mechanism for managing the security level of communication equipment (NAC/NAP). By means of the implemented tools we can manage the availability of IT sources to an individual user.

New items that were needed in the area of construction site security have been added to the network (computers on new security spots, video surveillance of transitions to construction site, gates in the area of parking lot of the fire station and behind Pilon centre).

ECOLOGICAL SYSTEM

We have arranged the measurements of levels at the Družimirje and Velenje Lake. Thus, the automatic level control is performed by means of alarm limits that draw attention to limit values. Values can be monitored in FIX and by means of production portal. Warning system has been also implemented.

We have provided an automatic measurement system for the constant control of CO and O_2 in flue gases before LUVO. The system is a part of the management system TELEPERM and it enables better control and quicker actions in boiler management. The value control can be also performed through FIX.

IT SUPPORT CENTRE

In autumn 2010, the agreement on joint IT support centre for the companies TEŠ, HSE, HESS and PV was adopted. The joint support centre operates on the location of TEŠ.

ISO 27001

We have prepared new risk assessments of IT sources and reviewed the procedures and instructions of the business IT department. We also performed internal assessments as part of preparations to an external assessment. We have successfully passed the external assessment and had our quality certificate approved. An audit of TEŠ information systems was also performed.

ODOS

ODOS includes all supply procedures from internal order, automatic demand and sending, collecting offers to forming the decision on selection and preparation of the order form or contract. The contract examination procedure is being performed. This procedure is completed with capturing of the signed contract. The system offers complete traceability and selects all documents of purchase procedure.

On the basis of true data, the training module was prepared and tested. It includes the preparation and approval of education initiative, training orders and training assessment. It includes all forms of training: internal, external, combined and it is also connected with e-learning.

KOPA ERP

It is important to underline the successfully performed transition from the management of financial statements and records according to SAS (Slovene Accounting Standards) to accounting reporting in accordance with IFRS (International Financial Reporting Standards).

2.9 BUSINESS PERFORMANCE ANALYSIS

2.9.1 Business operations in 2011

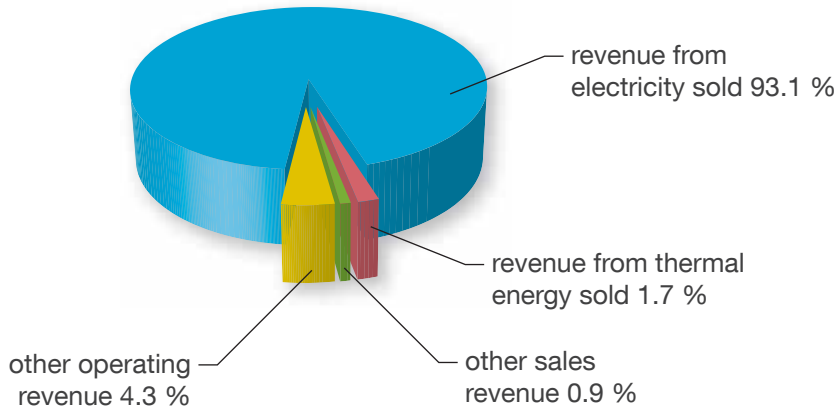
The operations of TEŠ in 2011 were based on the Long-Term Contract for the Purchase of Coal, Lease of Capacity and Purchase of Electricity Concluded between TEŠ d.o.o., HSE d.o.o. and Premogovnik Velenje d.d., the Contract for the purchase of Coal, Lease of Capacity and Purchase of Electricity concluded between TEŠ, HSE and Premogovnik Velenje for 2011 that was signed in March 2011, and Annexes no. 1 and 2 to this contract as well as on the 2011 Business Plan, which was approved by the Supervisory Board on 3 March 2011. Pursuant to the provisions of Articles of Incorporation, the company's sole member approved the Business Plan for 2011 on 23 March 2011.

In 2011, the company's profit or loss before tax amounted to EUR 7,725,961. After taking into account the corporate income tax and deferred taxes, the net profit for the period totals EUR 6,060,687, which is in line with our plans for the period. A higher net profit or loss is achieved mostly due to lower costs of services (services in relation to maintenance, costs of product disposal and arranging disposal sites) and lower depreciation of the gas unit GT 1 (in the framework of business plan, the reduction of service life was planned) and higher revenue for the lease of capacity.

Revenue

In 2011, the company realised revenue in the amount of EUR 244,111,803, which is 4 % more than the revenue planned for 2011 and 1 % less than the revenue realised in 2010. It differs from the planned revenue due to the capitalisation of own work at the Unit 5 overhaul and revenue from capacity leased.

Revenue structure in 2011

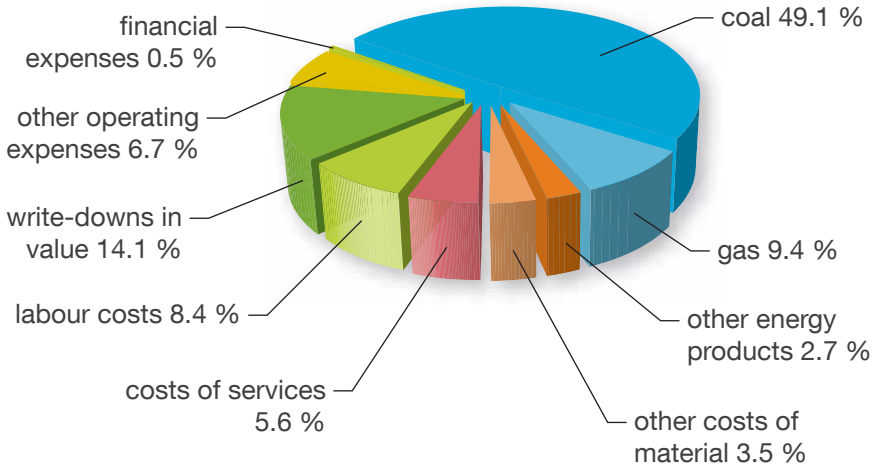


Expenses

In 2011, the company's expenses totalled EUR 236,385,842 which is 3 % more than planned for 2011 and 2 % less than in 2010.

In case the price of coal had not changed (Annex 1 to the contract no. 7/11/HSE/N) and material for large-scale overhaul had not been capitalised, the expenses would have remain at the planned level.

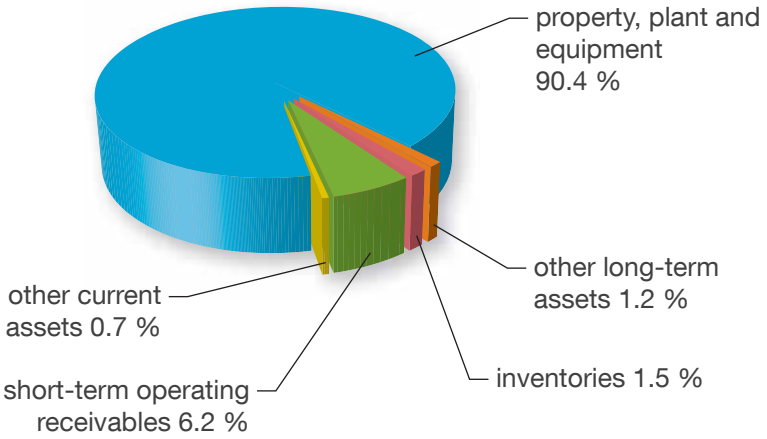
Expense structure in 2011



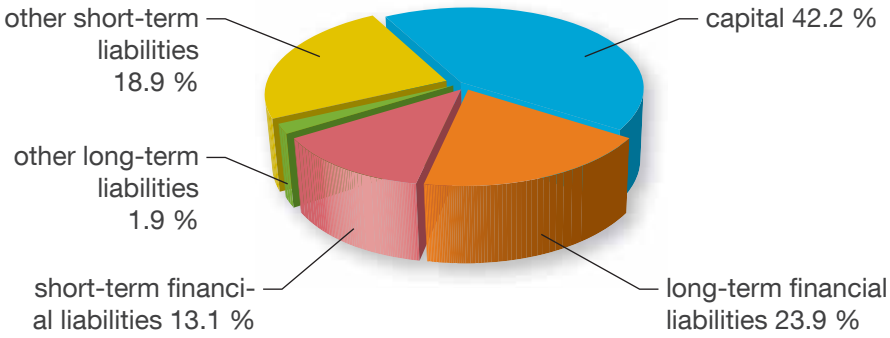
Assets and liabilities

Compared to 31 December 2010, total assets in the amount of EUR 859,641,851 are 59 % higher mostly due to investments in the replacement Unit 6 construction. Measured with the inflation rate (December 2011/December 2010), which amounted to 2.0 %, they are 56 % higher in real terms.

Structure of assets as at 31/12/2011



Structure of liabilities as at 31/12/2011



Business segments

In accordance with the Act amending the Transparency of Financial Relations and Maintaining Separate Accounts for Different Activities Act (OG RS no. 33), the company has adopted standards for allocating costs by activities. In 2011, all business segments (electricity production, steam and hot water supply, canteen and social standard) operated with a profit.

2.9.2 Main activities and goals achieved

In its 2011 business plan, the company set specific annual goals, which were successfully accomplished.

Production of electricity and thermal energy (net)

In 2011, the company's net electricity production reached 3,779 GWh. The quantity of electricity produced in 2011 represents 50 % of the total HSE Group output and 33 % of Slovenia's total electricity production. TEŠ's share in 2011 is equal to its share in the previous year. Despite the overhaul at Unit 5, the company produced only 4 % less electricity than in 2010. The productivity remained at the same level as in the previous year when it had amounted to 8 GWh per employee.

In 2011, thermal energy production was slightly lower and it reflected the demand for such energy. Overall, we produced 367 GWh of thermal energy which is 40 GWh or 10 % less than in the previous year.

Sales of electricity and thermal energy

The measurable target of electricity sale was slightly exceeded. The amounts of electricity sold were 2 % higher than planned as well as the revenue from the sale of such energy.

The measurable target of thermal energy sale has not been achieved due to lower demands for such energy. The amounts of thermal energy sold were 12 % lower than planned as well as the revenue from the sale of such energy.

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 has been achieved. The trend of decrease in the number of employees continued in 2011, not only in the segment of permanent employees, but also in the total number of employees which decreased by 11 compared to 2010. As at 31 December 2011, the company employed 477 people, with almost all remaining measurable characteristics in relation to this objective being met. Thus, more than 20 hours of training and education were performed per employee and the cost of labour as a share of processing costs did not exceed 22 %. Solely the share of absence due to sick leave was not achieved. It amounted to 5.67 %, while the plan was 5.3 %.

Purchase of primary resources, spare parts, materials and services

The business target was achieved by successfully negotiating the most favourable purchase conditions with suppliers. Purchasing criteria are determined by assessing supplier competitiveness, quality of products from various suppliers, executing business analyses of selected and potential suppliers and negotiating the best possible purchase 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. Revenue and expenses in 2011 were above planned and the company concluded the financial year with a profit.

The planned borrowing from EIB and EBRD to provide financing of Unit 6 could not be fully realised due to the non-acquired government guarantee and TEŠ therefore took out a short-term bridging loan within the HSE Group.

2.9.3 Ensuring solvency

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 pursues a financial policy that ensures optimum business conduct in the areas of liabilities and receivables management, financing and investing, financial risk management and cooperation with financial institutions. TEŠ operates in accordance with business and financial standards and regulations laid down in the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act.

In 2011, financial operations were focused primarily on provision of funds for economically viable operations and investments in fixed assets.

Short-term solvency has been achieved through efficient management of cash and systematic cash flow planning and monitoring.

In order to finance construction of the Unit 6, we drew a long-term loan from the European Investment Bank (EIB) in the amount of EUR 110.0 million as at 17 February 2011. On 1 June 2011, the first part of loan was drawn from the European Bank for Reconstruction and Development (EBRD) in the amount of EUR 82.5 million.
Since the conditions of drawing long-term sources for financing Unit 6 were not fulfilled in 2011 (acquisition of government guarantee), we took a short-term bridging loan from HSE.

In order to manage daily liquidity in 2011, we have used a short-term framework loan from the commercial bank.

2.9.4 Capital adequacy

The company's goal is to secure enough capital with regard to the extent and type of transactions it enters and the risks it is exposed to. Capital adequacy is a condition for borrowing and investing capacity and also a consequence of previous business decisions.

A vertical and horizontal analysis of asset and liability structure as at 31 December 2011 shows that the company's assets are financed:

- with long-term sources – 68 % (of which 42 % refers to the capital and 26 % to long-term liabilities); and
- with short-term sources – 32 %.

From the intersection of the statement of financial position it is evident that 74 % of long-term assets are financed with long-term sources and 26 % with short-term sources, which is a result of non-operative drawing of planned long-term sources. With the realisation of the planned government guarantee in 2012 and thus release of drawing of long-term loans from EIB and EBRD, short-term bridging loans will be settled and deferred payments will be repaid to the suppliers of main technological equipment for Unit 6. Consequently, long-term assets will be financed with long-term sources.

The structure of the statement of financial position as at 31 December 2011

2.9.5 Debt ratio

As at 31 December 2011, the financial liabilities amounted to EUR 318,474,553 and represented 37 % of all liabilities. 32 % of these liabilities refer to short-term loans, while 68 % of liabilities refer to long-term loans. In 2011, the company took out short-term loans in the HSE Group within the scope of "cash management" (outstanding loans as at 31 December 2011 amounted to EUR 102,300,000), while a short-term framework loan in the amount of EUR 12,500,000 was drawn from a commercial bank in order to manage daily liquidity. In 2011, the company repaid long-term liabilities in the amount of EUR 10,273,169.

For the purpose of financing Unit 6 construction, in 2011 only EUR 192,500,000 of the planned long-term sources in the amount of EUR 308,000,000 were realised, namely the drawing of the EIB loan in the amount of EUR 110,000,000 and the drawing of first part of the EBRD loan in the amount of EUR 82,500,000. The EIB loan also repaid short-term bridging loans taken out from the HSE Group in 2010 in the amount of EUR 80,300,000. Since the long-term planned sources were not fully realised in 2011 (government guarantee has not been acquired yet), TEŠ took a short-term bridging loan from HSE in the amount of EUR 102,300,000, whose payment maturity was transferred to 2012. The extension of a short-term loan through 2011 was approved by the Ministry of Finance.

In 2012, drawing of the long-term loan from EIB in the amount of EUR 440,000,000 and drawing of the long-term loan from EBRD in the amount of EUR 57,200,000 are projected. The EIB loan will also repay the bridging short-term loans taken out from HSE in 2011 and 2012.

2.10 COMPANY RATIOS

EQUITY FINANCING RATE

in EUR

	REALISATION 31/12/2011	REALISATION 31/12/2010
1, Equity and liabilities	859,641,851	541,317,060
2, Equity	362,807,700	348,575,114
Equity financing rate = 2 / 1	42.20	64.39

The company's equity accounts for 42 % of total liabilities. The company's operations are financed from their own as well as external sources. Compared to 2010, the equity financing rate decreased due to an increase in debt sources intended for financing of the replacement Unit 6 investment.

LONG-TERM FINANCING RATE

in EUR

	REALISATION 31/12/2011	REALISATION 31/12/2010
1. Equity	362,807,700	348,575,114
2. Long-term liabilities	221,734,752	40,704,680
3. Total (1 + 2)	584,542,452	389,279,794
4. Equity and liabilities	859,641,851	541,317,060
Long-term financing rate = 3 / 4	68.00	71.91

The company financed 68 % of its assets with long-term sources and 32 % with short-term sources. The ratio is by 4 percentage points lower relative to the previous year due to the growth of company's short-term liabilities arising from non-realised planned long-term loans from EIB and EBRD.

OPERATING FIXED ASSETS RATE

in EUR

	REALISATION 31/12/2011	REALISATION 31/12/2010
1. Property, plant and equipment	777,228,955	463,968,258
2. Intangible assets	9,213,628	13,524,345
3. Total fixed assets at carrying amount (1 + 2)	786,442,583	477,492,603
4. Assets	859,641,851	541,317,060
Operating fixed assets rate = 3 / 4	91.48	88.21

The ratio shows the share of fixed assets in total company's assets. Property, plant and equipment and intangible fixed assets represent 91 % of the company's assets. The increase in the rate compared to 2010 is the result of an increase in property, plant and equipment (investment in the replacement Unit 6). A high operating fixed assets rate is expected since the sector in which the company operates is very intensive in terms of technology.

EQUITY TO FIXED ASSETS RATIO

in EUR

	REALISATION 31/12/2011	REALISATION 31/12/2010
1. Equity	362,807,700	348,575,114
2. Property, plant and equipment	777,228,955	463,968,258
3. Intangible assets	9,213,628	13,524,345
4. Total fixed assets at carrying amount (2 + 3)	786,442,583	477,492,603
Equity to fixed assets ratio = 1 / 4	0.46	0.73

The equity to fixed assets ratio represents the relationship between equity and fixed assets. In 2011, the ratio amounted to 0.46, meaning that the company used equity to finance less than half of its most illiquid assets. The ratio decreased compared to 2010 due to the increase in property, plant and equipment as a result of investments in replacement Unit 6.

QUICK RATIO

in EUR

	REALISATION 31/12/2011	REALISATION 31/12/2010
1. Cash and cash equivalents	2,034,216	47,614
2. Short-term financial investments	0	0
3. Short-term operating receivables	53,637,698	44,119,879
4. Total (1 + 2 + 3)	55,671,914	44,167,493
5. Short-term liabilities	275,099,399	152,037,266
Quick ratio = 4 / 5	0.20	0.29

The quick ratio shows whether the company finances current assets solely through short-term or also through long-term liabilities. The ratio for 2011 amounted to 0.20 and is lower than in 2010 due to an increase in short-term financial and operating liabilities.

CURRENT RATIO

in EUR

	REALISATION 31/12/2011	REALISATION 31/12/2010
1. Short-term assets	72,149,366	62,905,427
2. Short-term liabilities	275,099,399	152,037,266
Current ratio = 1 / 2	0.26	0.41

The current ratio describes the financing of current assets from short-term liabilities. Due to an increase in short-term liabilities, in 2011 the ratio decreased relative to 2010.

OPERATING EFFICIENCY RATIO

in EUR

	REALISATION 2011	REALISATION 2010
1. Operating revenue	244,078,592	247,457,807
2. Operating expenses	235,260,257	240,800,687
Operating efficiency ratio = 1 / 2	1.04	1.03

In 2011, the company's operating revenue exceeded its operating expenses by 4 %. The value of the ratio increased relative to 2010 since the company's operating revenue exceeded its business revenue.

NET RETURN ON EQUITY RATIO (ROE)

in EUR

	REALISATION 2011	REALISATION 2010
1. Net profit or loss	6,060,687	4,202,406
2. Average equity	355,691,407	346,473,911
Net return on equity ratio = 1 / 2	0.017	0.012

The company's operating revenue exceeded its operating expenses by 1.7 % in 2011. The ratio increased relative to 2010 due to better results in the sale of electricity.

EBITDA / INTEREST PAID

in EUR

	REALISATION 2011	REALISATION 2010
1. EBIT - Operating profit or loss	8,818,335	6,657,120
2. Depreciation/amortisation	33,215,295	32,359,714
3. EBITDA (1+2)	42,033,630	39,016,834
4. Interest paid	4,884,062	1,963,976
EBITDA / Interest paid = 3/4	8.61	19.87

TOTAL FINANCIAL LIABILITIES / ASSETS

in EUR

	REALISATION 31/12/2011	REALISATION 31/12/2010
1. Long-term financial liabilities	205,691,991	23,465,160
2. Short-term financial liabilities	112,782,562	90,718,257
3. Total financial liabilities (1+2)	318,474,553	114,183,417
4. Assets	859,641,851	541,317,060
Total financial liabilities / Assets = 3/4	0.37	0.21

TOTAL LIABILITIES / ASSETS

in EUR

	REALISATION 31/12/2011	REALISATION 31/12/2010
1. Short-term financial liabilities	275,099,399	152,037,266
2. Long-term liabilities (financial and operating)	209,077,869	23,471,768
3. Long-term deferred revenue	9,109,574	14,454,609
4. Long-term assets	787,492,485	478,411,633
5. Intangible assets (without free emission coupons)	611,980	621,873
6. Short-term assets	72,149,366	62,905,427
Total debt / Total assets = (1+2+3)/(5-6+7)	0.57	0.35

The company meets the conditions laid down by the European Investment Bank upon granting of the loan for the construction of Unit 6, i.e. that EBITDA may not be lower than three-times the interest paid and debts may not exceed 65 % of the company's assets.

2.11 RISK MANAGEMENT

In the course of its operations, the company takes into account the risks to which it is exposed:

Risks associated with regular operations

- **Business risks**, which relate to the ability to generate revenue and manage costs as well as to the ability to maintain the value of operating assets. This group includes quantity and market risks and risks of a decrease in the value of operating assets and risks of information system functioning;
- **Financial risks** relate to the company's ability to generate financial revenue, control financial expenses, maintain the value of financial assets, control financial liabilities and ensure long-term solvency. This group includes credit, liquidity, interest rate and inflation risks;
- **Operational risks** are related to the design, implementation and supervision of the company's business processes and activities.

Risk associated with investment activities

- **Construction of the Unit 6**
- **Investments in reliable production**

The company set a target to implement the comprehensive risk management system in all its activities as a part of business policy and thus ensure a systematic approach for timely risk identification and management. Therefore, at the beginning of the year a Comprehensive Risk Management Committee was established.

When preparing the lists and assessing risks in individual areas of operations, it was taken into account that the company operates within the HSE Group and is therefore less exposed to certain risks, while it can increase the quantity risk within the HSE by deteriorated risk management, mainly of quantity and human resources risk.

In the course of entire financial year, the lists and assessments of risks were gradually prepared or supplemented. They include the description of individual risks with their consequences, the assessed probability of their occurrence and impact as well as the instruments of risk management. On these bases, matrices were created that classify risks in four levels: low, medium, high and very high. Subsequently the **key risks profile** of regular company's operations was prepared as a summary presentation:

The majority of attention was devoted to the management of **quantity risk and cost management**. For this purpose, the project of defining primary and secondary critical components of Units 4 and 5 and secondary devices of the power plant was initiated, by which the bases for improvement of identifying and managing key quantity risks will be introduced. The key quantity risks were satisfactorily managed with quality and professional performance of regular and large-scale overhauls, quick eliminations of failures in cases of compulsory shutdowns and adequate plant management. The management of costs and investments in regular operations is of key importance for successful operations and an indispensible condition for providing necessary own sources for the construction of Unit 6. The risks were managed by consistent realisation of the plan, change in costs, deviation analysis and immediate actions in the event of deviations. The group of **market risks** includes prices of coal, gas, raw materials, emission permits, external services and selling prices of electricity and thermal energy, which are managed by concluding adequate long-term and annual agreements, regular examination of market conditions and performance of professional analysis and propositions of measures. **Risks of information system functioning** were managed by ensuring availability of backup systems and functioning of security systems.

Financial risks include **credit, liquidity, interest rate and inflation risk**. Credit risks were managed by concluding an annual contract with the largest customer, which includes the elements of insuring receivables, regular monitoring of all unpaid receivables overdue and the use of adequate collection procedures. Liquidity risks were managed with careful planning of cash flows and time coordination of receivables and liabilities and cash management within the HSE Group. Financial risks are described in section 4.12.

Human resources risks comprise possible late and inadequate provision of the necessary structure and professional qualification of the staff. They were managed with consistent pursuing of prescribed system procedures and upgrades on the basis of regularly performed analysis.

Regulatory risks were managed at the level of the parent company HSE.

Operational risks were managed with consistent performance of quality management system ISO 9001, environment management system ISO 14001, the OHSAS 18001:2007 occupational health and safety system and information management system ISO 27001. These systems define the performance of business activities and processes as well as the liabilities and authorisations. The appropriateness of their implementation is assessed through regular internal and external audits.

Risks associated with investment activities, mostly the construction of Unit 6, were processed and monitored separately. In the second half of the year, the 4th revision of the revised investment programme – construction of 600 MW Unit 6 was performed. In the section "Risk analysis" the risks have been thoroughly discussed and on this basis the risk matrices have been prepared.

In order to recognise risks, the matrix of possible risk categories in the following areas was used:

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

Impact rate:

Class	Impact rate	Risk costs	Possible delays
1	Negligible impact on the project	Up to EUR 10 million	Up to 14 days
2	Small impact on the project	From EUR 11-100 million	From 15 to 45 days
3	Medium impact on the project	From EUR 101-350 million	From 45 to 90 days
4	Large impact on the project	From EUR 351-600 million	From 90 to 150 days
5	Disastrous impact on the project	Over EUR 600 million	Over 150 days

Probability rate:

Class	Probability rate	Available information on probability
VH	Very high (>80 %)	Almost no information is available.
H	High (60 – 80 %)	Only limited, partial information is available.
M	Medium (40 - 60 %)	Only a part of information is available.
L	Low (20-40 %)	Detailed information is available.
VL	Very low (20 %)	Very detailed information is available.

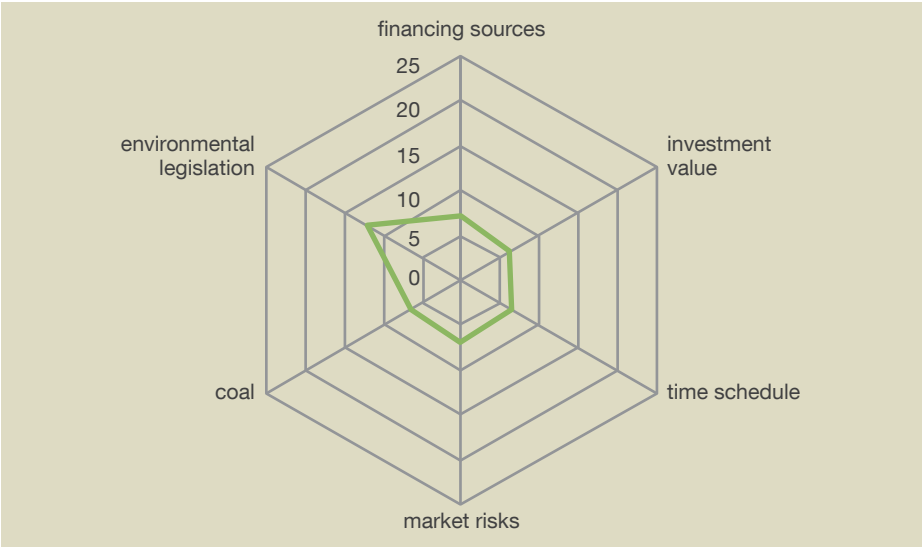
Risk levels:

Class	Risk level
L	Low risk
M	Medium risk
H	High risk
VH	Very high risks

Risk manageability assessment:

Class	Manageability rate	Description of circumstances
1	Low manageability	External impacts and factors, legislation, environment
2	Tolerable manageability	Internal and external impacts, smaller impacts of legislation and environmental issues
3	Good manageability	Internal impacts, high level of feasibility, risk moderation

Risk profile



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

2.12 PUBLIC RELATIONS

In 2011, public relations have been performed in accordance with the accepted strategy of the HSE Group and according to TEŠ's Annual plan of communication for 2011.

We have also followed the guidelines set on the basis of meetings on environmental and social adequacy of TEŠ by the European Bank for Reconstruction and Development. On the basis of these meetings, a Plan of stakeholders' integration was prepared in the past. In 2011, we reported on activities in the area of public relations with EBRD four times per year, as previously agreed.

The basic communication tools used to communicate with external and internal public were TEŠ website, press releases, responses, articles and interviews in various local and national media, the internal publication "Pretok", the bulletin for local community TEŠ 6, the electricity sector magazine "Naš stik" and the HSE Group publication "Energija". In 2011, we also introduced news InfoBlok6 and Facebook site InfoBlok6 where we publish the latest data in relation to the Unit 6. In addition, we also introduced the meetings of the Project Council TEŠ 6 that meets approximately once per month. Its members are the representatives of the local community, non-governmental organisations and other interested public.

Communication with the internal public was also carried out via intranet, e-mail and bulletin boards. TEŠ website that was updated in 2011 comprises all general information about the company as well as a special sub-site Unit 6, where we will continue to regularly publish the latest data and photos in relation to the construction of Unit 6. The website continues to include a section "Questions & Answers", where the visitors can give us possible questions to which we can regularly respond.

The target public was informed on current developments at TEŠ and our development strategy, which includes the construction of Unit 6 and its course.

2.13 RESEARCH AND DEVELOPMENT

As in the previous years, our focus on planned objectives was based on a two-level approach. The first level represents the preparation of study documents, expert papers dealing with the operation of technological plants and preparation of assessments. In the planning documents, this is referred to as "investments in upgrading of technological procedures". In pursuit of these activities we follow the requirements for ensuring safe and reliable operation of plants, achieving target service lives, improving efficiency levels and introducing new technologies as well as using technological equipment that meets the modern standards.

The second level consisted of study documents concerning the company's development over a longer period. Before each major step towards development, it is necessary to organise our vision which is supported by studies of development of electricity markets, energy resources, broader environmental policies and practices, and by development of electricity production technologies around the world.

In addition to the abovementioned facts, as at 6 July 2011 TEŠ concluded a Contract of members on the establishment of the company RCE - Razvojni center energija d.o.o. with other members and as at 11 October 2011 it also concluded a Contract on the performance of operation »Razvojni center energija« ("Energy development centre"). Members of the call for tender of the Ministry of the Economy the members acquired grants. TEŠ participates in RCE with two projects: the use of ventilator air from the ventilator station Šoštanj in the TEŠ's furnace fireboxes and the green surface improvement device.

2.14 FUTURE PLANS

In the future, the company intends to further pursue the following long-term goals:

Production of electricity and thermal energy

- Construction of the 600 MW Unit 6 by the end of 2014;
- Provision of ancillary services;
- Compliance with environmental regulations;
- Annual production of more than 400 GWh of thermal energy.

Sales of electricity, thermal energy and other services

- Promotion of sales in accordance with the development policy;
- Expansion of the product and service range.

Purchasing of primary resources, spare parts, materials and services

- Coal consumption < 1,12 tons/MWh;
- Gas consumption < 290 Sm3/MWh;
- Liquid fuel consumption < 2000 tons/year;
- Limestone consumption < 170,000 tons/year;
- Consumption of unprocessed water < 11 mill. m^3/year;
- Purchase of spare parts, materials and services under most favourable terms.

Financial assets for development

- Provision of own resources from sale of products and services (profits, depreciation);
- Provision of loan financing for investments;
- Provision of equity financing for investments.

Human resources

- Decrease in number of employees;
- Higher education level of employees;
- Constant training of employees in order to obtain new as well as refresh and supplement the existing functional expertise.

FOR MY VALLEY.

The Šaleška Valley which lives with a view on the Šoštanj Thermal Power Plant; which develops and is made stronger with the energy the power plant produces. Thanks to those who on a daily basis take care for a safe and reliable production.

The need for electricity is growing. Socially responsible thinking paves the way for a new era. The replacement Unit 6 will provide higher efficiency and will use approx. 30% less coal for the production of the same amount of energy, meaning there will be less emissions. Consequently, this means more efficient production of electricity and cleaner air in the Šaleška Valley. Because by producing energy we provide a driving force for the local environment. We ensure quality jobs and a reliable district heating, and with socially responsible actions contribute to the growth of our valley.

3 SOCIAL RESPONSIBILITY REPORT

3.1 RESPONSIBILITY TOWARDS EMPLOYEES

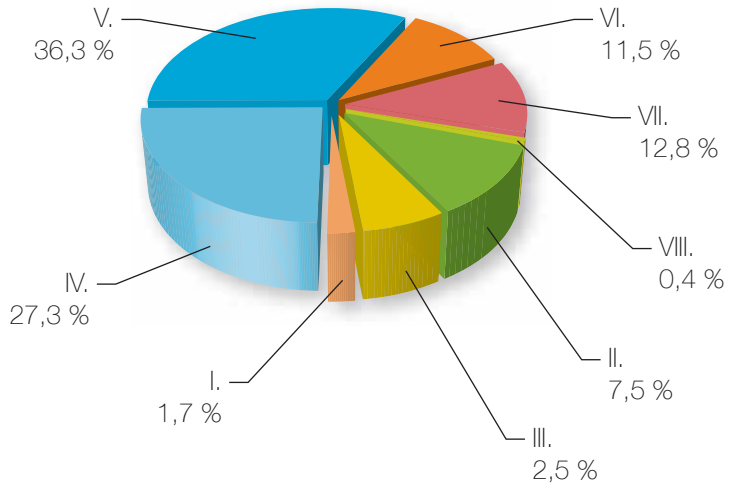
An important aspect in employment is acquiring professional and ambitious colleagues. As a learning organisation, we underline equality, open information and organisational culture that promote cooperation and thus new ideas. Therefore, we are capable to find opportunities more quickly and deal with changes and crisis situations. We stimulate communication by including everybody in problem solving. This enables the company to increase its capabilities and allows employees to achieve their and consequently common goals.

3.2 HUMAN RESOURCES

TEŠ had 477 employees as at 31 December 2011. In comparison to 31 December 2010, the number of employees decreased by 11.

The average age of permanent employees was 45 years and 5 months; their average length of service was 24 years and 9 months. Both indicators have been slightly declining.

Educational structure of employees as at 31 December 2011



3.3 EDUCATION AND TRAINING

The investments in knowledge are investments in future. Therefore, we devote a great deal of attention to appropriate staff development. By offering the possibilities of education and other forms of training, we are establishing a devoted relationship with our employees.

At the moment, 17 employees or 3.6 % of all employees are involved in part-time studies. The average age of employees attending part-time studies is 37.5 years. In 2011, 13 employees completed their studies and acquired a higher level of professional education.

In 2011, all employees were participating in internal trainings, since, in addition to various individual and mutual trainings (which totalled 185), we started with periodical training for occupational safety by means of e-learning in autumn. 397 trainings were conducted through external contractors.

3.4 RESPONSIBILITY TOWARDS THE NATURAL ENVIRONMENT

Our responsibility towards the natural environment results in regular control of emissions, air quality of the surrounding areas and analysis of number of hours when 2XMEV was exceeded. Thanks to this manner of control and measures, we managed to keep annual and monthly averages of pollutants, such as NOx, CO, SO_2 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). Consequently, the 24-hour tolerance margin of SO_2 emission concentrations in the air has not been exceeded at any of the locations for several years.

Within the scope of modelling of flue gas emission dispersions from the existing plants to the surroundings defined as the evaluation area, in July the documents for determining the total load were handed to ARSO (Environmental Agency of the Republic of Slovenia).

To be able to efficiently exploit combustion residue we thoroughly monitored production in accordance with the Slovene Technical Approval (STA) issued in connection with TEŠ's stabilised material. In terms of the upcoming STA, we have prepared the application for extension and submitted it to the Slovene Building and Civil Engineering Institute. By the end of the year, the samples of individual components and stabilisation material were gathered for the purposes of the control by the Slovene Building and Civil Engineering Institute.

In the area of greenhouse gas, the elimination of non-burnt C that remains in combustion products from the balance of emitted CO_2 was legalised. For this purpose, the sampling methods and data collection from scales have been defined and at the same time we asked ARSO for the change in monitoring plan and received its approval in October. In the area of considerable decrease in CO_2 and thus real contribution to reduction of global warming, our efforts were directed towards the construction of the replacement Unit 6, which will enable a 30 % decrease in CO_2 emissions.

Thus, at the beginning of the year we supplemented the application for environmental permit for Unit 6 with additional requirements, participated at the public discussion and acquired the environmental permit that further enabled the beginning of construction. In terms of CCS directive's requirements, we later determined the possible plots for installation of plants for CO_2 capturing, which were submitted to ARSO by e-mail.

Within the framework of Unit 6 construction site, we devoted special attention to warning contractors and supervisors due to dust and draining of construction rainwater. Tolerance of 35 excess per individual station was not exceeded until the end of the year, since 33 excess were recorded at the mobile station and 30 excess were recorded in the location of the measurement station Šoštanj. Of course, all these excess cannot be attributed to our company.

In relation to the construction site, it is necessary to mention the excess of pH, solid particles and iron in the water, mostly at the outflow of former city rainwater canalisation west of the cooling tower 4 in the river Paka. We estimate that the inadmissible discharge of water with a high pH in the river Paka was caused due to washing of concreting equipment and later probably also the spread of concrete. Despite this fact, it is necessary to underline that in the river Paka itself no significant increase in values was observed.

For the purposes of construction site, a so-called occasional noise measurement was performed on the facades of most exposed facilities and at the same time continuous noise measurements on the location of measurement stations were established. The continuous measurements do not indicate excess. By legalising the installation of extracted soil, we agreed on the beginning of soil installation in the area of subsidence zone restoration as at 24 June 2011. In the first phase it was necessary to install the materials which had already been stored in the area of subsidence zone restoration for this purpose.

As for separate collection of maintenance waste, we paid particular attention to the trends regarding the generation of mixed construction and municipal waste and their disposal. The results in the area of mixed municipal waste remain poor, since the quantity has only slightly decreased. As regards the construction waste, we mainly eliminate the mixture of concrete, brick, tiles and ceramics, which is more appropriate for recycling than completely mixed construction waste.

We have prepared all environmental records for the past year, namely the record of unprocessed and waste waters, record of close water circuit, record of combustion products and the overview of generated waste. For the purposes of annual environmental reporting to ARSO we have obtained all necessary reports and submitted them to ARSO in due time. For the purposes of the Statistical Office we have subsequently prepared the statistics for water and environmental expenditures.

In November, we also prepared expert bases for arranging the Družimirje Lake with the focus on environmentally more appropriate use of water for TEŠ.

As regards ISO 14001, we have renewed the environmental aspects and redefined the environmental programmes, completed internal audits and successfully passed the external audit. In the framework of programmes of Environmental Management Systems (SRO), we have again watched over the decrease in NOx below 7,722 tons, which we have also realised. In June we have decreased the drawing of the Topolščica River from 130 m^3/h under 80 m^3/h, which is an extreme success mainly due to the fact that we are saving water with a status of quality drinking water. We have to particularly underline the almost concluded construction of the interception device for polluted waters, which enables a further performance of mechanical and electric installations and measurements. The construction of a decarbonisation centrifuge for muddy water, which will further contribute to improving the balance of the closed water circuit and indirectly result in faster decrease in high concentrations of sulphate and molybdenum in the Velenje Lake, was not realised in this year due to the lack of necessary installation surfaces.

Within the framework of the study on development possibilities of the lakes in the Šalek Valley, the conclusion of the task was represented. The conclusion again drew attention to high sulphate and organic substance contents and an anaerobic environment in the deeper layers of the Velenje Lake. Due to this fact, we have consulted with professionals on the possibilities of the deep inflow of the river Velunje and islands with cleaning plants with the focus on sulphate assimilation. Since we did not receive the proposal of possible types of plants until the end of the year, we will focus on the possibility of a controlled deep inflow.

3.5 RESPONSIBILITY TOWARDS THE WIDER COMMUNITY

Due to its location and work, TEŠ is significantly included, not only in wider, but also in the local environment. At the company we are aware of the significance of the environment in which we operate and which we actively shape. We are particularly aware of this due to the influences that we cause by producing electricity and additionally with the construction of the replacement Unit 6 in 2011. Therefore, we have adopted an active role in the development of the town by participating in various projects and providing financial support. We cooperate with numerous educational institutions and organisations of professions, we donate to art associations; among others we sponsor the mixed choir Svoboda from Šoštanj, TEŠ Octet, and brass band “Zarja” from Šoštanj. We sponsor various sport clubs, such as the Elektra basketball team and the Šoštanj – Topolšica volleyball team and the Šoštanj football team. We also actively participate in humanitarian campaigns, supporting institutions and individuals.

FOR YOU.

My energy is your energy.
We share the world in which we coexist.
Together we build a better future.
For our homes and future generations.

The flow of energy is never constant and varies all the time. It fluctuates according to the consumption, which depends on the needs of end users. The Šoštanj Thermal Power Plant is a central link in this controlling process as, according to the needs, it generates a surplus of energy so the balance between a demand and supply is guaranteed. If the Power Plant didn't efficiently help in balancing the needs for electricity, the result would be either shortages of electricity or surpluses which would cause disturbances in the system.

4 FINANCIAL REPORT

4.1 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management is responsible to prepare the financial statements for each individual financial year in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable legislation in a manner that they give a true and fair view of the financial position of the company Termoelektrarne Šoštanj d.o.o.

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

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

- Accounting policies are appropriately selected and consistently used;
- Judgements and assessments are reasonable and wise;
- The financial statements are prepared in accordance with IFRS adopted within the EU; all possible significant deviations are disclosed and explained in the Report.

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

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

The management adopted the company's financial statements for the financial year ended 31 December 2011 as at 17 May 2012.

Šoštanj, 17 May 2012

Managing Director
Simon Tot, MSc

4.2 AUDIROR'S REPORT

Deloitte.

Deloitte revizija d.o.o.
Dunajska cesta 165
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Slovenija

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www.deloitte.si

INDEPENDENT AUDITOR'S 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. (hereinafter: the "Company"), which comprise the statement of financial position as at 31 December 2011, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU. The management is also responsible for the level of internal control required in its opinion to prepare financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, and its financial performance, comprehensive income and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 4.12.2 "Liquidity Risk" to financial statements where the Company disclosed that it was exposed to high operational risk of non-issuing of the government guarantee or risk of time delay in issuing of the government guarantee to EIB for the loan in the amount of EUR 440 million. The abovementioned risk is connected to high liquidity risk. Management of the abovementioned risks by the management is disclosed in Note 4.12.2 to financial statements. The financial statements do not include potential adjustments that may have been the consequence of this uncertainty.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements:

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

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 17 May 2012

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

4.3 INTRODUCTION TO THE PREPARATION OF FINANCIAL STATEMENTS

On the basis of the General Meeting decision of the owner of the company Termoelektrarna Šoštanj as at 20 August 2010, all financial statements and explanatory notes for 2011 are for the first time prepared in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the EU. 1 January 2010 is the date of transition after which the company prepared the opening statement of financial position in accordance with IFRS. Until 2011 the company was preparing the financial statements in accordance with the Slovene Accounting Standards and the interpretations by the Slovene Institute of Auditors.

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

The annual report of the company for 2010 financial year is available at the company's registered office and on the website www.te-sostanj.si.

4.3.1 Reporting company

Termoelektrarna Šoštanj d.o.o. (hereinafter: the "company") is a company with its registered office in Slovenia. Its registered office is located at Cesta Lole Ribarja 18 in Šoštanj. The separate financial statements of the company for the year ended 31 December 2011 are presented below.

The consolidated financial statements for the HSE Group are prepared by the company Holding Slovenske elektrarne d.o.o. The consolidated annual report for the HSE Group is available at the company's registered office at Koprska ulica 92, Ljubljana.

4.3.2 Basis for preparation

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

- IFRS, which include International Accounting Standards (IAS), Interpretations issued by the Standing Interpretations Committee (SIC), International Financial Reporting Standards (IFRS) and Interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (hereinafter: "the EU");
- Companies Act;
- Energy Act
- Corporate Income Tax Act;
- Implementing regulations of Corporate Income Tax Act;
- Accounting Rules of Termoelektrarna Šoštanj d.o.o.

a) Currently applicable standards and interpretations

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

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

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

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

The company opted not to adopt these standards, amendments and interpretations before they enter into force. The company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the company in the period of initial application.

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

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

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

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

According to the company's estimates, application of hedge accounting for the portfolio of financial assets and liabilities pursuant to **IAS 39: "Financial instruments: Recognition and Measurement"**, would not significantly impact the financial statements, if applied on the date of the statement of financial position.

4.3.3 Basis of measurement

The financial statements of the company are prepared on the basis of historical values of balance sheet items.

4.3.4 Currency reports

4.3.4.1 Functional and presentational currency

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

4.3.4.2 Translation of foreign currencies

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

4.3.5 Use of assessments and judgements

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

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

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

- Assessment of useful life of amortisable assets;
- Test of impairment of assets;
- Assessment of net realisable value of inventories;
- Assessment of realisable value of receivables;
- Assessment of provisions for jubilee and termination benefits;
- Assessment of other provisions.

4.3.6 Events after the date of the statement of financial position

On 6 March 2012, the company received the Decision on the tax inspection of value added tax for the period from 1 January 2008 to 31 December 2008 – certain data and corporate income taxes for the period from 1 January 2006 to 31 December 2010 – certain data.

Events after the date of the statement of financial position are described in section 1.5 of the business report.

4.3.7 Important accounting policies

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

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

4.3.7.1 Intangible assets

Intangible assets are long-term assets enabling the performance of the company's registered activities, whereas physically they do not exist. Company's intangible assets include licences, software and emission coupons.

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

Intangible assets are subsequently measured using the cost model.

Emission coupons are long-term property rights with an indefinite useful life and are valuated in accordance with interpretations by the Slovenian Institute of Auditors.

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

Intangible assets with indefinite useful life are not amortised, but impaired.

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

Amortisation rates used for individual intangible assets are:

AMORTISATION RATES OF INTANGIBLE ASSETS

INTANGIBLE ASSETS	AMORTISATION RATE in %
Software	7.6% - 50%
Licences	12.5% - 50%

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

4.3.7.2 Property, plant and equipment

Property, plant and equipment are long-term assets owned by the company and used for the performance of its registered activities. Property, plant and equipment comprise land, buildings, production equipment, other equipment and assets in the course of construction.

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated losses from impairments, except land and other assets that are not amortised and are presented at its cost less all impairments. Cost includes costs that can be directly attributed to the acquisition of an item of property, plant and equipment. The parts of items of plant and equipment with different useful lives are accounted for as individual assets. Borrowing costs that are directly allocated to the purchase, construction or production of a qualifying asset, i.e. until the capitalisation of an asset, are recognised as a part of cost of such an asset.

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

Depreciation is calculated using the straight-line amortisation method, taking into account the useful life of each individual (integral) part of a fixed asset and residual value. Land and certain other assets are not depreciated. Depreciation begins when an asset is available for use. Constructions in progress are not depreciated.

Depreciation rates of property, plant and equipment are defined on the basis of management's assessment with regard to estimated useful lives of individual production units.

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

DEPRECIATION RATES OF PRODUCTION UNITS

PROPERTY, PLANT AND EQUIPMENT	DEPRECIATION RATE of property in %	DEPRECIATION RATE of production equipment in %	DEPRECIATION RATE of production equipment parts (overhauls) in %
Unit 3			19 %
Unit 4	1.28 % - 3.75%	1.3 % - 10 %	16 % - 30.8 %
Unit 5	1.67% - 5%	1.5 % - 7.2 %	25 %
Gas unit 1 and 2	4%	4 % - 6.6 %	20 % - 47 %

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

DEPRECIATION RATES OF PROPERTY, PLANT AND EQUIPMENT - OTHER

PROPERTY, PLANT AND EQUIPMENT	DEPRECIATION RATE in %
Buildings - other	2.1 % - 2.94 %
Parts of buildings	2.5 % - 20 %
Software	20 % - 50 %
Furniture	10 % - 20 %
Personal vehicles	10 % - 20 %
Other vehicles	4 %- 20 %
Other plants and equipment	12.5 % - 33.3 %

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

In case useful life is extended, the company decreases accrued depreciation costs in the discussed financial year, while in case the useful life is shortened, it increases them. The adjustment of useful life has to be calculated in a manner that the asset will be depreciated in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

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

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

Costs that occur in relation to a fixed asset increase its carrying amount when they increase its future economic benefits in comparison with the originally assessed future economic benefits.

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

4.3.7.3 Investments in associates

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

In the company's financial statements investments in associates are carried at cost.

4.3.7.4 Financial instruments

Financial instruments include the following assumptions:

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

4.3.7.4.1 Non-derivative financial assets

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

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale (other long-term financial assets) or are not classified as loans and receivables or financial assets at fair value through profit or loss.

The company measures the financial asset at cost in case fair value cannot be reliably assessed. The possible signs of impairment are reviewed at least once per year.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included under current assets, except in case of maturities of more than 12 months after the date of the statement of financial position. In such case they are classified under long-term assets. In the statement of financial position loans and receivables are carried under operating, financial and other receivables at amortised cost taking into account the applicable interest rate.

Receivables for loans given are carried in the statement of financial position at cost less the value of VAT.

Cash and cash equivalents

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

4.3.7.4.2 Non-derivative financial liabilities

Other financial liabilities are initially recognised on the trade date when the company becomes the contractual party in relation to the instrument. The company derecognises the financial liabilities in case the obligations stipulated in the contract have been fulfilled, annulled or barred by limitation.

Non-derivative financial liabilities comprise operating, financial and other liabilities. Financial liabilities are initially carried at fair value increased by the costs that are directly attributable to the transaction. After the initial recognition, financial liabilities are measured at amortised cost using the effective interest method. The portion of long-term financial liabilities that falls due within less than a year after the cash flow statement date is disclosed under short-term liabilities.

4.3.7.5 Assets held for sale

Asset or group of assets held for sale are those assets for which it can be reasonably expected that their value will be settled, mostly with the sales in the following 12 months and not with further use.

Asset or group of assets held for sale are measured at the lower of the two: their carrying amount or fair value less costs of sale.

4.3.7.6 Inventories

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

The company uses the weighted average cost formula to assess the value of materials and small tools inventories and to record costs or expenses.

The first-in first-out (FIFO) method is only used to assess the value of coal and gas used, since coal and gas that are purchased first are also used first. The company does not record any coal and gas inventories.

Net realisable value is assessed on the basis of selling price in the normal course of operations reduced by the estimated costs of completion and sales. The write-downs of damaged, expired and useless inventories are regularly performed during the year per individual items;

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

4.3.7.7 Impairment of assets

4.3.7.7.1 Financial assets

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

Objective evidence on the impairment of financial assets can be: non-compliance or violation by the debtor; restructuring of the amount that others owe to the company in case the latter agrees; signs that the debtor will face bankruptcy; disappearance of active market for such instrument.

Impairment of receivables

The company individually assesses the evidence on impairment of receivables. All significant receivables are individually measured for the purpose of special impairment. Whether it is assessed that the carrying amount of receivable has exceeded its fair value (realisable value), the receivable is impaired.

Receivables assumed not to 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.

Losses arising from impairment in relation to financial asset are recognised in profit or loss.

4.3.7.7.2 Non-financial assets

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

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

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

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

4.3.7.8 Equity

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

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

Legal and other reserves are amounts that are intentionally retained from the previous years' revenue. They are created on the basis of the decision by relevant management and supervisory body.

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

Retained earnings also include unallocated profits from the previous years and current year.

4.3.7.9 Provisions for jubilee and termination benefits

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

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

4.3.7.10 Other provisions

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

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

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

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

4.3.7.11 Other assets and liabilities

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

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

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

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

Deferred revenue is deferred revenue that will cover estimated expenses during a period of more than one year. They also include received state aids and aids connected with assets.

4.3.7.12 Contingent liabilities and assets

Contingent liability is:

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

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

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

4.3.7.13 Revenue

Sales revenue is recognised at fair value of the received repayment or receivable arising from this repayment decreased by repayments and discounts, rebates for further sale and quantity discounts. The revenue is disclosed when the customer assumes all significant types of risks and benefits related to the ownership of the asset, when there is a certainty in relation to recoverability of a fee and related costs or possibility of repayment of products and when the company stops deciding on products sold.

Operating revenue is recognised as follows:
Sale of goods is recognised when the company delivers the products to the client. The client accepts the products, while the collectability of associated receivables is reasonably ensured.
Sale of services is recognised in the accounting period in which the services are performed as regards the conclusion of the transaction estimated on the basis of actually performed service as the proportional portion of all services performed.

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

Other operating revenue related to products and services is revenue from the reversal of provisions, revenue from utilisation of deferred revenue, gains arising from sales of fixed assets, reversal of impairment of receivables, received compensations and contractual penalties, subsidies, grants, recourses, premiums and similar revenue.
State aid is considered as deferred revenue that the company strictly consistently and wisely recognises as other operating revenue over the useful life of the relevant asset (on the other hand, the company discloses the amortisation/depreciation cost of this asset among operating expenses).

Financial revenue comprises revenue from interest on investments, revenue from the disposal of available-for-sale financial assets, positive foreign exchange differences incurred in financing and investing activities and profits from derivative instruments for cash-flow hedging that are recognised in the income statement.

4.3.7.14 Expenses

Expenses are recognised if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt and this decrease can be reliably measured. Operating expenses are recognised once costs are no longer held in inventories of products and work in progress or once merchandise has been sold. Costs that cannot be held in inventories of products and work in progress are recognised as operating expenses upon its occurrence.

Costs of materials are historical costs of materials purchased that are directly used for creating products and services (direct costs of material) as well as costs of material that do not have such nature and are included in relevant purpose (functional) groups of indirect operating costs. The first subgroup includes costs of raw materials, other materials and purchased parts and semi-finished products whose consumption can be related to creating products and services. The second group includes costs of auxiliary materials for maintenance of property, plant and equipment, small tools whose useful life does not exceed one year, spare parts for servicing of products after their sale, office supplies, specialised literature and other items. Costs of materials cover also the accrued costs of shrinkage, spilling, breakage and failure.

Costs of services are historical costs of purchased services that are directly used for creating products and services (costs of direct services) as well as costs of services that do not have such nature and are included in adequate purpose (functional) groups of indirect operating costs. The first group mostly includes the costs of services for production of goods, while the second group includes mainly the costs of transport services, maintenance services, services of fairs, marketing and entertainment, costs of insurance premiums, payment transactions and other banking services (except interest), rents, advisory services, business travels and similar services.

Depreciation/amortisation costs are historical costs related to strictly consistent transfer of value of depreciable property, plant and equipment and amortisable intangible assets.

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

Labour costs are historical costs that refer to salaries and similar values in gross amounts as well as duties that are calculated from this basis and are not an integral part of gross amounts. These costs can be directly charged against creation of products and services (costs of direct work) or they have the nature of indirect costs and are comprised in relevant purpose (functional) groups of indirect costs.

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

Financial expenses comprise borrowing costs (if they are not capitalised), negative foreign exchange differences that occur in financing and investment activities, changes in fair value of financial assets at fair value through profit or loss and losses due to impairment of value of financial assets recognised in the income statement. Borrowing costs are recognised in the income statement using the effective interest rate method.

4.3.7.15 Taxation

Taxes include current and deferred tax liabilities. Current tax is included in the income statement.

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

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

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

Deferred tax liability represents the assessed amount of corporate income tax on taxable temporary differences that the company will be liable to pay in the coming years.

4.3.8 Statement of other comprehensive income

Statement of other comprehensive income comprises items of revenue and expenses that are not recognised in profit or loss, but they affect the amount of equity.

4.3.9 Cash flow statement

Cash flow statement represents changes in cash and cash equivalents of the financial year, for which it is prepared. The cash flow statement is prepared using the direct method.

4.3.10 Comparable data

The company prepared financial statements in accordance with IFRS for the first time for 2011. In accordance with the provisions of IFRS 1, the transition date is considered 1 January 2010 and therefore it was necessary to convert all categories of assets and liabilities to funding sources on this date. In order to ensure comparability as one of basic IFRS principles, it was necessary to convert the 2010 financial statements and prepare them in accordance with IFRS. Impacts of conversions or transition from SAS to IFRS are presented in the section 4.4 Specification of IFRS Transition Effects.

4.3.11 Fair value definition

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

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

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

The company determined the fair value of individual groups of assets for the purposes of measuring or reporting according to the methods described in the section 4.12.5 "Fair value".

4.3.12 Management of financial risks

The company is exposed to the following types of financial risk: credit, liquidity and interest rate risk. Financial risks are described in more detail in section 2.11 on the risks in the business report. In terms of value, financial risks are disclosed in notes in the section 4.12.

4.4 SPECIFICATION OF IFRS TRANSITION EFFECTS

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

CHANGES IN ITEMS OF INCOME STATEMENT DUE TO TRANSITION TO IFRS

TYPE OF REVENUE OR EXPENSE ACCORDING TO SAS	AMOUNT (in EUR)	TYPE OF REVENUE OR EXPENSE ACCORDING TO IFRS	AMOUNT (in EUR)	DISCLOSURE
Financial revenue	86	Costs of materials	37	Foreign exchange gains/losses on invoices received
Financial expenses	(49)			
Financial revenue	7,059	Other operating revenue	7,059	Revenue from default interest of buyers
Financial expenses	(804)	Other operating expenses	(804)	Expenses from default interest and other financial expenses from opearting liabilities
Other revenue	63,779	Other operating revenue	63,779	Compensations, subsidies
Other expenses	(30,277)	Other operating expenses	(30,277)	Compensations
TOTAL	39,794		39,794	

CHANGES IN ITEMS OF STATEMENT OF FINANCIAL POSITION DUE TO TRANSITION TO IFRS

TYPE OF ASSET OR LIABILITY ACCORDING TO SAS	AMOUNT (in EUR)	TYPE OF ASSET OR LIABILITY ACCORDING TO IFRS	AMOUNT (in EUR)	DISCLOSURE
Other long-term deferred costs and accrued revenue	(24,286)	Other long-term assets	24,286	Reserve fund assets are other long-term assets
Advances for property, plant and equipment	(1,108,254)	Long-term operating receivables	8,254	Advances for property, plant and equipment are now disclosed among receivables
		Short-term operating receivables	1,100,000	Advances for property, plant and equipment are now disclosed among receivables
Short-term operating receivables	(1,801,069)	Current tax assets	1,801,069	Separated disclosure of current tax assets
Short-term loans to others	(1,761,000)	Cash and cash equivalents	1,761,000	Deposits given up to three months
TOTAL	(2,909,323)		2,909,323	

4.5 STATEMENT OF FINANCIAL POSITION

in EUR

Item no.	Item	Note	31 December 2011	31 December 2010	1 January 2010
	ASSETS		859,641,851	541,317,060	468,171,073
A.	**LONG-TERM ASSETS**		**787,492,485**	**478,411,633**	**404,765,533**
I.	Intangible assets	1	9,213,628	13,524,345	17,895,051
II.	Property, plant and equipment	2	777,228,955	463,968,258	386,039,247
V.	Other long-term investments and loans	3	260,003	60,003	214,136
1.	Other long-term investments		260,003	60,003	214,136
VI.	Long-term operating receivables	4	113,723	138,126	156,757
VII.	Other long-term assets (accrued revenue and deferred costs)	5	33,383	29,170	24,286
VIII.	Deferred tax assets	6	642,793	691,731	436,056
B.	**CURRENT ASSETS**		**72,149,366**	**62,905,427**	**63,405,540**
I.	Assets held for sale	7	201,723	201,723	201,723
II.	Inventories	8	12,719,114	12,649,592	12,141,920
IV.	Short-term operating receivables	9	53,637,698	44,119,879	44,139,097
V.	Current tax assets		0	0	1,801,069
VI.	Other current assets (accrued revenue and deferred costs)	10	3,556,615	5,886,619	3,357,931
VII.	Cash and cash equivalents	11	2,034,216	47,614	1,763,800
	EQUITY AND LIABILITIES		859,641,851	541,317,060	468,171,073
A.	**EQUITY**	12	**362,807,700**	**348,575,114**	**344,372,708**
I.	Called-up capital		211,652,459	203,480,559	203,480,559
II.	Capital surplus		116,883,008	116,883,008	116,883,008
III.	Revenue reserves		31,381,842	24,207,696	23,945,329
IV.	Fair value reserve		11,565	11,565	11,565
V.	Retained earnings		2,878,826	3,992,286	52,247
B.	**LONG-TERM LIABILITIES**		**221,734,752**	**40,704,680**	**55,938,583**
I.	Provisions for termination and jubilee benefits	13	2,606,208	2,778,303	2,604,604
II.	Other provisions	14	941,101	0	0
III.	Other long-term liabilities (accrued costs and deferred revenue)	15	9,109,574	14,454,609	19,584,952
IV.	Long-term financial liabilities	16	205,691,991	23,465,160	33,738,328
V.	Long-term operating liabilities	17	3,385,878	6,608	10,699
C.	**SHORT-TERM LIABILITIES**		**275,099,399**	**152,037,266**	**67,859,782**
II.	Short-term financial liabilities	18	112,782,562	90,718,257	10,273,169
III.	Short-term operating liabilities	19	157,849,472	54,373,157	54,227,909
IV.	Current tax assets	20	481,076	1,153,647	0
V.	Other short-term liabilities (accrued costs and deferred revenue)	21	3,986,289	5,792,205	3,358,704

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

4.6 INCOME STATEMENT

in EUR

Item no.	Item	Note	2011	2010
1.	Net sales revenue	1	233,618,937	242,009,537
3.	Capitalised own products and services	2	4,940,481	15,619
4.	Other operating revenue	3	5,519,174	5,432,651
	GROSS RETURN ON OPERATIONS		**244,078,592**	**247,457,807**
5.	Costs of goods, materials and services	4	166,212,876	171,347,090
6.	Labour costs	5	19,894,073	18,951,394
7.	Write-downs in value	6	33,305,573	32,396,123
8.	Other operating expenses	7	15,847,735	18,106,080
	OPERATING PROFIT OR LOSS		**8,818,335**	**6,657,120**
9.	Financial revenue	8	33,211	3,788
10.	Financial expenses	9	1,125,585	1,475,709
	NET CASH		**(1,092,374)**	**(1,471,921)**
	PROFIT OR LOSS BEFORE TAX		**7,725,961**	**5,185,199**
11.	Calculated tax		1,616,337	1,238,467
12.	Deferred taxes		48,937	(255,674)
	TAX	**10**	**1,665,274**	**982,793**
13.	**NET PROFIT OR LOSS FOR THE PERIOD**		**6,060,687**	**4,202,406**

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

4.7 STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR

Item no.	Item	Note	2011	2010
13.	**NET PROFIT OR LOSS FOR THE FINANCIAL YEAR**		**6,060,687**	**4,202,406**
14.	Changes in revaluation surplus for intangible assets and property, plant and equipment		0	0
15.	Actuarial gains and losses arising from defined benefit plans (employee benefits)		0	0
16.	Gains and losses arising from translation of financial statements of foreign operations		0	0
17.	Net profit (loss) from available-for-sale assets		0	0
18.	Net effective part of change in fair value of instrument for cash flow hedging		0	0
19.	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR**		**6,060,687**	**4,202,406**

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

4.8 STATEMENT OF CHANGES IN EQUITY

in EUR

Item no.	Item	Called-up capital	Capital surplus	Revenue reserves		Fair value reserves	Retained earnings		TOTAL
		Share capital		Legal reserves	Other revenue reserves		Retained net profit	Net profit or loss for the financial year	
A.1.	**Balance as at 1/1/2010 (SAS)**	**203,480,559**	**116,883,008**	**1,389,879**	**22,555,450**	**11,565**	**52,247**	**0**	**344,372,708**
	Transition to IFRS								
A.2.	**Balance as at 1/1/2010**	**203,480,559**	**116,883,008**	**1,389,879**	**22,555,450**	**11,565**	**52,247**	**0**	**344,372,708**
B.1.	**Transactions with owners**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
B.2.	**Changes in total comprehensive income**	**0**	**0**	**0**	**0**	**0**	**0**	**4,202,406**	**4,202,406**
a)	Net profit or loss for the financial year							4,202,406	4,202,406
B.3.	**Changes in equity**	**0**	**0**	**210,120**	**52,247**	**0**	**(52,247)**	**(210,120)**	**0**
b)	Allocation of portion of net profit for the reporting period to other components of equity in accordance with the decision of management and supervisory bodies			210,120				(210,120)	0
c)	Allocation of a portion of net profit to additional reserves in accordance with the general meeting resolution				52,247		(52,247)		0
C.	**Balance as at 31/12/2010**	**203,480,559**	**116,883,008**	**1,599,999**	**22,607,697**	**11,565**	**0**	**3,992,286**	**348,575,114**
A.1.	**Balance as at 31/12/2010**	**203,480,559**	**116,883,008**	**1,599,999**	**22,607,697**	**11,565**	**0**	**3,992,286**	**348,575,114**
A.2.	**Balance as at 1/1/2011**	**203,480,559**	**116,883,008**	**1,599,999**	**22,607,697**	**11,565**	**3,992,286**	**0**	**348,575,114**
B.1.	**Transactions with owners**	**8,171,900**	**0**	**0**	**0**	**0**	**0**	**0**	**8,171,900**
d)	Additional paid-in capital	8,171,900							8,171,900
B.2.	**Changes in total comprehensive income**	**0**	**0**	**0**	**0**	**0**	**0**	**6,060,686**	**6,060,686**
a)	Net profit or loss for the financial year							6,060,686	6,060,686
B.3.	**Changes in equity**	**0**	**0**	**303,034**	**6,871,112**	**0**	**(3,992,286)**	**(3,181,860)**	**0**
b)	Allocation of portion of net profit for the reporting period to other components of equity in accordance with the decision of management and supervisory bodies			303,034	2,878,826			(3,181,860)	0
c)	Allocation of a portion of net profit to additional reserves in accordance with a general meeting resolution				3,992,286		(3,992,286)		0
C.	**Balance as at 31/12/2011**	**211,652,459**	**116,883,008**	**1,903,033**	**29,478,809**	**11,565**	**0**	**2,878,826**	**362,807,700**
	ACCUMULATED PROFIT	0	0	0	0	0	0	2,878,826	2,878,826

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

4.9 CASH FLOW STATEMENT (DIRECT METHOD)

in EUR

Item no.	Item	2011	2010
A.	**Operating cash flows**		
a)	**Cash receipts from operating activities**	**316,747,537**	**303,937,979**
1.	Cash receipts from electricity operations	281,910,744	278,402,873
a)	Domestic market	281,910,744	278,402,873
2.	Cash receipts from thermal energy operations	4,748,074	5,219,196
3.	Cash receipts from premiums, subsidies, donations etc.	52,534	0
8.	Cash receipts from duties payable to the state, except for corporate income tax	25,088,823	14,990,680
9.	Cash receipts from reimbursement of corporate income tax	0	2,138,490
11.	Other cash receipts from operating activities	4,947,362	3,186,740
b)	**Cash disbursements for operating activities**	**(242,282,172)**	**(242,422,648)**
2.	Cash disbursements for thermal energy operations	(3,536,359)	(3,826,300)
4.	Cash disbursements for coal	(137,023,644)	(143,905,615)
5.	Cash disbursements for gas	(21,497,524)	(25,267,436)
6.	Cash disbursements for the purchase of emission coupons	(5,659,866)	(3,837,821)
8.	Cash disbursements from duties payable to the state, except for corporate income tax	(7,379,780)	(7,748,435)
9.	Cash disbursements for corporate income tax	(2,288,908)	(440,824)
11.	Cash disbursements for maintenance, materials and services	(38,720,547)	(33,725,830)
12.	Cash disbursements for labour costs	(19,890,642)	(19,346,783)
13.	Other cash disbursements for operating activities	(6,284,902)	(4,323,604)
c)	**Cash flow from operating activities**	**74,465,365**	**61,515,331**
B.	**Cash flows from investing activities**		
a)	**Cash receipts from investing activities**	**2,542,586**	**61,370**
1.	Cash receipts from interest	9,015	3,191
4.	Cash receipts from property, plant and equipment (including advances)	2,533,571	58,179
b)	**Cash disbursements from investing activities**	**(286,378,231)**	**(132,072,177)**
1.	Cash disbursements from intangible assets (including advances)	(313,384)	(111,567)
2.	Cash disbursements from property, plant and equipment (including advances)	(285,864,847)	(131,960,610)
4.	Cash disbursements from long-term loans given and other long-term investments	(200,000)	0
c)	**Cash flow from investing activities**	**(283,835,645)**	**(132,010,807)**
C.	**Cash flows from financing activities**		
a)	**Cash receipts from financing activities**	**547,808,900**	**146,595,000**
1.	Cash receipts from paid-in capital	8,171,900	0
2.	Cash receipts from long-term loans and other long-term financial liabilities	192,500,000	0
3.	Cash receipts from short-term loans and other short-term financial liabilities	347,137,000	146,595,000
b)	**Cash disbursements from financing activities**	**(336,452,018)**	**(77,815,710)**
1.	Cash disbursements for interest on loans received	(1,041,849)	(1,247,541)
3.	Cash disbursements from long-term loans and other long-term financial liabilities	(10,273,169)	(10,273,169)
4.	Cash disbursements from short-term loans and other short-term financial liabilities	(325,137,000)	(66,295,000)
c)	**Cash flow from financing activities**	**211,356,882**	**68,779,290**
D.	**Cash and cash equivalents at the beginning of period**	**47,614**	**1,763,800**
	Increase/(decrease) in cash and cash equivalents	1,986,602	(1,716,186)
E.	**Cash and cash equivalents at the end of period**	**2,034,216**	**47,614**

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

4.10 NOTES TO THE FINANCIAL STATEMENTS

4.10.1 Notes to the statement of financial position

Note 1

Intangible assets **EUR 9,213,628**

INTANGIBLE ASSETS

in EUR

	31 December 2011	31 December 2010	1 January 2010
Emission coupons	8,601,781	12,902,635	17,205,971
Other long-term property rights	611,847	621,710	689,080
Intangible assets	9,213,628	13,524,345	17,895,051

The predominant share of intangible assets is comprised of emission coupons. Pursuant to the Environment Protection Act, Ordinance on the National Plan for the Allocation of Emission Coupons for the period 2008-2012 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 amount of coupons decreased by 4,775,277 coupons (The report on assessment of the report on greenhouse gas emissions for 2010) that were processed in April for emissions produced in 2010.

Intangible assets include EUR 611,847 worth of licences and other software which are, depending on their useful lives, amortised at a rate of between 7.6 % and 50 %.

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

CHANGES IN INTANGIBLE ASSETS

in EUR

	EMISSION COUPONS	OTHER LONG-TERM PROPERTY RIGHTS	TOTAL
Cost as at 1/1/2010	**17,205,971**	**1,220,721**	**18,426,692**
Acquisitions	3,468,074	129,472	3,597,546
Disposals	(7,771,410)	0	(7,771,410)
Cost as at 31/12/2010	**12,902,635**	**1,350,193**	**14,252,828**
Written-down value as at 1/1/2010	**0**	**531,641**	**531,641**
Amortisation	0	196,842	196,842
Written-down value as at 31/12/2010	**0**	**728,483**	**728,483**
Carrying amount as at 1/1/2010	**17,205,971**	**689,080**	**17,895,051**
Carrying amount as at 31/12/2010	**12,902,635**	**621,710**	**13,524,345**

	EMISSION COUPONS	OTHER LONG-TERM PROPERTY RIGHTS	TOTAL
Cost as at 1/1/2011	**12,902,635**	**1,350,193**	**14,252,828**
Acquisitions	474,423	224,284	698,707
Disposals	(4,775,277)	(48,384)	(4,823,661)
Cost as at 31/12/2011	**8,601,781**	**1,526,093**	**10,127,874**
Written-down value as at 1/1/2011	**0**	**728,483**	**728,483**
Amortisation	0	205,923	205,923
Disposals	0	(20,160)	(20,160)
Written-down value as at 31/12/2011	**0**	**914,246**	**914,246**
Carrying amount as at 1/1/2011	**12,902,635**	**621,710**	**13,524,345**
Carrying amount as at 31/12/2011	**8,601,781**	**611,847**	**9,213,628**

Note 2

Property, plant and equipment **EUR 777,228,955**

PROPERTY, PLANT AND EQUIPMENT

in EUR

	31 December 2011	31 December 2010	1 January 2010
Land	3,711,949	3,711,949	3,343,877
Buildings	34,866,914	38,573,867	38,131,904
Production equipment	187,336,826	183,053,767	207,166,360
Other equipment	8,702,752	10,601,405	5,771,805
Property, plant and equipment being acquired	542,610,514	228,027,270	131,625,301
Property, plant and equipment	777,228,955	463,968,258	386,039,247

The value of assets was assessed by certified appraisers based on the balance as at 31 December 2001. The company examines possible signs of impairment at least once per year and discovers that they do not exist.

As regards the assets in the process of construction that mainly refer to the replacement Unit 6, the revised investment programme (4th revision, August 2011) stipulates that at a 7 % discount rate the net present value of investment is positive and that the internal rate of return amounts to 7.59 %.

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

CHANGES IN PROPERTY, PLANT AND EQUIPMENT

in EUR

	LAND	BUILDINGS	PRODUCTION EQUIPMENT	OTHER EQUIPMENT	PROPERTY, PLANT AND EQUIPMENT BEING ACQUIRED	TOTAL
Cost as at 1/1/2010	**3,343,877**	**220,121,005**	**1,019,706,785**	**14,128,876**	**131,625,301**	**1,388,925,844**
Acquisitions	0	0	0	0	98,372,260	98,372,260
Disposals	(83,200)	(17,888,770)	(824,431)	(213,986)	(153,806)	(19,164,193)
Transfer from ongoing investments	451,272	4,982,703	2,555,951	6,426,165	(1,816,485)	12,599,606
Other transfers	0	0	67,982	(37,982)	0	30,000
Cost as at 31/12/2010	**3,711,949**	**207,214,938**	**1,021,506,287**	**20,303,073**	**228,027,270**	**1,480,763,517**
Written-down value as at 1/1/2010	**0**	**181,989,101**	**812,540,425**	**8,357,071**	**0**	**1,002,886,597**
Amortisation	0	3,880,621	26,736,508	1,545,743	0	32,162,872
Disposals	0	(17,228,651)	(824,413)	(201,146)	0	(18,254,210)
Written-down value as at 31/12/2010	**0**	**168,641,071**	**838,452,520**	**9,701,668**	**0**	**1,016,795,259**
Carrying amount as at 1/1/2010	**3,343,877**	**38,131,904**	**207,166,360**	**5,771,805**	**131,625,301**	**386,039,247**
Carrying amount as at 31/12/2010	**3,711,949**	**38,573,867**	**183,053,767**	**10,601,405**	**228,027,270**	**463,968,258**

	LAND	BUILDINGS	PRODUCTION EQUIPMENT	OTHER EQUIPMENT	PROPERTY, PLANT AND EQUIPMENT BEING ACQUIRED	TOTAL
Cost as at 1/1/2011	**3,711,949**	**207,214,938**	**1,021,506,287**	**20,303,073**	**228,027,270**	**1,480,763,517**
Acquisitions	0	0	0	0	348,342,132	348,342,132
Disposals	0	0	(16,874,001)	(4,746,182)	(43,010)	(21,663,193)
Transfer from ongoing investments	0	851,014	31,743,279	1,662,272	(34,256,565)	0
Other transfers	0	(596,338)	0	0	540,687	(55,651)
Cost as at 31/12/2011	**3,711,949**	**207,469,614**	**1,036,375,565**	**17,219,163**	**542,610,514**	**1,807,386,805**
Written-down value as at 1/1/2011	**0**	**168,641,071**	**838,452,520**	**9,701,668**	**0**	**1,016,795,259**
Amortisation	0	4,017,280	27,459,484	1,532,608	0	33,009,372
Disposals	0	0	(16,873,265)	(2,717,865)	0	(19,591,130)
Other transfers	0	(55,651)	0	0	0	(55,651)
Written-down value as at 31/12/2011	**0**	**172,602,700**	**849,038,739**	**8,516,411**	**0**	**1,030,157,850**
Carrying amount as at 1/1/2011	**3,711,949**	**38,573,867**	**183,053,767**	**10,601,405**	**228,027,270**	**463,968,258**
Carrying amount as at 31/12/2011	**3,711,949**	**34,866,914**	**187,336,826**	**8,702,752**	**542,610,514**	**777,228,955**

Investments in property, plant and equipment in 2011 were financed with long-term loans from EIB in the amount of EUR 110,000,000 and from EBRD in the amount of EUR 82,500,000, short-term bridging loan in the amount of EUR 102,300,000 taken out from HSE, capital increase of the company in the amount of EUR 8,171,900 and assets of depreciation and profit. In 2011, long-term sources were also used to repay the short-term bridging loan taken out from the HSE Group in order to finance investments in 2010 (in the amount of EUR 80,300,000). The short-term bridging loan in the amount of EUR 102,300,000 taken out from HSE in 2011 will be repaid in 2012 by means of planned drawing of long-term loans from the European Bank for Reconstruction and Development (EBRD) and European Investment Bank (EIB).

Land — EUR 3,711,949

The value of land as at 31 December 2011 is the same as at the end of 2010.

Buildings — EUR 34,866,914

In comparison with the previous year, the value of buildings is lower than planned for the amount of depreciation charge. The value decreased due to demolition of temporarily activated residential buildings at Aškerčeva in Šoštanj.

Production and other equipment — EUR 196,039,578

The value of production and other equipment decreased by depreciation charge and disposal of computer centre in the amount of EUR 2,014,756 that was sold to HSE and unusable smaller fixed assets.

The majority of increases in the amount of EUR 32,582,871 results from the capitalisation of large-scale overhaul at Unit 5 and gas turbine 2 and the capitalisation of investments in reliable production, namely the replacement of the generator at Unit 5 and some smaller investments.

Property, plant and equipment being acquired — EUR 542,610,514

The bulk of the increase in fixed assets in the course of construction relates to investments in the construction of Unit 6 in the amount of EUR 325,887,705. In accordance with the time schedule pursuant to the Contract on planning, supply and construction of the power plant "Šoštanj Unit 6" object (Alstom), TEŠ invested EUR 226,551,547 and EUR 45,000,000 for the installation of main technological equipment. Other investments in Unit 6 are investments in the construction of the cooling system, desulphurisation plant and main drive facility as well as other investments such as insurance, advisory services, land survey services and preparation of BPP and IP and other investments. Financing costs were realised in the amount of EUR 10,112,530, of which capitalised interest expense amounted to EUR 3,906,517.

The estimated value of the construction of the replacement Unit 6 is EUR 1,302,747,000 (revised investment plan, 4th revision). By the end of 2011, the company concluded EUR 1,175,852,000 (financial costs included) worth of contracts for the supply of main technological equipment, flue gas desulphurisation plant, for the construction of cooling system and main drive facility and other items.

By the end of 2011, the Company paid EUR 447,470,090 for realised investments.

Larger increases include investments in the large-scale overhaul at the Unit 5 in the amount of EUR 14,931,733 and investments in reliable production in the amount of EUR 5,692,898 through which TEŠ manages the risks related to production shortfalls and electricity supply as well as investments in the TC centre with an office building in the amount of EUR 981,409.

In 2011, the amount of capitalised projects totalled EUR 32,850,218. The total value of unfinished projects is EUR 542,593,002.

CHANGES IN INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT IN THE COURSE OF CONSTRUCTION

in EUR

	Large-scale overhaul	Investment in reliable production	Investment documentation	Investments in Unit 6	TCL and office building	Other property, plant and equipment being acquired	TOTAL
Carrying amount as at 31/12/2010	**0**	**13,106,898**	**577,437**	**214,303,775**	**0**	**39,160**	**228,027,270**
Acquisitions	14,931,733	5,692,898	4,375	325,887,705	981,409	844,012	**348,342,132**
Other transfers	(14,931,733)	(17,390,641)	(87,122)	540,687	(981,409)	(865,660)	**(33,715,878)**
Disposals	0	0	(43,010)	0	0	0	**(43,010)**
Carrying amount as at 31/12/2011	**0**	**1,409,155**	**451,680**	**540,732,167**	**0**	**17,512**	**542,610,514**

Note 3

Other long-term investments and investments in associates **EUR 260,003**

OTHER LONG-TERM INVESTMENTS AND INVESTMENTS IN SUBSIDIARIES

in EUR

	31 December 2011	31 December 2010	1 January 2010
In associates	59,503	59,503	59,503
Other long-term investments	200,500	500	154,633
TOTAL	260,003	60,003	214,136

The value of long-term investments recorded in the statement of financial position represents their cost.

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

Other interests in the amount of EUR 500 represent investments in the Centre of Excellence Low-carbon Technologies (Center odličnosti nizkoogljične tehnologije - CO NOT). In August 2011, TEŠ invested EUR 200,000 in the establishment of the company RCE Razvojni center energije d.o.o., a centre for research and development. The stake in the company amounts to 8 %.

The company has invested its assets in holiday homes (Krvavec, Rab, Portorož) in the amount of EUR 154,133. On 31 December 2010, these assets were impaired in the total amount of invested assets due to formally unresolved ownership and management relations and unexpected future cash flows.

CHANGES IN LONG-TERM INVESTMENTS

in EUR

	2011	2010
Balance as at 1 January	**60,003**	**214,136**
Revaluation to fair value	0	(154,133)
New acquisitions	200,000	0
Balance as at 31 December	**260,003**	**60,003**

Investments in associates

EUR 59,503

INFORMATION ON ASSOCIATES AS AT 31/12/2011

	ADDRESS	ACTIVITY	% OWNERSHIP	% VOTING RIGHTS
Erico d.o.o.	Koroška 58, 3320 Velenje	74.900	26	26

SIGNIFICANT AMOUNTS FROM STATEMENTS OF ASSOCIATES FOR 2011

in EUR

	ASSETS	LIABILITIES (without equity)	REVENUE	NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	AMOUNT OF TOTAL EQUITY
Erico d.o.o.	1,789,844	522,469	2,308,366	33,231	1,267,374

AMOUNTS OF LONG-TERM INVESTMENTS IN ASSOCIATES

in EUR

	31 December 2011	31 December 2010
Erico d.o.o.	59,503	59,503
TOTAL	59,503	59,503

Other long-term investments

EUR 200,500

OTHER LONG-TERM INVESTMENTS

in EUR

	31 December 2011	31 December 2010
Center odličnosti nizkoogljične tehnologije (“Centre of the excellency of low-carbon technology”)	500	500
Razvojni center energija - RCE (“Energy development centre”)	200,000	0
TOTAL	200,500	500

CHANGES IN OTHER LONG-TERM INVESTMENTS

in EUR

	2011	2010
Balance as at 1 January	**500**	**154,633**
New acquisitions	200,000	0
Impairments	0	(154,133)
Balance as at 31 December	**200,500**	**500**

Note 4

Long-term operating receivables **EUR 113,723**

LONG-TERM OPERATING RECEIVABLES

in EUR

	31 December 2011	31 December 2010	1 January 2010
Advances given	94,465	104,719	104,719
To others	19,258	33,407	52,038
TOTAL	113,723	138,126	156,757

Long-term operating receivables are not secured and have not yet fallen due, except the advance given to the Parish of St. Martin, which is insured with the entry of the land easement.

CHANGES IN ALLOWANCES FOR LONG-TERM RECEIVABLES

in EUR

	2011	2010
Balance as at 1 January	**0**	**0**
Allowances for receivables	8,254	0
Final write-down of receivables	(8,254)	0
Balance as at 31 December	**0**	**0**

LONG-TERM OPERATING RECEIVABLES BY MATURITY DATE

in EUR

	Maturity date			TOTAL
	Until 31/12/2014	From 1/1/2015 to 31/12/2016	After 1/1/2017	
Long-term operating receivables to others	9,067	14,379	90,277	113,723
Total	9,067	14,379	90,277	113,723

Note 5

Other long-term assets **EUR 33,383**

OTHER LONG-TERM ASSETS

in EUR

	31 December 2011	31 December 2010	1 January 2010
Reserve fund assets	33,383	29,170	24,286
TOTAL	33,383	29,170	24,286

Other long-term assets include payments made by the company, being an apartment owner.

Note 6

Deferred tax assets EUR 642,793

DEFERRED TAX ASSETS

in EUR

	31 December 2011	31 December 2010	1 January 2010
Deferred tax assets	642,793	691,731	436,056
TOTAL	642,793	691,731	436,056

Deferred tax assets are recorded in connection with the creation of long-term provisions for jubilee benefits and termination benefits on retirement, the amortisation/depreciation rates exceeding those laid down by the Corporate Income Tax Act (ZDDPO-2), and impairment of investments

CHANGES IN DEFERRED TAX ASSETS

in EUR

	PROVISIONS	IMPAIRMENT	AMORTISATION	TOTAL
Balance as at 1/1/2010	**436,056**	**0**	**0**	**436,056**
In debit/(credit) of profit or loss	(3,493)	30,827	228,341	255,675
Balance as at 31/12/2010	**432,563**	**30,827**	**228,341**	**691,731**
Balance as at 1/1/2011	**432,563**	**30,827**	**228,341**	**691,731**
In debit/(credit) of profit or loss	(36,016)	0	(12,922)	(48,938)
Balance as at 31/12/2011	**396,547**	**30,827**	**215,419**	**642,793**

Note 7

Assets and liabilities held for sale EUR 201,723

ASSETS HELD FOR SALE

in EUR

	31 December 2011	31 December 2010	1 January 2010
Assets held for sale	201,723	201,723	201,723
TOTAL	201,723	201,723	201,723

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 8

Inventories EUR 12,719,114

INVENTORIES

in EUR

	31 December 2011	31 December 2010	1 January 2010
Inventory of spare parts and materials	12,719,114	12,649,592	12,141,920
TOTAL	12,719,114	12,649,592	12,141,920

Inventories are mostly comprised of spare parts in the amount of EUR 9,215,094 and maintenance materials in the amount of EUR 2,575,367. These are needed to repair defects on production equipment as soon as possible, thus ensuring reliable operation. Inventories have increased due to higher inventories of maintenance materials.

During the year, EUR 81,028 worth of material was written off from inventory due to changes in quality and value. After the inventory count of materials, surpluses of EUR 328 and shortages of EUR 192 were determined.

INVENTORY SURPLUSES AND DEFICITS

in EUR

	31 December 2011	31 December 2010
Inventory surpluses	328	624
Inventory deficits	(-192)	(-137)
TOTAL	136	487

Note 9

Short-term operating receivables EUR 53,637,698

SHORT-TERM OPERATING RECEIVABLES

in EUR

	31 December 2011	31 December 2010	1 January 2010
From group companies	33,814,723	40,646,748	39,512,292
From associates	76	158	187
From buyers	2,251,766	1,852,096	1,607,893
Allowances for trade receivables	(40,859)	(43,135)	(28,321)
Advances given	552,791	13,553	1,102,924
From government and other institutions	15,016,414	1,632,782	3,695,493
From others	2,042,787	17,677	21,377
TOTAL	53,637,698	44,119,879	45,911,845

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

SHORT-TERM OPERATING RECEIVABLES FROM GROUP COMPANIES

in EUR

GROUP COMPANIES	COUNTRY	31 December 2011	31 December 2010
Holding Slovenske elektrarne d.o.o.	Slovenia	33,785,174	40,415,618
Premogovnik Velenje d.d.	Slovenia	26,380	159,036
HSE Invest d.o.o.	Slovenia	3,169	2,984
HTZ Velenje d.o.o.	Slovenia	0	197
Termoelektrarna Trbovlje d.o.o.	Slovenia	0	68,912
Total short-term operating receivables from group companies		33,814,723	40,646,747

The major part of receivables from group companies consists of receivables from Holding Slovenske elektrarne d.o.o. in the amount of EUR 33,757,795 for the sale of electricity, which are secured with a blank bill of exchange.

Receivables for thermal energy sold are also secured with a blank bill of exchange. For other receivables insurance is not required due to their specific nature.

BREAKDOWN OF SHORT-TERM RECEIVABLES BY MATURITY DATE

in EUR

MATURITY PERIOD	31 December 2011	31 December 2010
Receivables not yet due	53,246,631	43,960,069
Overdue receivables - up to 3 months	362,876	149,517
Overdue receivables - from 3 to 6 months	11,498	4,626
Overdue receivables - more than 6 months	57,552	36,500
TOTAL	53,678,557	44,150,712

Overdue and outstanding trade receivables mainly represent receivables from thermal energy buyers. A part of overdue and outstanding receivables refers to the sales of fly ash, apartment rents and other items.

CHANGES IN ALLOWANCES FOR SHORT-TERM RECEIVABLES

in EUR

	2011	2010
Balance as at 1 January	**43,135**	**28,321**
Written-off receivables collected	(13,797)	(4,793)
Allowances for receivables	11,616	19,607
Final write-down of receivables	(95)	0
Balance as at 31 December	**40,859**	**43,135**

Note 10

Other current assets **EUR 3,556,615**

OTHER CURRENT ASSETS

in EUR

	31 December 2011	31 December 2010	1 January 2010
Deferred costs	81,830	223,078	159,499
Accrued revenue	3,474,785	5,663,541	3,198,432
TOTAL	3,556,615	5,886,619	3,357,931

The majority of short-term accrued revenue in the amount of EUR 3,470,484 consists of revenue from capacity leased in 2011 and is related to Annex 2 to the Contract for the purchase of coal, lease of capacity and purchase of electricity in which the contracting parties agreed to change the amount for the leased capacity in 2011 in order to settle the costs related to the purchase of insufficient CO_2 emission coupons in 2011.

Other current assets include deferred costs related to services that were invoiced but not provided in 2011.

Note 11

Cash and cash equivalents **EUR 2,034,216**

CASH AND CASH EQUIVALENTS

in EUR

	31 December 2011	31 December 2010	1 January 2010
Cash on hand	359	260	378
Cash in accounts	2,033,857	47,354	2,422
Deposits up to three months	0	0	1,761,000
TOTAL	2,034,216	47,614	1,763,800

Cash and cash equivalents include cash on company's accounts, deposit redeemable at notice in the system of cash-pooling and cash on hand.

Note 12

Equity

EUR 362,807,700

The company's total equity consists of share capital, capital surplus, revenue reserves, fair value reserves and temporarily undistributed net profit for the financial year.

The accounting amount of the company's share capital is determined in the Articles of Incorporation and has been duly registered with the Court. It totals EUR 211,652,459. In 2011, it was increased by an additional contribution of the company member Holding Slovenske elektrarne d.o.o. in the amount of EUR 8,171,900.

CAPITAL SURPLUS

in EUR

	31 December 2011	31 December 2010	1 January 2010
Amounts arising from reversal of the general equity revaluation adjustment	116,883,008	116,883,008	116,883,008
Total capital surplus	**116,883,008**	**116,883,008**	**116,883,008**

Capital surplus totals EUR 116,883,008 and is a result of reversal of the general equity revaluation adjustment.

Revenue reserves in the amount of EUR 31,381,842 comprise legal reserves in the amount of EUR 1,903,033 and other revenue reserves in the amount of EUR 29,478,809.

Reserves increased by EUR 7,174,146 during the year, with the increase consisting of:

- Other revenue reserves in the amount of EUR 3,992,286 under the decision of the company member regarding the retained earnings for 2010; and
- Legal reserves in the amount of EUR 303,034 and other revenue reserves in the amount of EUR 2.878.826 under the decision of the Supervisory Board and in accordance with the provisions of the Companies Act (ZGD-1) for the part of net profit for the financial year 2011.

FAIR VALUE RESERVE

in EUR

	OTHER	TOTAL
Balance as at 1/1/2010	**11,565**	**11,565**
Balance as at 31/12/2010	**11,565**	**11,565**
Balance as at 1/1/2011	**11,565**	**11,565**
Balance as at 31/12/2011	**11,565**	**11,565**

Fair value reserve composes specific equity revaluation adjustments in relation to land and it amounts to EUR 11,565.

Retained earnings from 2010 in the amount of EUR 3,992,286 were allocated to other revenue reserves under the decision of the company member. The net profit or loss for 2011 in the amount of EUR 6,060,687 has been, in accordance with the provisions of the Companies Act (ZGD-1) and the decision of the managing director and Supervisory Board, allocated to legal revenue reserves in the amount of EUR 303,034 and other revenue reserves in the amount of EUR 2,878,826; the remaining portion in the amount of EUR 2,878,826 remained unallocated. The remaining net profit of the financial year represents the accumulated profit.

ACCUMULATED PROFIT

in EUR

	2011	2010
Net profit or loss for the current year	6,060,687	4,202,406
Increase in revenue reserves in accordance with the Management Board decision (legal reserves, reserves for own shares and statutory reserves)	(303,034)	(210,120)
Increase in revenue reserves in accordance with the Management Board and Supervisory Board decision (other revenue reserves)	(2,878,826)	0
Accumulated profit	2,878,826	3,992,286

Note 13

Provisions for termination and jubilee benefits

EUR 2,606,208

Long-term provisions represent provisions for jubilee benefits and termination benefits on retirement as determined by the actuarial calculation on 31 December 2011.

The actuarial calculation was based on the following assumptions:

- The average salary growth in the Republic of Slovenia of 3.5 % p.a.; and
- Discount interest rate of 5.1 % p.a.

CHANGES IN PROVISIONS FOR TERMINATION AND JUBILEE BENEFITS

in EUR

	PROVISIONS FOR TERMINATION BENEFITS	PROVISIONS FOR JUBILEE BENEFITS	TOTAL
Balance as at 1/1/2010	**1,616,917**	**987,687**	**2,604,604**
Creation, increase	242,610	139,717	382,327
Decrease - drawing	(91,206)	(117,422)	(208,628)
Balance as at 31/12/2010	**1,768,321**	**1,009,982**	**2,778,303**
Balance as at 1/1/2011	**1,768,321**	**1,009,982**	**2,778,303**
Creation, increase	0	53,622	53,622
Decrease - drawing	(61,808)	(126,254)	(188,062)
Decrease - reversal	(37,655)	0	(37,655)
Balance as at 31/12/2011	**1,668,858**	**937,350**	**2,606,208**

Note 14

Other provisions

EUR 941,101

OTHER PROVISIONS

in EUR

	31 December 2011	31 December 2010	1 January 2010
For lawsuits	941,101	0	0
TOTAL	941,101	0	0

CHANGES IN OTHER PROVISIONS

in EUR

	ZA TOŽBE	SKUPAJ
Balance as at 1/1/2010	**0**	**0**
Balance as at 31/12/2010	**0**	**0**
Balance as at 1/1/2011	**0**	**0**
Creation, increase	941,101	941,101
Balance as at 31/12/2011	**941,101**	**941,101**

Provisions are formed on the basis of received decision on the enforcement of the creditor Elektro Slovenija d.o.o. as at 15 February 2012.

The company (debtor) received creditor's proposal of the Contract on accessing transmission network in 2011 for the purpose of electricity consumption ("contract on accessing the network"). With the contract on accessing network, the creditor and debtor shall, in accordance with the Act on methodology for determining network charges and criteria for identifying eligible costs for electricity networks and methodology for calculation of network charges (Official Gazette of the Republic of Slovenia, no. 59/2010) ("Act"), settle the relations in terms of payment network utilisation costs for the purpose of energy consumption from the transmission network.

Although the contract between the creditor and debtor has never been reconciled and signed, the creditor sent the debtor invoices for the payment of network charges for the period between January and June 2011. The company rejected all abovementioned invoices, since in its opinion they were not in accordance with the Act's provisions.

The company reasonably and on solid grounds contradicts the creditor's receivable and has filed an objection against the decision on enforcement.

Note 15

Other long-term liabilities

EUR 9,109,574

OTHER LONG-TERM LIABILITIES

in EUR

	31 December 2011	31 December 2010	1 January 2010
Emission coupons	4,300,824	8,601,648	12,902,472
Quotas for the disabled	224,946	233,524	227,409
Other state aids received	4,583,804	5,619,437	6,455,071
TOTAL	9,109,574	14,454,609	19,584,952

Other long-term liabilities in the amount of EUR 4,583,804 relate to government grants received for the acquisition of fixed assets. They are used in proportion to the 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 free coupons for the year 2011. 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 exemption from payment of contributions were created in accordance with the Employment of Disabled Persons Act. They are used to settle costs indicated in the Act.

CHANGES IN OTHER LONG-TERM LIABILITIES

in EUR

	EMISSION COUPONS	QUOTAS FOR THE DISABLED	OTHER STATE AIDS RECEIVED--Unit 4 flue gas desulp-hurisation plant (State budget and EKO fond)	OTHER STATE AIDS RECEIVED--Unit 5 flue gas desulp-hurisation plant (State budget)	OTHER STATE AIDS RECEIVED--Unit 4 ma-nagement system	OTHER	TOTAL
Balance as at 1/1/2010	**12,902,472**	**227,409**	**4,729,297**	**1,596,125**	**129,649**	**0**	**19,584,952**
Creation, increase	0	49,996	0	0	0	100,000	149,996
Decrease - drawing	(4,300,824)	(43,881)	(788,217)	(133,011)	(14,406)	0	(5,280,339)
Balance as at 31/12/2010	**8,601,648**	**233,524**	**3,941,080**	**1,463,114**	**115,243**	**100,000**	**14,454,609**
Balance as at 1/1/2011	**8,601,648**	**233,524**	**3,941,080**	**1,463,114**	**115,243**	**100,000**	**14,454,609**
Creation, increase	0	36,003	0	0	0	0	36,003
Decrease - drawing	(4,300,824)	(44,581)	(788,216)	(133,011)	(14,406)	(100,000)	(5,381,038)
Balance as at 31/12/2011	**4,300,824**	**224,946**	**3,152,864**	**1,330,103**	**100,837**	**0**	**9,109,574**

Note 16

Long-term financial liabilities **EUR 205,691,991**

LONG-TERM FINANCIAL LIABILITIES

in EUR

	31 December 2011	31 December 2010	1 January 2010
To banks	205,691,991	23,465,160	33,738,328
TOTAL	205,691,991	23,465,160	33,738,328

Long-term loans are denominated in EUR. Nominal interest rates for loans ranged between 1.37 % and 6.06 %.

MATURITY DATES OF LONG-TERM LIABILITIES

in EUR

	Maturity date			TOTAL
	Until 31/12/2014	From 1/1/2015 to 31/12/2016	After 1/1/2017	
Long-term financial liabilities to banks	9,719,769	19,210,714	176,761,508	205,691,991
Total	9,719,769	19,210,714	176,761,508	205,691,991

CHANGES IN LONG-TERM FINANCIAL LIABILITIES

in EUR

	LOANS RECEIVED	TOTAL
Balance as at 1 January	**23,465,160**	**23,465,160**
Acquisitions	192,500,000	192,500,000
Transfer to the short-term portion	(10,273,169)	(10,273,169)
Balance as at 31 December	**205,691,991**	**205,691,991**

In 2011, the repayments of principal amounts and interest were made according to maturity dates and in accordance with existing depreciation/amortisation plans.

In February 2011, EIB paid a loan in the amount of EUR 110,000,000 after fulfilling all conditions.

The portion of long-term financial liabilities in the amount of EUR 10,273,169, which falls due in 2012, was recorded under short-term financing liabilities.

INSURING FINANCIAL LIABILITIES

in EUR

	31 December 2011	31 December 2010
State guarantees	5,826,270	9,710,550
Assignments, pledge of receivables	18,500,000	3,000,000
Bills of exchange	7,638,890	9,027,779
HSE guarantee	74,000,000	12,000,000
Bank guarantee	110,000,000	0
Total	215,965,160	33,738,329

As at 31 December 2011, 50.9 % of the TEŠ's financial liabilities were secured with a bank guarantee, 34.3% with the HSE guarantee, 8.6 % with assignments or pledged receivables, 3.5 % with bills of exchange and 2.7% with a government guarantee.

In order to insure liabilities pursuant to the Loan agreement no. F 3123 concluded as at 20 May 1998 with KREDITANSTALT FUER WIEDERAUFBAU for financing of the Desulphurisation plant of Unit 5, a Guarantee agreement and Agreement on insuring receivables in the amount of DEM 92,274,000 was concluded as at 26 May 1998 between the Republic of Slovenia, the Ministry of Finance (guarantor), KREDITANSTALT FUER WIEDERAUFBAU (borrower) and Termoelektrarna Šoštanj d.o.o. (debtor). The liabilities as at 31 December 2011 amount to EUR 5,876,270.
On 24 November 2010 an Agreement on the issue of a bank guarantee for EUR 110,000,000 was concluded between TEŠ, HSE and five guarantor banks (The bank of Tokyo- Mitshubishi UFJ, Caja Madrid, Intesa SanPaolo, Societe Generale and UniCredit Bank); the agreement was concluded in order to provide a guarantee to the European Investment Bank in accordance with the provisions of the loan agreement with EIB for a loan in the amount of EUR 110,000,000. The issue date of the guarantee was 28 January 2011.

The guarantees tied to this agreement are:

- Assignment of receivables to collateral in the maximum amount of the principal, i.e. EUR 110,000,000, including interest, default interest and other considerations, costs and expenditures payable under the Guarantee Agreement and the Agreement on assignment of receivables to collateral dated 24 November 2010 and concluded between TEŠ and guarantor banks for the period of 5 years;
- Pledge of bank accounts and cash as collateral for the settlement of all secured liabilities in the maximum amount of EUR 110,000,000, including interest, default interest and other considerations, costs and expenditures payable under the Guarantee Agreement and the Agreement on assignment of receivables to collateral dated 24 November 2010 and concluded between TEŠ and guarantor banks.

HSE guarantee by which HSE d.o.o. guarantees for the pledge of TEŠ's liabilities in accordance with the loan agreement for the loan of EUR 200,000,000. HSE guarantees for 80 % of loan value (EUR 160,000,000) from the day when the contract was signed (12 January 2011) and for the period of the loan agreement (15 years). As at 31 December 2011, the loan drawn from EBRD amounted to EUR 82.5 million.
As additional collateral:

- TEŠ pledged bank accounts and cash as collateral that will secure existing and future, actual and conditional liabilities of the pledger under the loan agreement of EBRD or in accordance with it, namely by pledging each of Insurance accounts and cash, including all interest. The agreement was concluded as at 03.02.11 and is effective for the period of applicability of the loan agreement; and

- Assigned receivables as collateral for total payment of all insurance liabilities in the total amount of EUR 200,000,000 with interest, including default interest that TEŠ signed with EBRD bank. The agreement on receivable assignment was concluded as at 3.2.2011 and is effective for the period of applicability of the loan agreement.

Due to the arrangement of relations between the banks that participate in financing of the Unit 6 investment, the collateral under the loan agreement, which TEŠ concluded with UniCredit and SID bank as at 21 December 2007, was changed. As at 24 November 2010, the company concluded Annex no. 1 by which HSE d.o.o. joined the loan agreement as the guarantor. Under this agreement, HSE d.o.o.'s guarantee covers 80 % of the loan. As at 31 March 2010, the balance of the loan stood at EUR 15,000,000; the liabilities under this contract and annex expire in 2013.

Other guarantees tied to the said loan agreement are:

- Assignment of receivables to collateral in the maximum amount of the principal, i.e. EUR 30,000,000, including interest and default interest and any other compensations, costs and expenditures payable under the loan agreement TEŠ concluded with UniCredit and SID Bank. The agreement on assignment of receivables was concluded as at 24 November 2010 and is valid until 31 December 2013.
- Pledge of bank accounts and cash as collateral for full repayment and settlement of secured liabilities in the maximum amount of the principal, i.e. EUR 30,000,000, including interest and default interest and any other compensations, costs and expenditures payable under the loan agreement TEŠ concluded with UniCredit and SID Bank. The agreement on pledge of bank accounts and cash was signed on 24 November 2010 and is valid until 31 December 2013.

Note 17

Long-term operating liabilities **EUR 3,385,878**

LONG-TERM OPERATING LIABILITIES

in EUR

	31 December 2011	31 December 2010	1 January 2010
To suppliers	3,384,570	0	0
Other	1,308	6,608	10,699
TOTAL	3,385,878	6,608	10,699

Among long-term operating liabilities the company discloses EUR 3,384,570 of liabilities for insuring the construction site of the replacement Unit 6.

Long-term operating liabilities in the amount of EUR 1,308 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).

MATURITY DATES OF LONG-TERM OPERATING LIABILITIES

in EUR

	Maturity date			TOTAL
	Until 31/12/2014	From 1/1/2015 to 31/12/2016	After 1/1/2017	
Other long-term operating liabilities	3,385,878	0	0	3,385,878
TOTAL	3,385,878	0	0	3,385,878

Note 18

Short-term financial liabilities EUR 112,782,562

SHORT-TERM FINANCIAL LIABILITIES

in EUR

	31 December 2011	31 December 2010	1 January 2010
To group companies	102,509,393	80,445,088	0
To banks	10,273,169	10,273,169	10,273,169
TOTAL	112,782,562	90,718,257	10,273,169

Short-term financial liabilities as at 31 December 2011 refer to principals arising from short-term financial debts to HSE in the amount of EUR 102,300,000 (bridging loan for the investment in the construction of Unit 6) and principals of long-term debts that, in accordance with loan agreements, fall due in 2012 in the amount of EUR 10,273,169.

In 2011, interest rates under contracts concluded for short-term loans ranged between the lowest 1-m Euribor+1.2 % (2.05 %) to the highest 3.95 % (fixed).

CHANGES IN SHORT-TERM FINANCIAL LIABILITIES

in EUR

	LOANS RECEIVED	TOTAL
Balance as at 1 January	**90,718,257**	**90,718,257**
Acquisitions	351,187,204	351,187,204
Transfer to short-term portion	10,273,169	10,273,169
Repayments	(339,396,068)	(339,396,068)
Balance as at 31 December	**112,782,562**	**112,782,562**

SHORT-TERM FINANCIAL LIABILITIES TO GROUP COMPANIES

in EUR

GROUP COMPANIES	COUNTRY	31 December 2011	31 December 2010
Holding Slovenske elektrarne d.o.o.	Slovenia	102,509,393	48,193,825
Dravske elektrarne Maribor d.o.o.	Slovenia	0	32,251,263
Total short-term financial liabilities to group companies		102,509,393	80,445,088

Short-term financial liabilities to group companies represent liabilities for principals in the amount of EUR 102,300,000 and liabilities for interest in the amount of EUR 209,393 which will fall due in 2012.

MATURITY DATES OF SHORT-TERM FINANCIAL LIABILITIES

in EUR

	Maturity date			TOTAL
	Up to 3 months	From 3 to 6 months	From 6 to 12 months	
Short-term financial liabilities	556,624	4,789,361	107,436,577	112,782,562
TOTAL	556,624	4,789,361	107,436,577	112,782,562

Note 19

Short-term operating liabilities EUR 157,849,472

SHORT-TERM OPERATING LIABILITIES

in EUR

	31 December 2011	31 December 2010	1 January 2010
To group companies	24,480,685	24,941,314	24,652,529
To associates	231,834	316,326	359,894
To suppliers	122,833,616	20,936,072	22,586,131
Advances	1,748	224	343
To employees	1,890,340	1,729,437	1,628,606
To government and other institutions	6,736,504	6,414,937	4,991,969
Other	1,674,745	34,847	8,437
TOTAL	157,849,472	54,373,157	54,227,909

SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES

in EUR

GROUP COMPANIES	COUNTRY	31 December 2011	31 December 2010
Holding Slovenske elektrarne d.o.o.	Slovenia	1,768,948	302,173
HSE Invest d.o.o.	Slovenia	685,115	451,555
Premogovnik Velenje d.d.	Slovenia	18,487,875	22,939,129
HTZ Velenje d.o.o.	Slovenia	53,290	14,569
PV Invest d.o.o.	Slovenia	62,494	69,091
Gost Velenje d.o.o.	Slovenia	2,355	0
RGP Velenje d.o.o.	Slovenia	3,420,608	1,164,797
Total short-term operating liabilities to group companies		24,480,685	24,941,314

The largest share of liabilities to group companies consists of liabilities to Premogovnik Velenje d.d. for coal supplied and they amount to EUR 18,437,523. The liabilities were not yet due on the balance sheet date.

Main share of the liabilities to suppliers are liabilities for investments in property, plant and equipment in the amount of EUR 110,719,157. Other liabilities in the amount of EUR 12,114,459 are disclosed among purchased material and services.

Other short-term operating liabilities:

- Liabilities to employees for salaries and other employment-related receipts for December 2011 in the amount of EUR 1,890,340 which were settled as at 31 January 2012;
- Liabilities to government and other institutions in the amount of EUR 6,736,504; Here, the carbon tax liability (for CO_2 emissions) accounts for the largest part of liabilities. The liability for 2011 totals EUR 4,676,085 (1 coupon per ton of CO_2) and must be settled by 30 April 2012 (the company holds 4,300,957 emission coupons on the emission coupon registry account, and under intangible assets in the statement of financial position); Liabilities to government and other institutions also include a VAT liability in the amount of EUR 1,781,590, the liability of the employer for salary-related contributions for December 2011 in the amount of EUR 256,817, and other items;
- And other short-term liabilities in the amount of EUR 1,674,754 that mainly refer to the liabilities arising from cession contracts.

The company generally settles all its liabilities in due time.

Note 20

Current tax liabilities **EUR 481,076**

CURRENT TAX LIABILITIES

in EUR

	31 December 2011	31 December 2010	1 January 2010
Current tax liabilities	481,076	1,153,647	0
TOTAL	481,076	1,153,647	0

In 2011, the liability arising from corporate income tax amounted to EUR 481,076.

Note 21

Other short-term liabilities **EUR 3,986,289**

OTHER SHORT-TERM LIABILITIES

in EUR

	31 December 2011	31 December 2010	1 January 2010
Accrued revenue	3,986,289	5,792,205	3,358,704
TOTAL	3,986,289	5,792,205	3,358,704

The predominant share of other short-term liabilities relates to accrued costs of emissions coupons.

Accrued costs include costs of unutilised leave at the end of 2011 and total EUR 437,247 and other costs.

4.10.2 Notes to the income statement

Note 1

Net sales revenue **EUR 233,618,937**

NET SALES REVENUE

in EUR

	2011	2010
a) in domestic market	**233,506,363**	**241,915,738**
Electricity	227,365,020	235,234,020
Thermal energy	4,041,945	4,478,110
Other products	63,879	56,296
Other merchandise and materials	818,905	895,196
Other services	1,216,614	1,252,116
b) in foreign market	**112,574**	**93,799**
Other merchandise and materials	112,574	93,799
Total net sales revenue	233,618,937	242,009,537

Net sales revenue in the amount of EUR 233,618,937 was carried at invoiced amounts. The predominant share of revenue (99.1 %) was generated through electricity and thermal energy sales.

Note 2

Capitalised own products and own services **EUR 4,940,481**

CAPITALISED OWN PRODUCTS AND SERVICES

in EUR

	2011	2010
Capitalised own products and services	4,940,481	15,619
Total net sales revenue	4,940,481	15,619

Capitalised own products and services in 2011 represent materials used and internal work performed during the overhaul of Unit 5, gas turbine 2 and other investments, which have been recognised as increases in value of property, plant and equipment.

Note 3

Other operating revenue — EUR 5,519,174

OTHER OPERATING REVENUE

in EUR

	2011	2010
Revenue arising from reversal of provisions	37,654	0
Drawing of deferred revenue	5,236,457	5,304,885
Profits arising from sales of fixed assets and reversed impairment of receivables	16,536	56,928
Revenue from compensations and contractual penalties	0	9,388
Other operating revenue	228,527	61,450
Total other operating revenue	5,519,174	5,432,651

Revenue from emission coupons in the amount of EUR 4,300,824 which is, under the decision on emission coupons issued by the Ministry of the Environment and Spatial Planning, recognised in the amount of the proportionate share for 2011, accounts for the largest share of other revenue.

Revenue arising from subsidies and other state aids are revenue from subsidies, grants for property, plant and equipment in the amount of EUR 935,633 for drawing deferred revenue in accordance with the amount of depreciation charge.

Other operating revenue include profits in sale of fixed assets in the amount of EUR 2,739 and the payment in previously created disputed receivables arising from rents in the amount of EUR 13,797.

Note 4

Costs of goods, materials and services — EUR 166,212,876

COSTS OF GOODS, MATERIALS AND SERVICES

in EUR

	2011	2010
Costs of materials	144,760,988	151,457,198
Costs of auxiliary materials	177,550	173,774
Costs of energy	1,031,219	86,886
Costs of spare parts and maintenance materials	6,185,163	1,933,553
Costs of small tools	219,789	179,940
Other costs of materials	671,268	722,361
Total costs of materials	**153,045,977**	**154,553,712**
Costs of services in the manufacture of products	343,811	437,859
Costs of transport services	473,329	431,213
Maintenance services	6,873,946	8,955,000
Costs of rents	177,231	19,989
Employee benefit costs	111,570	101,261
Costs of insurance and banking services	952,215	992,270
Costs of intellectual and personal services	1,133,683	1,068,752
Costs for research and development	217,623	173,590
Costs of trade fairs, advertising and entertainment	250,208	262,353
Costs of services provided by natural persons	202,537	84,055
Costs of arranging disposal sites	1,776,319	1,999,056
Other costs of services	654,427	2,267,980
Total costs of services	**13,166,899**	**16,793,378**
Total costs of goods, materials and services	166,212,876	171,347,090

Costs of material for 2011 include net negative effect of foreign exchange differences in the amount of 18 EUR and costs of material for 2010 include net positive effect of foreign exchange differences in the amount of 37 EUR.

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

During the year, EUR 81,028 worth of material was written off from inventory due to changes in quality and value. After the inventory count of materials, surpluses of EUR 328 and shortages of EUR 192 were determined.

Costs of services related to maintenance of property, plant and equipment comprise costs of regular maintenance in the amount of EUR 6,873,946.

Costs of intellectual and personal services include auditing costs in the amount of EUR 28,634 and costs of other audit services in the amount of EUR 48,000.

AUDITING COSTS

in EUR

	2011	2010
Audit of annual reports	28,634	33,231
Other auditing services	48,000	
Total auditing costs	**76,634**	**33,231**

Note 5

Labour costs **EUR 19,894,073**

LABOUR COSTS

in EUR

	2011	2010
Salaries	14,039,028	13,792,705
Pension insurance costs	1,996,254	1,927,643
Other insurance costs	1,115,804	1,058,961
Other labour costs	2,742,987	2,172,085
Total labour costs	**19,894,073**	**18,951,394**

AVERAGE NUMBER OF EMPLOYEES BY LEVEL OF FORMAL EDUCATION

	2011	2010
Level I	8	10
Level II	36	39
Level III	12	12
Level IV	130	139
Level V	173	182
Level VI	55	49
Level VII	61	54
Level VIII	2	3
TOTAL	**477**	**488**

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 items. 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 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 managed 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 items.

Labour costs do not include costs for meal allowance in the amount of EUR 639,662. In books of account costs and revenue are recorded on internal realisation accounts and are not included in the income statement.

Note 6

Write-downs in value **EUR 33,305,573**

WRITE-DOWNS IN VALUE

in EUR

	2011	2010
Amortisation of intangible assets	205,923	196,842
Depreciation of property, plant and equipment	33,009,372	32,162,872
Sales and write-downs of property, plant and equipment and intangible assets	70,408	16,802
Impairements of inventories and receivables	19,870	19,607
Total amortisation/depreciation	**33,305,573**	**32,396,123**

The depreciation/amortisation charge in 2011 amounts to EUR 33,215,295 and is accounted for using the depreciation/amortisation rates which are based on the estimated useful lives of assets.

Revaluation operating expenses in the amount of EUR 90,278 refer to:

- write-down of unusable goods in the amount corresponding to their net carrying amount (EUR 25,592). The assets were written down because they were worn out, and technologically and economically obsolete. The assets were discontinued or disposed of. Due to unexpected economic benefits, in 2011 the company wrote-off the investments in investment-study documentation in the amount of EUR 43,010. In the inventory count of fixed assets a deficit of EUR 1,806 in the amount of the carrying amount of assets was identified;
- impairment of receivables due to doubts as to their repayment or due to the carrying amount exceeding the expected realisable value of receivables, which amounted to EUR 19,870.

Note 7

Other operating expenses **EUR 15,847,735**

OTHER OPERATING EXPENSES

in EUR

	2011	2010
Provisions	53,621	382,327
Fee for building site use	2,789,148	2,705,232
Environmental protection expenditures	9,099,816	11,454,332
Donations	444,386	347,384
Other costs or expenses	3,460,764	3,216,805
TOTAL	15,847,735	18,106,080

The predominant share of charges relates to the liability arising from payment of the building site fee in the amount of EUR 2,789,148.

The majority of environmental protection expenditures are represented by emission coupon costs of EUR 7,763,418. According to estimates, the company produced 4,676,085 tons of CO_2 during the year. In accordance with the Environment Protection Act, the company is obligated to hand over 4,676,085 emission coupons to the government. The expenses thus include 4,300,957 coupons at the cost of 1 euro and expenses in the amount of EUR 3,462,431 which represent accrued operating expenses for missing emission coupons (375,128) for 2011.

Note 8

Financial revenue **EUR 33,211**

FINANCIAL REVENUE

in EUR

	2011	2010
Interest on loans and deposit	13,220	3,788
Other	19,991	0
Total financial revenue	33,211	3,788

Revenue from loans given relates to interest on time deposits with a bank. Revenue from operating receivables from others is provisions for early payments on the basis of the Agreement on assignment of receivables.

Note 9

Financial expenses **EUR 1,125,585**

FINANCIAL EXPENSES

in EUR

	2011	2010
For loans received	1,038,927	1,245,863
Other	86,658	229,846
Total financial expenses	1,125,585	1,475,709

The predominant share of financial liabilities is comprised of interest expense of EUR 1,038,927 arising from long-term and short-term loans. Interest was accounted for in accordance with the contract entered into by the lender and the borrower.

The majority of expenses for financial liabilities in the amount of EUR 85,990 is represented by expenses for operating liabilities in the group.

Note 10

Taxes **-EUR 1,665,274**

TAXES

in EUR

	2011	2010
Income tax	(1,616,337)	(1,238,467)
Deferred taxes	(48,937)	255,674
Tax	(1,665,274)	(982,793)

TAX CALCULATION

in EUR

	2011	2010
Profit or loss before tax	7,725,961	5,185,199
Tax calculated at applicable tax rate (20%)	1,545,192	1,037,040
Tax from revenue reducing tax base	(6,525)	(959)
Tax from tax breaks	(291,214)	(269,198)
Tax from non-deductable expenses	546,566	514,154
Tax from other changes in tax calculation	(177,682)	(42,570)
Tax	**1,616,337**	**1,238,467**
Effective tax rate	20.92%	23.88%

In compliance with the Corporate Income Tax Act, the company prepared a corporate income tax return for the period 1 January 2011 to 31 December 2011. The company determined that the tax liability for the period amounts to EUR 1,616,337. The applicable income tax rate amounts to 20 % and is charged on the tax base determined in the company's income tax return.

The basis for creation of deferred tax assets is the amount of long-term provisions created for jubilee benefits and termination benefits on retirement, revaluation of long-term investments and depreciation/amortisation rates exceeding the rates determined by the Corporate Income Tax Act. The decrease in deferred tax assets of EUR 48,937 is a result of decrease in deferred taxes due to excessive depreciation/amortisation rates and provisions decreased by jubilee benefits and termination benefits on retirement.

4.10.3 Notes to the cash flow statement

The cash flow statement for 2011 is performed using the direct method and it comprises all cash receipts and disbursements in the period from 1 January 2011 to 31 December 2011.

Cash flows broken down by subgroups:

CASH FLOWS

in EUR

	2011	2010
Operating cash flows	74,465,365	61,515,331
Cash flows from investing activities	(283,835,645)	(132,010,807)
Cash flows from financing activities	211,356,882	68,779,290
Net cash inflow or outflow for the period	1,986,602	(1,716,186)

The cash flow statement shows that net cash from operating activities totalled EUR 74,465,365. The entire amount was used to cover disbursements arising from investing and financing activities. In order to cover all disbursements related to investing activities, short-term bridging loans were taken out within the HSE Group as the planned long-term loans had not been realised.

4.11 OTHER DISCLOSURES

4.11.1 Related parties

RELATIONS WITH ASSOCIATED COMPANIES

in EUR

	SALES	PURCHASES	LOANS RECEIVED
Holding Slovenske elektrarne d.o.o.	229,633,940	6,776,942	102,509,393
Premogovnik Velenje d.d.	466,063	133,510,831	0
Termoelektrarna Trbovlje d.o.o.	157	0	0
HSE Invest d.o.o.	15,548	2,282,537	0
HTZ Velenje d.o.o.	267	427,248	0
Gost Velenje d.o.o.	0	21,147	0
PV Invest d.o.o.	17	126,341	0
Dravske elektrarne Maribor d.o.o.	0	72,011	0
RGP Velenje d.o.o.	150	6,954,700	0
Total group companies	**230,116,142**	**150,171,757**	**102,509,393**
Total associates	**2,212**	**602,834**	**0**
TOTAL	230,118,354	150,774,591	102,509,393

The loans received represent loans and liabilities for interest as at 31.12.2011.

4.11.2 Receipts

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

RECEIPTS OF SUPERVISORY BOARD MEMBERS, COMPANY'S MANAGEMENT AND EMPLOYEES WHO ARE NOT SUBJECT TO THE TARIFF PART OF THE COLLECTIVE AGREEMENT

in EUR

	SALARY	OTHER RECEIPTS	BONUSES	REIMBURSEMENT OF COSTS	TOTAL
Management	0	79,606	123	0	79,729
Supervisory Board members	0	41,396	493	2,758	44,647
Employees who are not subject to the tariff part of the collective agreement	415,104	81,016	11,187	1,623	508,930
Total receipts	415,104	202,018	11,803	4,381	633,306

Receipts of the company's management represent gross receipts in accordance with the Management contract and insurance bonuses.

Receipts of other employees who are not subject to the tariff part of the collective agreement comprise:

- Gross receipts paid;
- Other receipts paid;
- Premiums paid for voluntary additional pension insurance;
- Reimbursed costs paid; and
- Bonuses for the use of the company vehicle and other bonuses.

The receipts of Supervisory Board members represent gross amounts of meeting fees with travel costs and insurance bonuses.

OPERATING RECEIVABLES

in EUR

	Interest rate	Repayment deadline	31 December 2011	31 December 2010
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	16,703	19,043
Total operating receivables			16,703	19,043

4.11.3 Contingent liabilities and assets

CONTINGENT LIABILITIES

in EUR

	31 December 2011	31 December 2010	1 January 2010
Bank guarantees issued (electricity)	70,000	70,000	70,000
Other	36,140	45,286	52,517
Total contingent liabilities	106,140	115,286	122,517

CONTINGENT ASSETS

in EUR

	31 December 2011	31 December 2010	1 January 2010
Bank guarantees received (electricity)	1,790,070	13,830,959	14,230,932
Bank guarantees received (investments)	184,471,891	172,951,692	170,288,173
Other	1,326,107	1,272,809	1,227,614
Total contingent assets	187,588,068	188,055,460	185,746,719

Among contingent liabilities the company records the given bank guarantee for liabilities arising from excise duties, compensations and other items.

Contingent assets include received bank guarantees and receivables from employee debts incurred in relation to small tools, tools, protective equipment and other.

4.12 FINANCIAL INSTRUMENTS AND RISKS

This section is connected with the section 4.3.12 of the financial report as well as with the section 2.11 on financial risks in the business report.

4.12.1 Credit risk

Credit risk is the risk of failure of the counterparty to settle its liabilities. In addition to failure to pay, we also risk the failure of settling non-financial liabilities. The consequence of risk is the lack of liquid assets. In risks associated with investment activities, the credit risk is determined in relation to the government guarantee for the EIB loan in the amount of EUR 440,000,000. The consequences would be unsettled liabilities to suppliers, shutdown of work and costs of default interest. The risk is high, but the probability is low due to the fact that the Republic of Slovenia has already issued all significant approvals for the performance of the project and a letter of support to EBRD bank and no objection letter to the European Investment Bank.

With regard to business credit risk, the company assesses that the risk probability is low, while the impact on company's operations is medium. Risk management instruments are verifying business partners' credit ratings, conclusion of long-term contracts and annual contracts with elements of insuring receivables such as the balance of bills of exchange.

RECEIVABLES BY MATURITY

in EUR

	UP TO 3 MONTHS	FROM 3 TO 6 MONTHS	FROM 6 TO 12 MONTHS	UNTIL THE END OF 3rd YEAR	FROM 4th UNTIL THE END OF 5th YEAR	OVER 5 YEARS	TOTAL
Short-term operating receivables	44,078,753	4,626	36,500	0	0	0	44,119,879
Long-term operating receivables	0	0	0	32,471	15,379	90,276	138,126
Balance as at 31/12/2010	**44,078,753**	**4,626**	**36,500**	**32,471**	**15,379**	**90,276**	**44,258,005**
Short-term operating receivables	53,568,648	11,498	57,552	0	0	0	53,637,698
Long-term operating receivables	0	0	0	9,067	14,379	90,277	113,723
Balance as at 31/12/2011	**53,568,648**	**11,498**	**57,552**	**9,067**	**14,379**	**90,277**	**53,751,421**

4.12.2 Liquidity risk

Liquidity is the condition for company's solvency and at the same time the ability for the timely settlement of overdue liabilities. By providing optimal financial structure or operations in the framework of financial leverage, we ensure safe operations and the lowest costs of financial structure. The deficit of liquidity assets results in unpaid overdue liabilities. The probability that the company would face liquidity problems is medium, while the impact of company's illiquidity is high. Liquidity risk management instrument is careful planning of cash flows on a daily, monthly and annual basis. The appropriate timing of receivables and liabilities and ensuring adequate sources of financing investments is of key importance. As regards the current liquidity, the company has established appropriate credit lines for short-term liquidity management.

Under the investment activity the liquidity risk is determined in relation to ensuring own sources for financing of the investment. The consequences would be large, while the probability that the company does not provide own sources of investment financing is medium. Measures to decrease the risk are rationalisation of operations, adopted dynamics of provision of own sources and agreed-upon price policy at the sales of electricity.

LIABILITIES BY MATURITY

in EUR

	UP TO 3 MONTHS	FROM 3 TO 6 MONTHS	FROM 6 TO 12 MONTHS	UNTIL THE END OF 3rd YEAR	FROM 4th UNTIL THE END OF 5th YEAR	OVER 5 YEARS	TOTAL
Short-term operating liabilities	47,935,421	6,437,736	0	0	0	0	54,373,157
Short-term financial liabilities	347,222	4,789,362	85,581,673	0	0	0	90,718,257
Long-term operating liabilities	0	0	0	6,532	76	0	6,608
Long-term financial liabilities	0	0	0	18,604,049	2,777,778	2,083,333	23,465,160
Balance as at 31/12/2010	**48,282,643**	**11,227,098**	**85,581,673**	**18,610,581**	**2,777,854**	**2,083,333**	**168,563,182**
Short-term operating liabilities	131,328,612	16,513,068	10,007,792	0	0	0	157,849,472
Short-term financial liabilities	556,624	4,789,361	107,436,577	0	0	0	112,782,562
Long-term operating liabilities	0	0	0	3,385,878	0	0	3,385,878
Long-term financial liabilities	0	0	0	9,719,769	19,210,714	176,761,508	205,691,991
Balance as at 31/12/2011	**131,885,236**	**21,302,429**	**117,444,369**	**13,105,647**	**19,210,714**	**176,761,508**	**479,709,903**

There is a risk of non-issuing the government guarantee to EIB. According to all assurances to financial institutions (No objection letter, Letter of support by the Government of the Republic of Slovenia) cannot be assumed neither by HSE nor investor. EBRD loans are also related to EIB arrangement.

At the end of 2011, we underline the risk of non-issuing the government guarantee to EIB for the loan to Termoelektrarna Šoštanj d.o.o. in the amount of EUR 440 million. The risk is not solely non-issuing of the guarantee but also delay of issue. In case the guarantee is not issued before autumn 2012, this could cause liquidity problems within the total HSE Group, including the company Termoelektrarna Šoštanj, d.o.o.

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

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

4.12.3 Interest rate risk

Interest rate risk is a risk that the movement in interest rate will be unfavourable for the company. It occurs mainly in borrowing as the price of the money depends on the level of market interest rate. The growth of interest rate results in the risk of failure to settle annuities due to inadequate liquidity reserves. The risk is defined as very low and manageable, since the company has established the policy of hedging against interest rate. Possible interest rate hedging instruments are fixed interest are at the creditor and interest rate swap.

The company was exposed to the following interest rate risk (only instruments that effect profit or loss are taken into account):

FINANCIAL INSTRUMENTS

in EUR

	2011	2010
Financial instruments at fixed interest rate		
Financial liabilities	5,826,270	9,710,550
Financial instruments at variable interest rate		
Financial liabilities	17,638,889	24,027,778
TOTAL	23,465,159	33,738,328

Sensitivity analysis of fair value of financial instruments at fixed interest rate

The company does not have financial instruments at fixed interest rate determined at fair value through the profit or loss nor derivatives determined for hedging fair value. Thus the change in fair value will not affect net profit or loss on the reporting date.

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

The change in interest rate for 50 basis points on the reporting date would increase (decrease) the net profit or loss for the values stated below.

SENSITIVITY ANALYSIS - INTEREST RATE

in EUR

FINANCIAL INSTRUMENTS	Net profit or loss for 2011		Net profit or loss for 2010	
	Increase of 50 basis points	Decrease of 50 basis points	Increase of 50 basis points	Decrease of 50 basis points
Financial instruments at variable interest rate				
Financial liabilities	115,896	115,261	144,679	144,851

4.12.4 Capital management

The main purpose of capital management is to ensure the best credit rating possible and capital adequacy for the purposes of financing operations and investments. An adequate volume of capital enables the company the trust of creditors and market as well as maintains the future development of activities.

The company monitors changes in equity using the financial leverage ratio calculated by splitting net liabilities with the total amount of net liabilities and total amount of equity. In terms of net liabilities, the company includes received notices and other financial liabilities less cash.

EQUITY MANAGEMENT

in EUR

	2011	2010
Long-term financial liabilities	205,691,991	23,465,160
Short-term financial liabilities	112,782,562	90,718,257
Total financial liabilities	**318,474,553**	**114,183,417**
Total equity	362,807,700	348,575,114
Financial liabilities/equity	**0.88**	**0.33**
Net financial liability	316,440,337	114,135,803
Net debt/equity	0.87	0.33

4.12.5 Fair values

The company assesses that the fair values of financial assets and liabilities do not differ from the carrying amount.

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

in EUR

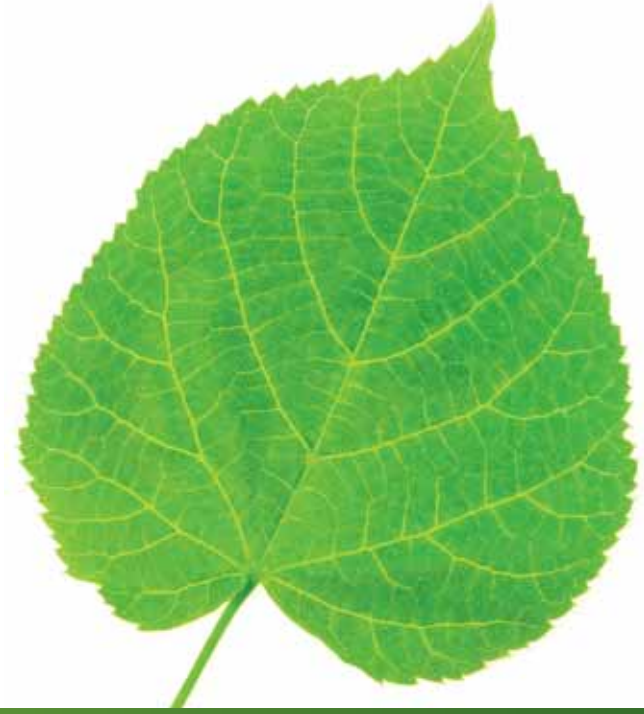
FINANCIAL INSTRUMENTS	31 December 2011		31 December 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value				
Available-for-sale financial assets	260,003	260,003	60,003	60,003
Non-derivative financial assets at amortised cost				
Operating receivables	53,751,421	53,751,421	44,258,005	44,258,005
Cash	2,034,216	2,034,216	47,614	47,614
Total non-derivative financial assets	56,045,640	56,045,640	44,365,622	44,365,622
Non-derivative financial liabilities at amortised cost				
Banking loans	215,965,160	215,965,160	33,738,329	33,738,329
Other financial liabilities	102,509,393	102,509,393	80,445,088	80,445,088
Operating liabilities	161,716,426	161,716,426	55,533,412	55,533,412
Total non-derivative liabilities	480,190,979	480,190,979	169,716,829	169,716,829

FINANCIAL ASSETS CARRIED AT FAIR VALUE ACCORDING TO THE HIERARCHY

in EUR

	2011	2010
Financial assets at fair value of the third level	260,003	60,003
Total financial assets at fair value	260,003	60,003

Short-term receivables and liabilities are disclosed at carrying amount which is considered as fair value.



FOR SLOVENIA.

For every single one of us. Because the Šoštanj Thermal Power Plant is the key element of our energy supply system. The production energy generated by the Šoštanj Thermal Power Plant is of national importance.
For me. For you. For entire Slovenia!

A guaranteed auto-production of electricity is a guarantee for a safe and reliable supply for entire country. During certain periods, the Šoštanj Thermal Power Plant produces even up to a half of all electricity in Slovenia. Reliability and efficiency of production will be further increased once the new replacement Unit 6 starts operating which will replace the electricity produced by Units 1-5. Auto-production of electricity has another key advantage – it is cheaper. For all of us.

5 APPENDICES TO THE ANNUAL REPORT

5.1 BUSINESS SEGMENT REPORTING

Accounting information on operations is presented by business segments.

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 segments is based on data collected for external reporting purposes and additionally on data collected by the company for internal reporting purposes.

The company has the following business segments:

BUSINESS SEGMENT	SIGNIFICANT PRODUCTS AND SERVICES OF BUSINESS SEGMENT
Electricity production	electricity
Steam and hot water supply	thermal energy, industrial water
Canteen	lunches, hospitality services
Social standard	rents of appartments and holiday facilities

Criteria for 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 specialist departments are allocated to business segments on the basis of a key).

The assets and liabilities allocated to segments contain items that are directly attributable to the segment as well as items that can be attributed to the segment on justifiable grounds.

5.1.1 Statement of financial position by business segments

in EUR

31 December 2011	Total TEŠ	Electricity production	Steam and hot water supply	Other business segments
TOTAL ASSETS	**859,641,851**	**855,967,366**	**2,391,353**	**1,283,132**
Long-term assets	787,492,485	785,850,564	619,736	1,022,185
Current assets	72,149,366	70,116,802	1,771,617	260,947
TOTAL LIABILITIES	**859,641,851**	**852,297,833**	**4,220,757**	**3,123,261**
Equity	362,807,700	356,891,005	3,095,904	2,820,791
Long-term liabilities	221,734,752	221,648,221	10,709	75,822
Short-term liabilities	275,099,399	273,758,607	1,114,144	226,648
Receivables/liabilities to business segments		3,669,533	(1,829,404)	(1,840,129)

5.1.2 Income statement by business segments

in EUR

Year 2011	Total TEŠ	Electricity production	Steam and hot water supply	Other business segments
Sales revenue	233,618,937	229,104,050	4,105,824	409,063
Other revenue	11,297,930	10,404,879	56,665	836,386
TOTAL REVENUE	**244,916,867**	**239,508,929**	**4,162,489**	**1,245,449**
TOTAL EXPENSES	**237,190,906**	**232,142,964**	**3,953,935**	**1,094,007**
Total tax	1,665,274	1,589,330	43,286	32,658
Internet services costs	6,060,687	5,776,635	165,268	118,784

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

TERMOELEKTRARNA
ŠOŠTANJ

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