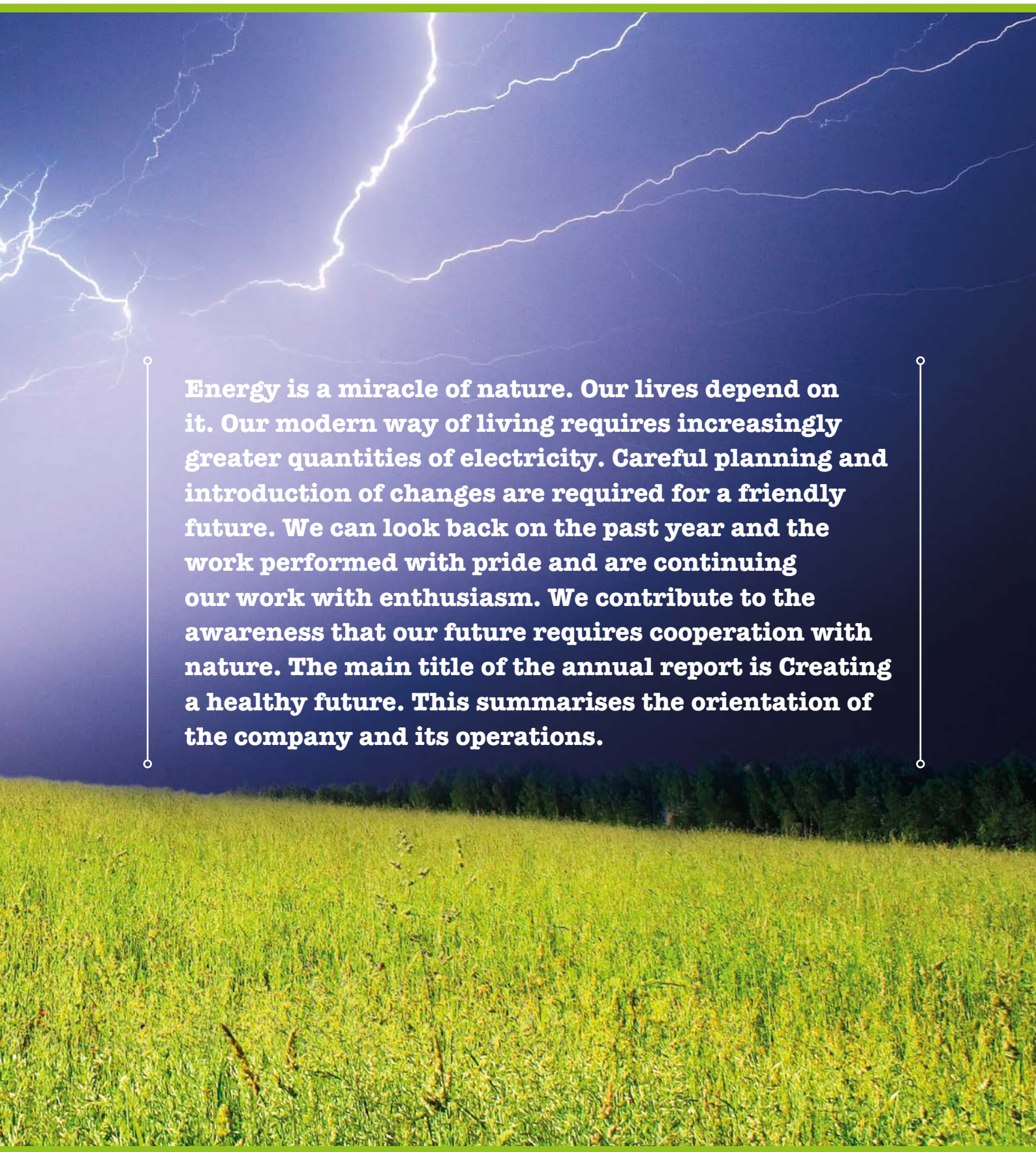
Skupina hse

TERMOELEKTRARNA
ŠOŠTANJ

CREATING A HEALTHY FUTURE

2012 Annual Report



Energy is a miracle of nature. Our lives depend on it. Our modern way of living requires increasingly greater quantities of electricity. Careful planning and introduction of changes are required for a friendly future. We can look back on the past year and the work performed with pride and are continuing our work with enthusiasm. We contribute to the awareness that our future requires cooperation with nature. The main title of the annual report is Creating a healthy future. This summarises the orientation of the company and its operations.

CONTENTS

100 g of nuts contain 2,724 kJ, which ranks them among the most energetic foodstuffs. This amount suffices for over a third of daily requirements of an adult at rest.

Energy

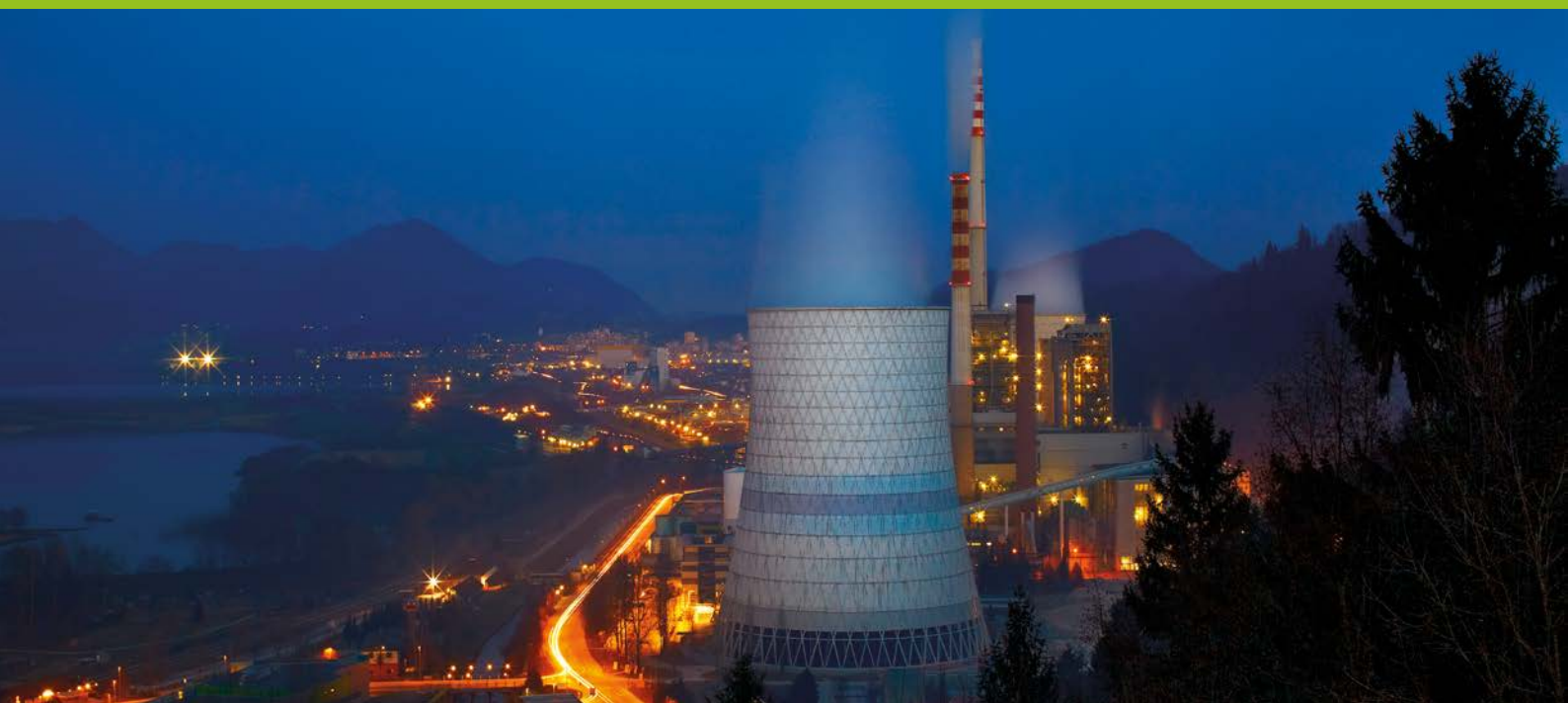
The power plant produced over 3,700 GWh of energy on average annually in the period from 2003 to 2010. This represents over a third of all produced energy in Slovenia.

1 INTRODUCTION

Termoelektrarna Šoštanj d.o.o. is the largest thermal production facility in Holding Slovenske elektrarne Group. Its core activity is the electricity and thermal energy production for district heating. With a net output of 680 MW, TEŠ produces approximately a third of the country's electricity, and in critical periods it can meet more than half of the 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 tonnes 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. The construction of 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 adopted long-term development plans with a focus on the construction of Unit 6 with a rated power of 600 MW, expected to start operating in 2015. The replacement Unit 6 will use approximately 30% less coal for the same amount of energy produced and therefore joint environmental emissions will be considerably lower. The replacement Unit 6 will emit 35% less CO_2 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).



1.1 LETTER OF THE MANAGING DIRECTOR

Dear Sir/Madam!

Despite very challenging economic circumstances in 2012, Termoelektrarna Šoštanj d.o.o. managed to conclude the business year successfully.

The construction of replacement Unit 6 reached its final stage. Most of our activities in the past year concerned obtaining of financial resources, especially the government guarantee in order to ensure uninterrupted continuation of construction works.

The construction of Unit 6 has been carried on within the set timelines. Our activities are aimed at timely completion of works and successful acquisition of operating permit. Replacement Unit 6 will allow us to ensure further development of the Slovenian energy industry, preservation of environment and environment-friendly production of electricity and thermal power in the Šalek Valley, and to provide social security for ourselves and our successors through maintaining job positions.

Along with our professional services, in 2012 we provided for reliable and safe operations of the existing units. Due to obsolete technology, works on these facilities have been more extensive and demanding; thus professionalism and responsibility of the company are all the more important.

Throughout our 57-year history we have strived to maintain our position of one of the cornerstones of the Slovenian electricity system, that every year provides the customers with safe, reliable, competitive and environment-friendly electricity and thermal energy; therefore, I am certain about the future success of the Termoelektratna Šoštanj staff. With your cheerfulness, you are encouragement and source of energy for others.

Šoštanj, 28 June 2013

Peter Dermol
Managing Director

1.2 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 2012 financial year;
- the Supervisory Board's position on the auditor's report;
- the examination and confirmation of the annual report of the company for 2012; the examination of the proposal on allocation of accumulated profit.

In the 2012 financial year, the Supervisory Board included the following owner's representatives: from 1 January to 30 November 2012: Janez KERŽAN, MSc (president), DEAN Besednjak, PhD (vice president), Klemen Potisek, MSc, and Aljoša Tomaž; from 1 December to 31 December 2012: Roman Šturm, PhD (SB president since 6 December 2012), Janja Špiler (SB vice president since 6 December 2012), Marjan Ravnikar, MSc, and Aljoša Tomaž.

Pursuant to provisions of the Worker Participation in Management Act (ZSDU), as representatives of employees in the period from 1 January 2012 to 31 March 2012 were Franc Rosec and Branko Sevčnikar, and in the period from 20 April 2012 to 20 December 2012 Matjaž Dvoršek, MSc, and Sandi Dolšak.

In the 2012 financial year, the Committee for Active Supervision of the Investment Unit 6 at TEŠ was comprised of the following members: Dean Besednjak, PhD (president), Matjaž Eberlinc, PhD, Edvard Poš and Anton Urankar, MSc. The committee met regularly on a weekly basis, monitored the activities associated with the project and reported its findings to the company's Supervisory Board and TEŠ's and HSE's management.

In 2012, the four-member Audit Committee of the Supervisory Board consisted of the following members: Janez Keržan, MSc, Audit Committee president (from 8 May 2012 to 30 November 2012), Aljoša Tomaž (from 1 January 2012 to 31 December 2012), and Alenka Podbevšek, who was appointed an independent expert for accounting and tax area in line with article 280 of the Companies Act as an external member (from 8 May 2012 to 31 December 2012). Matjaž Dvoršek, employees' representative, was elected a member of the Audit Committee by the TEŠ d.o.o. Workers' Council in accordance with the Companies Act provisions (from 1 January 2012 to 20 December 2012).

In the financial year of 2012, the company was represented and managed by Simon Tot, MSc, who was appointed the TEŠ's Managing Director by the Supervisory Board at the 12 extraordinary meeting held on 11 November 2010.

1.2.1 MONITORING AND SUPERVISION OF COMPANY OPERATIONS

In 2012, the Supervisory Board regularly monitored and supervised the company's operations at 6 regular, 10 irregular and 12 correspondence meetings.

TEŠ d.o.o. is one of the key components of the HSE Group, which is why corporate governance is significantly affected by the fact that the company is 100% owned by HSE d.o.o. Considering the additional fact that TEŠ is the investor in the largest energy project in Slovenia – replacement Unit 6 – its operations are monitored also by the bodies of the controlling company, as its activities influence the whole HSE Group. With issuance of the parent guarantee and performance of capital increases, HSE d.o.o., and indirectly the entire HSE Group, assumed a great amount of responsibility regarding the investment in Unit 6. For this reason, a considerable attention is dedicated also to ensuring operational consistency at the group level. Quick and uninterrupted exchange of key information within the HSE Group is enabled also by meetings of the HSE Group's managing directors, which are held on a regular basis and contribute significantly to prompt response to changes. With the purpose of strengthening supervision of the Unit 6 investment performance, HSE d.o.o and TEŠ d.o.o. established Committee for Active Supervision of the Investment Unit 6 at TEŠ d.o.o., whose duty is regular reporting to the HSE d.o.o. management and the TEŠ d.o.o. Supervisory Board. The companies also established Coordinating Team of HSE and TEŠ for Optimisation of Financial Structure of Unit 6 and Minimisation of Financing Costs, which is responsible for coordination of demanding financial activities of the Unit 6 project. Both bodies are composed of TEŠ d.o.o. and HSE d.o.o. representatives. In cooperation with governance, management and control bodies of both companies, such supervision and optimisation system ensures systematic and comprehensive control over the TEŠ's operations and performance of the investment in construction of 600 MW replacement Unit-6 at TEŠ d.o.o.

Throughout the 2012 financial year, the Supervisory Board was informed about the company's operations and realisation of the SB decisions. It discussed legal transactions that in accordance with Articles of Incorporation of the limited liability company Termoelektrarna Šoštanj d.o.o.

require the Supervisory Board's approval and other important business and strategic issues.

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 do.o.

Key issues regarding the Unit 6 project that the previous TEŠ Supervisory Board (from 1 January 2012 to 30 November 2012) discussed in 2012 are the following:

a) consent for conclusion of the 'Contract for preparation of plans type PZI, PID and NOV, certificates of reliability of the works and other certificates within the scope of Alstom for Unit 6, and for preparation and coordination of other PZI project documentation' between Termoelektrarna Šoštanj d.o.o. and HSE Invest d.o.o.;
b) approval of conclusion of Annex no. 2 to the Contract for preparation of plans type PGD and PZI for Unit 6 at TEŠ comprising infrastructure, between Termoelektrarna Šoštanj d.o.o. and HSE Invest d.o.o.;
c) approval of conclusion of Annex no. 7 to the Contract on execution of investment engineering in performing the construction of Unit 6 project, between Termoelektrarna Šoštanj d.o.o. and HSE Invest d.o.o.;
d) approval of adoption of tender documentation regarding performance of construction works on other facilities;
e) approval of adoption of tender documentation regarding implementation of the system for product transportation;
f) approval of adoption of tender documentation regarding implementation of the system for ammonia water storage;
g) approval of adoption of tender documentation regarding performance of construction installations for MTO and FGD;
h) approval of conclusion of Annex no. 2 to the contract no. B6/HS-01 between Termoelektrarna Šoštanj d.o.o. and the consortium Rudis-SPX;
i) 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 – Annexes no. 5, 6, 7 and 8 and variations no. 5, 7, 11, 12, 13, 14, 15 and 16;
j) approval of conclusion of Annex no. 1 to the Long-term contract for the purchase of coal, lease of capacity and purchase of electricity, concluded on 12 October 2009;
k) approval of conclusion of a supplement to Annex no. 1 to Long-term contract for the purchase of coal, lease of capacity and purchase of electricity, concluded on 30 May 2012 among Termoelektrarna Šoštanj d.o.o., PremogovnikVelenje d.d. and Holding Slovenske elektrarne d.o.o
l) conclusion of Annex no. 2 to the contract no. B6/GD-01/11 between Termoelektrarna Šoštanj d.o.o. and the consortium Primorje d.d. – RGP d.o.o.;
m) approval of conclusion of the Contract for implementation of the system for preparation of water, between Termoelektrarna Šoštanj d.o.o. and the consortium Ovivo- Esotech;
n) approval of conclusion of the Contract for performance of construction works on other facilities, between Termoelektrarna Šoštanj d.o.o. and RGP d.o.o.;
o) approval of conclusion of Annex no. 3 to the Contract RDP-01, between Termoelektrarna Šoštanj d.o.o. and the consortium Rudis- Esotech-Engineering Doberšek;
p) the approval of conclusion of Annex no. 3 to the Contract on construction works on platform for the cooling tower and transformers in Unit 6, between Termoelektrarna Šoštanj d.o.o. and RGP d.o.o.;
q) approval of conclusion of Annex no. 3 to the Contract RDP-01, between Termoelektrarna Šoštanj d.o.o. and the consortium Rudis- Esotech-Engineering Doberšek;
r) approval of conclusion of Annex no. 3 to the Contract on construction works on platform for the cooling tower and transformers in Unit 6, between Termoelektrarna Šoštanj d.o.o. and RGP d.o.o.;
s) the approval of conclusion of Annex no. 1 to the Contract on performance of construction and electrotechnical works for maintenance of disposal sites P1 and P2 (installation platforms) no. B6/GD-09/11, between Termoelektrarna Šoštanj d.o.o. and RGP d.o.o.;
t) approval of conclusion of Annex no. 1 to the contract no. B6/KM-01/11between Termoelektrarna Šoštanj d.o.o. and ZAG-Zavod za gradbeništvo Slovenije;
u) approval of adoption of tender documentation for performance of technological connections in Unit 6;
v) approval of adoption of tender documentation for construction of 400 kV switchyard at Unit 6;
w) appointment of an examiner of Revised Investment Programme (RIP) 'Construction of a 600 MW replacement Unit 6 at TEŠ', 5th revision;
x) confirmation of Revised Investment Programme (RIP) 'Construction of a 600 MW replacement Unit 6 at TEŠ', 5th revision;
y) approval of conclusion of the Contract on performance of construction installations;
z) approval of transfer of the Contract on bringing the infrastructure to working condition for enabling extraordinary transportations of stator of generator and transformer to TEŠ Unit 6 between Šentilj d.m. and TEŠ, from the company Transing transportni inženiring d.o.o. to the company T-1 transportni inženiring d.o.o.;

aa) approval of conclusion of the Contract on performance of technical consulting during installation works on Unit 6, between Termoelektrarna Šoštanj d.o.o. and RWE Power International RE GmbH;
bb) approval of payment of compensation for the costs of approving deadline extension regarding provision of the Republic of Slovenia guarantee for the EIB loan in the amount of EUR 400 million under Guarantee Facility Agreement (GFA);
cc) approval of conclusion of the Contract for implementation of the system for product transportation;
dd) approval of conclusion of the Contract for implementation of the system for ammonia water storage;
ee) approval of conclusion of the Contract for delivery and installation of steel structures and for the first stage of the coal transportation technology;
ff) approval of adoption of tender documentation regarding implementation of the coal transportation system Unit 6-stage 2;
gg) approval of conclusion of the Contract on method and conditions for the government guarantee insurance and of the Contract regulating relationships regarding the construction of replacement Unit 6 project;
hh) approval of conclusion of the Contract for delivery and construction of 400 kV GIS switchyard;
ii) approval of payment of compensation for the costs of approving deadline extension regarding provision of the Republic of Slovenia guarantee for the EIB loan in the amount of EUR 400 million and increase of guarantee premium under Guarantee Facility Agreement (GFA);

In 2012, the Supervisory Board verified also the company's liquidity and solvency management. It required that the company's management regularly inform the Supervisory Board on alternative financing sources in case of longer delay or non-issuing of the government guarantee for financing of replacement Unit 6, and was acquainted with such 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 Function within the companies of the HSE Group will also have a positive effect.

Other significant issues addressed by the company's Supervisory Board (active from 1 January 2012 to 30 November 2013) in 2012 are the following:

a) approval of proposition of the 2012 Business Plan (64th regular meeting of the TEŠ SB of 8 March 2012);
b) adoption of the 2011 Annual Report of the company TEŠ d.o.o. (66th regular meeting of the TEŠ SB of 29 June 2012);
c) quarterly reports on the company's operations;
d) approvals for short-term borrowing within the HSE Group cash Management;
e) legal transactions involving the purchase of coal, lease of capacity and purchase of electricity;
f) the approval of conclusion of Annex no. 8 to the Long-term contract for the purchase and sale of natural gas, between Termoelektrarna Šoštanj d.o.o. and Geoplin d.o.o.;
g) other legal transactions.

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

- it reviewed the Annual Report of the company for 2011;
- it was acquainted with the report on the company's operations in the period January-June 2012.

In 2012, the Supervisory Board intensively focused also on procedures for performance of the construction of replacement Unit 6 at TEŠ d.o.o. The Supervisory Board's actions were based on information and reports submitted to it by the company's management within the scope of its powers and competences laid down by the law and the Articles of Incorporation.

1.2.2 MONITORING AND SUPERVISION OF THE COMPANY'S OPERATIONS BY THE SUPERVISORY BOARD APPOINTED ON 6 DECEMBER 2012

In the 2012 financial year, the structure of the Supervisory Board changed several times. New Supervisory Board was appointed at the TEŠ d.o.o. Supervisory Board meeting on 6 December 2012, and held two extraordinary meetings (on 6 December 2012 and on 19 December 2012) and one correspondence meeting (on 13 December 2012) by the end of the year. The SB adopted the following decisions:

- approval of conclusion of Annex no. 9 to the Long-term contract for the purchase and sale of natural gas no. 277, between TEŠ d.o.o. and Geoplin d.o.o., coordinated with HSE d.o.o.,
- approval of conclusion of Annex

no. 10 to the Long-term contract for the purchase and sale of natural gas no. 277, among TEŠ d.o.o., Geoplin d.o.o., and new contractual partner HSE d.o.o., coordinated with HSE d.o.o.,
- approval of conclusion of the Agreement between TEŠ and HSE on performance of the Long-term contract for the purchase and sale of natural gas no. 277, between TEŠ d.o.o. and Geoplin d.o.o., coordinated with HSE d.o.o.,
- approval of additional short-term bridge borrowing from HSE within the scope of cash management,
- approval of payment of compensation for the costs of approving deadline extension regarding provision of the Republic of Slovenia guarantee for the EIB loan in the amount of EUR 400 million and increase of guarantee premium under Guarantee Facility Agreement (Letter agreement),
- approval of extension of the short-term revolving loan from a commercial bank in the amount of EUR 12,500,000.

1.2.3 POSITION ON THE AUDITOR'S REPORT AND EXAMINATION OF THE COMPANY' ANNUAL REPORT FOR 2012

The audit of the 2012 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 2012 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 2012, and that the business report is consistent with the audited financial statements.

Based on 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.

On the basis of careful examination of the Annual Report for 2012 and explanations provided at the Supervisory Board meeting, the Supervisory Board's assessed that the development goals set by the founder are being met despite the unstable economic environment and that the company's operations were in line with the TEŠ's Business Plan for 2012 as adopted by the founder.

Based on a positive audit opinion, the achieved objectives from the 2012 Business Plan, and in line with its competences, the Supervisory Board of the company TEŠ d.o.o., after the final review, raises no objections to and approves the Annual Report of TEŠ for 2012.

1.2.4 EXAMINATION OF THE PROPOSAL ON ALLOCATION OF ACCUMULATED PROFIT

The Supervisory Board was informed that the net profit for the 2012 financial year totalled EUR 32,460,876.76, of which EUR 1,623,043.84 was used for creation of legal revenue reserves and EUR 15,418,916.46 was used for creation of other revenue reserves, while the remaining, unallocated part in the amount of EUR 15,418,916.46 represents the company's accumulated profit.

Based on the company's strategic objectives and investment policy, the Supervisory Board of TEŠ d.o.o. agrees with the management's proposal submitted to the founder that the entire accumulated profit of EUR 15,418,916.46 be allocated to other revenue reserves.

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

By authorisation of the Supervisory Board of the company Termoelektrarna Šoštanj,

President of the Supervisory Board:
Roman ŠTURM, PhD

Šoštanj, 13 August 2013

1.3 OPERATING HIGHLIGHTS IN 2012

In 2012, Termoelektrarna Šoštanj managed the operations safely and reliably, which enabled the company to assure stability in the Slovenian energy system as the main electricity supplier during the draught period. The company concluded the financial year with the expected business outcome, in accordance with the business plan.

We could say that 2012 did not spare challenges and it was mostly characterised by the activities relative to the construction of Unit 6, especially with obtaining the government guarantee for the EIB loan in the amount of EUR 440 million. These activities took place throughout the year and were concluded by the Republic of Slovenia and the EIB entering into an agreement on guarantee, at the end of the year. With the government guarantee becoming applicable, all the conditions for drawing the long-term loans from EIB and EBRD were met.

We are aware that we must pursue this path of development and that it is riddled with numerous challenges. We will use our advantages in the best way possible, and prove that we have the knowledge and ability to continue to supply a third or even more electricity for the entire Slovenia, in a reliable, safe and environmentally sound manner.

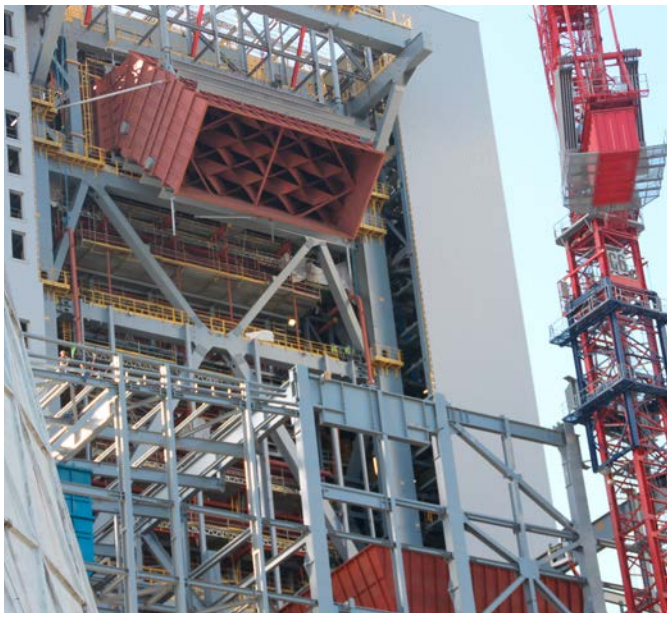
ITEM	REALISATION 2012	REALISATION 2011	RE 2012 / RE 2011
Net sales revenue in EUR	258,550,639	233,618,937	111
Net profit or loss in EUR	32,460,877	6,060,687	536
Revenue in EUR	264,106,756	244,111,803	108
Expenses in EUR	231,530,767	236,385,842	98
Labour costs in EUR	19,445,666	19,894,073	98
EBIT = profit or loss in EUR	34,114,302	8,818,335	387
Assets in EUR	1,192,103,061	859,641,851	139
Equity in EUR	395,268,577	362,807,700	109
Debts with banks in EUR	217,518,358	215,965,160	101
Cash flows from operating activities in EUR	90,873,823	74,465,365	122
Capital investments in EUR	353,401,906	348,566,417	101
Number of employees at the period end	464	477	97
Electricity production/sales (in GWh)	3,743	3,779	99
Net return on equity ratio (ROE)	0.086	0.017	503
Net return on assets ratio (ROA)	0.032	0.009	366

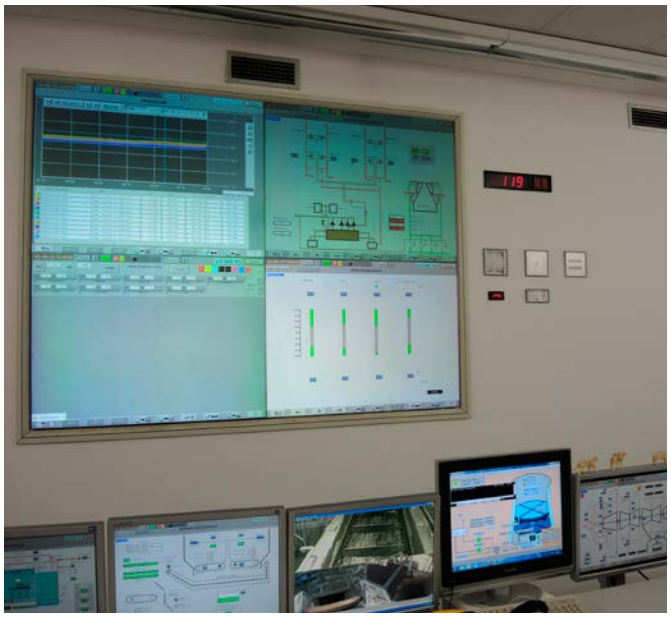
In 2012, TEŠ generated EUR 258,550,639 in net sales revenue. Compared to 2011, the amount increased by 11% due to higher sales prices of electricity and coal.

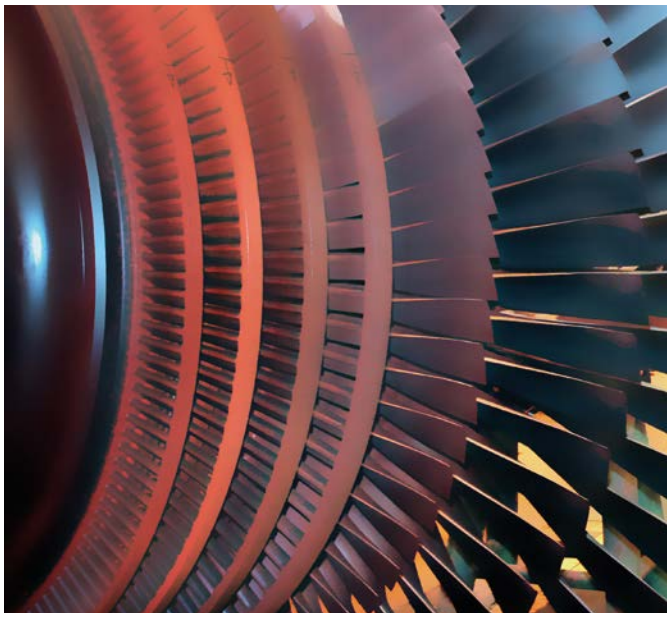
The net profit of the company amounted to EUR 32,460,877, which is 44% more than in the year before. The increased profit after tax in 2012 was mostly the result of higher electricity sales price, in comparison with 2011.

Assets in the amount of EUR 1,192,103,061 increased by 39% in 2012, predominantly due to investments in the construction of the new Unit 6. The construction of the cooling tower shell 6 and installation of main steel construction of the boiler room of Unit 6 were completed in 2012. All the key equipment and material for FGD 6 were ordered, so the installation works were launched in May, firstly on the scrubber and the steel construction and then on other industrial containers.

Due to optimisation of operations in 2012, TEŠ carried out only the necessary investments, planned in accordance with the adopted annual business plan. The company also carried out some investment projects regarding the production reliability (reconstruction of disposal machine, wastewater tank). We continued with the construction activities for Unit 6, where for 2013 we plan finalisation of works on the powerhouse and the facility take-over by Alstom, which will perform the major part of equipment installation in 2013. For the beginning of the year we also plan the conclusion of preparation works on the railway path for the powerhouse equipment transportation from Austria to TEŠ. In the middle of the year, the stator of generator and transformer will be transported. Generator and transformer are the heaviest parts of the equipment for Unit 6. Furthermore, in 2013 Alstom will complete the installation of secondary steel construction and perform the installation of the majority of the equipment in the boiler room







and other secondary facilities. The installation of equipment of the flue gas desulphurisation plant, electrostatic precipitators, cooling system, switchyard, water preparation facility and ammonia transfer unit will be fully performed, as well as the major part of coal and product transport.

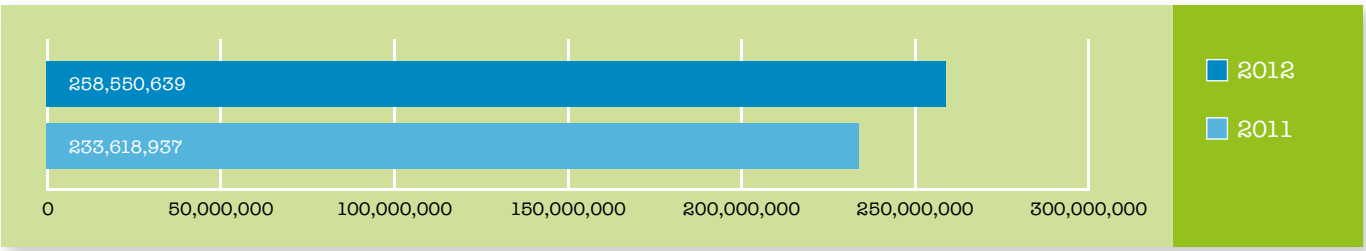
The indebtedness to banks amounts to EUR 217,518,358. Because of the delay in obtaining the government guarantee for the EUR 440 million EIB loan, the company did not draw the planned long-term financing sources in 2012. Consequently, the measures for liquidity management had to be implemented. In addition to measures for operations streamlining, the company agreed on financing of trade liabilities in connection with Unit 6, received bridge loans from its parent and draw short-term revolving loans from commercial banks.

As at 31 December 2012, 464 employees were employed at TEŠ. Compared to the end of 2011, the number of employees decreased by 13.

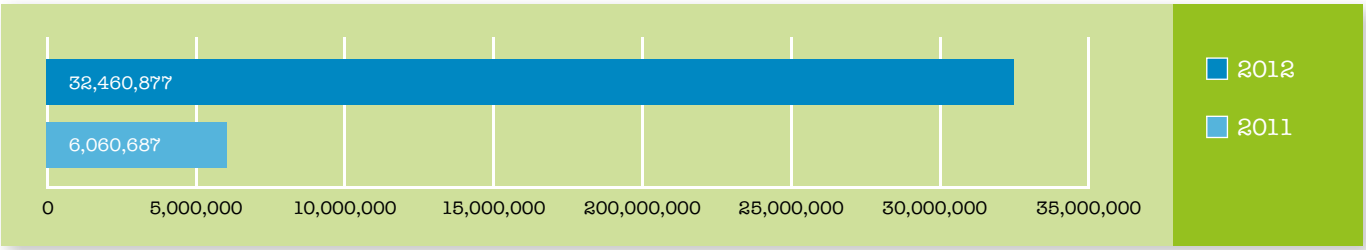
In 2012, TEŠ sold 3,743 GWh of electricity. The annual quantity of the electricity produced was by 1% lower than in 2011, predominantly as the result of a longer suspension of the Unit 3 activities due to damages on turbine, system issues in Unit 4 regarding transport of slag underneath the boiler and issues with coal supply at the beginning of the year.

Net return on equity ratio in 2012 amounted to 8.6% and was higher than in 2011 due to higher net profit.

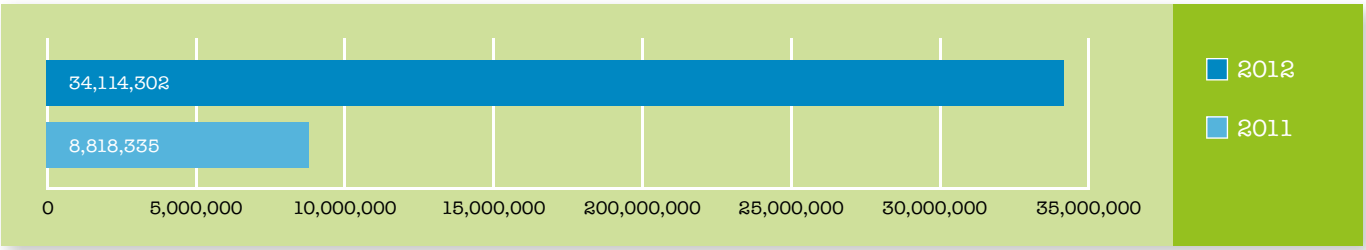
Net sales revenue (in EUR)



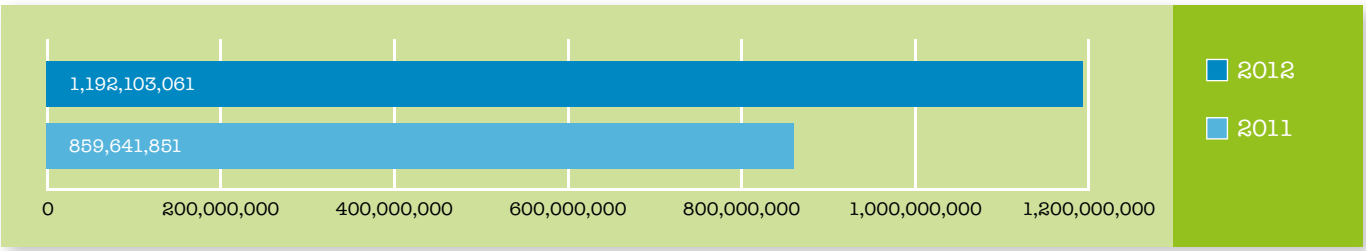
Net profit or loss (in EUR)



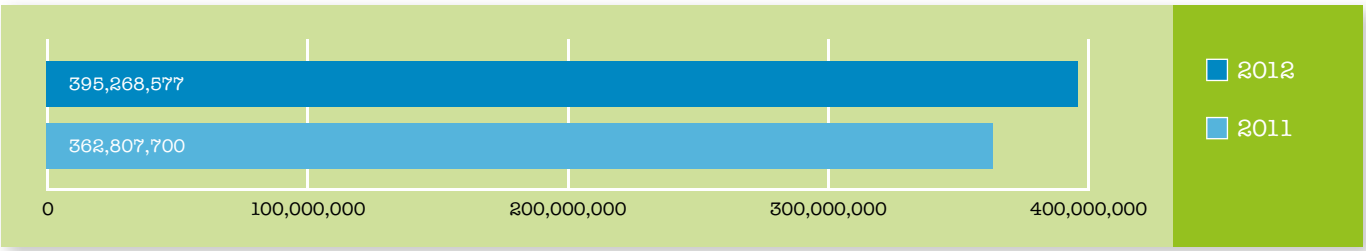
EBIT = operating income (in EUR)



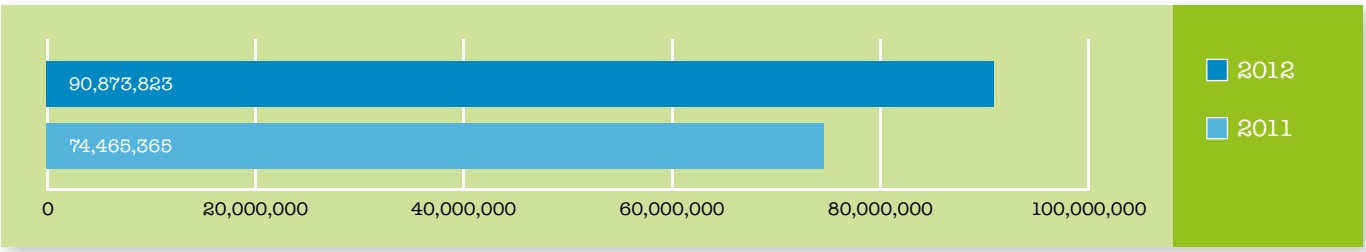
Assets (in EUR)



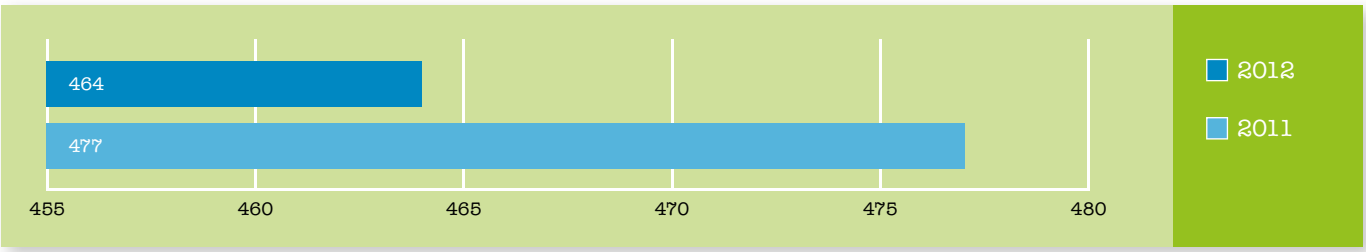
Equity (in EUR)



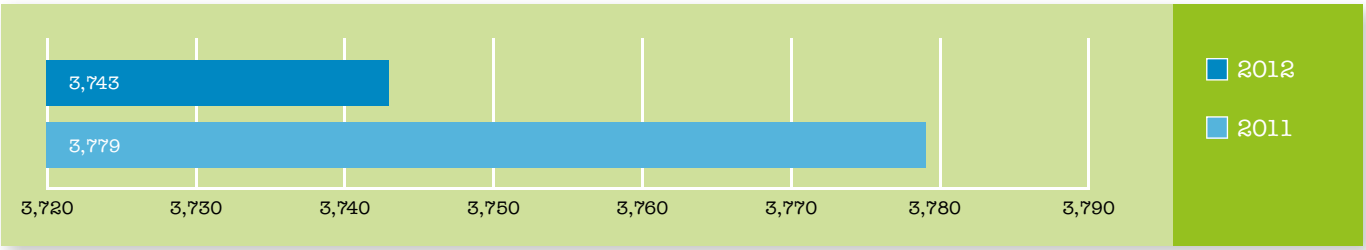
Cash flow from operations (in EUR)



No. of employees as at 31 December



Electricity production (in GWh)



1.4 OVERVIEW OF SIGNIFICANT EVENTS IN 2012

On 3 January 2012, an agreement on the method of repayment in the period until the issuing of government guarantee was signed with Alstom (Annex 4).

On 2 February 2012, a group MPs proposed the Act Regulating Guarantee of the Republic of Slovenia for Liabilities under Long-Term Loan of 440 Million Euros Made to Termoelektrarna Šoštanj, d.o.o. by European Investment Bank for Financing Termoelektrarna Šoštanj 600 MW Replacement Unit-6 Installation Project ((EPA: 112 - VI; acronym: ZPODPTEŠ) for the discussion in the National Assembly.

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

At its 3rd session on 23 February 2012, the Government of the Republic of Slovenia considered the Proposition of the opinion on the proposition of the Act on guarantee of the Republic of Slovenia for the liabilities from the long-term loan in the amount of EUR 440 million that TEŠ shall take from EIB. The government 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 the conclusion of the guarantee contract was a prior conclusion of the contract on the arrangement of relations between the Republic of Slovenia and TEŠ, in which the frameworks of project performance shall be stipulated as determined in the Government's decisions on Comprehensive Information on the Replacement Unit 6 project (February 2012).
On 13 March 2012, Alstom started with the installation of main steel construction of the Unit 6 boiler room.

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

On 19 April 2012, the National Assembly of the Republic of Slovenia considered and voted for the proposed act on government guarantee for the 440 million loan for Unit 6.

On 17 May 2012, the government filed amendment to article 1 of the act proposal.
Due to issues with obtaining the government guarantee, an agreement (Annex 5) was concluded with Alstom on 4 June 2012 concerning the postponement of the deadline for government guarantee act adoption until 16 June 2012. Since the discussed condition was not met, the agreement on main technological equipment supply for Unit 6 was suspended until 2 July 2012.

On its 5th meeting on 21 June 2012, the Committee on Finance and Monetary Policy of the National Assembly discussed the proposed act, and continued with the discussion on 28 June 2012, to pass its favourable opinion on 13 July 2012.

At its 66th regular meeting on 29 June 2012, TEŠ's Supervisory Board approved the annual report of the company for 2012.

On 18 July 2012, the National Assembly adopted the Act Regulating Guarantee of Republic of Slovenia for Liabilities under Long-Term Loan of 440 Million Euros Made to Termoelektrarna Šoštanj, d.o.o. by European Investment Bank for Financing Termoelektrarna Šoštanj 600 MW Replacement Unit-6 Installation Project. One of the conditions for the guarantee agreement conclusion was that the project fee should not exceed the present EUR 1.3 billion. According to the act, the Government shall guarantee for the EUR 440 million EIB loan when conditions are met.

On 2 July 2012, the company and Alstom entered into an agreement in order to proceed with the project within the planned timeline, i.e. in the form of Annex 6 regarding termination of suspension of contract implementation and change of the payment plan until 31 October 2012, with control point on 5 October 2012.

On 23 August 2012, HSE – as the sole company member – reviewed the Annual Report of TEŠ for the 2011 financial year and adopted a decision to allocate the total accumulated profit of TEŠ in the amount of EUR 2,878,826.20 to other revenue reserves with the purpose of the implementation of development projects.

At its 67th regular meeting on 11 September 2012, the company's Supervisory Board discussed and approved the Revised investment programme 'Construction of the 600 MW replacement Unit 6 in TEŠ', 5th revision.

At its 20th regular meeting on 17 September 2012, the HSE Supervisory Board discussed and approved the Revised investment programme 'Construction of the 600 MW replacement Unit 6 in TEŠ', 5th revision.

In September that year, TEŠ obtained the approval from the guarantor banks and the EBRD on suspension of the condition on providing applicable government guarantee for liabilities arising from the long-term loan in the amount of EUR 440 million from the European Investment Bank for the purpose of financing the construction replacement Unit 6, namely until 30 November 2012.

Also in September, the installation of the primary steel construction and the secondary steel construction – the suspension part, was successfully carried out.

On 30 October 2012, the company and Alstom signed Annex 7 regarding the agreement on installation works fees.

Since 1 November 2012, works by Alstom have been suspended due to TEŠ's unfulfillment of financial liabilities (certain works have continued).

On 30 November 2012, TEŠ and the Republic of Slovenia entered into the contract regulating relationships regarding the replacement Unit 6 project and the contract on the manner and conditions regarding the guarantee by the Republic of Slovenia.

On 3 December 2012, the company and Alstom signed Annex 8 in connection with the postponement of obtaining the government guarantee.

On 7 December 2012, the guarantee contract between the Republic of Slovenia and EIB was signed.

On 21 December 2012, the National Assembly ratified the guarantee contract between the Republic of Slovenia and the EIB.

1.5 IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

At the 69th regular meeting of the TEŠ Supervisory Board on 17 January 2013, Simon Tot, Msc, gave statement on his resignation as the director of the company TEŠ. On 18 January 2013, the Supervisory Board appointed Mr Franc Rosec as the managing director of the company for a 6-month period.

On 6 February 2013, the nominal capital of TEŠ was increased by its member HSE d.o.o. with a contribution of EUR 18,922,500.00. So far, the member's interest in the company amount to EUR 230,574,959.00. The capital raise was planned for 2012.

On 14 March 2013, TEŠ drew the long-term EIB loan in the amount of EUR 440 million, and, on 19 March 2013, the EUR 117.5 million loan from the EBRD in order to finance the construction of replacement Unit 6.

On 19 March 2013, Alstom provided TEŠ with a written notice on termination of the contract suspension from 1 November 2012 to 14 March 2013, when TEŠ settled all the overdue liabilities to Alstom.

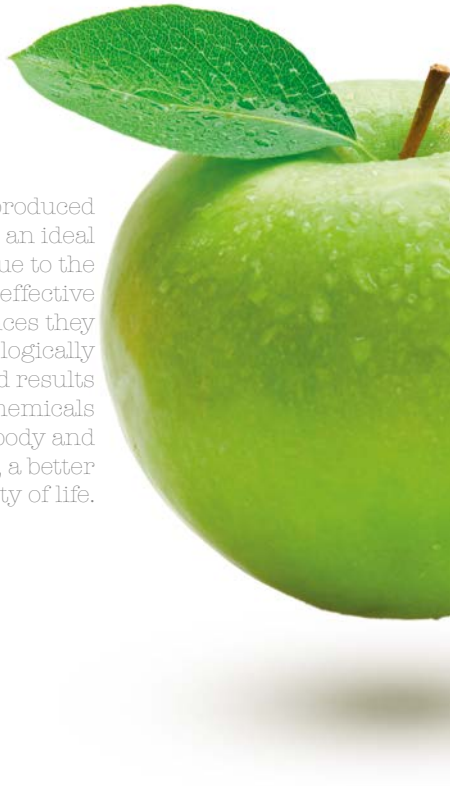
At its 70th meeting on 22 March 2013, the TEŠ's Supervisory Board approved the proposed Business plan of the company for 2013 with an additional plan for 2014 and 2015.

On the basis of 1st paragraph of Article 526 of the Companies Act and Article 10 of TEŠ Articles of Incorporation and the previous approval by the TEŠ Supervisory Board, the company member adopted the Business plan of the company TEŠ for 2013, as at 2 April 2013, with an additional plan for the financial years of 2014 and 2015.

After the presentation of candidates and in accordance with the provisions of the Companies Act ant the TEŠ Articles of Incorporation, the Supervisory Board of TEŠ appointed Peter Dermol the Managing Director of TEŠ for a period of 4 (four) years, with the possibility of reappointment, at its 36th extraordinary meeting of 10 April 2013, the day the mandate of previous Managing Director, Franc Rosec, terminated.

As at 22 April 2013, Mr Gregor Črep was appointed Managing Director of the Unit 6 project.

On the basis of the contract regulating relationships regarding the replacement Unit 6 project between the Republic of Slovenia and TEŠ, as at 24 May 2013 the company's Management informed relevant Ministry of Infrastructure and Spatial Planning and Ministry of Finance about the assessment results regarding the Unit 6 project. The management assessed that the final price of the project could amount to EUR 1.44 billion. This increase in the assessed value of the project is mostly a result of belated provision of long-term funding, consequential suspension and increased costs. The management also assessed that TEŠ will not obtain the operating permit by the estimated date, i.e. 15 February 2016. The company actively entered into negotiations with the suppliers to discuss the possibility of bringing forward the project completion, which would have a significant impact on the estimated investment value.



Ecologically produced apples are an ideal healthy food due to the numerous effective substances they contain. Ecologically produced food results in fewer chemicals entering our body and consequently, a better quality of life.

Ecology

We operate in accordance with sustainable development and are bound by responsible treatment of the environment. In the last 20 years we have invested a massive amount of financial resources in ecological projects to improve the quality of life in our nearer and wider surroundings.

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 December 2012

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 - District Court in Celje		
Nominal capital	EUR 211,652,459		
Size	large		
Year of establishment	1956		
Bank account	**Bank:** BANKA KOPER NLB NOVA KBM UNICREDIT	**Bank account:** 101000038312861 024260017217937 045150001707126 290000003080383	
Tax number	92189903		
VAT ID number	SI92189903		
Registration number	5040388		
Website	www.te-sostanj.si		
E - mail	info@te-sostanj.si		
Activity code	35.112		
BALANCE AS AT 31 DECEMBER 2012			
Managing Director - Management	Simon Tot, MSc	Start: 11.11.2010	End: 17.1.2013
President of the Supervisory Board	Janez Keržan, MSc (President since 5 January 2011)	Start: 29.9.2009	End: 30.11.2012
	Roman Šturm, PhD (SB President since 6 December 2012)	Start: 1.12.2012	End: 30.11.2016
Supervisory Board members (office term start/end)	Dean Besednjak, PhD	Start: 5.1.2011	End: 30.11.2012
	Klemen Potisek, MSc	Start: 1.1.2012	End: 30.11.2012
	Janja Špiler	Start: 1.1.2012	End: 30.11.2016
	Marjan Ravnikar, MSc	Start: 1.1.2012	End: 30.11.2016
	Aljoša Tomaž	Start: 6.4.2011	End: 5.4.2015
	Matjaž Dvoršek, MSc	Start: 20.4.2012	End: 20.12.2012
	Sandi Dolšak	Start: 20.4.2012	End: 20.12.2012
	Neca Čepelnik	Start: 10.1.2013	End: 9.1.2017
	Janez Ramšak	Start: 10.1.2013	End: 9.1.2017
Ownership structure (owner name and interest)	Holding Slovenske elektrarne d.o.o.		100%
	TOTAL		**100%**

2.1.2 Company's business activities

The company has several registered activities; the main activity is electricity production.

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) prepares a Corporate Governance Statement. The statement refers to the period from January 2012 to 31 December 2012.

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

Peter Dermol, as the Managing Director of the company TEŠ, I hereby declare that the governance of the company TEŠ in 2012 was in accordance with recommendations from the Corporate Governance Code for Companies with State Capital Investments (Code) adopted by the Capital Assets Management Agency of the Republic of Slovenia (AUKN) and published as at 18 January 2011 at AUKN websites (www.auknrs.si), while respecting Reporting Guidelines of the Companies with State Capital Investments and individual applicable recommendations of AUKN.
As the Managing Director of the company TEŠ, I 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.

1. Company member:

The company member independently decides on the following matters:
- changes and amendments to the Articles of Incorporation;
- adoption of the fundamentals of corporate policy and development plan of the company;
- adoption of the annual report if the Supervisory Board has not confirmed it or if the Managing Director and the Supervisory Board leave the decision on adoption of the annual report to the company member;
- the business plan of the company;
- allocation of accumulated profit;
- granting discharge from liability to the Managing Director and Supervisory Board;
- division and termination of ownership interests;
- changes in the company's nominal capital;
- status changes and dissolution of the company;
- appointment and dismissal of the Supervisory Board members;
- appointment of the company's auditor;
- appointment of the procurator and proxies;
- adoption of measures for improvement of company's operations and elimination of identified shortcomings and irregularities;
- other matters in accordance with regulations and the Articles of Association.

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.

2. Managing Director

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

3. Supervisory Board

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

The Articles of Incorporation of TEŠ 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:

- supervises the management of the company;
- examines the structure of the annual report and the proposal for allocation of accumulated profit;
- prepares a written report on findings relating to the verification of the annual report for the company member;
- confirms the annual report or makes comments thereon;
- issues opinions on the fundamentals of corporate policy and company development plans;
- approves the business plan of the company;
- recommends the company member to adopt decisions within its field of competence and issues opinions on recommendations regarding the adoption of the company member's decisions proposed by the Managing Director;
- appoints and dismisses the company's Managing Director;
- gives approvals on the Managing Director's transactions in accordance with the Articles of Incorporation,
- concludes a contract of employment with the Managing Director;
- adopts the Rules governing the work of the Supervisory Board; and
- may request reports on other issues;
- 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 does not exceed EUR 50,000 (due to the needs for coordinated development of IT within the HSE Group) after the acquired opinion by the head of IT department at the company's member.

The Supervisory Board 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 trainings for 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, OHSAS 18001 standard, information security management as required by ISO/IEC 27001 and internal governing documents of the company with a precisely prepared reporting system per individual organisational units. The internal 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 a comprehensive risk management system in the company to guarantee a quality management and governance basis to its management and founder, and to achieve the goals set. Organisation, structure, method of work and its tasks are defined in the Rules governing the work of the Risk Management Committee.

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

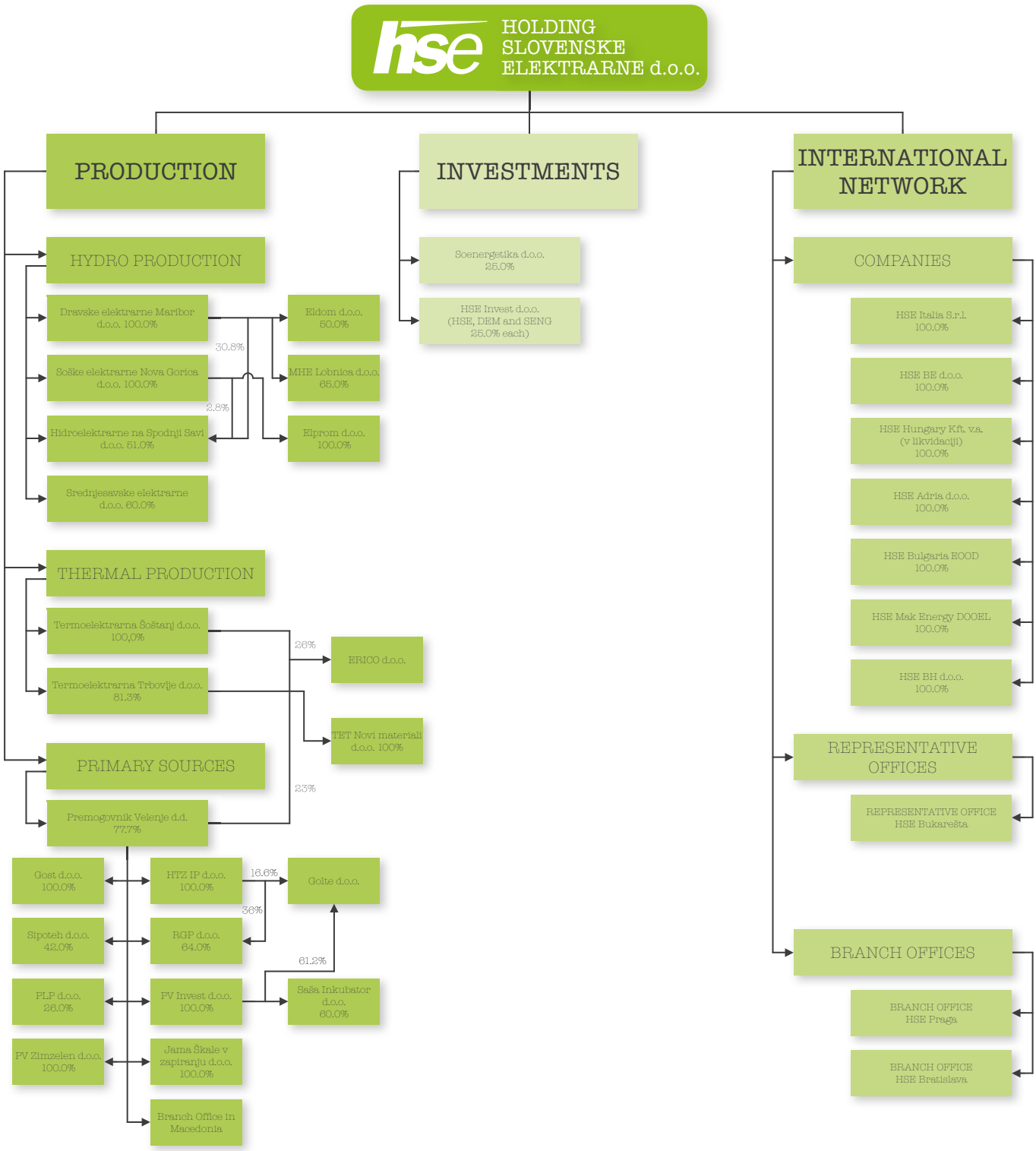
Peter Dermol
Managing Director of
Termoelektrarna Šoštanj, d.o.o.

Šoštanj, 28 June 2013

2.1.5 Relations with the controlling company and other subsidiaries

Termoelektrarna Šoštanj d.o.o. is part of the Holding Slovenske elektrarne Group. As at 31 December 2012, 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 2012 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 in 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 2012 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.

2.1.6 Ownership links with other companies

Company	Registration no.	Address	Year of establishment	Main activity	Value in EUR as at 31 Dec 2012		Controling company's stake
					Total equity	Nominal capital	
ASSOCIATES							
Erico d.o.o.	558305	Koroška cesta 58, Velenje	1.4.1992	74.900	1,310,301	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 of forming 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 manufacturer of electricity and thermal energy 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

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

Objectives

The replacement Unit 6 of Termoelektrarna Šoštanj represents the most important new chapter in Slovenia's energetic policy. Due to this fact, all strategic activities are focused on fulfilling the terms of economic, environmental and technological eligibility of the project and its realisation in the expected timeframe.

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 the 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 management system is determined on the basis of integrated internal assessments, external assessments carried out by a certification body, independent examinations of certified institutions and through achievement of planned objectives. The external assessment was carried out in May 2012 and 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 (jeopardising buyers, information security, environmental safety, occupational health and safety), safety aspects of the organisation and legal or statutory requirements;
- qualification, experience and competences of employees in relation 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 process of permanent improvement;

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

2.3.2 Occupational safety and health and fire safety

Each employee is an important member of the company contributing to its successful performance. Safe and healthy working environment is, therefore, one of the principles of the company's operations based on Occupational Safety and Health Act which requires the employer to ensure the safety and health of workers at the workplace.

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 safety and better health protection on all organisational levels. A new programme of the Occupational Safety and Health Act was prepared, determining period of performance of individual engagements, necessary financing and persons responsible.

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.

In 2013, the company will continue to dedicate a considerable attention to occupational safety training of employees, arranging the fire safety and examination and tests of the work equipment. 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.

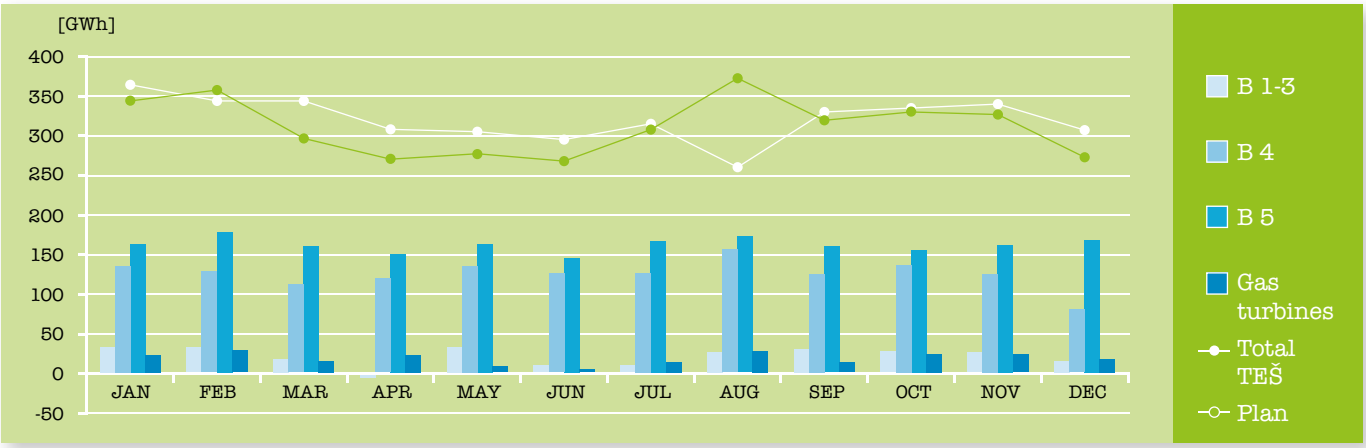
2.4 PRODUCTION

Electricity production

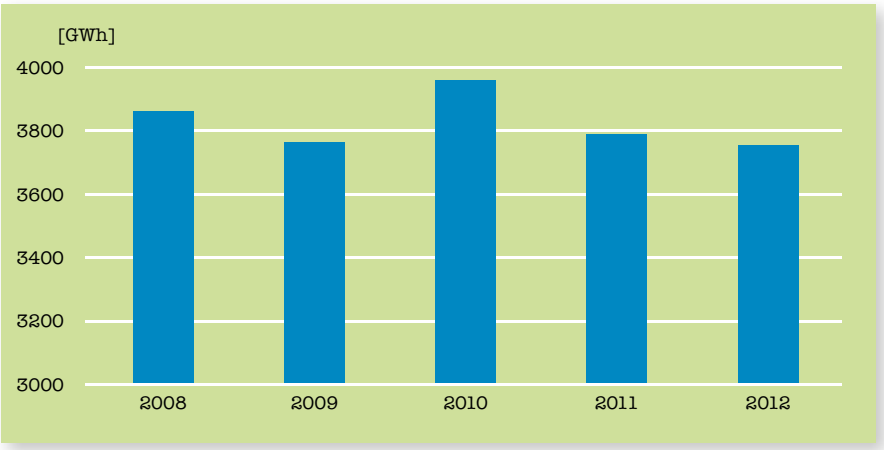
In 2012, TEŠ produced 3,743 GWh of electricity, which makes 97 GWh or 3% less than planned in the 2012 business plan, and 36 GWh or 1% less compared with 2011. The deviation from the plan is the result of a longer suspension of the Unit 3 activities due to the turbine damages, the system issues in Unit 4 regarding transport of slag underneath the boiler and issues with coal supply at the beginning of the year.

3,553 GWh of electricity was produced from coal and 190 GWh from gas.

Net electricity production per month in 2012



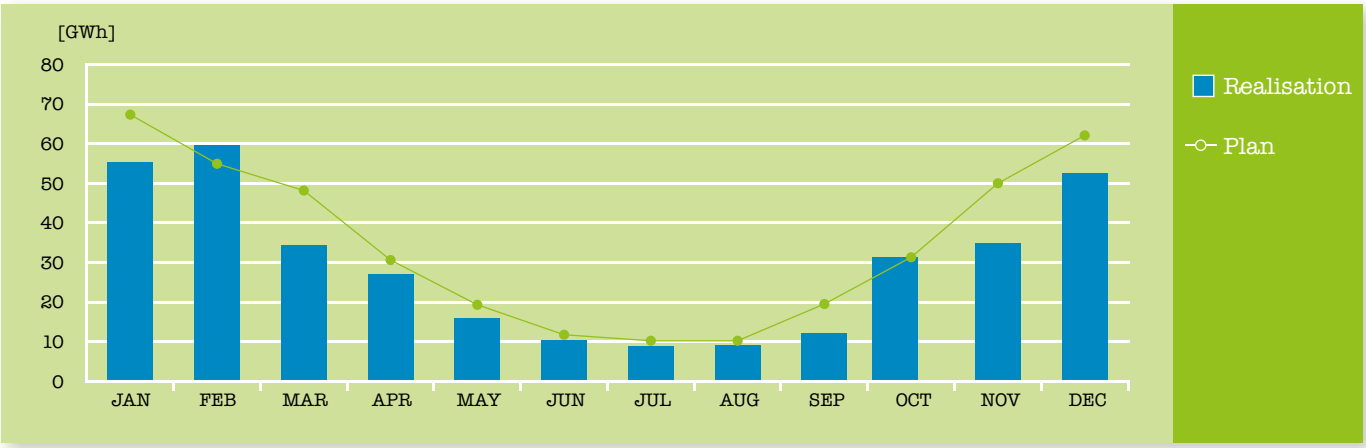
Net electricity production by year



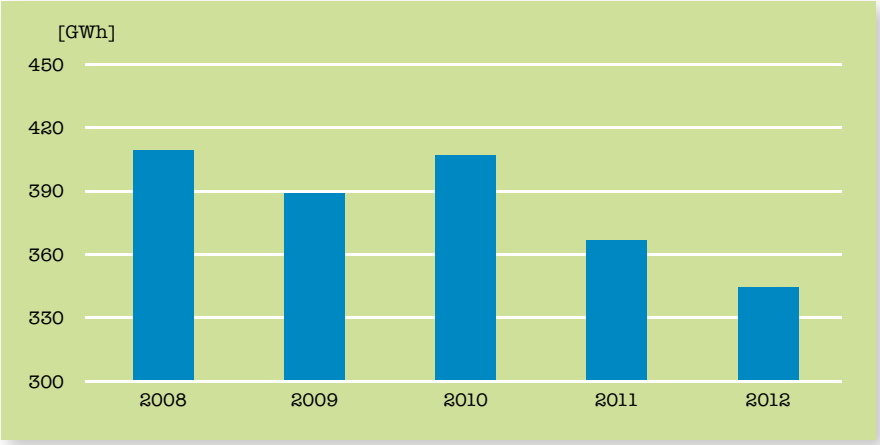
Thermal energy production

In 2012 we produced 345 GWh of thermal energy used for heating, which is 22 GWh or 6% less than in 2011. The system was reliably supplied and without any interruptions and outages.

Thermal energy production per month in 2012



Thermal energy production per year



Consumption of energy product

In 2012 we used 3,943 thousand tonnes of coal, 3,830 thousand tonnes of which were used for electricity production and 113 thousand tonnes for thermal energy production. The average calorific value of coal supplied totalled 10,604 kJ/kg, which is a little bit less than in 2011, when the calorific value amounted to 11,051 kJ/kg.

Emission coupons

Article 130(1) of the Environment Protection Act (ZVO-1) stipulates that on the basis of a national plan and at the 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 2012, TEŠ emitted 4,551,131 tonnes of CO2 in the environment through electricity production. In accordance with the provisions of the Environment Protection Act, the company was thus obligated to pay the environment pollution tax (1 coupon per tonne of CO_2). The company possesses 4,300,824 coupons and 872 unused coupons from the previous year to settle the tax. The difference in the amount of 249,435 emission coupons will be purchased from HSE.

The savings in CO_2 emissions on account of gas consumption amounted to 117,838 tonnes.

2.5 MAINTENANCE

The plant maintenance strategy is designed to enable the company to achieve its short- 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 repairs of individual plants;
- 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.

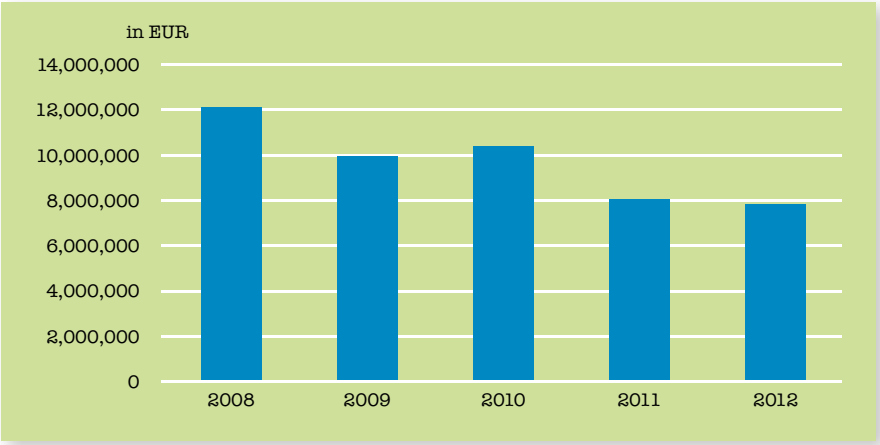
Long-term objectives include:
- decrease in our own prices of electricity and thermal energy produced in real terms;
- competitiveness in the electricity market;
- maintaining the status as producer of electricity and thermal energy based on processing of lignite;
- ensuring operation until the target 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). Thanks to an optimal utilisation of funds allocated to maintenance activities, the maintenance strategy has been slowly changing in favour of maintenance carried out depending on the condition of plants. 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 appropriate 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.

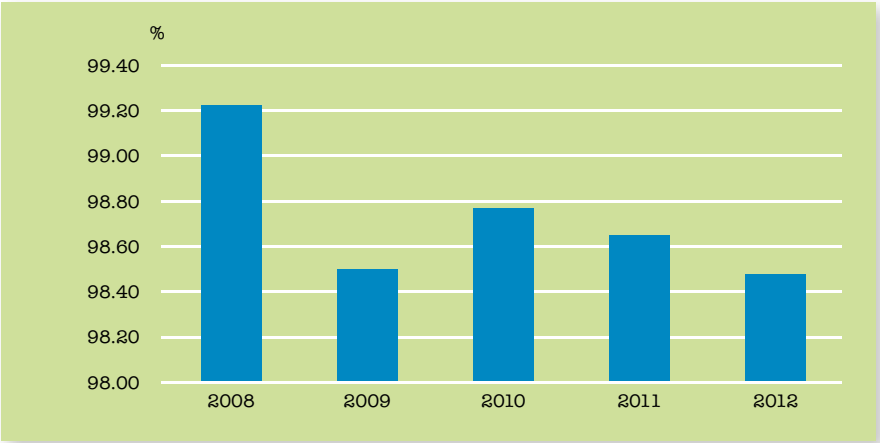
Overall, EUR 7,834,336 was spent for the maintenance of all drive units, other facilities and plants, which is 3% less than in 2011. We have performed mostly the preventive maintenance that comprised the reviews, controls, analyses and the performance of procedures that enable reliable operation of all plants. It also included repairs and replacements of individual plant assemblies. In the scope 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 2008-2012



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. Although slightly weaker than in 2011, the maintenance concept still appears efficient, which, of course, would not be possible without the strong support of quality supply activities. Despite the reduction in own maintenance staff and the age of plants, the number of external provides has not increased, in some cases it was even reduced.

We are confident that all repairs were performed economically and in accordance with the objective of bringing our electricity prices to an optimum level.

2.6 MARKET POSITION

2.6.1 Characteristics of economic environment in 2012

The decrease in economic growth in the Eurozone and poorer expectations for the next year had a serious impact on the Slovenian exports growth. Another issue is also the fact that the government has been losing its credibility on the international financial markets since mid-2011, which makes it increasingly difficult to obtain foreign financing.

In 2012, GDP decreased in real terms, where the positive impulses for growth were coming from the export segment of economy, while the domestic consumption decreased, which caused also a significant reduction in imports on the year-to-year basis. The export activity, so far the main actor of otherwise week economic recovery, decreased on year-on-year level, due to slowed down economic activity with the key trade partners. The consumer confidence deteriorated, as well, while the labour market conditions remained severe.

GDP decreased by 2.3%, mostly as the consequence of lower domestic consumption. According to current prices, in 2012 GDP amounted to EUR 35,466 million, which was 2.0% less than in 2011, while the GDP per capita reached EUR 17,457.

Exports remained a similar level, while imports decreased by 6.6%. This decrease was mostly the result of nominal decrease in imports of consumer products and investments, which together account for more than a third of imports of goods. The imports of intermediate consumption products also decreased in 2012. The entire export segment was positively influenced by the export of chemical products.

The prices of industrial products sold on the domestic market increased by 1%, while the prices of the same products sold on international markets dropped by 0.2%. The changes in prices on the domestic and foreign markets remain characterised by higher prices in food production and decreased prices of metal and metal products manufacture.

In 2012, oil prices ranged between USD 105 and USD 125 per barrel. The economic slowdown caused also reduction in demands for industrial materials, especially metals, whereas the food prices increased considerably, mostly due to the summer weather conditions. Such trends are expected to continue throughout 2013; therefore, the prices of non-energy raw materials will decrease averagely by 9.5%, this year, and will not change signifi-

cantly in the next two years.

Inflation in 2012 amounted to 2.7%. This was predominantly the result of higher prices of energy products (especially of fuel), food and services. Higher prices in 2012 were considerably influenced also by tax changes, particularly increased excised duties for tobacco products, fuel and alcohol beverages, and the increase of environmental taxes; however to a smaller extent.

According to the exchange rate as at 31 December 2012, EUR 1 was worth USD 1.3194.

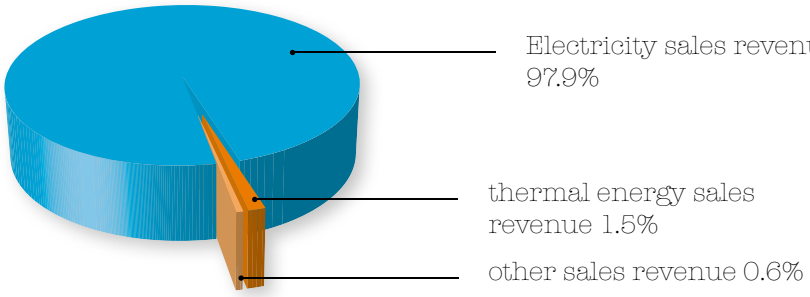
The situation on the labour market became more severe, in 2012. The unemployment rate increased. At the end of the year, it amounted to 11.9%, while the average number of registered unemployed amounted to 118,061. Economic conditions boosted the unemployment trends and a relevant diminution of vacancies. The relatively most important decrease in the number of officially employed affected the construction area, and in a smaller extent also in manufacturing, marketing and even public services sectors. At the same time, the private sector real salaries are also subjected to reduction, as the result of unfavourable market trends.

Total electricity produced by the Slovenian power plants in 2012 that was supplied to the grid amounted to 13,692 GWh, which is 451 GWh less than in 2011. The hydropower plants supplied 3,730 GWh of electricity, the thermal power plants supplied 4,730 GWh of electricity and the nuclear power plant Krško supplied 5,233 GWh of electricity (100%). Last year the users of the transmission network imported 10,684 GWh of electricity and exported 11,595 GWh of electricity. Thus, for the fifth year in a row more electricity was exported than imported.

2.6.2 Sales and customers

In 2012, Termoelektrarna Šoštanj generated EUR 258,550,639 of sales revenue, which is EUR 24,931,702 or 11% more compare with 2011. The increase is the result of higher price of coal electricity or a higher revenue from capacity leased. With the sales of electricity, we are present in the market as a part of our owner, the company Holding Slovenske elektrarne d.o.o., is the leading producer and electricity trader in Slovenia. TEŠ is the largest production facility in the HSE Group. Holding Slovenske elektrarne d.o.o. is our main customer, purchasing all of electricity produced, which accounts for 97.9% of total sales.

Sales revenue structure 1-12/2012:



Revenue from electricity sales per year:

Thermal energy sales

In 2012, we generated the sales revenue in the amount of EUR 3,797,846 with the sales of thermal energy, which is EUR 244,099 or 6% less than in 2011.

Revenue from thermal energy sales per year:

Other sales

Other revenues from sales of products and services comprise revenues from canteen services (lunch and other meals), sales of fly ash and gypsum in Slovenia and abroad, sales of industrial water, leases (safe room, apartments, business premises), sales of waste material and other.

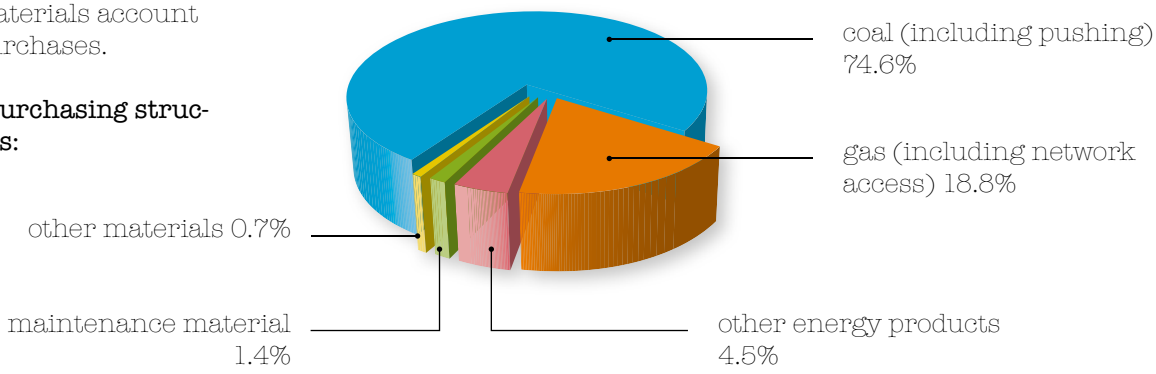
2.6.3 Purchasing and suppliers

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

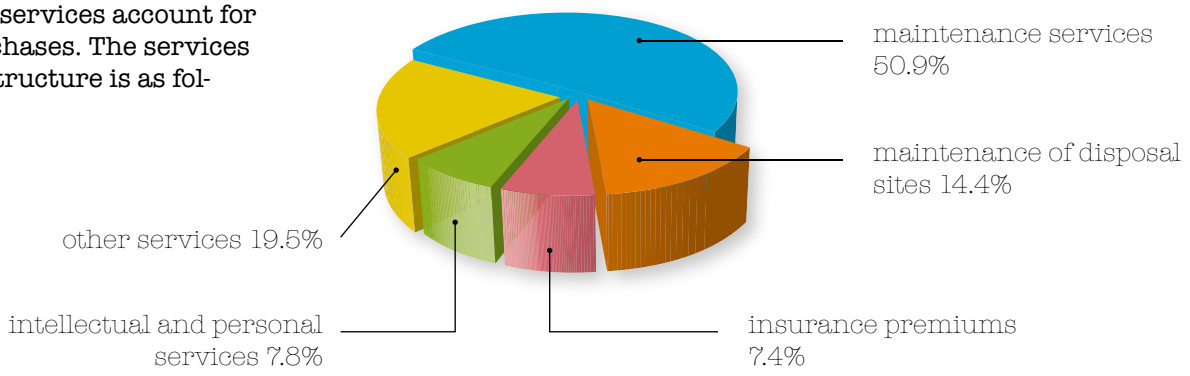
The most important strategic supplier of the company is Premogovnik Velenje. Purchase of coal for electricity and thermal energy production accounts for 22% of all purchases. In 2012, 40,618 TJ of coal were used in electricity production and 1,181 TJ of coal in thermal energy production.
One of the primary raw materials for electricity production is also natural gas. In 2012, 55.6 million Sm3 of gas was used for production of electricity.

Purchases of materials account for 28% of all purchases.

The materials purchasing structure is as follows:



Purchases of services account for 2% 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 69% of entire purchase and mainly refers to the purchase for the purposes of construction of the replacement Unit 6. The main supplier of investment equipment is the company Alstom, with whom TEŠ concluded the contract for supply and installation of the main technological equipment.

2.7 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 built, 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 in March 2010. Units 3 and 4 are going to remain in operation until Unit 6 is put into service, presumably by the end of 2015, while Unit 5 has been designated as a backup facility from 2015 to 2027.

In 2005 preliminary work began on projects concerning the replacement Unit 6. Works will be completed with the acquisition of operating licence, presumably on 15 February 2016. The test operations are supposed to begin in 2015.

INVESTMENTS				IN EUR
	Accomplished in January-December 2012			
	Amortisation/ depreciation	Other own funds	Envisages source - loan	TOTAL
NEW FACILITIES	**15,081,397**	**6,060,688**	**330,343,664**	**351,485,749**
Unit 6 (including advance payment for purchase of MTE)	15,081,397	6,060,688	330,343,664	351,485,749
INVESTMENTS IN PRODUCTION RELIABILITY	**1,275,825**			**1,275,825**
Replacement of Unit 5 generator	904,067			904,067
Elimination of dry substances from waste waters	348,750			348,75
Wastewater tank	4,700			4,700
Overhaul of the hydrogen plant	18,308			18,308
INVESTMENT - STUDY DOCUMENTATION	**35,918**			**35,918**
MINOR INVESTMENTS	**284,759**			**284,759**
BUSINESS INFORMATION SYSTEM	**120,573**			**120,573**
INVESTMENT MAINTENANCE	**199,082**			**199,082**
GT 2 – price escalation	199,082			199,082
TOTAL	**16,997,554**	**6,060,688**	**330,343,664**	**353,401,906**

MTE - main technological equipment
GT - gas turbine

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 of providing 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. Pursuing contemporary orientations in the energy sector was of key importance when conceiving the replacement Unit 6.

The main reason for the new replacement Unit 6 is in the wear and tear of existing production units, as they are operating with an obsolete technology that will gradually not fulfil minimum requirements for such plants any more. In terms of assessing 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 CO2 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 the location of TEŠ using domestic coal;
- to reach 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 at least 10%;
- to ensure the 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 rate of return (IRR) that would exceed 7%.

• Basic technical data

Unit 6 that should start its trial operation in 2015 ensures an evident economic effect, since it provides a lower price of electricity than it is currently reached in TEŠ as well as a significant ecological impact. After the Unit 6 is launched in 2015, we will decrease the sulphur oxide emissions from 400 to 100 mg/Nm3 and nitrogen oxide emissions from 500 to 150 mg/Nm3 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

• Revision of investment programme in 2012

For the investment in construction of Unit 6, in September 2012 TEŠ prepared a revised investment programme Construction of 600 MW Unit 6 in Termoelektrarna Šoštanj Rev. 5 (NIP 5), for which it obtained the approval by the TEŠ and the HSE Supervisory Boards. In view of NIP 5, TEŠ had a renowned audit firm prepare a review of the revised investment programme Construction of 600 MW Unit 6 in Termoelektrarna Šoštanj.

NIP 5 comprises all requirements and propositions from decisions and memoranda by the Ministry of Infrastructure and spatial planning of the Republic of Slovenia. The company particularly took into consideration the decisions of the 3rd regular session of the Slovenian government on 23 February 2012, listed below:

- Investor shall carry out negotiations with all suppliers in order to reduce the values for NIP 4 and to get them closer to NIP 3 values, where the final value should comprise all costs (ex. the cost of interconnector for connection to the electricity system).
- Prior to approval of the government guarantee, Premogovnik Velenje d.d. and Termoelektrarna Šoštanj d.o.o. shall enter into agreement on long-term lignite

supply at maximum price under NIP 4 (2.25 EUR/GJ).
- Investor shall assure the project completion under the provided time schedule.
- All conditions for achieving the return on project shall be met in accordance with the policy of the energy sector.
- CO_2 emissions shall be limited in line with the investment programme.

- **Activities in 2012**

Due to delay in obtaining the government guarantee for the EUR 440 million EIB loan, the 2012 activities were mainly focused on obtaining sufficient funds for the Unit 6 project.

Because of the delay in obtaining Environmental permit, the construction work also started with a five-month delay. In February 2012, TEŠ handed over the area of boiler room of the replacement Unit 6 to Alstom and Alstom started with the preparations for installation. The installation of the main steel construction of the boiler room in Unit 6 was launched in March and successfully concluded in September. The following annexes were added to the contract for the supply of the main technological equipment between TEŠ and Alstom in 2012:
- Annex no. 4 was concluded on 3 January 2012 (the Alstom's right to suspend the contract, extension of the contract duration, adjustment of payments, compensation for the delayed mobilisation of secondary steel construction installation for every day following 15 February 2012).
- On 4 June 2012, Annex no. 5 was signed (control points regarding the acquisition of the government guarantee)
- On 2 July 2012, Annex no. 6 was signed (control points regarding the acquisition of the government guarantee)
- Annex no. 7 was concluded on 30 October 2012 (agreement on the limit of installation works costs (EUR 16.5 million)). In return, TEŠ was forced to cancel some of its requests (change of water pumps design, failed and cancelled tests, requests regarding quality assurance and examination). In case of delay, Alstom is not bound to pay contractual penalties amounting up to EUR 16.5 million. The companies reached an agreement about payment for installation works.
- Annex no. 8 was concluded on 3 December 2012 (on 1 November 2012, Alstom suspended the implementation of contractual liabilities or activities because TEŠ had not fulfilled its liabilities under Annex 6. In the scope of suspension or slowdown of the demobilisation process, the subject matter of Annex 8 was agreed upon - change of the payment plan).

On 19 March 2013, Alstom provided TEŠ with a written notice on termination of the contract suspension from 1 November 2012 to 14 March 2013, when TEŠ settled all the due liabilities to Alstom.
Regular workshops are held with the supplier Alstom (at least once per year), on which activities performed are verified and individual activities are coordinated.

Activities involving the contractor for the supply of the flue gas desulphurisation plant are progressing according to the contract and the time schedule. The construction works began in September 2011. All key equipment and materials for FGD 6 were ordered and are being manufactured, while a considerable quantity of equipment and materials has already arrived to the construction site and the warehouses. The installation works were launched in May, first on the scrubber and the steel construction and then on the other technological containers (inside of the building). The works have been carried out according to the applicable time plan.

In line with the time schedule, the construction of the cooling tower shell for Unit 6 was concluded in May. The cooling tower is 164 m high and it the highest of its type in Slovenia. Project Cooling Tower 6 otherwise consists of two parts, namely the cooling tower with equipment and the pumping station (in the main technological facility) with cooling pipelines. The equipment installation is in process.

In 2011, TEŠ and EBRD published a tender of construction works on the main technological facility of Unit 6, on their respective websites. The tender was published also in the Official Journal of the EU. In this view, the contact for performance of works was concluded with the company Primorje d.d. in April 2011. In order to ensure smooth performance of works, Annex 1 was added to the contract in November 2011, under which the engagement was handed over to the new provider, consortium Primorje/RGP. Annex 2 was added to the contract in June 2012, regarding additional and unexpected works. On 21 June 2012, bankruptcy proceeding against the main company of the consortium, Primorje, was started. In February 2013, TEŠ informed the EBRD in written about the situation in connection with Primorje in receivership and of the company's notice on its withdrawal from the contract.

In 2012, the tenders were published and providers were selected for the following engagements:
- Transport of coal
- Water preparation
- Construction works for other (secondary) facilities,
- 400 kV switchyard (GIS),
- Preparation and transport of products,
- Storage for ammonia water,
- Finishing installations,
- Technological connections.

• Project financing

The financing of the project is planned as a combination of equity and debt financing. Equity sources comprise TEŠ's own resources (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. provided EUR 130.3 million of capital increase by the end of 2012.

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, the plan is for the government to issue a guarantee for the EUR 440 million loan, while the investor will provide a bank guarantee for the EUR 110 million loan.

Soon after the contract date, TEŠ and the EIB started with the procedures regarding adoption of the Act on Government Guarantee for EIB loan. The Act Regulating Guarantee of Republic of Slovenia for Liabilities under Long-Term Loan of 440 Million Euros Made to Termoelektrarna Šoštanj, d.o.o. by European Investment Bank for Financing Termoelektrarna Šoštanj 600 MW Replacement Unit-6 Installation Project (ZPODPTEŠ) was adopted by the National Assembly of the Republic of Slovenia on 18 July 2012 and entered into force on 1 August 2012. On 30 November 2012, the following contracts were signed: among TEŠ, the Ministry of Finance and the Ministry of infrastructure and spatial planning, regarding mutual relationships in connection with the Unit 6 construction project, and between TEŠ and the Ministry of Finance, regulating the government guarantee insurance method and terms and conditions.

The guarantee contract for the long-term EUR 440 million loan from EIB was concluded between the Republic of Slovenia (RS) and the EIB on 7 December 2012. In accordance with standard procedure, the contract needed to be ratified also by the National Assembly of the RS. The Act ratifying the Guarantee Agreement between the Republic of Slovenia and the European Investment Bank (TEŠ - Thermal Power Plant Šoštanj/B) (MPEIBTEŠ) was adopted by the National Assembly on 21 December 2012 and entered into force on 30 December 2012. In January 2013, RS provided the EIB with all the documentation necessary for the government guarantee validity, so TEŠ launched the procedures for loan drawing at the EIB already in January. The EIB expert services examined and approved all the terms and condition for loan drawing and submitted the request to the EIB board of directors for their final decision. On the basis of favourable decision by the EIB board of directors, TEŠ received EUR 440 million of long-term loan on 14 March 2013. The loan covered the due liabilities to Alstom, the supplier of the main technological equipment for Unit 6, and repayment of bridging loans from HSE.

In January 2011, a financial agreement was signed with EBRD for a EUR 200 million loan. The first instalment in the amount of EUR 82.5 million was drawn on 1 June 2011 and the second one in the amount of EUR 117.5 million on 19 Marche 2013.

At the beginning of February 2013, TEŠ received the member contribution of EUR 18,922,500.

Overview of investments in construction of replacement Unit 6 in EUR

INVESTMENTS IN REPLACEMENT UNIT 6	Budget value of RIP 5th revision	Agreements concluded as at 31/12/2012	Invoiced as at 31/12/2012	Paid as at 31/12/2012
Construction works	67,589,700	64,517,253	51,727,058	43,970,489
Equipment	1,126,738,500	1,044,566,985	795,231,065	610,655,931
Other	26,067,900	27,249,633	22,167,513	18,067,876
Financing costs	82,096,200	82,096,200	34,161,531	29,929,586
TOTAL	**1,302,492,300**	**1,218,430,071**	**903,287,167**	**702,623,882**

FINANCING SOURCES FOR UNIT 6 INVESTMENT	Budget value of RIP 5th revision	Paid as at 31/12/2012
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 the HSE Group	83,000,000	295,700,000
TEŠ own sources	144,564,600	84,135,182
TOTAL	**1,302,492,300**	**702,623,882**

Investments in reliable production

In 2012, we used EUR 1,275,826 or 25% of planned investments in reliable production in the amount of EUR 5,150,000. Due to changed method Unit 6 to grid connection which comprises also the connection of Unit 5, the concept of technical performance and schedule were also modified. Considering that Unit 5 will be connected to 220 kV grid only after the beginning of the Unit 6 operations, the investment in reliable production concept had to be adjusted, therefore the investment realised was smaller than the planned one.

Large-scale overhauls

In 2012, the final adjustment of the cost regarding maintenance works of B level on PT 52 in 2011 in the amount of EUR 199,082 was recognised.

2.8 IT

TEŠ's primary process is electricity production, which requires high-quality, reliable and safe information support. Our activities were regularly adjusted to and coordinated with the HSE IT department. TEŠ cooperates as an administrator of the TEŠ/HSE/PV mutual IT systems support for some 1200 users and in equipment maintenance.

The following IT supports were introduced:

• TKV
TKV is a safe place intended for operations of computer and other communication equipment, as well as for the TEŠ telephone switchboard. The system enables less demanding maintenance in the event of power or cooling system outages. TEŠ leases the system room for 15 cabinets the company HSE.

• 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 resources to an individual user. New items that were needed in the area of construction site security have been added to the network.

• 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 in the location of TEŠ.

• SECURITY
We introduced strong password policy for domain accounts, 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.

In order to boost the staff efficiency, the following ITs were established:

• ODOS
ODOS includes all supply procedures, from the beginning to the contract conclusion, based on traceability and selection of the supply procedure documentation. We prepared and tested a training module which includes the preparation and approval of education initiative, training orders and training assessment for all types of trainings, and is connected with e-learning.

• 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 is also implemented.
We have provided an automatic measurement system for constant control of CO and O2 in flue gases before LUVO. The system is connected into the management system TELEPERM and it enables a better control and quicker actions in relation to boiler management. The value control can be also performed through FIX.

ISO 27001
We prepared new risk assessments of IT resources 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 attested. An audit of TEŠ's information systems was also carried out.

2.9 BUSINESS PERFORMANCE ANALYSIS

2.9.1 Business operations in 2012

The operations of TEŠ in 2012 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 2012 that was signed in May 2012, and Annexes no. 1 and 2 to this contract, as well as on the Business Plan of TEŠ for the year 2012, which was approved by the Supervisory Board on 8 March 2012. Pursuant to the provisions of Articles of Incorporation, the company's sole member approved the Business Plan for 2012 on 27 March 2012.

In 2012, the company achieved profit or loss before tax in the amount of EUR 32,575,989 which significantly exceeds the profit or loss in 2011. Higher profit is mainly the result of better operating profit due to higher selling price of electricity from coal.

OPERATING RESULTS	REALISATION 2012 in EUR	REALISATION 2011 in EUR	RE 2012 / RE 2011
Operating profit or loss	34,114,302	8,818,335	387
Financial profit or loss	(1,538,313)	(1,092,374)	0
PROFIT OR LOSS BEFORE TAX	**32,575,989**	**7,725,961**	**422**
Current tax	0	1,616,337	
Deferred tax	115,112	48,937	235
NET PROFIT OR LOSS	**32,460,877**	**6,060,687**	**536**

In 2012, the company's net profit totalled EUR 32,460,877. Improved net profit was significantly influenced by amended Corporate Income Tax Act (ZDDPO-2). Thanks to equipment investment allowance, TEŠ did not determine tax base for tax calculation.

Revenues

REVENUES	REALISATION 2012 in EUR	%	REALISATION 2011 in EUR	RE 2012 / RE 2011
OPERATING REVENUE	264,046,986	99.98	244,078,592	99.99
FINANCIAL REVENUE	59,770	0.02	33,211	0.01
REVENUES	**264,106,756**	**100.00**	**244,111,803**	**100.00**
- changes in inventories	0		0	
NET PROFIT/LOSS	**264,106,756**		**244,111,803**	

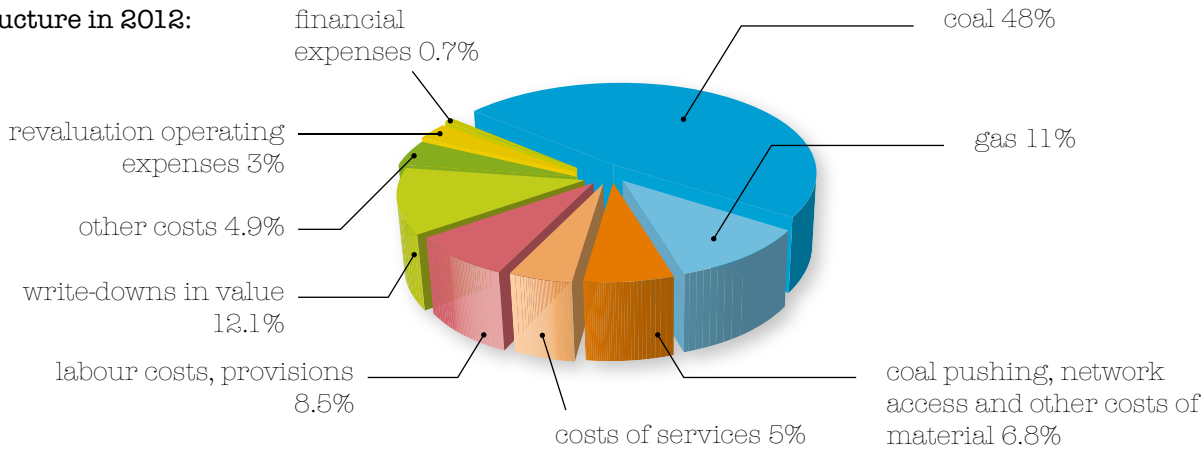
In 2012, the company achieved EUR 264,106,756 of revenue, which exceeded the 2011 revenues by 8%. The most important increase was reached within net sales revenues, especially from sales of electricity due to higher selling prices.

Expenses

EXPENSES	REALISATION 2012 in EUR	%	REALISATION 2011 in EUR	RE 2012 / RE 2011
OPERATING EXPENSES	229,932,684	99.31	235,260,257	99.52
FINANCIAL EXPENSES	1,598,083	0.69	1,125,585	0.48
EXPENSES	**231,530,767**	**100.00**	**236,385,842**	**100.00**

In 2012, expenses amounted to EUR 231,530,767, which is 8% more than in 2011.
The expenses were slightly above the planned amounts in all expenses categories, with the exception of depreciation/amortisation and services. Depreciation/amortisation costs were lower due to extended useful life of production Unit 5.

Expense structure in 2012:



Equity, assets and liabilities

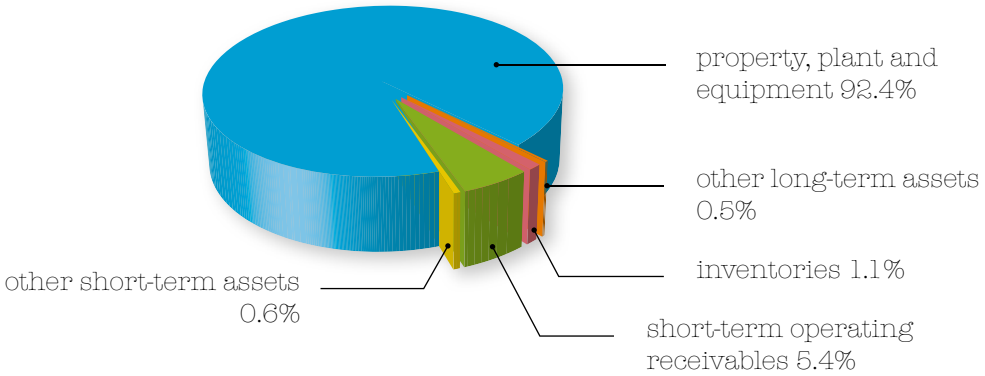
As at the balance sheet date, total assets amount to EUR 1,192,103,061, which is 39% or EUR 332,461,210 more than on 31 December 2011.

Taking into account the inflation rate (December 2012/December 2011), which stood at 2.7%, the assets increased by 35% in real terms.

Assets

TEŠ's assets as at 31 December 2012 amounted to EUR 1,192,103,061 (31 December 2011: EUR 859,641,851), which is 39% more that at the beginning of the period. The amount of long-term assets increased by 41%, while current assets increased by 16%. In terms of long-term assets, property, plant and equipment presented the most important increase thanks to investment in replacement Unit 6 construction.

Structure of assets as at 31 December 2012:



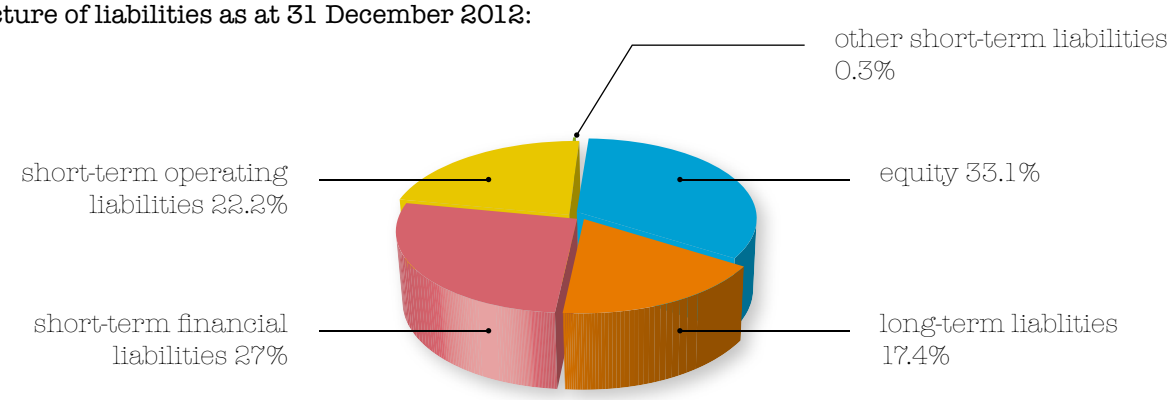
Equity and liabilities

As at 31 December 2012, the equity/debt capital ratio of the company stood at 1:3.

In terms of liabilities to creditors, equity represents 33%, which is slightly worse compared to 2011 (42%). In 2012, equity increased by 9% or EUR 32,460,877, which is the amount of the 2012 profit.

Long-term liabilities, mostly consisting of long-term loans from banks, represent 17% of total liabilities. In 2012, long-term liabilities decreased by 7% or EUR 14,558,378.
Short-term liabilities account for 50% of all liabilities; in 2012, they increased by 200% or EUR 314,558,711. The increase is due to issues with drawing the long-term loans from the EIB and the EBRD, the result of which was temporary financing from the investment in Unit 6 construction in form of bridge financing from the parent company HSE and deferral of payments by the supplier of the main technological equipment – Alstom.

Structure of liabilities as at 31 December 2012:



Business segments

In 2012, 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 business plan for 2012, the company set specific annual targets, which were predominantly realised.

Production of electricity and thermal energy (net)

In 2012, the company's net electricity production reached 3,743 GWh, which is 3% or 97 GWh less than planned. The difference in quantity is the result of a longer suspension of the Unit 3 activities due to the turbine damages, the system issues in Unit 4 regarding transport of slag underneath the boiler and issues with coal supply at the beginning of the year.

The quantity of electricity produced in 2012 represents 48% of the total HSE Group output and 33% of Slovenia's total electricity production. TEŠ's share in 2012 is similar to its 2011 share. Productivity remained at the same level, i.e. 8 GWh per employee.

In 2012, thermal energy production was slightly lower and it reflects the demand for such energy. We produced 345 GWh of thermal energy, which is 71 GWh less than planned for 2012.

Sales of electricity and thermal energy

The measurable target of electricity sale was slightly lower than planned. The amounts of electricity sold were also 3% lower, while the revenue from the sale of such energy was similar to the amount planned.

The measurable target for the sale of thermal energy has not been achieved due to lower demands for such energy. The amounts of thermal energy sold were 17% lower than planned, whereas the revenue from its sales was 23% lower due to decreased thermal energy selling prices.

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 decreasing the number of employees continued in 2012, not only in the segment of permanent employees, but also in the total number of employees, which decreased by 13 compared to 2011. As at 31 December 2012, the company employed 464 people, with almost all remaining measurable characteristics in relation to this objective being met. Thus, more than 30 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 6.05%, 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 terms and conditions of purchase.

Ensuring liquidity and cost efficiency of operations

To achieve this goal, the company proactively implemented the adopted measures in the area of liquidity management.

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

Due to relevant issues with settlement of liabilities upon maturity, we negotiated deferral of payments to the suppliers until the planned long-term loans would be obtained.

Our operations were in line with fundamental principles of long-term and short-term solvency. Revenue and expenses in 2012 were slightly above planned and the company concluded the financial year with a profit.

2.9.3 Ensuring solvency

TEŠ operates in accordance with business and financial standards and rules laid down in the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act and the Act on prevention of late payments.

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.

Several measures needed to be carried out, in order to overcome the issues and ensure short-term solvency:

- streamlining of daily operations,
- bridge loans within the HSE Group,
- daily planning inflows and outflows,
- negotiations with suppliers about repayments deferral
- disinvestment from collectibles,

In 2012, financial operations were focused primarily on provision of planned long-term funds for capital investments.

Since the conditions for drawing the planned long-term loans for Unit 6 were not fully met in 2012 (delayed acquisition of the government guarantee and fulfilment of other relating conditions), we decided for additional short-term bridge loan within HSE in the framework of 'cash management'. A substantive part of bridge financing refers also to the deferral of payments to the suppliers of equipment of Unit 6.

In order to manage daily liquidity in 2012, we have used a short-term line of credit from a commercial bank.

2.9.4 Ensuring necessary financial sources

The cash flow statement is prepared using the direct method. In 2012, the revenues realised amounted to EUR 636,649,881, while the expenses totalled EUR 638,678,436.

The cash flow statement analysis determined that receipts from activities generated 56.5% of total receipts (83.4% of which derive from electricity trading, 1.4% from thermal energy trading, 7.9% from temporary sale of emission coupons, 5.1% from duties payable to the state, 0.1% from sales of services and 2.1% from other operations). In May 2012, receipts arising from emission coupons sale in the amount of EUR 28.3 million were realised, due to the necessary liquidity.

Receipts from investing activities amounted to 0.1% of total receipts, while financial activities receipts accounted for 43.4% - all from drawing short-term loans.

The company made 42.0% of disbursements to maintain its operating capacity (48.4% for purchase of coal for electricity production, 11.7% for maintenance, material and services, 11.3% for gas, 7.3% for labour costs, 3.6% for duties payable to the state, 4.1% for other operating costs, 11.8% for purchase of emission coupons, 1.2% for purchase of coal for thermal energy, and 0.6% for corporate income tax);

In terms of investing activities disbursements, the majority – 95.5% was spent for property, plant and equipment, 4.5% for capitalised interests (exclusively for Unit 6).

Most of disbursements for property, plant and equipment were spent for Unit 6 (98.7%), 0.3% was spent for large-scale overhaul, while 0.8% was spent for production reliability investments and 0.2% for purchase of plant and equipment.

Financial activities disbursements were spent for repayment of long-term loans (13.1%), interests (1.0%), financing for repurchase of emission coupons (0.9%) and for repayment of short-term loans (85.0%). All short-term loans disbursements relate to repayment of short-term bridge loans from the HSE Group and repayment of short-term loan and short-term revolving loan from a commercial bank.

2.9.5 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. Financial data shows that the company faces financial adequacy issues.

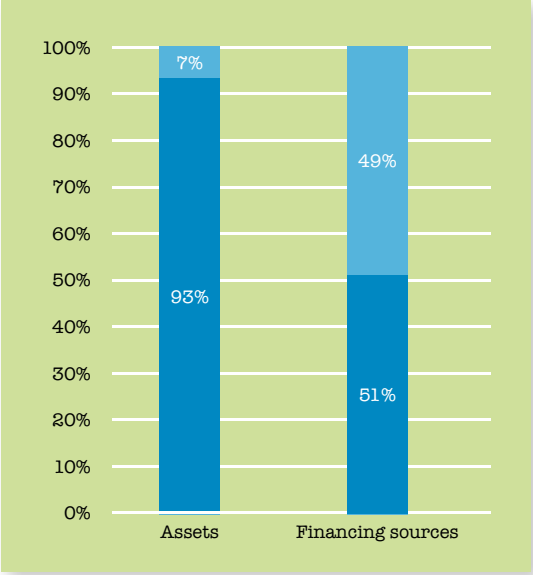
From the horizontal analysis of the structure of assets and liabilities as at 31 December 2012 it is evident that the company's assets are financed:

- with long-term sources – 50.5% (of which 33.1% refers to the capital and 14.4% to long-term liabilities), and
- with short-term sources – 49.5%.

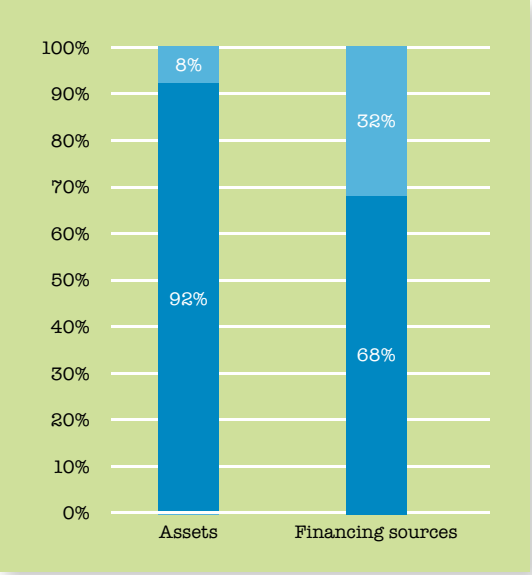
From the intersection of the statement of financial position it is evident that 54.4% of long-term assets are financed with long-term and 45.6% with short-term funds, which is a result of non-operative drawing of planned long-term loans.

Financial position statement structure:

31 December 2012:



31 December 2011:



short-term

long-term

Upon the equity increase and EIB and EBRD long-term loans drawing, the financing structure normalised in the first quarter of 2013. The company has adequate resources at its disposal considering the maturity of funds.

2.9.6 Debt ratio

As at 31 December 2012, the company's financial liabilities (short- and long-term) totalled EUR 518,111,991 and accounted for 43.5% of total liabilities. 60.3% of these liabilities refer to short-term loans, while 39.7% refer to long-term loans. In 2012, the company took out short-term loans in the HSE Group within the scope of 'cash management' (as at 31 December 2012, the debt amounted to EUR 300,600,000), while a short-term revolving loan was obtained from a commercial bank for the purposes of managing daily liquidity (as at 31 December 2012, the debt amounted to EUR 11,820,000). In 2012, the company repaid long-term liabilities in the amount of EUR 10,273,169 in accordance with the depreciation/amortisation plan.

The planned long-term borrowing for the purpose of Unit 6 project was not fully realised in 2012 (the company planned equity increase in the amount of EUR 18,9 million and drawing of the EIB and EBRD loans in the amount of EUR 497.2 million).
Due to the delays in drawing loans in 2012, TEŠ used additional short-term bridge loan from HSE within 'cash management', amounting to EUR 198,300,000 with deadline postponed to 2013, along with the EUR 102,300,000

loan from 2011.

In order to extend the maturity of short-term financing, the company obtained a relevant approval by the Ministry of Finance.

In 2013, the company realised the drawing of the long-term loan from EIB in the amount of EUR 440 million and the long-term loan from EBRD in the amount of EUR 117,500,000 million. The EIB loan will also repay the bridging short-term loans taken out from HSE in 2011 and 2012.

2.10 COMPANY'S RATIOS

The company supervised its business performance from the financial evaluation perspective with the following indicators:

- financing position ratios

EQUITY FINANCING RATE	REALISATION 31/12/2012 in EUR	REALISATION 31/12/2011 in EUR	RE 2012 / RE 2011
1. Equity and liabilities	1,192,103,061	859,641,851	139
2. Equity	395,268,577	362,807,700	109
Equity financing rate = 2 / 1	**33.16**	**42.20**	**79**

The company's equity accounts for 33% of total liabilities. The company's operations are financed from their own, as well as external sources. Compared to 2011, the equity financing rate decreased, mostly due to an increase in debt sources intended for financing of the investment in the replacement Unit 6 construction.

LONG-TERM FINANCING RATE	REALISATION 31/12/2012 in EUR	REALISATION 31/12/2011 in EUR	RE 2012 / RE 2011
1. Equity	395,268,577	362,807,700	109
2. Long-term liabilities	207,176,374	221,734,752	93
3. Total (1 + 2)	602,444,951	584,542,452	103
4. Equity and liabilities	1,192,103,061	859,641,851	139
Long-term financing rate = 3 / 4	**50.54**	**68.00**	**74**

The company financed 51% of its assets from long-term sources and 49% from short-term sources. The ratio is by 17 percentage points lower compared 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	REALISATION 31/12/2012 in EUR	REALISATION 31/12/2011 in EUR	RE 2012 / RE 2011
1. Property, plant and equipment	1,102,630,004	777,228,955	142
2. Intangible assets	4,745,043	9,213,628	52
3. Total fixed assets at carrying amount (1 + 2)	1,107,375,047	786,442,583	141
4. Assets	1,192,103,061	859,641,851	139
Operating fixed assets rate = 3 / 4	**92.89**	**91.48**	**102**

The ratio shows the share of fixed assets in all company's assets. Property, plant and equipment and intangible assets represent 93% of the company's assets. The increase in the rate since 2011 is the result of an increase in property, plant and equipment (investment in 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.

• Horizontal financial structure ratios

EQUITY TO FIXED ASSETS RATIO	REALISATION 31/12/2012 in EUR	REALISATION 31/12/2011 in EUR	RE 2012 / RE 2011
1. Equity	395,268,577	362,807,700	109
2. Property, plant and equipment	1,102,630,004	777,228,955	142
3. Intangible assets	4,745,043	9,213,628	52
4. Total fixed assets at carrying amount (2 + 3)	1,107,375,047	786,442,583	141
Equity to fixed assets ratio = 1 / 4	**0.36**	**0.46**	**77**

The equity to fixed assets ratio represents the relationship between equity and fixed assets. In 2012, the ratio amounted to 0.36, meaning that the company used equity to finance less than half of its most illiquid assets. The ratio decreased compared to 2011, due to the increase in property, plant and equipment as the result of investments in replacement Unit 6.

QUICK RATIO	REALISATION 31/12/2012 in EUR	REALISATION 31/12/2011 in EUR	RE 2012 / RE 2011
1. Cash and cash equivalents	5,661	2,034,216	0
2. Short-term financial investments	0	0	0
3. Short-term operating receivables	64,232,251	53,637,698	120
4. Total (1 + 2 + 3)	64,237,912	55,671,914	115
5. Short-term liabilities	589,658,110	275,099,399	214
Quick ratio = 4 / 5	**0.11**	**0.20**	**54**

The quick ratio shows whether the company finances current assets solely through short-term or also through long-term liabilities. The ratio for 2012 stood at 0.11 and is lower than in 2011, due to an increase in short-term operating liabilities.

CURRENT RATIO	REALISATION 31/12/2012 in EUR	REALISATION 31/12/2011 in EUR	RE 2012 / RE 2011
1. Short-term assets	83,804,482	72,149,366	116
2. Short-term liabilities	589,658,110	275,099,399	214
Current ratio = 1 / 2	**0.14**	**0.26**	**54**

The current ratio describes the financing of current assets from short-term liabilities. Due to an increase in short-term liabilities, in 2012 the ratio decreased relative to 2011.

• Economic efficiency and profitability ratios

OPERATING EFFICIENCY RATIO	REALISATION 2012 in EUR	REALISATION 2011 in EUR	RE 2012 / RE 2011
1. Operating revenue	264,046,986	244,078,592	108
2. Operating expenses	229,932,684	235,260,257	98
Operating efficiency ratio = 1 / 2	**1.15**	**1.04**	**111**

In 2012, the company's operating revenue exceeded its operating expenses by 15%. The value of the ratio increased relative to 2011, since the company's operating revenue exceeded the operating expenses.

NET RETURN ON EQUITY RATIO (ROE)	REALISATION 2012 in EUR	REALISATION 2011 in EUR	RE 2012 / RE 2011
1. Net profit or loss	32,460,877	6,060,687	536
2. Average equity	379,038,139	355,691,407	107
Net return on equity ratio = 1 / 2	**0.086**	**0.017**	**503**

The company's operating revenue exceeded its operating expenses by 8.6%, in 2012. The ratio increased compared to 2011, due to better results in the sale of electricity.

- Financial ratios for banks

EBITDA / Interest paid	REALISATION 2012 in EUR	REALISATION 2011 in EUR	RE 2012 / RE 2011
1. EBIT - Operating profit or loss	34,114,302	8,818,335	387
2. Depreciation/amortisation	27,924,057	33,215,295	84
3. EBITDA (1+2)	62,038,359	42,033,630	148
4. Interest paid	13,723,704	4,884,062	281
EBITDA / Interest paid = 3/4	**4.52**	**8.61**	**53**

EBITDA / Financial expenses for loans received	REALISATION 2012 in EUR	REALISATION 2011 in EUR	RE 2012 / RE 2011
1. EBIT - Earnings before interest and taxes	34,114,302	8,818,335	387
2. Amortisation/depreciation	27,924,057	33,215,295	84
3. EBITDA (1+2)	62,038,359	42,033,630	148
4. Financial expenses for loans received	763,133	1,038,927	73
EBITDA / Financial expenses for loans = 3 / 4	**81.29**	**40.46**	**201**

Total financial liabilities / Assets	REALISATION 31/12/2012 in EUR	REALISATION 31/12/2011 in EUR	RE 2012 / RE 2011
1. Long-term financial liabilities	197,361,112	205,691,991	96
2. Short-term financial liabilities	321,610,753	112,782,562	285
3. Total financial liabilities (1+2)	518,971,865	318,474,553	163
4. Assets	1,192,103,061	859,641,851	139
Total financial liabilities / Assets = 3/4	**0.44**	**0.37**	**118**

The company satisfies 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 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 contain costs as well as to the ability to maintain the value of the 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:

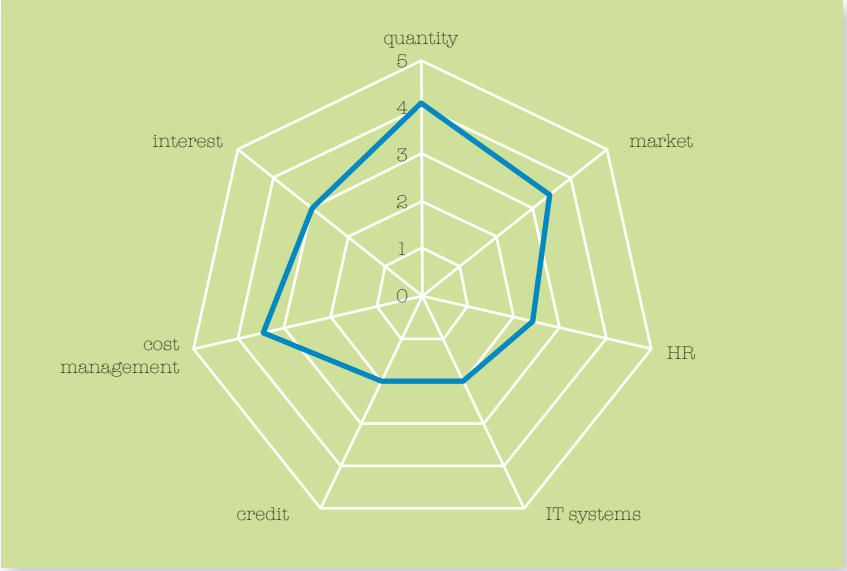
- **Construction of Unit 6**
- **Investments in reliable production**

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. The Risk Management Committee was fully involved in identification and management of risks.

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 risk management instruments. On these bases, matrices were created that classify risks in four levels: low, medium, high and very high.

Subsequently, the **key risks profile** of the company's regular operations was prepared as a summary presentation:



The company was predominantly focused on management of **quantity risk and cost management**. For this purpose, the Unit 4 project was already completed. TEŠ defined the primary in secondary critical components and created risk matrices. This set the basis for improvement of identification and management of the key quantity risks, which had already been successfully managed in the previous period, thanks to quality and professional performance of regular maintenance and large-scale overhauls, quick repairs in case of compulsory shutdowns and adequate plant management. The other plants will be subjected to similar procedure in 2013. The management of costs and investments in regular operations is of key importance for successful operations and an indispensable 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, prices of 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 buyer, 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 4.11.

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 liabilities and authorisations. The appropriateness of their implementation is assessed through regular internal and external audits.

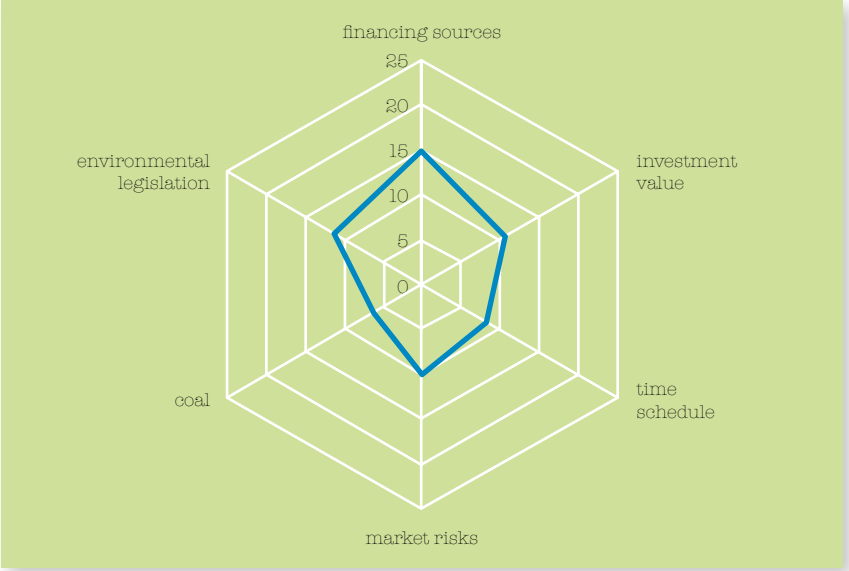
Risks associated with investment activities, mostly the construction of Unit 6, were processed and monitored separately. In the second half of the year, the 5th revision of the revised investment programme – Construction of 600 MW Unit 6 was performed. In the section 'Risk analysis' the risks have been thoroughly discussed and on this basis the risk matrices have been prepared.

In order to recognise risks, the Company used the matrix based on the following possible risk categories:

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
EL	Risk that environmental legislation will become stricter

and categories of degree of influence, degree of probability, degree of risk and assessment of manageability of risk.

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

The construction of Unit 6 has been in full swing; accordingly, the activities in the communication area were intensified.

As the situation required immediate feedback, the public relations activities were performed in accordance with the communication plans and coordinated at the HSE Group level.

We continue to follow the guidelines, prepared on the basis of meetings on environmental and social adequacy of TEŠ by the European Bank for Reconstruction and Development. In 2012, we reported on our PR activities to the EBRD on a quarter basis, as previously agreed.

The basic PR tools for communication with external and internal public remain TEŠ's website, press releases, answers to journalists, press conferences, articles and interviews in various local and national media, the electricity sector newspaper Naš stik and the HSE Group publication HSE Energija. We regularly communicated also via internal news InfoBlok6 and Facebook for InfoBlok6 by publishing the latest information regarding Unit 6. We also pursued with the meetings of the Project Council TEŠ 6, the members of which are the representatives of the local community, non-governmental organisations and other interested public.

Due to necessary timely exchange of information, most of the communication with the internal public was carried out electronically, more than usual (via intranet or e-mail). Smooth communication was enabled thanks to our intranet, e-mails and bulletin boards. A complete event overview is provided through the internal journal Pretok and InfoBlok6 news, as well as our newspapers Naš stik and Energija that we issue regularly also for our employees.

Besides all general information about the company, the TEŠ website comprises also a special sub-site Unit 6, which includes the information on the project, current documents and publication in connection with Unit 6. In the section 'Ask us', our website users can post any potential question to which we answer regularly.

The abovementioned tools were used to inform the target public about the current developments at TEŠ and our development strategy which includes the construction of Unit 6 and acquisition of the government guarantee for the EUR 440 million EIB loan.

In 2012, we published two issues of the internal newspaper 'Pretok', one of InfoBlok6 news, technical annual report BilTeš for 2011, and annual report for the financial year 2011.

We organised two events Open days at TEŠ and three meetings of the Project Council TEŠ Unit 6. In cooperation with the Municipality of Velenje, we organised a press conference regarding the Greenpeace report on alleged casualties caused by the construction of Unit 6 and public discussion about Unit 6 with the Municipality of Šoštanj.

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., and as at 11 October 2011 a Contract on the performance of operation 'Razvojni center energija' (Energy development centre). In the call for tender of the Ministry of the Economy, the members acquired non-refundable funds. 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 PLANS FOR THE FUTURE

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.

Purchase of primary resources, spare parts, materials and services

- Coal consumption < 1,12 tonnes/MWh;
- Gas consumption < 290 Sm3/MWh;
- Liquid fuel consumption < 2000 tonnes/year;
- Limestone consumption < 170,000 tonnes/year;
- Consumption of unprocessed water < 11 mill. m3/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.

The excellent and very healthy pomegranates would not exist without their many seeds which are surrounded by bright red flesh.

Employees

We are aware of the important role of employees at the Šoštanj Thermal Power Plant. Therefore we pay particular attention to employee relations, education and notification.

3 SOCIAL RESPONSIBILITY REPORT

3.1 RESPONSIBILITY TOWARDS EMPLOYEES

TEŠ is a successful company with more than 50 years of tradition. We have faced numerous challenges and impacts that, among other, require different measures. However, the aim of these measures is not based on power, but on trust, as success can only derive from people – the employees, which are of the same importance as financial assets, modern technology etc. It is the people that manage the effectiveness of technology and other resources.

For our staff, we provide the right environment for self-initiative activities; we enable promotions, trainings and learning programmes – all of which are the factors we continuously carry out in order to create the bond with the employees and to make them stay with us.

3.2 STAFF

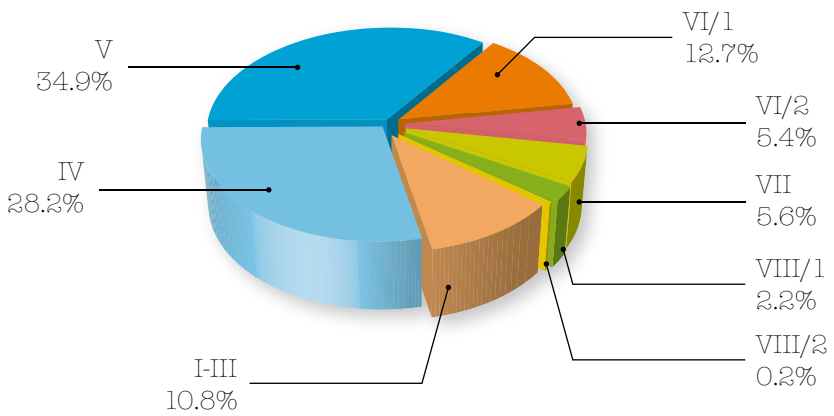
As at 31 December 2012, TEŠ employed 464 employees, 446 of which were full-time employees, 17 with fixed-term contract and one trainee. In comparison to 31 December 2011, the number of employees decreased by 13. In 2012, 31 work contracts were terminated and 18 newly concluded.

At the end of 2012, there were 89% male and 11% female employees which is comparable to previous periods and strongly reflects the main activity of the company.

The average personnel age was lower compared to 2011, as is a result of numerous contracts of elderly employees being terminated.

2012 was a very dynamic year for TEŠ. In April, we carried out comprehensive changes in the company's organisation and we actively tackled the optimisation of the labour costs, thanks to easier and faster adjustment to the economic circumstances and the forecasts for Slovenia, as well as to business circumstances. We reduced the number of contracts with the employees with special authorisations, we introduced a new method of monitoring and managing sick leaves, while new rules on remuneration for work performance are being prepared. We carried out extensive analyses of working time efficiency and we started preparations for renewal of the salary system. Despite the performance of the Unit 6 project, the number of employees has not increase.

Educational structure of employees as at 31 December 2012:



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.

In the academic year 2012/2013, 16 or 3.4% of employees participated in part-time education. The average age of employees included in part-time education is 37 years and 4 months. In 2012, eight employees completed their studies and acquired a higher level of professional education.

74 employees participated in internal trainings in 2012. External trainings involved 316 employees. They attended 54 different seminars. In this view, 81 attended individual trainings, while 235 employees were trained within group training programmes.

3.4 RESPONSIBILITY TO THE ENVIRONMENT

The responsibility towards the environment has been for years a central element of the TEŠ policy and has been carried out mostly through constant controls, warnings, measures and improvements. We perform regular controls of emissions and air quality of the surroundings, and analysis of number of hours when 2XMEV was exceeded. Thanks to such control and measures, we managed to keep annual and monthly averages of pollutants, such as NOx, CO, SO2 and dust, under emission thresholds at all large combustion plants. All large combustion plants operated within the tolerance margin of 120 hours (the so-called purification plant shutdown status). Consequently, the 24-hour tolerance margin of SO2 emission concentrations in the air has not been exceeded at any of the locations for several years. Nevertheless, we need to mention slightly more pronounced effect of sulphite blend in 2012, which was due to weak sulphite solubility preventing timely reaction of lime and sulphur dioxide. This is especially unwelcome in case of increased concentration of sulphur in coal, which mostly occurred at the beginning of the year.

Despite the compliance with legally prescribed amounts, we are facing an increase in dust concentrations on the shutdown of LCP 2 and 3. It is a fact that electrostatic precipitators perform worse when flue gases do not contain SO3, which is the case when a boiler is cooled forcibly, as a prerequisite for safe maintenance work. As a result, the shutdown time of the dust particle removal plant amounted to 33 hours at LCP 2. Due to different approach for LCP 3, we do not have the information on shutdowns and, therefore, cannot monitor the situation. In 2012, our attempt to improve the situation was unsuccessful once again, so we will need to seek for further solutions.

In view of efficient exploitation of combustion residue, in March 2012, we managed to obtain new Slovene Technical Approval (STA) for TEŠ's stabilisation material, valid for the next 5 years. We continued to carry out detailed analyses of stabilisation material production. The results in the first half-year were not encouraging, especially for Unit 4. Problems occurred also with unbalanced sale of ash and gypsum. The blending concentration was adjusted according to dehydrated gypsum, while the maintenance service took care of the automated and alarm systems. In the second half of the year, the results improved.

In terms of greenhouse gas emissions, we considered the unburnt carbon in ashes and slag and ensured an automated control over the quantities.

In the scope of Unit 6 construction site, we dedicated a special attention to the balance between produced waste and excavated material, as well as to supervision of dust and draining of construction rainwater.

In April, we informed the new Ministry of Agriculture and the Environment about our past activities regarding compliance with Article 33 of CCS directive and asked to issue a certificate on the TEŠ's compliance with it. We addressed the ministry with another request in May and obtained their response on 20 July 2012. At the beginning of September, the Republic of Slovenia implemented Article 33 of the CCS directive and on 21 September we submitted an adequate application at the competent ministry. After filing an application and an addendum to it at the Slovenian Environment Agency, we obtained a decision stipulating that TEŠ is bound to provide an adequate room for subsequent installation of plants for collection and compression of carbon dioxide referring to specific parcels. The decision was the final step in fulfilling the CCS directive Article 33 requirements and was one of the EIB conditions for drawing

the loan for Unit 6 construction. Within the framework of continuous noise measurement, it was explained that the excess had not been due to the construction, as the limits were already exceeded by the noise from the backgrounds. The annual occasional noise measurement showed that the noise from cooling tower 4 increased. Nevertheless, a possibility exists, that the noise of the night shift at the construction site is also occasionally surpassed. However, it is impossible to exclude it from the background within continuous measurements. This issue of noise excess could increase even more during night, as the company will be forced to compensate for days of works suspension.

In 2012, we introduced supervision of storage of dangerous substances used by providers on the Unit 6 construction site. In this view, the outer dumping surface was examined.

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 regarding separation of municipal waste still have not improved, since the waste quantity decreased minimally. In view of construction waste, we mainly eliminate the mixture of concrete, brick, tiles and ceramics, which are more appropriate for recycling than completely mixed construction waste. The majority of construction waste is recorded at the Unit 6 site, which points to the fact that poor separation of waste can be caused by the external providers of construction works.

By March, we prepared all environmental record for the past year, namely the record of raw and waste waters, record of close water circuit, record of combustion products and the overview of generated waste. It was also necessary to prepare data on hourly level for the pumping station for unprocessed water from Topolščica, for the past years. In order to gain a better control over the Velenje Lake water, we arranged remote measurement of levels in February. We obtained all the necessary reports by the monitoring authorities for the purpose of annual reporting on the environment - the reports were analysed and, if necessary, amendments or corrections were requested, so we could report to the Slovenian Environment Agency on time. For the purposes of the Statistical Office, we prepared the statistics for water and environmental expenditures. For the Agency, we also prepared the data according to the required margins for the purposes of the European pollutant emission register.

Within the scope of ISO 14001, we renewed the environmental aspects and revised the environmental programmes, completed the internal audits and successfully passed the external audit. For improvement of the stabilisation material preparation adequacy, we supplemented our environmental programme with improved compaction with a planned replacement by with ceramic hydrocyclones, slag container, automated daily control of products; for enhanced desulphurisation, we extended the FGD in Unit 5; and for better water balance, we introduced an automated water control. Due to the streamlining of operations, several environmental projects were not realised (completion of interception device for polluted waters, construction of a decarbonisation centrifuge for muddy water). We also needed to postpone the projects regarding humidification of stabilisation material on the intermediate storage facility and environment friendly exploitation of the Družimirje Lake. The idea of controlled deep inflow of the surface water to the Velenje Lake that would support the decrease of high levels of sulphur and organic substances and would enhance the anaerobic environment in the deeper layers of the lake could not be realised in 2012. The lack of financial resources is already noticeable in decreased environmental investments. The strong pressure of environmental non-governmental organisations on banks not to finance the Unit 6 investments have actually achieved the opposite effect, as only the fulfilment of the most critical environmental regulations has been financed.

In the framework of the Environmental Management Systems (SRO) programmes, we managed to realise only the goals that did not depend on investments, amongst which we have to mention the decrease of the annual quantity of Nox below 7,692 tonnes. Additionally, we reached a remarkable success with the reduction of drawing of the water from Topolščica below 80 m3/h, which means saving with quality drinkable water.

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. We are aware of the significance of the environment, in which we function and which we help to design. We are aware of this particularly due to our impact by producing electricity and, in 2012 additionally, by constructing Unit 6. For this reason, 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 professional organisations; we donate to cultural associations, comprising 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.

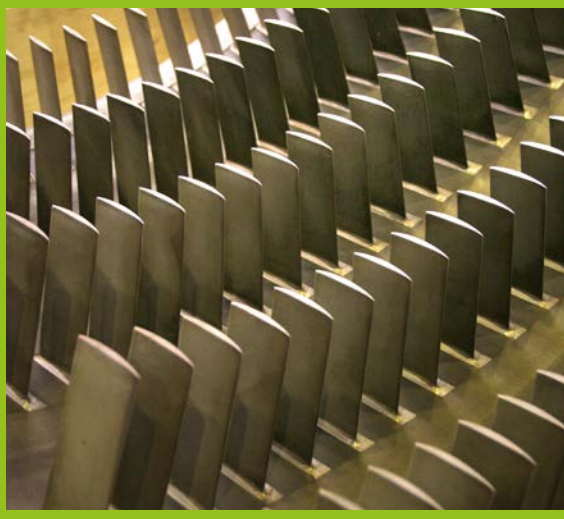
During the summer, we sponsor the ERICO Institute for ecological research Velenje, which organises international research camps for students.

We will continue to do our best in the form of targeted sponsorships and donations, to help organisations, associations and individuals who particularly need help and support.

Strawberries are a symbol of fertility, boldness, purity, luck and success. These values are important for a bright future.

Future

Everything we do today affects tomorrow. Therefore whatever we do, we do it wisely and in accordance with our development strategy.



4 FINANCIAL REPORTREPORT

4.1 AUDITOR'S REPORT

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

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

20 let v Sloveniji

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company TERMOELEKTRARNA ŠOŠTANJ d.o.o., as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, as adopted by EU.

Report on Other Legal and Regulatory Requirements:

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

DELOITTE REVIZIJA d.o.o.

Tina Kolenc Praznik
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

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

Ljubljana, 28 June 2013

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

4.2 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The 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 the applicable law 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;
- financial statements are prepared in accordance with IFRS as adopted by the EU.

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

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

The management adopted the company's financial statements for the financial year ended 31 December 2012 as at 28 June 2013.

Peter Dermol
Managing Director

Šoštanj, 28 June 2013

4.3 INTRODUCTORY NOTES 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 2011, the financial statements and explanatory notes after 1 January 2011 are prepared in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the EU.

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

4.3.1 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, Šoštanj. The separate financial statements of the company for the year ended 31 December 2012 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 2012, the company considered:

- IFRS, which include International Accounting Standards (IAS), Interpretations issued by the Standing Interpretations Committee (SIC), International Financial Reporting Standards (IFRS) and Interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (hereinafter: the EU);

- the Companies Act;
- Energy Act;
- Corporate Income Tax Act and its implementing regulations;
- Accounting Rules of Termoelektrarna Šoštanj d.o.o., and
- other applicable legislation.

a) Currently applicable standards and interpretations

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

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

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

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

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

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

The company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the company in the period of initial application.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB), except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2012:

- IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 January 2015),
- Amendments to IFRS 1 First-time adoption of IFRS - Government loans (effective for the annual periods starting on 1 January 2013 or later),
- Amendments to IFRS 9 Financial instruments and IFRS 7 Financial Instruments: Disclosures - Mandatory effective date and transition disclosures,
- Amendments to IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities - Transition guidance (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 10 Consolidated financial statements, IFRS 12 Disclosure of interests in other entities and IAS 27

Separate financial statements - Investments, (effective for annual periods beginning on or after 1 January 2014),
- Amendments to various standards - Improvements to IFRSs (2012), resulting from the annual project for improvement of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to remove inconsistencies and to clarify wording (amendments are 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 company 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 as at the balance sheet date.

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, namely according the net principle (difference between positive and negative foreign exchange differences among revenue or difference between negative and positive foreign exchange differences and expenses).

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 depreciable/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,
- assessment of contingent liabilities and assets.

4.3.6 Events after the balance sheet date

On 6 February 2013, the nominal capital of TEŠ was increased by its member HSE d.o.o. with a contribution of EUR 18,922,500.00. So far, the member's interest in the company amounts to EUR 230,574,959.00. The capital raise was planned for 2012.

On 14 March 2013, TEŠ drew the long-term EIB loan in the amount of EUR 440 million, while on 19 March 2013 the company drew the EBRD loan of EUR 117.5 million loan, in order to finance the construction of replacement Unit 6. The loan covered the agreed-upon overdue liabilities to Alstom, the supplier of the main technological equipment for Unit 6, and repayment of bridging loans from HSE.

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 both years presented, unless otherwise indicated.

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. 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.

Intangible assets are subsequently measured using the cost model.

Emission coupons are long-term property rights with an indefinite useful life and are measured in accordance with the interpretations by the Slovene 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.

The residual value of an intangible asset is an estimated amount the company would receive upon disposal of such asset, after the reduction by estimated costs of disposal, if such asset were old enough and if its state reflected the end of its useful life. The company has no intangible assets, for which it would record the residual value when purchased.

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

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

If the useful life of an asset is extended, the cost of amortisation for the financial year decreases. If, on the other hand, the useful life of an asset is reduced, the amortisation cost increases. The adjustment of useful life has to be calculated in a manner that the asset will be amortised in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

Amortisation rates used for individual intangible assets are:

Amortisation groups of intangible assets

INTANGIBLE ASSETS GROUP	INTANGIBLE ASSETS GROUP
Software	7.6 % - 50.0 %
Licences	12.5 % - 50.0 %

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 an asset and residual value. Depreciation is calculated on the basis of cost, when an asset is available for use. Assets that are in the process of production or construction are not depreciated.

Depreciation rates of property, plant and equipment are defined on the basis of the 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 groups by production units

PROPERTY, PLANT AND EQUIPMENT GROUP	DEPRECIATION RATE for property (%)	DEPRECIATION RATE for production equipment (%)	DEPRECIATION RATE production equipment parts (overhauls) (%)
Unit 3			19.0 %
Unit 4	1.9 % - 5.1%	0.9 % - 10.0 %	16 % - 30.8 %
Unit 5	0.3% - 3.1%	0.3 % - 6.0 %	25.0 %
Gas unit 1 and 2	4.0%	4.0 % - 6.8 %	20.0 % - 25.0 %

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

Depreciation rates property, plant and equipment - other

PROPERTY, PLANT AND EQUIPMENT	Depreciation rate in %
Buildings - other	2.1 % - 2.9 %
Parts of buildings	2.5 % - 20.0 %
Software	20.0 % -50.0 %
Furniture	10.0 % -20.0 %
Personal vehicles	10.0 % - 20.0 %
Other vehicles	4.0 %- 20.0 %
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 an 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 property, plant and equipment are considered as parts. They include repairs that are usually carried out every few years (periodically) and require substantial resources.

The residual value of an asset is an estimated amount the company would receive upon disposal of such asset, after the reduction by estimated costs of disposal, if such asset were old enough and if its state reflected the end of its useful life. The company has no property, plant or equipment, for which it would record the residual value when purchased.

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 Long-term investments in associates

Investments in associates are investments in which the company has an important influence; 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 investments, receivables, loans, cash and cash equivalents.

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

Available-for-sale financial assets

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

Financial assets are measured at cost, in the event their fair value cannot be reliably measured. Potential signs of impairment are verified at least once a 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.

At initial recognition, loans and receivables are disclosed at fair value, increased by direct costs of transaction. After initial recognition, loans and receivables are measured at amortised cost and decreased by the loss due to impairment. Loans and receivables are recorded in the statement of financial position as financial and business assets and include loans granted, deposits, receivables due from buyers and others.

In the books of account, loans are recognised according to the settlement date, while receivables are recognised in accordance with trading date.

Loans and receivables are recorded as current assets, unless their maturity exceeds 12 months after the balance sheet date. In such case they are classified under long-term assets.

Receivables for advances given are disclosed in the statement of financial position at cost, less 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.

4.3.7.4.2 Non-derivative financial liabilities

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

Loans received are initially recognised on the date of their settlement (payment), while other non-derivative financial liabilities are recognised on the trade date.

The portion of long-term financial liabilities that falls due within less than a year after the cash flow statement date is disclosed under short-term financial liabilities.

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

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 asset that can be reliably measured have been decreased.

Objective evidence on the impairment of financial assets can be: non-compliance or violation by the debtor, deterioration of borrowers' solvency, signs that the debtor will go bankrupt or disappearance of active market for such instrument.

Impairment of receivables

The company individually assesses the evidence on impairment of receivables. If assessed that the carrying amount of receivable exceeds 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 consid-

ered disputed receivables.

For subsequent write-offs of receivables relevant documents of proof are needed: legally enforceable decisions of enforced settlement, bankruptcy proceeding, court ruling or other relevant document.

In case all actions were performed in accordance with the due diligence principle, with the intention to repay certain unsettled receivables and in case that due to the amount of receivables it would not be economical for the company to enter the collection procedure through court, the receivables are filly written-off, on the basis the management's decision.
Losses arising from impairment in relation to financial assets 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.

Nominal capital and capital surplus represent the owner's cash contributions and in-kind contributions.

Capital surplus comprises the general equity revaluation adjustments. 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 include the profit from the previous periods, as well as of the 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 recog-

nised as a provision is merely the best estimate of the expenditure needed for the settlement of obligation existing on the date of the statement of financial position. In reaching the best estimate of a provision, the risks and uncertainties that inevitably surround the events and circumstances are taken into account.

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

If the expected liabilities do not occur, the reversal of created provisions is carried out and recognised under other operating revenue.

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 is 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 the 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.

Contingent asset is an asset that could arise from past events and the existence of which 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 buyer assumes all significant types of risks and benefits related to the ownership of the asset, when there is a certainty in relation to recoverability of a fee and related costs or possibility of repayment of products and when the company stops deciding on products sold.

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. In case the company has more positive than negative foreign exchange differences from operations, such differences are recorded as net revenue from the sales of merchandise.

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.

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 and similar revenue (ex. government grants). Government grant is considered as deferred revenue that the company strictly consistently and reasonably recognises as other operating revenue over the useful life of the relevant asset (on the other hand, the company discloses the amortisation cost for the asset among operating expenses).

Financial revenues comprise revenue from investment shares, interest on loans granted and deposits, positive difference of exchange rates from financing activities and revenue of associates.

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 subgroup includes costs of auxiliary materials for maintenance of property, plant and equipment, small tools the useful life of which does not exceed one year, office supplies, specialised literature and other items. Costs of materials cover also the accrued costs of shrinkage, wasting, breakage and failure. In case the company has more negative than positive operating foreign exchange differences, such differences are recorded as costs of materials.

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.

Write-downs in value include amortisation/depreciation costs related to consistent transfer of value of amortisable intangible assets and depreciable property, plant and equipment. Write-downs in value comprise also impairments, write-downs and losses from the sales of intangible assets and property, plant and equipment, as well as impairments or write-downs of receivables and inventories.

Labour costs are historical costs that refer to salaries and other payments to employees 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 taxes, donations and other duties.

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. Deferred tax in recognised in the income statement and in the statement of financial position.

Current tax liabilities are based on taxable profit for the financial 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 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 the calculated corporate income tax on deductible temporary differences.

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 Fair value measurement

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 *4.8.5 Fair value*.

4.3.11 Financial risk management

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 *section 4.11*.

4.4 STATEMENT OF FINANCIAL POSITION

in EUR

no.	Item	Note	31.12.2012	31.12.2011
	ASSETS		**1,192,103,061**	**859,641,851**
A.	**LONG-TERM ASSETS**		**1,108,298,579**	**787,492,485**
I.	Intangible assets	1	4,745,043	9,213,628
II.	Property, plant and equipment	2	1,102,630,004	777,228,955
V.	Other long-term investments and loans	3	260,003	260,003
1.	Other long-term investments		260,003	260,003
VI.	Long-term operating receivables	4	103,280	113,723
VII.	Other long-term assets	5	32,568	33,383
VIII.	Deferred tax assets	6	527,681	642,793
B.	**SHORT-TERM ASSETS**		**83,804,482**	**72,149,366**
I.	Assets held for sale	7	201,723	201,723
II.	Inventories	8	12,774,188	12,719,114
IV.	Short-term operating receivables	9	64,232,251	53,637,698
V.	Current tax assets	10	808,169	0
VI.	Other short-term assets	11	5,782,490	3,556,615
VII.	Cash and cash equivalents	12	5,661	2,034,216
	EQUITY AND LIABILITIES		**1,192,103,061**	**859,641,851**
A.	**EQUITY**	**13**	**395,268,577**	**362,807,700**
I.	Called-up capital		211,652,459	211,652,459
II.	Capital surplus		116,883,008	116,883,008
III.	Revenue reserves		51,302,628	31,381,842
IV.	Fair value reserve		11,565	11,565
V.	Retained earnings		15,418,917	2,878,826
B.	**LONG-TERM LIABILITIES**		**207,176,374**	**221,734,752**
I.	Provisions for termination and jubilee benefits	14	2,692,003	2,606,208
II.	Other provisions	15	1,590,577	941,101
III.	Other long-term liabilities	16	3,840,397	9,109,574
IV.	Long-term financial liabilities	17	197,361,112	205,691,991
V.	Long-term operating liabilities	18	1,692,285	3,385,878
C.	**SHORT-TERM LIABILITIES**		**589,658,110**	**275,099,399**
II.	Short-term financial liabilities	19	321,610,753	112,782,562
III.	Short-term operating liabilities	20	264,098,938	157,849,472
IV.	Current tax liabilities	21	0	481,076
V.	Other short-term liabilities	22	3,948,419	3,986,289

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

4.5 INCOME STATEMENT

in EUR

no.	Item	Note	2012	2011
1.	Net sales	1	258,550,639	233,618,937
3.	Capitalised own products and services	2	51,852	4,940,481
4.	Other operating revenue	3	5,444,495	5,519,174
	GROSS RETURN ON OPERATIONS		**264,046,986**	**244,078,592**
5.	Costs of goods, materials and services	4	163,910,845	166,212,876
6.	Labour costs	5	19,445,666	19,894,073
7.	Write-downs in value	6	31,598,702	33,305,573
8.	Other operating expenses	7	14,977,471	15,847,735
	OPERATING PROFIT OR LOSS		**34,114,302**	**8,818,335**
9.	Financial revenue	8	59,770	33,211
10.	Financial expenses	9	1,598,083	1,125,585
	FINANCIAL PROFIT OR LOSS		**(1,538,313)**	**(1,092,374)**
	TOTAL PROFIT OR LOSS BEFORE TAX		**32,575,989**	**7,725,961**
11.	Accounted for tax		0	1,616,337
12.	Deferred taxes		115,112	48,937
	TAX	**10**	**115,112**	**1,665,274**
13.	**NET PROFIT OR LOSS FOR THE PERIOD**		**32,460,877**	**6,060,687**

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

4.6 STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR

no.	Item	Note	2012	2011
13.	**NET PROFIT OR LOSS FOR THE PERIOD**		**32,460,877**	**6,060,687**
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 for employees		0	0
16.	Gains and losses arising from translation of financial statements of entities located abroad		0	0
17.	Net profit/loss on the disposal of available-for-sale financial assets		0	0
18.	Net effects of changes in fair value of hedges against changeability of cash flows		0	0
19.	**TOTAL COMPREHENSIVE INCOME FOR THE PERIOD**		**32,460,877**	**6,060,687**

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

4.7 STATEMENT OF CHANGES IN EQUITY

in EUR

no.	Item	Called-up capital	Capital surplus	Revenue reserves		Fair value reserve	Retained earnings		TOTAL
		Nominal capital		Legal reserves	Other revenue reserves		Retained net profit	Net profit for the financial year	
A.1.	**Balance as at 31 December 2010**	**203,480,559**	**116,883,008**	**1,599,999**	**22,607,697**	**11,565**		**3,992,286**	**348,575,114**
A.2.	**Balance as at 1 January 2011**	**203,480,559**	**116,883,008**	**1,599,999**	**22,607,697**	**11,565**	**3,992,286**		**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	0	0	0	0	0	0	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 period	0	0	0	0	0	0	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 period to other components of equity under the decision of management and supervisory bodies	0	0	303,034	2,878,826	0	0	(3,181,860)	0
c)	Allocation of a portion of net profit to additional reserves in accordance with a General Meeting resolution	0	0	0	3,992,286	0	(3,992,286)	0	0
C.	**Balance as at 31 December 2011**	**211,652,459**	**116,883,008**	**1,903,033**	**29,478,809**	**11,565**	**0**	**2,878,826**	**362,807,700**
A.1.	**Balance as at 31 December 2011**	**211,652,459**	**116,883,008**	**1,903,033**	**29,478,809**	**11,565**	**0**	**2,878,826**	**362,807,700**
A.2.	**Balance as at 1 January 2012**	**211,652,459**	**116,883,008**	**1,903,033**	**29,478,809**	**11,565**	**2,878,826**	**0**	**362,807,700**
B.1.	**Transakcije z lastniki**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
B.2.	**Changes in total comprehensive income**	**0**	**0**	**0**	**0**	**0**	**0**	**32,460,877**	**32,460,877**
a)	Net profit or loss for the period	0	0	0	0	0	0	32,460,877	32,460,877
B.3.	**Changes in equity**	**0**	**0**	**1,623,044**	**18,297,742**	**0**	**(2,878,826)**	**(17,041,960)**	**0**
b)	Allocation of portion of net profit for the period to other components of equity under the decision of management and supervisory bodies	0	0	1,623,044	15,418,916	0	0	(17,041,960)	0
c)	Allocation of a portion of net profit to additional reserves in accordance with a General Meeting resolution	0	0	0	2,878,826	0	(2,878,826)	0	0
C	**Balance as at 31 December 2012**	**211,652,459**	**116,883,008**	**3,526,077**	**47,776,551**	**11,565**	**0**	**15,418,917**	**395,268,577**
	ACCUMULATED PROFIT	**0**	**0**	**0**	**0**	**0**	**0**	**15,418,917**	**15,418,917**

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

4.8 CASH FLOW STATEMENT (DIRECT METHOD)

in EUR

no.	Item	2012	2011
A.	**Cash flows from operating activities**		
a)	**Cash receipts from operating activities**	**359,443,651**	**316,747,537**
1.	Cash receipts from electricity operations	299,915,364	281,910,744
a)	Domestic market	299,915,364	281,910,744
2.	Cash receipts from thermal energy operations	4,885,650	4,748,074
3.	Cash receipts from premiums, subsidies, donations etc.	26,025	52,534
6.	Cash receipts from the sale of emission coupons	28,329,065	0
8.	Cash receipts from duties payable to the state, except for corporate income tax	18,307,971	25,088,823
10.	Cash receipts from sale of services	455,119	0
11.	Other cash receipts from operating activities	7,524,457	4,947,362
b)	**Cash disbursements for operating activities**	**(268,569,828)**	**(242,282,172)**
2.	Cash disbursements for thermal energy operations	(3,342,151)	(3,536,359)
4.	Cash disbursements for coal	(129,897,307)	(137,023,644)
5.	Cash disbursements for gas	(30,301,959)	(21,497,524)
6.	Cash disbursements for purchase of emission coupons	(31,799,545)	(5,659,866)
8.	Cash disbursements from duties payable to the state, except for corporate income tax	(9,667,916)	(7,379,780)
9.	Cash disbursements for corporate income tax	(1,568,435)	(2,288,908)
10.	Cash disbursements for other duties	(18,706)	0
11.	Cash disbursements for maintenance, materials and services	(31,405,977)	(38,720,547)
12.	Cash disbursements for labour costs	(19,548,084)	(19,890,642)
13.	Other cash disbursements for operating activities	(11,019,748)	(6,284,902)
c)	**Cash flows from operating activities**	**90,873,823**	**74,465,365**
B.	**Cash flows from investing activities**		
a)	**Cash from investing activities**	**563,430**	**2,542,586**
1.	Cash receipts from interest	45,487	9,015
4.	Cash receipts from property, plant and equipment (including advances)	517,943	2,533,571
b)	**Disbursements for investing activities**	**(291,857,747)**	**(286,378,231)**
1.	Cash disbursements for intangible assets (including advances)	(98,816)	(313,384)
2.	Cash disbursements from property, plant and equipment (including advances)	(278,776,377)	(282,022,634)
3	Cash disbursements for capitalised interest	(12,982,554)	(3,842,213)
4.	Cash disbursements for long-term loans given and other long-term investments	0	(200,000)
c)	**Cash flows from investing activities**	**(291,294,317)**	**(283,835,645)**
C.	**Cash flows from financing activities**		
a)	**Cash receipts from financing activities**	**276,642,800**	**547,808,900**
1.	Cash from paid-in capital	0	8,171,900
2.	Cash receipts from long-term loans and other long-term financial liabilities	0	192,500,000
3.	Cash receipts from short-term loans and other short-term financial liabilities	276,642,800	347,137,000
b)	**Cash disbursements for financing activities**	**(78,250,861)**	**(336,452,018)**
1.	Cash disbursements for interest on loans received	(741,150)	(1,041,849)
2.	Cash disbursements for financial expenses – re-purchase of emission coupons	(713,742)	0
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 long-term financial liabilities	(66,522,800)	(325,137,000)
c)	**Cash flows from financing activities**	**198,391,939**	**211,356,882**
D.	**Cash and cash equivalents at beginning of period**	**2,034,216**	**47,614**
	Increase/(decrease) in cash and cash equivalents	(2,028,555)	1,986,602
E.	**Cash and cash equivalents at the end of the period**	**5,661**	**2,034,216**

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

4.9 NOTES TO THE FINANCIAL STATEMENTS

4.9.1 Notes to the statement of financial position

Note 1

Intangible assets EUR 4,745,043

in EUR

INTANGIBLE ASSETS	31 Dec 2012	31 Dec 2011
Emission coupons	4,301,696	8,601,781
Other long-term property rights	443,347	611,847
Intangible assets	**4,745,043**	**9,213,628**

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 4,675,952 coupons (The report on assessment of the report on greenhouse gas emissions for 2011) that were processed in April 2012 for emissions produced in 2011.

Intangible assets include EUR 443,347 worth of licences and other software which are, depending on their useful lives, amortised at a rate of 7.6%-50%.

The company has no intangible assets under finance lease or mortgage.

CHANGES IN INTANGIBLE ASSETS	EMISSION COUPONS	OTHER LONG-TERM PROPERTY RIGHTS	TOTAL
Historical 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)
Historical 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**

CHANGES IN INTANGIBLE ASSETS	EMISSION COUPONS	OTHER LONG-TERM PROPERTY RIGHTS	TOTAL
Historical cost as at 1/1/2012	**8,601,781**	**1,526,093**	**10,127,874**
Acquisitions	376,000	37,260	413,260
Disposals	(4,676,085)	(3,351)	(4,679,436)
Historical cost as at 31/12/2012	**4,301,696**	**1,560,002**	**5,861,698**
Written-down value as at 1/1/2012	**0**	**914,246**	**914,246**
Amortisation	0	205,760	205,760
Disposals	0	(3,351)	(3,351)
Written-down value as at 31/12/2012	**0**	**1,116,655**	**1,116,655**
Carrying amount as at 1/1/2012	**8,601,781**	**611,847**	**9,213,628**
Carrying amount as at 31/12/2012	**4,301,696**	**443,347**	**4,745,043**

Note 2

Property, plant and equipment EUR 1,102,630,004

in EUR

PROPERTY, PLANT AND EQUIPMENT	31 Dec 2012	31 Dec 2011
Property	3,711,949	3,711,949
Buildings	31,362,121	34,866,914
Production equipment	165,019,585	187,336,826
Other equipment	7,588,610	8,702,752
Property, plant and equipment in acquisition	894,947,739	542,610,514
Property, plant and equipment	**1,102,630,004**	**777,228,955**

Potential impairment signs are verified at least once a year. The company determined no such signs for the period.

As regards the assets in the process of construction that mainly refer to the replacement Unit 6, the Revised investment programme, 5th revision (September 2012) stipulates that at a 7% discount rate the net present value of investment is positive and that the internal rate of return amounts to 7.75%.

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

in EUR

CHANGES IN PROPERTY, PLANT AND EQUIPMENT	LAND	BUILDINGS	PRODUCTION EQUIPMENT	OTHER EQUIPMENT	PROPERTY, PLANT AND EQUIPMENT IN PROCESS OF ACQUISITION	TOTAL
Cost as at 1 Jan 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)
Impairments						0
Cost as at 31 Dec 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 Jan 2011	**0**	**168,641,071**	**838,452,520**	**9,701,668**	**0**	**1,016,795,259**
Depreciation	0	4,017,280	27,459,484	1,532,608	0	33,009,372
Acquisitions						
Disposals	0	0	(16,873,265)	(2,717,865)	0	(19,591,130)
Other transfers	0	(55,651)	0	0	0	(55,651)
Impairments						0
Written-down value as at 31 Dec 2011	**0**	**172,602,700**	**849,038,739**	**8,516,411**	**0**	**1,030,157,850**
Carrying amount as at 1 Jan 2011	**3,711,949**	**38,573,867**	**183,053,767**	**10,601,405**	**228,027,270**	**463,968,258**
Carrying amount as at 31 Dec 2011	**3,711,949**	**34,866,914**	**187,336,826**	**8,702,752**	**542,610,514**	**777,228,955**

in EUR

CHANGES IN PROPERTY, PLANT AND EQUIPMENT	LAND	BUILDINGS	PRODUCTION EQUIPMENT	OTHER EQUIPMENT	PROPERTY, PLANT AND EQUIPMENT IN PROCESS OF ACQUISITION	TOTAL
Cost as at 1 Jan 2012	**3,711,949**	**207,469,614**	**1,036,375,565**	**17,219,163**	**542,610,514**	**1,807,386,805**
Acquisitions	0	0	0	0	353,364,646	353,364,646
Disposals	0	(1,605,218)	(971,848)	(1,729,583)	0	(4,306,649)
Transfer from ongoing investments	0	0	818,696	208,725	(1,027,421)	0
Other transfers	0	0	0	0	0	0
Impairments						0
Cost as at 31 Dec 2012	**3,711,949**	**205,864,396**	**1,036,222,413**	**15,698,305**	**894,947,739**	**2,156,444,802**
Written-down value as at 1 Jan 2012	**0**	**172,602,700**	**849,038,739**	**8,516,411**	**0**	**1,030,157,850**
Depreciation	0	3,471,482	23,094,653	1,152,162	0	27,718,297
Acquisitions						0
Disposals	0	(1,571,907)	(930,443)	(1,558,999)	0	(4,061,349)
Other transfers	0	0	(121)	121	0	0
Impairments						0
Written-down value as at 31 Dec 2012	**0**	**174,502,275**	**871,202,828**	**8,109,695**	**0**	**1,053,814,798**
Carrying amount as at 1 Jan 2012	**3,711,949**	**34,866,914**	**187,336,826**	**8,702,752**	**542,610,514**	**777,228,955**
Carrying amount as at 31 Dec 2012	**3,711,949**	**31,362,121**	**165,019,585**	**7,588,610**	**894,947,739**	**1,102,630,004**

In 2012, the company financed the investments in property, plant and equipment with the short-term bridge loan from HSE in the amount of EUR 193,400,000, depreciation assets, revenue and other proper funds.

For the purposes of bridge financing in 2012, the company received four short-term revolving loans from HSE in the total amount of EUR 193,400,000.

The short-term bridge loans for the construction of Unit taken from HSE in years 2011 and 2012 (totalling EUR 295,700,000 as at 31 December 2012), will be repaid in the financial year of 2013 by means of drawing the 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 2012 is the same as at the end of 2011.

Buildings EUR 31,362,121

The value of buildings achieved the values planned; however, it was lower compared to the previous period, due to the accounted for depreciation and demolition of useless buildings like lodge, shelters, cargo unloading and handling stations.

Production plant, machinery and other equipment EUR 172,608,195

The value of production plan, machinery and other equipment was decreased by the amount of depreciation, sales of computer equipment and disposal of useless small tools. The acquisition of EUR 1,027,421 is mainly the result of initiated projects for investments in reliable production (reconstruction of disposal machine and of the controlling system for compressed air) and the realisation of the planned purchase of small plants, machines and equipment, such as rotation compressor, pumping aggregates, broom machine, computer equipment and other.

Property, plant and equipment in acquisition EUR 894,947,739

The increase in property, plant and equipment in the course of construction mainly relates to investments in the construction of Unit 6 in the amount of EUR 351,485,749. 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 274,668,265 million. 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 21,029,248, of which capitalised interest expense amounted to EUR 13,610,067.

The estimated value of construction of replacement Unit 6 is EUR 1,302,492,300 (NIP 5 -Revised investment plan, 5th revision). Do 31. 12. In 2012, the company concluded EUR 1,136,333,871 (financial costs excluded) 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.

The increase is due also to investments in reliable production in the amount of EUR 1,275,825, by means of which TEŠ manages the risk of production and electricity supply shortfalls.

In 2012, the amount of capitalised projects totalled EUR 641,837. The total value of unfinished projects is EUR 894,947,739.

Changes in investments in property, plant and equipment in construction

in EUR

CHANGES IN PROPERTY, PLANT AND EQUIPMENT	Investments in reliable production	Investment documentation	Investments in Unit 6	Large-scale ovehauls	Other property, plant and equipment in process of acquisition	TOTAL
Carrying amount as at 31 Dec 2011	**1,409,155**	**451,680**	**540,732,167**	**0**	**17,512**	**542,610,514**
Acquisitions	1,275,825	35,918	351,485,749	199,082	368,072	353,364,646
Transfer from ongoing investments	(442,755)	0	0	(199,082)	(385,584)	(1,027,421)
Carrying amount as at 31 Dec 2012	**2,242,225**	**487,598**	**892,217,916**	**0**	**0**	**894,947,739**

Note 3

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

in EUR

DOTHER LONG-TERM FINANCIAL INVESTMENTS AND INVESTMENTS IN ASSOCIATES	31 Dec 2012	31 Dec 2011
In associates	59,503	59,503
Other long-term investments	200,500	200,500
TOTAL	**260,003**	**260,003**

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 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 financial investments

in EUR

CHANGES IN LONG-TERM INVESTMENTS	2012	2011
Balance as at 1 Jan	260,003	60,003
New acquisitions	0	200,000
As at 31 Dec	**260,003**	**260,003**

Investments in associates EUR 59,503

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

Significant amounts from the associates' financial statements for 2012

in EUR

ASSOCIATE	ASSETS	LIABILITIES (equity excluded)	REVENUE	NET PROFIT/LOSS FOR THE YEAR	TOTAL EQUITY
Erico d.o.o.	1,749,981	439,680	2,199,492	42,490	1,310,301

Long-term investments in associates

in EUR

ASSOCIATE	31 Dec 2012	31 Dec 2011
Erico d.o.o.	59,503	59,503
TOTAL	**59,503**	**59,503**

Other long-term financial investments EUR 200,500

in EUR

OTHER LONG-TERM FINANCIAL INVESTMENTS	31 Dec 2012	31 Dec 2011
Centre of Excellence Low-carbon Technologies	500	500
Energy Development Center - RCE	200,000	200,000
TOTAL	**200,500**	**200,500**

Changes in other long-term financial investments

in EUR

CHANGES IN OTHER LONG-TERM INVESTMENTS	2012	2011
As at 1 Jan	200,500	500
New acquisitions	0	200,000
As at 31 Dec	**200,500**	**200,500**

Note 4

Long-term operating receivables EUR 103,280

in EUR

LONG-TERM OPERATING RECEIVABLES	31 Dec 2012	31 Dec 2011
Advances given	93,465	94,465
From others	9,815	19,258
TOTAL	**103,280**	**113,723**

Long-term operating receivables are not collateralised and have not yet fallen due, except the advance given to the Parish of St. Martin, which is insured with the entry of the servitude right (right in rem) on the land plot.

Long-term operating receivables comprise long-term advances granted in the amount of EUR 93,465 and long term receivables from apartment buyers in the amount of EUR 9,815.

Advances include a long-term advance payment in the amount of EUR 91,465 which was given for a 10-year compensation for damages related to the servitude right arising from the contract with the Parish of St. Martin from Velenje and an advance payment in the amount of EUR 2,000 for compensation for damages as set out by the notarial record and the underlying agreement on the establishment of such a servitude right.

Long-term receivables to apartment buyers in the amount of EUR 9,815 represent receivables for the apartments sold in accordance with the Housing Act (OG RS 18/91).

Changes in the allowance for long-term receivables

in EUR

CHANGES IN THE ALLOWANCE FOR LONG-TERM RECEIVABLES	2012	2011
As at 1 Jan	**0**	**0**
Allowances for receivables	0	8,254
Write-offs of receivables	0	(8,254)
As at 31 Dec	**0**	**0**

At the end of 2011, the long-term receivables arising from the advances granted on the basis of the pre-contract instead of expropriation for acquiring the land plot for disposal of ashes, slag and desulphurisation remains in the amount of EUR 8,254. The contract has not been concluded.

Long-term operating receivables by maturity

in EUR

	Maturity date			TOTAL
	until 31/12/2015	from 1/1/2016 to 31/12/2017	after 1/1/2018	
Long-term operating receivables	6,307	13,210	83,763	103,280
Total	**6,307**	**13,210**	**83,763**	**103,280**

Note 5

Other long-term assets EUR 32,568

in EUR

OTHER LONG-TERM ASSETS	31 Dec 2012	31 Dec 2011
Reserve found assets	32,568	33,383
TOTAL	**32,568**	**33,383**

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

Note 6

Deferred tax assets EUR 527,681

in EUR

DEFERRED TAX ASSETS	31 Dec 2012	31 Dec 2011
Deferred tax assets	527,681	642,793
TOTAL	**527,681**	**642,793**

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

DEFERRED TAX ASSETS	PROVISIONS	IMPAIRMENT	AMORTISATION	TOTAL
As at 1 Jan 2011	**432,563**	**30,827**	**228,341**	**691,731**
In debit/(credit) of profit or loss	(36,016)	0	(12,922)	(48,938)
As at 31 Dec 2011	**396,547**	**30,827**	**215,419**	**642,793**
As at 1 Jan 2012	**396,547**	**30,827**	**215,419**	**642,793**
In debit/(credit) of profit or loss	(109,623)	0	(5,489)	(115,112)
As at 31 Dec 2012	**286,924**	**30,827**	**209,930**	**527,681**

As at 31 December 2012, the company discloses unused reliefs in the amount of EUR 96,140,679 that can be used in the next five financial periods. As the future taxable profits are uncertain, the company did not create deferred tax assets.

Note 7

Assets and liabilities held for sale EUR 201,723

in EUR

ASSETS HELD FOR SALE	31 Dec 2012	31 Dec 2011
Assets held for sale	201,723	201,723
TOTAL	**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 12,774,188

in EUR

INVENTORIES	31 Dec 2012	31 Dec 2011
Inventories of spare parts and materials i	12,774,188	12,719,114
TOTAL	**12,774,188**	**12,719,114**

Inventories are mostly comprised of spare parts in the amount of EUR 9,640,934 and maintenance materials in the amount of EUR 2,269,573, which are needed for immediate repairs of production equipment and, thus, for ensuring reliable operation.

After the inventory count of materials, surpluses of EUR 29 and shortages of EUR 107 were determined.

Inventory surpluses and deficits

in EUR

INVENTORY SURPLUSES AND DEFICITS	31 Dec 2012	31 Dec 2011
Inventory surpluses	29	328
Inventory deficits	(107)	(192)
TOTAL	**(78)**	**136**

Note 9

Short-term operating receivables EUR 64,232,251

in EUR

SHORT-TERM OPERATING RECEIVABLES	31 Dec 2012	31 Dec 2011
From group companies	34,903,158	33,814,723
From associates	67	76
From buyers	1,502,460	2,251,766
Allowances for trade receivables	(43,601)	(40,859)
Advances given	4,467,288	552,791
Adjustment of advances given	(3,572,078)	0
From government and other institutions	26,961,433	15,016,414
From others	13,524	2,042,787
TOTAL	**64,232,251**	**53,637,698**

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

Short-term operating receivables to group companies

in EUR

GROUP COMPANIES	COUNTRY	31 Dec 2012	31 Dec 2011
Holding Slovenske elektrarne d.o.o.	Slovenia	34,897,711	33,785,174
Premogovnik Velenje d.d.	Slovenia	2,387	26,380
HSE Invest d.o.o.	Slovenia	3,060	3,169
Total short-term operating receivables from the Group companies		**34,903,158**	**33,814,723**

The major part of receivables from group companies consists of receivables from Holding Slovenske elektrarne d.o.o. in the amount of EUR 34,865,038 for the sale of electricity.

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

Short-term receivables by maturity date

in EUR

MATURITY PERIOD	31 Dec 2012	31 Dec 2011
Receivables not yet due	63,283,797	53,246,631
Overdue receivables - up to 3 months	92,271	362,876
Overdue receivables - from 3 to 6 months	4,426,710	11,498
Overdue receivables - more than 6 months	45,152	57,552
TOTAL	**67,847,930**	**53,678,557**

The main part of overdue receivables refers to receivables declared in the bankruptcy proceeding of Primorje.
Overdue and outstanding trade receivables represent receivables from a buyer of thermal energy, from the sale of fly ash and from apartment leases.

Changes in allowances for short-term receivables

in EUR

CHANGES IN ALLOWANCES FOR SHORT-TERM RECEIVABLES	2012	2011
Balance as at 1 Jan	40,859	43,135
Written-off receivables collected	(8,509)	(13,797)
Allowances for receivables	3,583,329	11,616
Write-off of receivables	0	(95)
Balance as at 31 Dec	**3,615,679**	**40,859**

Note 10

Current tax assets EUR 808,169

	31 Dec 2012	31 Dec 2011
Current tax assets	808,169	0
TOTAL	**808,169**	**0**

Current tax assets are tax prepayments on the basis of corporate income tax calculation for 2011. Due to changes in the Corporate Income Tax Act and the use of reliefs for investments in equipment, the company did not determine the tax base for tax calculation, despite positive business results in 2012.

Note 11

Other short-term assets EUR 5,782,490

in EUR

OTHER SHORT-TERM ASSETS	31 Dec 2012	31 Dec 2011
Deferred costs	78,538	81,830
Accrued revenue	5,703,952	3,474,785
TOTAL	**5,782,490**	**3,556,615**

Other short-term assets include deferred costs related to services that were invoiced but not provided in 2012.

The majority of short-term accrued revenue in the amount of EUR 4,070,561 consists of revenue related to Annex 1 to the contract for purchase of coal, lease of capacity and purchase of electricity in which the contracting parties agreed to change the price of delivered and supplied coal. A part of accrued revenue in the amount of EUR 1,632,132, however, refers to Annex 2 to the contract for the purchase of coal, lease of capacity and purchase of electricity in which the contracting parties agreed on a changed amount for the leased capacity in 2012 in order to settle the costs of purchase of insufficient CO2 emission coupons in 2012.

Note 12

Cash and cash equivalents EUR 5,661

in EUR

CASH AND CASH EQUIVALENTS	31 Dec 2012	31 Dec 2011
Cash on hand	339	359
Cash in accounts	5,322	2,033,857
TOTAL	**5,661**	**2,034,216**

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

Note 13

Equity EUR 395,268,577

The company's total equity consists of share capital, capital surplus, revenue reserves, fair value reserves, retained earnings from the previous period 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.

Capital surplus

in EUR

CAPITAL SURPLUS	31 Dec 2012	31 Dec 2011
Amounts arising from reversal of the general equity revaluation adjustment	116,883,008	116,883,008
Total capital surplus	**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 51,302,628 comprise legal reserves in the amount of EUR 3,526,077 and other revenue reserves in the amount of EUR 47,776,551.

During the year, reserves increased by EUR 19,920,786:
- other revenue reserves in the amount of EUR 2,878,826 under the decision of the company member regarding the retained earnings for 2011;
- legal reserves in the amount of EUR 1,623,044 and other revenue reserves in the amount of EUR 15,418,916 under the decision of the managing director and 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 2012.

Fair value reserve

in EUR

FAIR VALUE RESERVE	OTHER	TOTAL
Balance as at 1/1/2011	11,565	11,565
Balance as at 31/12/2011	11,565	11,565
Balance as at 1/1/2012	11,565	11,565
Balance as at 31/12/2012	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 2011 of EUR 2,878,826 were allocated to other revenue reserves under the decision of the company member.

The net profit or loss for 2012 in the amount of EUR 32,460,877 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 1,623,044 and other revenue reserves in the amount of EUR 15,418,916; the remaining portion in the amount of EUR 15,418,917 remained unallocated. The remaining net profit of the financial year represents the accumulated profit.

Accumulated profit

in EUR

ACCUMULATED PROFIT	2012	2011
Net profit or loss for the current year	32,460,877	6,060,687
Increase in revenue reserves in accordance with the Management Board decision (legal reserves, reserves for own shares and statutory reserves)	(1,623,044)	(303,034)
Increase in revenue reserves in accordance with the Management Board and Supervisory Board decision (other revenue reserves)	(15,418,916)	(2,878,826)
Accumulated profit	**15,418,917**	**2,878,827**

Note 14

Provisions for termination and jubilee benefits EUR 2,692,003

Long-term provisions represent provisions for jubilee benefits and termination benefits on retirement as determined by the actuarial calculation on 31 December 2012.
The actuarial calculation was based on the following assumptions:
- average salary growth of 1.9% in 2013, 1.5% in 2014 and 2015 and 3.0% per year in the following years; and
- discount interest rate of 4.6% p.a.

Changes in provisions for termination and jubilee benefits

in EUR

CHANGES IN PROVISIONS FOR TERMINATION AND JUBILEE BENEFITS	PROVISIONS FOR TERMINATION BENEFITS	PROVISIONS FOR JUBILEE BENEFITS	TOTAL
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 - disposal	(37,655)	0	**(37,655)**
Balance as at 31/12/2011	1,668,858	937,350	**2,606,208**
Balance as at 1/1/2012	1,668,858	937,350	**2,606,208**
Creation, increase	84,194	227,210	**311,404**
Decrease - drawing	(86,946)	(138,663)	**(225,609)**
Balance as at 31/12/2012	**1,666,106**	**1,025,897**	**2,692,003**

Note 15

Other provisions EUR 1,590,577

in EUR

OTHER PROVISIONS	31 Dec 2012	31 Dec 2011
For lawsuits	941,101	941,101
Others	649,476	0
TOTAL	**1,590,577**	**941,101**

Changes in other provisions

in EUR

CHANGES IN OTHER PROVISIONS	FOR LAWSUITS	CLOSING DOWN THE ŠKALE PIT AND THE REST OF EXTRACTION SITE	FOR COMPEN-SATIONS	OTHERS	TOTAL
Balance as at 1/1/2011	**0**	**0**	**0**	**0**	**0**
Creation, increase	941,101			0	941,101
Balance as at 31/12/2011	**941,101**	**0**	**0**	**0**	**941,101**
Balance as at 1/1/2012	**941,101**			**0**	**941,101**
Creation, increase	0			649,476	649,476
Balance as at 31/12/2012	**941,101**	**0**	**0**	**649,476**	**1,590,577**

Provisions of legal action in 2011 were created on the basis of the adopted decision regarding the enforcement of the creditor Elektro Slovenija d.o.o. of 15 February 2012. The company reasonably and on solid grounds contradicts the creditor's receivable and filed an objection against the decision on enforcement. The legal action was not finalised in 2012.

Not all proceeds were paid out in 2012 as stipulated in the enterprise collective agreement. Consequently, the company created provisions for the unpaid portion in the amount of EUR 649,476.

Note 16

Other long-term liabilities EUR 3,840,397

in EUR

OTHER LONG-TERM LIABILITIES	31 Dec 2012	31 Dec 2011
Emission coupons	0	4,300,824
Quotas for the disabled	192,225	224,946
Other state aids received	3,648,172	4,583,804
TOTAL	**3,840,397**	**9,109,574**

Other long-term liabilities in the amount of EUR 3,648,172 relate to government grants received for the acquisition of property, plant and equipment. 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 2012. 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

CHANGES IN OTHER LONG-TERM LIABILITIES	EMISSION COUPONS	QUOTAS FOR THE DISABLED	OTHER STATE AIDS RECEIVED-Unit 4 flue gas desulphurisation plant (State budget and EKO fond)	OTHER STATE AIDS RECEIVED-Unit 5 flue gas desulphurisation plant (State budget)	OTHER STATE AIDS RECEIVED-Unit 4 management system	TOTAL
Balance as at 1/1/2011	**8,601,648**	**233,524**	**3,941,080**	**1,463,114**	**115,243**	**14,354,609**
Creation, increase	0	36,003	0	0	0	36,003
Decrease - drawing	(4,300,824)	(44,581)	(788,216)	(133,011)	(14,406)	(5,281,038)
Balance as at 31/12/2011	**4,300,824**	**224,946**	**3,152,864**	**1,330,103**	**100,837**	**9,109,574**
Balance as at 1/1/2012	**4,300,824**	**224,946**	**3,152,864**	**1,330,103**	**100,837**	**9,109,574**
Creation, increase	0	11,884	0	0	0	11,884
Decrease - drawing	(4,300,824)	(44,605)	(788,216)	(133,010)	(14,406)	(5,281,061)
Balance as at 31/12/2012	**0**	**192,225**	**2,364,648**	**1,197,093**	**86,431**	**3,840,397**

Note 17

Long-term financial liabilities EUR 197,361,112

in EUR

LONG-TERM FINANCIAL LIABILITIES	31 Dec 2012	31 Dec 2011
To banks	197,361,112	205,691,991
TOTAL	**197,361,112**	**205,691,991**

Long-term loans are denominated in EUR. Nominal interest rates for loans ranged between 1.07% and 6.06%.

Maturity dates of long-term liabilities

in EUR

	Maturity date			TOTAL
	Until 31/12/2015	From 1/1/2016 to 31/12/2017	After 1/1/2018	
Long-term financial liabilities to banks	5,867,460	31,423,771	160,069,881	197,361,112
Total	**5,867,460**	**31,423,771**	**160,069,881**	**197,361,112**

Maturity dates of long-term liabilities

in EUR

CHANGES IN LONG TERM FINANCIAL LIABILITIES	LOANS RECEIVED	LIABILITIES FOR FINANCIAL LEASE	OTHER	TOTAL
As at 1 January	205,691,991			205,691,991
Transfer to short-term financial liabilities	(8,330,879)			(8,330,879)
As at 31 December	**197,361,112**	**0**	**0**	**197,361,112**

In 2012, the repayments of principal amounts and interest were made according to maturity dates and in accordance with existing depreciation/amortisation plans.

The portion of long-term financial liabilities in the amount of EUR 8,330,879, which falls due in 12 months, was recorded under short-term financing liabilities.

Insuring financial liabilities

in EUR

INSURING FINANCIAL LIABILITIES	31 Dec 2012	31 Dec 2011
State guarantees	1,941,991	5,826,270
Assignments, pledge of receivables	17,500,000	18,500,000
Bills of exchange	6,250,000	7,638,890
HSE guarantee	70,000,000	74,000,000
Bank guarantee	110,000,000	110,000,000
Total	**205,691,991**	**215,965,160**

As at 31 December 2012, 53.5% of the TEŠ's financial liabilities were secured with a bank guarantee, 34.0% with the HSE guarantee, 8.5% with assignments or pledged receivables, 3.0% with bills of exchange and 0.9% with a government guarantee.

For the purpose of insuring liabilities in accordance with the Loan agreement no. F 3123 (of 20 May 1998), concluded 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 (lender) and Termoelektrarna Šoštanj d.o.o.

(borrower). The liabilities as at 31 December 2012 amount to EUR 1,941,990.

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 guarantee was issued on 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 a 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 2012, 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 the 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 February 2011 and is effective for the period of applicability of the loan agreement; and
- TEŠ 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 February 2011 and is effective for the period of applicability of the loan agreement.

Due to new arrangements regarding collateral between banks taking part in the financing of the Unit 6 investment, the collateral under the loan agreement that TEŠ concluded with Unicredit and SID banka on 21 December 2007 was amended by inclusion of Annex no.1, under which HSE d.o.o. entered in the loan agreement as a guarantor. Under this agreement, HSE d.o.o.'s guarantee covers 80% of the loan. As at 31 December 2012, the balance of the loan stood at EUR 5,000,000; 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 considerations, costs and expenditures payable under the loan agreement TEŠ concluded with UniCredit and SIB banka. 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 considerations, costs and expenditures payable under the loan agreement TEŠ concluded with UniCredit and SID banka. The agreement on pledge of bank accounts and cash was signed on 24 November 2010 and is valid until 31 December 2013.

Note 18

Long-term operating liabilities **EUR 1,692,285**

LONG-TERM OPERATING LIABILITIES	31 Dec 2012	31 Dec 2011
To suppliers	1,692,285	3,384,570
Other	0	1,308
TOTAL	**1,692,285**	**3,385,878**

In long-term operating liabilities the company discloses EUR 1,692,285 of liabilities for insuring the construction site of the replacement Unit 6.

Maturity dates of long-term operating liabilities

in EUR

	Maturity date			TOTAL
	Until 31/12/2015	From 1/1/2016 to 31/12/2017	After 1/1/2018	
Other long-term operating liabilities	1,692,285	0	0	1,692,285
Total	**1,692,285**	**0**	**0**	**1,692,285**

Note 19

Short-term financial liabilities EUR 321,610,753

in EUR

SHORT-TERM FINANCIAL LIABILITIES	31 Dec 2012	31 Dec 2011
To the Group companies	301,453,507	102,509,393
To banks	20,157,246	10,273,169
TOTAL	**321,610,753**	**112,782,562**

As at 31 December 2012, the short-term financial liabilities comprise the principals arising from short-term financial liabilities to HSE in the amount of EUR 300,600,000 (of which EUR 295,700,000 refer to bridge financing of the investment in construction of Unit 6) and relevant interest in the amount of 853,507, principals from long-term financial liabilities in the amount of EUR 8,330,879 that under loan agreements fall due in the next 12 months and liabilities arising from short-term revolving loans from bank in the amount of EUR 11,820,000.

In 2012, interest rates under contracts concluded for short-term loans ranged between the lowest 1-m Euribor+1.2% (1.32%) to the highest 4.63% (fixed).

Changes in short-term financial liabilities

in EUR

CHANGES IN SHORT-TERM FINANCIAL LIABILITIES	LOANS RECEIVED	TOTAL
As at 1 January	112,782,562	112,782,562
Acquisitions	284,411,602	284,411,602
Transfer to short-term fin. liabilities	8,330,879	8,330,879
Repayments	(83,914,290)	(83,914,290)
As at 31 December	**321,610,753**	**321,610,753**

Short-term financial liabilities to the group companies

in EUR

GROUP COMPANIES	COUNTRY	31 Dec 2012	31 Dec 2011
Holding Slovenske elektrarne d.o.o.	Slovenia	301,453,507	102,509,393
Total short-term financial liabilities to the Group companies		**301,453,507**	**102,509,393**

Short-term financial liabilities to group companies represent liabilities for principals in the amount of EUR 300,600,000 and liabilities for interest in the amount of EUR 853,507 falling due in 2013.

Short-term fin. Liabilities by maturity

in EUR

	Maturity date			TOTAL
	up to 3 months	from 3 to 6 months	from 6 to 12 months	
Short-term financial liabilities	1,207,096	305,389,213	15,014,444	321,610,753
Total	**1,207,096**	**305,389,213**	**15,014,444**	**321,610,753**

Note 20

Short-term operating liabilities EUR 264,098,938

in EUR

SHORT-TERM FINANCIAL LIABILITIES	31 Dec 2012	31 Dec 2011
To the Group companies	24,612,471	24,480,685
To associates	264,124	231,834
To suppliers	229,328,169	122,833,616
Advances	381	1,748
To employees	1,432,299	1,890,340
To the state and other institutions	8,034,306	6,736,504
Other	427,188	1,674,745
TOTAL	**264,098,938**	**157,849,472**

Short-term operating liabilities to the group companies

in EUR

GROUP COMPANIES	COUNTRY	31 Dec 2012	31 Dec 2011
Holding Slovenske elektrarne d.o.o.	Slovenia	1,915,209	1,768,948
HSE Invest d.o.o.	Slovenia	613,867	685,115
Premogovnik Velenje d.d.	Slovenia	18,502,971	18,487,875
HTZ Velenje d.o.o.	Slovenia	340,350	53,290
PV Invest d.o.o.	Slovenia	47,444	62,494
Gost Velenje d.o.o.	Slovenia	0	2,355
RGP Velenje d.o.o.	Slovenia	3,192,630	3,420,608
Total short-term operating liabilities to the Group companies		**24,612,471**	**24,480,685**

The largest share of liabilities to group companies consists of liabilities to Premogovnik Velenje d.d. for the coal supplied for production of electricity and thermal energy, in total amount of EUR 18,460,557. The liabilities were not yet due on the balance sheet date.

The main share of liabilities to suppliers is represented by investments in property, plant and equipment in the amount of EUR 218,496,355. Other liabilities in the amount of EUR 10,831,814 are disclosed among the material and services received.

As at 31 December 2012, the company discloses EUR 4,903,946 of overdue and outstanding liabilities to suppliers, the main part of which is in connection with the suppliers for investment in the amount of EUR 4,891,283, while EUR 12,663 represent liabilities to other suppliers. By 6 February 2013, all overdue liabilities were settled.

Other short-term operating liabilities:

- liabilities to employees for salaries and other employment-related receipts for December 2012 in the amount of EUR 1,432,299 which were settled on 14 January 2013;
- liabilities to government and other institutions in the amount of EUR 8,034,306. Here, the carbon tax liability (for CO_2 emissions) accounts for the largest part of liabilities. The liability for 2012 totals EUR 4,551,131 (1 coupon per ton of CO_2) and must be settled by 30 April 2013 (the company holds 4,301,696 emission coupons on the emission coupon registry account, and under intangible assets in the statement of financial position); The liabilities to government and other institution comprise the liability for damages compensation to local communities in the amount of EUR 2,444,287, the liability of the employer for salary-related contributions for December in the amount of EUR 204,720, and other liabilities;
- and other short-term liabilities in the amount of EUR 427,188, the main part of which is represented by the liabilities arising from cession contracts.

The company generally settles all its liabilities in due time.

Note 21

Current tax liabilities **EUR 0**

in EUR

CURRENT TAX LIABILITIES	31 Dec 2012	31 Dec 2011
Current tax liabilities	0	481,076
TOTAL	**0**	**481,076**

As at 31 December 2012, the company discloses no liabilities arising from the corporate income tax, due to changes in the Corporate Income Tax Act (ZDDPO-2) and utilisation of allowances for investment in equipment.

Note 22

Other short-term liabilities **EUR 3,948,419**

in EUR

OTHER SHORT-TERM LIABILITIES	31 Dec 2012	31 Dec 2011
Accrued costs	3,948,419	3,986,289
TOTAL	**3,948,419**	**3,986,289**

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

The accrued costs comprise also the costs of suppliers in the amount of EUR 2,117,098 on the basis of accrued costs of suppliers, mostly for the Unit 6 construction, and accrued costs of unutilised annual leave at the end of 2012, which amount to EUR 459,174.

4.9.2 Notes to the income statement

Note 1

Net sales revenue **EUR 258,550,639**

in EUR

NET SALES REVENUE	2012	2011
a) in domestic market	**258,511,195**	**233,506,362**
Electricity	253,084,382	227,365,020
Thermal energy	3,797,846	4,041,945
Other products	76,173	63,879
Other merchandise and materials	732,511	818,905
Other services	820,283	1,216,613
b) in foreign market	**39,444**	**112,574**
Other merchandise and materials	39,444	112,574
Total net sales revenue	**258,550,639**	**233,618,936**

Net sales revenue in the amount of EUR 258,550,639 was carried at invoiced amounts. The predominant share of revenue (99.4%) was generated through electricity and thermal energy sales.

Note 2

Capitalised own products and own services EUR 51,852

in EUR

CAPITALISED OWN PRODUCTS AND SERVICES	2012	2011
Capitalised own products and services	51,852	4,940,481
Total net sales revenue	**51,852**	**4,940,481**

Capitalised own services comprise the material used and internal work regarding the construction of Unit 6, which were recognised as increases in value of property, plant and equipment.

Capitalised own products and services in 2012 included the material used and internal work performed during the overhaul of Unit 5 and gas turbine PLT 2 and in other investments. There were no overhauls of the units in 2012.

Note 3

Other operating revenue EUR 5,444,495

in EUR

OTHER OPERATING REVENUE	2012	2011
Revenue arising from reversal of provisions	0	37,654
Drawing of deferred revenue	5,236,457	5,236,457
Profits arising from sales of fixed assets and reversed impairment of receivables	42,584	16,536
Revenue from compensations and contractual penalties	2,971	0
Other operating revenue	162,483	228,527
Total other operating revenue	**5,444,495**	**5,519,174**

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 2012, accounts for the largest share of other revenue.

Revenues arising from subsidies and other government grants are revenues 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 from sale of fixed assets in the amount of EUR 34,075 and the payment in previously created disputed receivables arising from rents in the amount of EUR 8,509.

Note 4

Costs of goods, materials and services EUR 163,910,845

in EUR

COSTS OF GOODS, MATERIALS AND SERVICES	2012	2011
Costs of materials	148,990,400	144,760,988
Costs of auxiliary materials	210,517	177,550
Costs of energy	137,792	1,031,219
Costs of spare parts and maintenance materials	2,167,423	6,185,163
Costs of small tools	173,924	219,789
Other costs of materials	600,403	671,268
Total costs of materials	**152,280,459**	**153,045,977**
Costs of services in the manufacture of products	359,453	343,811
Costs of transport services	367,570	473,329
Maintenance services	5,918,002	6,873,946
Costs of rents	327,795	177,231
Costs relating to business trips	148,960	111,570
Insurance and bank services costs	917,030	952,215
Costs of intellectual and personal services	800,869	1,133,683
R&D costs	110,808	217,623
Costs of fairs, advertising and entertainment	208,054	250,208
Costs of services performed by individuals	237,462	202,537
Costs of disposal sites management	1,679,975	1,776,319
Other costs of services	554,408	654,427
Total costs of services	**11,630,386**	**13,166,899**
Total costs of goods, materials and services	**163,910,845**	**166,212,876**

Costs of material for 2012 include net positive effect of foreign exchange differences in the amount of 49 EUR and net negative effect of foreign exchange differences in the amount of 18 EUR for 2011.

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.

After the inventory count of materials, surpluses of EUR 29 and shortages of EUR 107 were determined.

Costs of services related to maintenance of property, plant and equipment comprise costs of regular maintenance in the amount of EUR 5,918,002.

Costs of intellectual and personal services include auditing costs in the amount of EUR 23,403 and costs of other audit services in the amount of EUR 3,720.

Auditing costs

in EUR

AUDITING COSTS	2012	2011
Audit of annual reports	23,403	28,634
Other auditing services	3,720	48,000
Total auditing costs	**27,123**	**76,634**

Note 5

Labour costs EUR 19,445,666

in EUR

LABOUR COSTS	2012	2011
Salaries	13,922,204	14,039,028
Pension insurance costs	1,931,624	1,996,254
Other insurance costs	1,103,967	1,115,804
Other labour costs	2,487,871	2,742,987
Total labour costs	**19,445,666**	**19,894,073**

Average number of employees by level of formal education

	2012	2011
Level I	7	9
Level II	34	37
Level III	12	12
Level IV	130	134
Level V	168	177
Level VI/1	57	52
Level VI/2	25	24
Level VII	27	27
Level VIII/1	10	9
Level VIII/2	1	2
TOTAL	**471**	**483**

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. IThe pension scheme labelled PN1 is managed by the company Modra zavarovalnica 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 31,598,702

in EUR

WRITE-DOWNS IN VALUE	2012	2011
Amortisation of intangible assets	205,760	205,923
Depreciation of property, plant and equipment	27,718,297	33,009,372
Sales and write-downs of property, plant and equipment and intangible assets	91,316	70,408
Impairments of inventories and receivables	3,583,329	19,870
Total amortisation/depreciation	**31,598,702**	**33,305,573**

The depreciation/amortisation charge in 2012 totals EUR 27,924,057 and is accounted for at depreciation/amortisation rates based on the assessment or impairment of property, plant and equipment in 2001, or at rates applicable to new purchases determined by the internal contracting person.

In 2012, the company changed the useful life estimates on the basis of analysis of the condition of plants and the estimated operating regime of Unit. Due to justified estimation on the basis of expected useful life, arising from 310,000 operating hours, the newly assessed useful life was postponed to the end of year 2027 (the previous estimate of useful life – end of 2021). As the useful life was extended, the accounted for depreciation in 2012 was reduced by EUR 4,770,510.

Revaluation operating expenses in the amount of EUR 3,674,645 refer to:

- write-down of unusable goods in the amount corresponding to their net carrying amount (EUR 91,316). The assets were written down because they were worn out, and technologically and economically obsolete. The assets were discontinued or disposed of. In the inventory count, a deficit of EUR 362 corresponding the carrying amount of assets was identified.
- impairment of receivables due to doubtful repayment or excess of carrying amount over the expected realisable value of receivables, which amounted to EUR 3,583,329. The main part of impaired receivables refers to receivables declared in the bankruptcy proceeding of Primorje.

Note 7

Other operating expenses EUR 14,977,471

in EUR

OTHER OPERATING EXPENSES	2012	2011
Provisions	311,404	53,621
Fee for building site use	3,939,195	2,789,148
Environmental protection expenses	7,081,265	9,099,816
Donations	240,280	444,386
Other costs or expenses	3,405,327	3,460,764
Total other expenses	**14,977,471**	**15,847,735**

The predominant share of expenses includes the liability arising from payment of the building site fee in the amount of EUR 3,939,195.

Most of environmental protection expenditures are represented by emission coupon costs of EUR 5,920,223. According to estimates, the company produced 4,551,131 tonnes of CO2 in the financial year. In accordance with the Environment Protection Act, the company is obligated to hand over 4,551,131 emission coupons to the government. The expenses thus include 4,301,696 coupons at the cost of 1 euro and expenses in the amount of EUR 1,611,350 which represent accrued operating expenses for missing emission coupons (249,435) for 2012.

Note 8

Financial revenue EUR 59,770

in EUR

FINANCIAL REVENUE	2012	2011
Interest from loans granted and deposits	42,483	13,220
Other	17,287	19,991
Total financial income	**59,770**	**33,211**

Revenue from loans given regards the interest on time deposits with the bank in which HSE holds a treasury account. 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 1,598,083

in EUR

FINANCIAL EXPENSES	2012	2011
From loans received	763,133	1,038,927
Other	834,950	86,658
Total financial expenses	**1,598,083**	**1,125,585**

The main share of financial liabilities is comprised of interest expense arising from long-term and short-term loans and amounts to EUR 763,133. Interest was accounted for in accordance with the contract between the lender and the borrower.

Expenses for operating liabilities in the amount of EUR 834,950 are represented by expenses for operating liabilities in the group.

Note 10

Taxes - EUR 115,112

in EUR

TAX	2012	2011
Income tax	0	(1,616,337)
Deferred tax	(115,112)	(48,937)
Tax	**(115,112)**	**(1,665,274)**

Calculated tax

in EUR

TAX CALCULATION	2012	2011
Profit or loss before tax	32,575,989	7,725,961
Tax calculated at applicable tax rate (18%)	5,863,678	1,545,192
Tax from revenue reducing tax base	(1,531)	(6,525)
Tax from tax breaks	(6,770,656)	(291,214)
Tax from non-deductible expenses	955,715	546,566
Tax from other changes in tax calculation	(47,206)	(177,682)
Tax	0	1,616,337
Effective tax rate	**0.00%**	**20.92%**

In compliance with the Corporate Income Tax Act, the company prepared a corporate income tax return for the period 1 January to 31 January 2012 and determined that tax liabilities will not be disclosed due to utilisation of reliefs for investment in equipment.

The bases for creation of deferred tax assets represent the amount of long-term provisions created for jubilee and termination benefits on retirement, revaluation of long-term investments and depreciation/amortisation rates exceeding the rates determined by the Corporate Income Tax Act (ZDDPO-2). The decrease in deferred tax assets of EUR 115,112 is mostly the result of conversion of provisions for jubilee and termination benefits to 15% tax rate.

Note 11

Net profit EUR 32,460,877

in EUR

PROFIT OR LOSS TYPE	2012	2011
Gross return on operations	264,046,986	244,078,592
Operating profit or loss	34,114,302	8,818,335
Financial profit or loss	(1,538,313)	(1,092,374)
Profit or loss before tax	32,575,989	7,725,961
Net operating profit or loss for the period	**32,460,877**	**6,060,687**

Increase in the profit with respect to the previous period resulted from increased sales price of coal-based electricity.

4.9.3 Notes to the cash flow statement

The cash flow statement for 2012 is prepared on the basis of direct method and comprises all cash receipts and disbursements in the period from 1 January to 31 December 2012.

Cash flows by subgroups:

in EUR

CASH FLOWS	2012	2011
Cash flows from operations	90,873,823	74,465,365
Cash flows from investing activities	(291,294,317)	(283,835,645)
Cash flows from financing activities	198,391,939	211,356,882
Net cash inflow or outflow for the period	**(2,028,555)**	**1,986,602**

The cash flow statement shows that the company realised EUR 90,873,823 of net cash from operating activities and EUR 198,391,939 of net cash from financial activities, which were entirely used to cover the investments expenses.

4.10 OTHER DISCLOSURES

4.10.1 Related parties

Relations with associated companies

in EUR

GROUP COMPANY	SALES	PURCHASES	LOANS RECEIVED
Holding Slovenske elektrarne d.o.o.	253,549,709	11,539,955	301,453,507
Premogovnik Velenje d.d.	3,199	111,171,794	0
Termoelektrarna Trbovlje d.o.o.	461	0	0
HSE Invest d.o.o.	14,423	2,224,712	0
HTZ Velenje d.o.o.	2,393	1,104,005	0
Gost Velenje d.o.o.	0	4,365	0
PV Invest d.o.o.	0	160,737	0
RGP Velenje d.o.o.	667	14,276,123	0
Total Group companies	253,570,852	140,481,691	301,453,507
Total associates	1,263	663,138	0
TOTAL	**253,572,115**	**141,144,829**	**301,453,507**

The loans received represent the balance of loans and liabilities for interest as at 31 December 2012.

4.10.2 Receipts

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

Receipts of the Management, Supervisory Board's members and employees who are not subject to the tariff part of the collective agreement	SALARY	OTHER RECEIPTS	BONUSES	REIMBURSEMENT OF COSTS	TOTAL
Management	0	71,849	118	0	71,967
Supervisory Board members	0	60,865	471	2,293	63,629
Employees who are not subject to the tariff part of the collective agreement	332,346	168,710	7,895	980	509,931
Total receipts	**332,346**	**301,424**	**8,484**	**3,273**	**645,527**

Receipts of the company's management represent gross receipts in accordance with the management contract.

Receipts of other employees who are not subject to the tariff part of the collective agreement comprise:
- gross receipts, according to the method of payment,
- other receipts,
- premiums paid for voluntary additional pension insurance, and
- reimbursements.

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

4.10.3 Contingent liabilities and assets

Contingent liabilities

in EUR

CONTINGENT LIABILITIES	31 Dec 2012	31 Dec 2011
Bank guarantees issued (electricity)	70,000	70,000
Other	26,993	36,140
Total contingent liabilities	**96,993**	**106,140**

Contingent assets

in EUR

CONTINGENT ASSETS	31 Dec 2011	31 Dec 2010
Bank guarantees received (electricity)	1,831,920	1,790,070
Bank guarantees received (investments)	108,019,153	184,471,891
Other	1,331,086	1,326,107
Total contingent assets	**111,182,159**	**187,588,068**

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.

4.11 FINANCIAL INSTRUMENTS AND RISKS

This section is connected with the section 4.3.11 of the financial report as well as with the section 2.11 on financial risks in the business report.

4.11.1 Credit risk

Credit risk is the risk of failure of the counterparty to settle its liabilities. In addition to failure to pay, the company also risks the failure of settling non-financial liabilities. The consequence of such risk is the lack of liquid assets. In risks associated with investment activities, the credit risk was 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 works and costs of default interest. The risk was important but, on the other hand, less probable due to the fact that the Republic of Slovenia has already issued all significant approvals for the performance of the project and its letter of support to the EBRD bank and no objection letter to the European Investment Bank. The EIB and the Republic of Slovenia entered into the agreement on government guarantee on 4 December 2012.

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

Receivables by maturity

in EUR

RECEIVABLES BY MATURITY	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	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**
Short-term operating receivables	63,376,069	854,632	1,550	0	0	0	64,232,251
Long-term operating receivables	0	0	0	6,307	13,210	83,763	103,280
Balance as at 31/12/2012	**63,376,069**	**854,632**	**1,550**	**6,307**	**13,210**	**83,763**	**64,335,531**

4.11.2 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

LIABILITIES BY MATURITY	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	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**
Short-term operating liabilities	261,044,371	3,054,567		0	0	0	264,098,938
Short-term financial liabilities	1,207,096	305,389,213	15,014,444	0	0	0	321,610,753
Long-term operating liabilities	0	0	0	1,692,285	0	0	1,692,285
Long-term financial liabilities	0	0	0	21,579,344	30,729,329	145,052,439	197,361,112
Balance as at 31/12/2012	**262,251,467**	**308,443,780**	**15,014,444**	**23,271,629**	**30,729,329**	**145,052,439**	**784,763,088**

The financial year of 2012 was characterised by the risk of non-issuance of the government guarantee for the EUR 400 million EIB loan; nevertheless, the guarantee was issued on 4 December 2012. However, there was still the risk of actual drawing of funds arising from the fulfilment of all conditions for financing. Due to the delay in obtaining the government guarantee, the company and the rest of the HSE Group faced liquidity issues. At the beginning of 2013, the conditions for drawing were met, so that on 14 March 2013 TEŠ received the long-term EIB loan in the amount of EUR 440 million, while on 19 March 2013 the company drew also the EUR 117.5 million long-term loan from EBRD.

Managing risk of delay in acquiring government guarantee was controlled through up-to-date alternative scenarios, short-term borrowing and optimisation of liquidity and operations. According to assessment, the risk management in 2012 was carried out appropriately.

The risk of non-issuance of the government guarantee was managed by performing scenarios of alternative financing of replacement Unit 6 in TEŠ. The risk was estimated as being adequately managed in 2012.

4.11.3 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

FINANCIAL INSTRUMENTS - CURRENT STATE	2012	2011
Financial instruments at fixed interest rate		
Financial liabilities	1,941,990	5,826,270
Financial instruments at variable interest rate		
Financial liabilities	11,250,000	17,638,889
TOTAL	**13,191,990**	**23,465,159**

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 2012		Net profit or loss for 2011	
	Increase of 50 bp	Decrease of 50 bp	Increase of 50 bp	Decrease of 50 bp
Financial instruments at variable interest rate				
Financial liabilities	**78,962**	**78,962**	**115,896**	**115,896**

4.11.4 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

EQUITY MANAGEMENT	2012	2011
Long-term financial liabilities	197,361,112	205,691,991
Short-term financial liabilities	321,610,753	112,782,562
Total financial liabilities	**518,971,865**	**318,474,553**
Total equity	395,268,577	362,807,700
Financial liabilities/equity	**1.31**	**0.88**
Net financial liability	518,966,204	316,440,337
Net debt/equity	**1.31**	**0.87**

4.11.5 Fair value

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 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value				
Available-for-sale financial assets	260,003	260,003	260,003	260,003
Operating receivables	64,335,531	64,335,531	53,751,421	53,751,421
Cash	5,661	5,661	2,034,216	2,034,216
Total non-derivative financial assets	**64,601,195**	**64,601,195**	**56,045,640**	**56,045,640**
Non-derivative financial liabilities at amortised cost				
Banking loans	217,518,792	217,518,792	215,965,160	215,965,160
Other financial liabilities	301,453,507	301,453,507	102,509,393	102,509,393
Operating liabilities	265,791,223	265,791,223	161,716,426	161,716,426
Total non-derivative liabilities	**784,763,522**	**784,763,522**	**480,190,979**	**480,190,979**

Financial assets carried at fair value according to hierarchy

in EUR

FINANCIAL ASSETS CARRIED AT FAIR VALUE ACCORDING TO HIERARCHY	31 Dec. 2012	31 Dec. 2011
Financial assets at fair value of the third level	260,003	260,003
Total financial assets at fair value	**260,003**	**260,003**

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

The Empress Maria Theresa ordered every house to plant a special variety of pear which always results in a bountiful harvest to relieve famine among the rural population.

Social responsibility

Our participation in various social activities and financial support of projects enable us to play a responsible role in the development of the environment in which we operate.

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 apartments 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

Statement of financial position by business segments

in EUR

2012	Total TEŠ	Electricity production	Steam and hot water supply	Other business segments
TOTAL ASSETS	**1,192,103,061**	**1,188,988,275**	**1,909,736**	**1,205,050**
Long-term assets	1,108,298,579	1,106,800,633	573,478	924,468
Current assets	83,804,482	82,187,642	1,336,258	280,582
TOTAL LIABILITIES	**1,192,103,061**	**1,184,564,067**	**4,275,890**	**3,263,104**
Equity	395,268,577	389,040,520	3,245,412	2,982,645
Long-term liabilities	207,176,374	207,085,312	11,383	79,679
Short-term liabilities	589,658,110	588,438,235	1,019,095	200,780
Receivables/liabilities to business segments		**4,424,208**	**(2,366,154)**	**(2,058,054)**

5.1.2 Income statement by business segments

Income statement by business segments

in EUR

2012	Total TEŠ	Electricity production	Steam and hot water supply	Other business segments
Sales revenue	258,550,639	254,188,197	3,918,455	443,987
Other revenue	6,350,436	5,378,319	162,977	809,140
TOTAL REVENUE	**264,901,075**	**259,566,516**	**4,081,432**	**1,253,127**
TOTAL EXPENSES	**232,325,086**	**227,282,763**	**3,954,299**	**1,088,024**
Total tax	(115,112)	(111,399)	(464)	(3,249)
Internal services costs	**32,460,877**	**32,172,354**	**126,669**	**161,854**

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

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