ANNUAL REPORT

2014

Skupina GEN

TERMOELEKTRARNA
ŠOŠTANJ

ANNUAL REPORT

2014

Skupina HSE

TERMOELEKTRARNA
ŠOŠTANJ

Contents

Introduction

Termoelektrarna Šoštanj d.o.o. is the largest thermal production facility in the Holding Slovenske Eelektrarne Group. Its core activity is the production of electricity and thermal energy for district heating. With an output of 637 MW, or 1,182 MW together with Unit 6, TEŠ produces approximately one third of the country's energy, and in critical periods it can cover more than half of the national demand. The average annual electricity production ranges between 3,500 and 3,800 GWh. The average annual production of thermal energy for district heating of the Šalek Valley amounts to 300-400 GWh. For the previously mentioned annual electricity and thermal energy production, TEŠ consumes between 3.5 and 4.0 tons of coal.
In terms of output, TEŠ's operation is comparable to superior thermal power plants across Europe. The construction of Unit 6, which was successfully incorporated into the Slovenian electricity network at the end of September 2014 after the completion of cold start-up tests, will decrease the degree of environmental pollution, improve quality and energy efficiency, and enable the power plant to attain compliance with international BAT (Best Available Technology) standards.

The cornerstone of the Company's activities is respect for past achievements and consideration of experiences and past work. Based on its acquired experience and skills, TEŠ is focused on the future and is rationally applying the latest findings in its field of activity.

The Company's operations are based on adopted long-term projections of business operation up to the year 2030, with emphasis on the construction of Unit 6 with a rated power of 600 MW by 2015. Compared to the existing units, replacement Unit 6 will consume approximately 30 % less coal for the same amount of electricity produced, and emit approximately 30 % less CO_2 into the environment. Joint emissions into the environment will also be substantially lower. The conceptual design and operations of Unit 6 are and will be in line with European directives and the requirements of BAT (Best Available Technology) reference documents.

1.1 Letter of the Managing Director

Letter of the Managing Director

Dear all,

Termoelektrarna Šoštanj has an extremely important role in the Slovenian electricity system. When natural conditions fail (lower water levels), it can respond immediately. That is how it was in past years and that is why we can rightly assume that TEŠ will be able to attain record daily outputs at crucial moments in the future as well.

The European electricity market is still under the influence of general stagnation and the share of renewable energy sources, which was reflected in lower electricity prices. All of this had a strong impact on the energy sector as an important economic branch, and forced TEŠ to confront a tightened financial situation.

A great deal of our attention was devoted to establishing and preserving financially sustainable business operation. For this purpose we are planning and implementing gradual and well-considered measures aimed at optimizing and rationalizing operations.

In 2014 we managed to bring the Unit 6 construction project very close to its completion. In autumn, the first kilowatt-hours of electricity were transmitted from Unit 6 to the Slovenian electricity network. We can say that all phases of the project were executed according to schedule and without major difficulties. We now face a very challenging period in which we will have to settle our obligations towards the banks that financed our investment in the construction of replacement Unit 6, and at the same time ensure the undisturbed operation of Unit 6. The achievement of our mission – ensuring reliable electricity supply – will also depend, to a great extent, on how different stakeholders will understand energy issues and challenges related to the future of energy supply.

Our company operated safely and stably in the financial year 2014, though the electricity output was lower than planned, primarily due to extremely favourable hydrology. Owing to substantially declining sales prices of electricity in electricity markets, adjustments of our production to start-up tests in Unit 6, and difficulties in coal production at the Velenje Coal Mine, the Company disclosed a negative result for the period. The unfavourable profit or loss was additionally influenced by the impairment of assets and inventories of the Company as a result of the valuation of TEŠ's assets as at 31 December 2014. The valuation was performed due to signs of impairment of the parent company's (HSE) investment in TEŠ and in line with the opinions of the auditor.

We intend to make good use of our advantages, motivation, expertise and the endeavours of all our employees with the aim of choosing effective and proper solutions that will ensure the Company's sound operation and sustainable business operation in future as well.

Šoštanj, 6 August 2015

Matjaž Eberlinc, PhD
Managing Director

1.2 Report of the Supervisory Board

TERMOELEKTRARNA ŠOŠTANJ

WRITTEN REPORT OF THE SUPERVISORY BOARD OF TERMOELEKTRARNA ŠOŠTANJ d.o.o. for the period from 1 January 2014 to 29 April 2014

1.2 REPORT OF THE SUPERVISORY BOARD

Pursuant to the provisions of Article 282 of the Companies Act (ZGD-1), the Supervisory Board of Termoelektrarna Šoštanj d.o.o. hereby informs the founder on the method and scope of supervision of the Company's management in the financial year 2014.

In 2014 the Supervisory Board of the Company was active only from 1st January 2014 until 29 April 2014, when it was dissolved by resolution of its sole shareholder, HSE d.o.o.. In this period the Supervisory Board was comprised of the following representatives of capital: Roman Šturm, PhD (Chairman), Janja Špiler (Deputy Chair), Marijan Penšek, MSc, and Herman Janež. Pursuant to the provisions of the Worker Participation in Management Act (ZSDU), Janez Ramšak, Jr., and Andrej Višnar participated as the representatives of employees.

The Committee for Active Supervision of the Unit 6 Investment at TEŠ was comprised of the following members: on the part of HSE d.o.o.: Marko Tandler, PhD (Chairman), Matjaž Eberlinc, PhD, and Stanislav Prevalnik; and on the part of TEŠ d.o.o.: Ana Doberšek. The committee met regularly on a weekly basis, monitored the activities related to the implementation of the project, and reported its findings to the Supervisory Board of the Company and to the managements of both TEŠ d.o.o. and HSE d.o.o..

At the 82nd regular meeting held on 22 April 2014, the Audit Committee of the Supervisory Board of TEŠ d.o.o. was expanded from three to four members, who were appointed as follows: Herman Janež as Chairman, Janja Špiler as member, Janez Ramšak, Jr. as the representative of employees, and Franjo Mlinarič, PhD as external member.

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The Supervisory Board took note of the proposed programme of work of the Audit Committee and the Supervisory Board in the year 2014. The Audit Committee of the Supervisory Board met at one regular meeting in 2014.

In the 2014 financial year, the Company was represented and managed by its Managing Director, Peter Dermol, who was appointed by the Supervisory Board at its 36th extraordinary meeting held on 9 April 2013, based on a call for applications, for a term of 4 years with the possibility of re-appointment.

1.2.1 MONITORING AND SUPERVISION OF THE COMPANY'S OPERATIONS

In the period under consideration, the Supervisory Board regularly monitored and supervised the management and business operations of the Company at 4 regular and 4 extraordinary meetings, and at 7 correspondence sessions.

TEŠ d.o.o. is fully (100 %) owned by HSE d.o.o., which has a significant effect on corporate governance. Considering the additional fact that TEŠ is the investor in the largest energy project in Slovenia – replacement Unit 6 – its operations are also monitored by the bodies of the controlling company, as its activities influence the whole HSE Group. By issuing a parent company guarantee and carrying out capital increases, HSE d.o.o., and indirectly the entire HSE Group, has assumed great responsibility in connection with the investment in Unit 6, which is why considerable attention is also devoted to ensuring harmonised operation at the level of the HSE Group. The quick and uninterrupted flow of key information within the HSE Group is also enabled by meetings of the HSE Group's managing directors, which are held on a regular basis and contribute significantly to the Company's prompt response to changes. For the purpose of strengthening supervision over the implementation of the investment in Unit 6, HSE d.o.o. and TEŠ d.o.o. established, on the basis of a mutual agreement, the Committee for Active Supervision of the Unit 6 Investment at TEŠ d.o.o., whose duty is regular reporting to the management of HSE d.o.o. and the Supervisory Board of TEŠ d.o.o.. The companies also appointed a Coordination Group of HSE d.o.o. and TEŠ d.o.o. for optimisation of the financial structure of Unit 6 and minimisation of financing costs, which is responsible for the co-ordination of complex financial activities within the scope of the project for the construction of replacement Unit 6. Both bodies are composed of representatives of both companies. Such a system of supervision and work optimisation in co-operation with the governing, managing and supervisory bodies of both companies

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ensures systematic and comprehensive control over the Company's operations, as well as the progress of construction of the 600 MW replacement Unit 6 at TEŠ d.o.o..

In the period discussed, the Supervisory Board was informed on the Company's operations and the implementation of the Supervisory Board's resolutions, and dealt with legal transactions which, pursuant to the Articles of Association of the limited liability company Termoelektrarna Šoštanj d.o.o., require the prior consent of the Supervisory Board, and other business and strategically relevant areas.

In performing its duties, the Supervisory Board considered the recommendations of the Committee for Active Supervision of the Investment, which is accountable for its work to the Managing Director of HSE d.o.o..

The key issues discussed by the Supervisory Board of the Company in 2013 (in the period from 1st January 2014 until 5th May 2014 inclusive) regarding the replacement Unit 6 construction project were the following:

a.) consent to the signing of Addendum No. 1 to the Contract for the supply and installation of steel structures and phase one of coal transport technology in replacement Unit 6 at Termoelektrarna Šoštanj, between TEŠ d.o.o. and HTZ I.P. d.o.o. (79th RM, 20 January 2014);
b.) consent to the signing of Addendum No. 10 to the Contract for the supply of core technological equipment for Unit 6, between TEŠ d.o.o., Alstom Power Systems S.A. and Alstom Power Systems GmbH (43th EM, 6th February 2014);
c.) consent to the signing of Addendum No. 11 to the Contract for the supply of core technological equipment for Unit 6, signed on 27 June 2008, between TEŠ d.o.o., Alstom Power Systems S.A. and Alstom Power Systems GmbH (43th EM, 6th February 2014);
d.) consent to the conclusion of Addendum No. 10 to the Contract on the execution of investment engineering in implementing the Unit 6 construction project, between TEŠ d.o.o. and HSE Invest d.o.o. (45th EM, 26 February 2014);
e.) consent to the conclusion of Addendum No. 2 to the Contract on Civil Works for Rest of Plants of Unit 6, between TEŠ d.o.o. and RGP d.o.o. (45th EM, 26 February 2014).
f.) consent to the signing of the Agreement on Debt Assumption between TEŠ d.o.o. and HSE d.o.o. (39th COR.S., 7th February 2014).

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In this period the Supervisory Board also verified the Company's liquidity and solvency management. The Company's Management regularly informed the Supervisory Board on the project status, the functioning of the Committee for Active Supervision of the Investment, the cash flow plan, the progress of preparations for the 6th revision of the Amended Investment Program (NIP6), and on the projected measures for the optimisation of business operation.

The Supervisory Board was also regularly informed on the effects of negotiations with the key supplier – the Alstom company, and with other suppliers. Special attention was devoted to verifying the management of risks to which the Company is exposed in the course of performing its activities.

Other issues addressed by the Company's Supervisory Board in 2014 were the following:

1. consent to the signing of Sales/Purchase Contract for natural gas with Geoplin d.o.o., No. PP-01-14 (38th COR.S., 9th January 2014);
2. consent to the Managing Director's proposal that TEŠ d.o.o. does not enforce its pre-emptive right regarding the share in the company ERICO d.o.o. (79th RM, 20 January 2014);
3. consent to the conclusion of Contract No. 33/14/HSE/N on the purchase of active power reserve and control energy for the purpose of tertiary frequency control, between Holding Slovenske elektrarne d.o.o. and TEŠ d.o.o. (80th RM, 17 February 2014);
4. acknowledgement of Amended Investment Program for »Construction of 600 MW Replacement Unit 6 at TE Šoštanj«, 6th revision, issued February 204 (44th EM, 19 February 2014);
5. consent to conclusion of Contract No. 49/14/HSE/N on the purchase of electricity produced at the PT51 gas-fired unit in the period from 1st January 2014 to 31 December 2014, between Holding Slovenske elektrarne d.o.o. and TEŠ d.o.o. (45th EM, 26 February 2014);
6. consent to conclusion of the Contract on the maintenance of electricity devices in units 3, 4, 5 and 6 at TE Šoštanj (45th EM, 26 February 2014);
7. consent to the conclusion of Addendum No. 1 to the Contract on land lease – coal disposal site in Velenje (Contract No. 0835/2013 (45th EM, 26 February 2014);
8. consent to conclusion of Contract No. 1/14/HSE/N on coal purchase, lease of power and purchase of electricity, between HSE d.o.o., TEŠ d.o.o. and PV d.d. (41st COR.S., 3rd March 2014);

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9. consent to conclusion of Sales/Purchase Contract No. 14/14/HSE/CO2 on the sale, purchase, transfer and assumption of 4,223,221 EUA emission coupons, between TEŠ d.o.o. and HSE d.o.o. (42nd COR.S., 7th March 2014);
10. consent to conclusion of Addendum No. 1 to Contract No. 1/13/HSE/N on coal purchase, lease of power, and purchase of electricity, between HSE d.o.o., TEŠ d.o.o. and PV d.d. (42nd COR.S., 7th March 2014);
11. consent to conclusion of Contract No. 1/14/HSE/N on coal purchase, lease of power, and purchase of electricity, between HSE d.o.o., TEŠ d.o.o. and PV d.d. (42nd COR.S., 7th March 2014);
12. consent to the proposed business plan of TEŠ for the year 2014, together with an additional plan for 2015 and 2016 (81st RM, 24 March 2014).

In 2014 the Supervisory Board also intensively focused its activities on the project for the construction of replacement Unit 6 at Termoelektrarna Šoštanj d.o.o.. The Supervisory Board conducted its activities on the basis of information and reports submitted by the management, and within the scope of its authorisations and competences as laid down in applicable law and the Company's Articles of Association.

The Supervisory Board of the Company prepared this report in line with Article 282 of the Companies Act (ZGD-1). The report of the Supervisory Board is intended for the Company's founder.

By resolution of the sole shareholder dated 29 April 2014, the Supervisory Board of TEŠ was dissolved and ceased to carry out its activities. Consequently, the Audit Committee of the Supervisory Board of TEŠ also ceased to carry out its activities.

By authorisation of the Supervisory Board of Termoelektrarna Šoštanj d.o.o.,

Šoštanj, 21 August 2014

Roman ŠTURM, PhD
Chairman of the
Supervisory Board

www.te-sostanj.si

1.3 Operating Highlights in 2014

The year 2014 was extremely challenging for Termoelektrarna Šoštanj, primarily due to the tightened financial conditions. In addition, the year was also marked by lower production than planned. However, thanks to the endeavours of all those participating in the construction of replacement Unit 6, we can say that we managed to meet all the set deadlines, and even surpassed them. On 24 September 2014 the first synchronization of Unit 6 with Slovenia's electricity network was carried out, and the first kilowatt hours of electricity were transmitted from the facility. On 21 October, Unit 6 achieved a nominal power of 600 MW for the first time.

The European electricity market has remained under the influence of widespread economic stagnation and the share of renewable sources, which is reflected in lower electricity prices. TEŠ's primary task in upcoming years is to provide for financially sustainable business operation. The careful planning of operating costs, cash flows, and asset management have remained a constant. We have adopted several measures aimed at the optimization, rationalization and restructuring of business operations, including disinvestment, which will contribute to the Company's sustainable operation.

We shall use our advantages in the best way possible, and prove that we have the knowledge and ability to supply one third or even more electricity to all of Slovenia in a safe, reliable and environmentally sound manner.

In 2014, TEŠ generated EUR 185,474,049 in net sales revenue. In comparison with 2013, the revenue was lower by 24 %, primarily due to the lower quantity and price of coal-based electricity sold.

The net profit or loss of the Company totalled EUR 89,275,670. This figure was lower than in 2013, also due to the lower selling price of electricity. The lower profit or loss was to a considerable extent influenced by the impairment of assets and inventories of spare parts on the basis of a valuation of these assets in the amount of EUR 63,640,024. Since the period of testing the operation of replacement Unit 6 was considered as a single

Item	2014	2013	2014/2013
Net sales revenue in EUR	**185.474.049**	243.665.466	76
Net sales revenue in the domestic market in EUR	**185.461.798**	243.622.653	76
Net sales revenue in foreign markets in EUR	**12.251**	42.813	29
Net profit or loss in EUR	**(89.275.670)**	2.050.122	0
Revenue in EUR	**191.065.052**	248.042.778	77
Expenses in EUR	**279.630.603**	246.175.093	114
Labour costs in EUR	**18.103.491**	19.012.973	95
EBIT = operating profit or loss in EUR	**(87.612.594)**	2.487.347	0
EBITDA = EBIT + AM in EUR	**(58.688.029)**	29.923.412	0
Assets in EUR	**1.498.884.806**	1.408.821.630	106
Equity in EUR	**426.353.458**	515.676.985	83
Bank indebtedness in EUR	**758.332.223**	754.861.310	100
Investments in EUR	**183.131.868**	255.121.919	72
Number of employees at the end of the period	**439**	450	98
Electricity sold (GWh)	**2.835**	3.607	79
Net return on equity ratio (ROE)	**(0,190)**	0,005	0
Net return on assets ratio (ROA)	**(0,061)**	0,002	0
Added value in EUR	**23.098.169**	49.155.674	47
Added value per employee in EUR	**51.964**	107.562	48

period, the effects of the operation of Unit 6 by stage of completion were transferred to the purchase value of the investment (reduction of investment value by EUR 1,471,953).

Assets in the amount of EUR 1,498,884,806 increased by 6 % in 2014, predominantly due to investments in the construction of replacement Unit 6.

In 2014, all project phases were completed on schedule and without major difficulties. On 24 September 2014 the first synchronization of Unit 6 with the Slovenian electricity network was successfully carried out, and the first kilowatt hours of electricity were transmitted to the network. This was followed by the optimization and protection testing phases. A new, important milestone was achieved on 21 October 2014, when Unit 6 first attained a maximum power of 600 MW. This was followed by trial runs. A technical inspection was conducted from 7-25 May 2015, on the basis of which the Ministry of the Environment and Spatial Planning issued on 27 May 2015 a decision ordering trial operation for a period of one year. The contractual trial operation of main technological equipment was begun on 28 May 2015, while the trial operation ordered under the above-mentioned decision will begin on 11 June 2015.

The disclosed value of assets was also significantly influenced by the impairment of assets. More on this topic in section 4.9.2, Note 6.

As regards other investments, for the purpose of optimising its business operations, TEŠ carried out in 2014 only the most urgently required investments that had been planned in line with the adopted annual plan.

Liabilities to banks amounted to EUR 758,332,223 and increased in comparison with 2013 due to the utilisation of short-term loans raised with commercial banks for the purpose of controlling liquidity. In 2015 the Company will begin to repay a long-term loan raised with EBRD (European Bank for Reconstruction and Development) for financing the construction of replacement Unit 6.

On 31 December 2014, TEŠ had 439 employees. Compared to the situation at the end of 2013, the number of employees decreased by 11.


January 2014


January 2014


April 2014

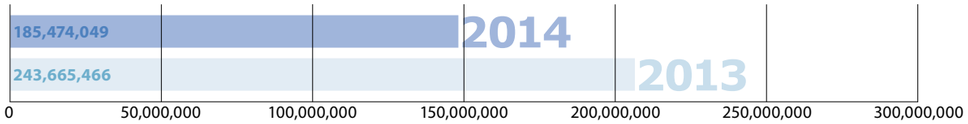

March 2014


May 2014

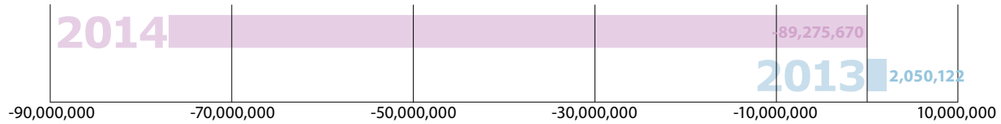

May 2014

In 2014, TEŠ generated and sold 2,835 GWh of electricity. The annual amount of electricity produced was 21 % lower than in 2013, primarily as the result of extremely favourable hydrology conditions and the reduced operation of units due to difficulties encountered by the Velenje Coal Mine in the extraction and supply of coal.

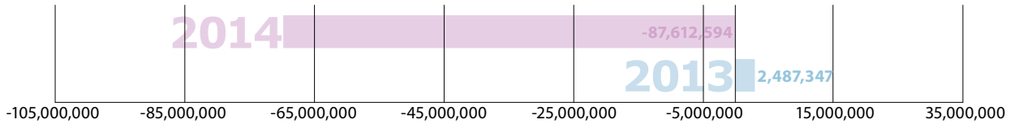
Net sales revenue in €



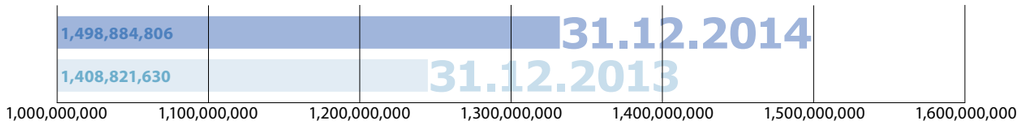
Net profit or loss in €



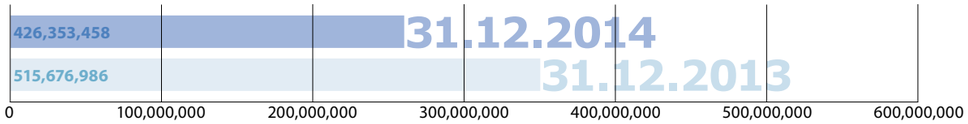
EBIT = profit or loss in €



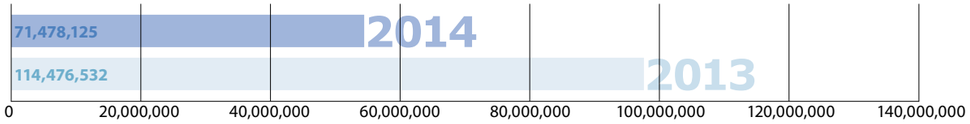
Assets in €



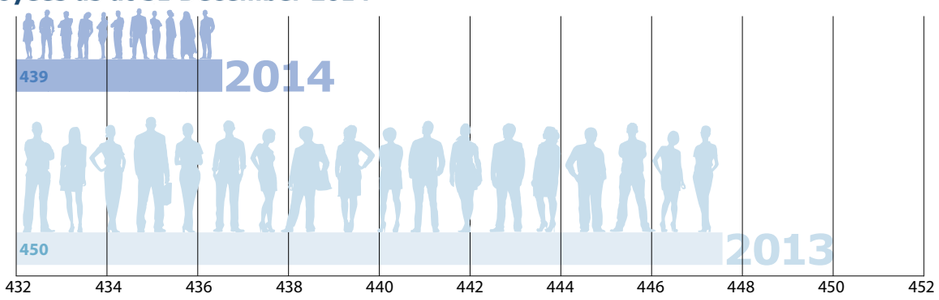
Equity in €



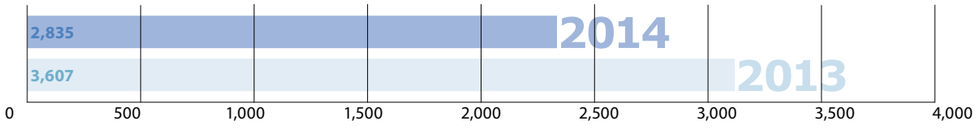
Cash flows from operating activities in €



Employees as at 31 December 2014



Electricity produced (GWh)



1.4 Overview of Significant Events in 2014

In line with the instructions of the management of HSE d.o.o. to harmonize the Revised Investment Program RIP 6 among the companies HSE d.o.o., Termoelektrarna Šoštanj d.o.o. and Premogovnik Velenje d.d., issued pursuant to Resolution No. 7 adopted by the Slovenian Compensation Company on 21 January 2014, and the modified key input data, i.e., prices of electricity, prices of emission coupons, and production output, TEŠ prepared in February 2014 a new issue of the Revised Investment Program – RIP 6.

In February 2014, an agreement (Addendum 11) was concluded with the main supplier of equipment for Unit 6, the Alstom company, whereby a portion of the planned payments for works performed in 2014 was postponed until 2015. This agreement was concluded due to the changed circumstances in 2014 for ensuring sources of financing for the investment.

In January 2014, cold start-up tests were begun in Unit 6.

On 7 March 2014, Contract No. 1/14/HSE/N on coal purchase, lease of power and purchase of electricity in 2014 was concluded between HSE d.o.o., TEŠ d.o.o. and Premogovnik Velenje d.d..

At its 81st regular meeting held on 24 March 2014, the Supervisory Board of TEŠ approved the proposed Business Plan of the Company for 2014, together with the additional plan for 2015 and 2016.

On 5th May 2014, the new Articles of Association of the limited liability company Termoelektrarna Šoštanj d.o.o. came into effect after being entered in the court register. These Articles of Association fully replace the previously applicable Articles of Association of the limited liability company Termoelektrarna Šoštanj dated 5th December 2013. Under the above-mentioned Articles of Association, the Supervisory Board of the Company was dissolved.

On 27-28 May 2014 a strategic conference of the HSE Group took place. The second part of the conference was devoted to discussing possibilities and opportunities for the optimization and rationalization of business operation, as well as preparing a package of concrete measures aimed at stabilizing the operations of the HSE Group in the short term. Among others, a decision was adopted to accelerate activities related to the preparation of the Revised Investment Plan – RIP 6.

On 19 June 2014, the shareholder Holding Slovenske elektrarne d.o.o. adopted the Business Plan of TEŠ d.o.o. for 2014 and the additional plan for 2015 and 2016.

Addendum No. 1 and Addendum No. 2 to Contract No. 1/14/HSE/N on coal purchase, lease of power and purchase of electricity were concluded on 15 May 2014 and 17 July 2014, respectively.

On 23 July 2014, the oil burners of the boiler in Unit 6 were turned on for the first time.

On 9th August 2014, during testing of the boiler in Unit 6, pulverised coal firing was applied for the first time.

On 26 August 2014, HSE d.o.o. as the founder and sole shareholder of TEŠ d.o.o., adopted the Annual Report of TEŠ d.o.o. for the 2013 financial year and the resolution that the entire accumulated profit of the Company in the amount of EUR 973,807.94 shall be allocated to other revenue reserves.

On 3rd September 2014 a tender notice was published for the external arrangement of Unit 6 following the procedure prescribed by EBRD. The opening of bids was conducted on 27 October 2014 and the most favourable bidder was selected.

On 24 September 2014, the first synchronization of the generator in Unit 6 with the electricity network was carried out and the first kilowatt hours of electricity were transmitted into the network.

On 21 October 2014, the new Unit 6 at Termoelektrarna Šoštanj attained, for the first time, the maximum nominal power of 600 MW. One of the most important criteria related to the entire investment of Unit 6 was thus fulfilled. On the same day, the entire facility of Termoelektrarna Šoštanj, together with units 4, 5 and 6, achieved a new, absolute historical record of 1005 MW at the output terminals of the generator.

In line with the provisions of the Articles of Association of the limited liability company Termoelektrarna Šoštanj d.o.o., dated 29 April 2014, the shareholder appointed Matjaž Eberlinc, PhD, as Acting Director of TEŠ for a period beginning on 3rd November 2014 and not exceeding six months.

1.5 Important Events After the End of the Financial Year

In December 2014 and January 2015, TEŠ prepared the Revised Investment Program, Revision 6 (version 5 of 30 January 2015) on the basis of documents and input data that had been harmonised within the HSE Group and deviate from the data utilised for the preparation of previous revisions of the investment program. HSE was familiarised with this document on 30 January 2015, and the sole shareholder's Board of Management assessed that the document presents the final value of the investment, all costs related to the investment in Unit 6, and the feasibility of the schedule. The document also presents the projections of TEŠ's business operation in the 2015-2030 period, which have been harmonised with the shareholder. A test was also prepared by a private investor and showed a positive result.

In January 2015 the liabilities relating to works performed by the main supplier of equipment in Unit 6, the Alstom company, were settled. The payment of these liabilities had been postponed until 2015 by mutual agreement (Addendum 11). The mentioned works were completed in 2014.

On 30 January 2015, HSE took note of, adopted and approved the Business Plan of TEŠ for 2015, together with an additional plan for 2016 and 2017, as well as the Projections of TEŠ's Business Operation in the 2015-2030 period.

On 12 March 2015, the Long-term Contract on coal purchase, lease of power and purchase of electricity for the period from 1st January 2015 to 31 December 2054 was concluded between HSE d.o.o., TEŠ d.o.o. and Premogovnik Velenje d.d..

On 16 March 2015, Contract No. 1/15/HSE/N on coal purchase, lease of power and purchase of electricity in 2015 was concluded between HSE d.o.o., TEŠ d.o.o. and Premogovnik Velenje d.d..

A technical inspection was conducted from 7-25 May 2015, on the basis of which the Ministry of Environment and Spatial Planning issued on 27 May 2015 a decision ordering trial operation for a period of one year. The contractual trial operation of main technological equipment was begun on 28 May 2015, while the trial operation ordered under the above-mentioned decision was begun on 11 June 2015.

In May 2015, TEŠ prepared the Plan for the financial and business restructuring of TEŠ in the period from 2015 to 2017 (with a look ahead to 2030), in which it identified measures aimed at the cost rationalization of TEŠ's business operation.

In line with the provisions of the Articles of Association of the limited liability company Termoelektrarna Šoštanj d.o.o., dated 29 April 2014, the shareholder appointed Matjaž Eberlinc, PhD, as Acting Managing Director of TEŠ for a period beginning on 3rd May 2015 and not exceeding six months.

On 19 June 2015, following successfully completed test runs and contractual trial operation, TEŠ took over, from the main supplier (Alstom), the main drive facility of Unit 6 into its management. This means that all the production capacities of Unit 6 are available in their entirety to TEŠ and its owner, HSE, which will enable maximum utilization and optimization of Unit 6's production capacities in the sense of attaining the best possible financial effects.

Business Report

2 Business Report

2.1 Presentation of the Company

Termoelektrarna Šoštanj is a limited liability company whose sole shareholder is Holding Slovenske elektrarne d.o.o..

2.1.1 Company profile as at 31 December 2014

General information

Full company name	Termoelektrarna Šoštanj d.o.o.
Legal form	Limited liability company with a sole shareholder
Address	Cesta Lole Ribarja 18, 3325 Šoštanj
Telephone	03 8993 200
Fax	03 8993 485
Companies register entry no.	10051100 - District Court of Celje
Share capital in EUR	330,027,060
Size	Large
Year of establishment	1956
Tax number	92189903
VAT ID no.	SI92189903
Company registration no.	5040388
Website	www.te-sostanj.si
E-mail	info@te-sostanj.si
Activity code	35.112

Data on Trans. Acc.

Bank	Trans. Acc.
Banka Koper	101000038312861
NLB	024260017217937
Nova KBM	045150001707126
UNI Credit	290000003080383

Data on Management as at 31 December 2014

Position	Name and surname	Start
Managing Director	Matjaž Eberlinc, PhD	3 Nov 2014

Owner ship structure

Member / Shareholder	Address	Share in EUR as at 31 Dec 2014	Share in % as at 31 Dec 2014
Holding Slovenske elektrarne d.o.o.	Koprska 92, Ljubljana	330,027,060	100.00 %
		330,027,060	100.00 %

2.1.2 Business activities of the Company

The Company has several registered activities. Its core activity is the production of electricity in thermal power plants.

2.1.3 Company bodies and representation

The Company's managing body is:

- the Board of Management.

In accordance with the Company's Articles of Association and applicable legislation, the shareholder has the role and all competences of a general meeting, provided that the legal form of the Company is a limited liability company with a sole shareholder.

2.1.4 Corporate governance statement

The company Termoelektrarna Šoštanj d.o.o., Cesta Lole Ribarja 18, 3325 Šoštanj hereby presents its Corporate Governance Statement in compliance with paragraph 5 of Article 70 of the Companies Act (ZGD-1). The statement refers to the period from 1st January 2014 to 31 December 2014.

As the Managing Director of TEŠ, I hereby declare that the Company's governance is in accordance with applicable laws and other regulations, the applicable Articles of Association of the limited liability company TEŠ, the Company's internal rules, and in line with good business practice.

As Managing Director of TEŠ, I hereby declare, in accordance with Article 60a of the Companies Act (ZGD-1), that the annual report and all integral parts thereof, including the corporate governance statement, have been compiled and published in conformity with the Companies Act (ZGD-1) and the International Financial Reporting Standards.

Statement of compliance with the Corporate Governance Code for companies with state capital investments

As the Managing Director of TEŠ, I hereby declare that the governance of TEŠ in 2014 was in compliance with the Corporate Governance Code for Capital Assets of the Republic of Slovenia, and with the Recommendations of the Asset Management Company of the Republic of Slovenia's Direct and Indirect Capital Assets, adopted by Slovenski državni holding, d.d. (Slovenian Sovereign Holding).
As Managing Director of TEŠ, I hereby declare, in accordance with item 72 of the Code, that TEŠ has opted to apply the Code on a voluntary basis.

Management bodies of the Company

In accordance with the Articles of Association of TEŠ, the shareholder manages the Company directly and through the Company's bodies.

Shareholder

The shareholder independently decides on the following matters:

- modifications of and amendments to the Articles of Association of the Company;
- change of registered office on the proposal of the management;
- approval of the Company's development strategy on the proposal of the management;
- approval of the fundamental corporate policy and the development plan of the Company on the proposal of the management;
- investment programs on the proposal of the management;
- approval of regulations, policies and other general acts which generally apply in all companies of the HSE Group;
- the business plan of the Company;
- approval of the annual report;
- appropriation of accumulated profit and loss covering;

- granting of discharge to the management;
- purchase, division and termination of business interests;
- measures to increase or decrease capital;
- changes in the Company's share capital;
- status changes and dissolution of the Company;
- appointment of the Company's auditor;
- appointment of the Company's holder of general power of attorney and proxies;
- approval of measures for improving the Company's operations and eliminating any identified deficiencies and irregularities;
- consent to transactions of the Company's management in accordance with the Articles of Association;
- appointment and recall of members of the Company's management (directors);
- conclusion of employment contracts with members of the management (directors of the Company);
- requests regarding reports of the management on the Company's business operations and other matters related to the operations of the Company and other subsidiaries;
- other matters defined by regulations and in accordance with these Articles of Association.

In accordance with Article 526 of the Companies Act (ZGD-1), the decisions adopted by the shareholder are entered in the register of decisions.

The Management

The Company›s management body is the Board of Management. The Company has one or more directors, but not more than three, who represent the Company and manage its business affairs on their own responsibility. The appointed directors constitute the Board of Management of the Company. The members of the Board of Management (directors) are appointed and recalled by the shareholder. The term of office of members of the board of management is 4 years, with the possibility of reappointment

Pursuant to the provisions of the Articles of Association, the members of the Board of Management (directors) shall require the consent of the shareholder for the conclusion of transactions or the adoption of decisions relating to the following:

- conclusion of legal transactions and raising of loans whose value exceeds EUR 333,834.08 for the same business activity in the respective financial year;
- disposal and pledge of real property;
- equity investments of the Company in other legal entities;
- start of an investment whose projected value exceeds EUR 100,000.00 (due to the need for co-ordinated strategic development of the HSE Group);
- start of an investment in IT whose projected value exceeds EUR 50,000.00 (due to the need for co-ordinated development of IT in the HSE Group), after obtaining the opinion of the Head of IT in the shareholder›s company;
- issuing of sureties, warranties or guarantees for other persons› liabilities, and
- business or financial lease.

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

From the aspect of providing accounting data which comply with the criteria of the International Financial Reporting Standards, the Company has established internal controls that reduce risks related to accounting reporting.

By means of accounting controls, we ensure:

- credibility,
- correctness, and
- completeness of accounting data.

We provide for the regular professional training of employees, which enables them to contribute quality, accurate and timely accounting data through their work. Our central IT system, Kopa ERP, has an important role in providing such data.

We understand the Company›s internal control system as the planned and systematic establishment of procedures and methods which, in the course of their operation, ensure punctuality, reliability and completeness of data and information, accurate and fair preparation of financial statements, prevent and detect errors in the system, and ensure compliance with applicable laws and other regulations and internal acts of the Company.

For the purpose of ensuring greater transparency, efficiency and responsible business operation, the Company has established an operating system of internal controls and risk management via its organizational structure, the ISO 9001 quality management standard, the OHSAS 18001 occupational health and safety management standard, the ISO/ICE 27001 information security management standard, and the internal acts of the Company, together with a developed reporting system in individual organizational units. The internal control system is supported by an IT control system which ensures, among other things, relevant limitations and control over the network, as well as precise, up-to-date, and complete data processing.

With the aim of establishing a comprehensive risk management system in the Company so as to provide the Company›s management and founder with sound bases for managing and governing the Company, as well as to achieve the planned goals, the Managing Director of the Company established a consultative body – the Risk Management Committee. The committee›s organization, composition, method of work, and tasks are defined in the Rules of procedure for the work of the Risk Management Committee.

The Managing Director is responsible for the establishment, operation, supervision and constant improvement of the internal controls system, as well as for the correctness and completeness of data.

Šoštanj, 6 August 2015

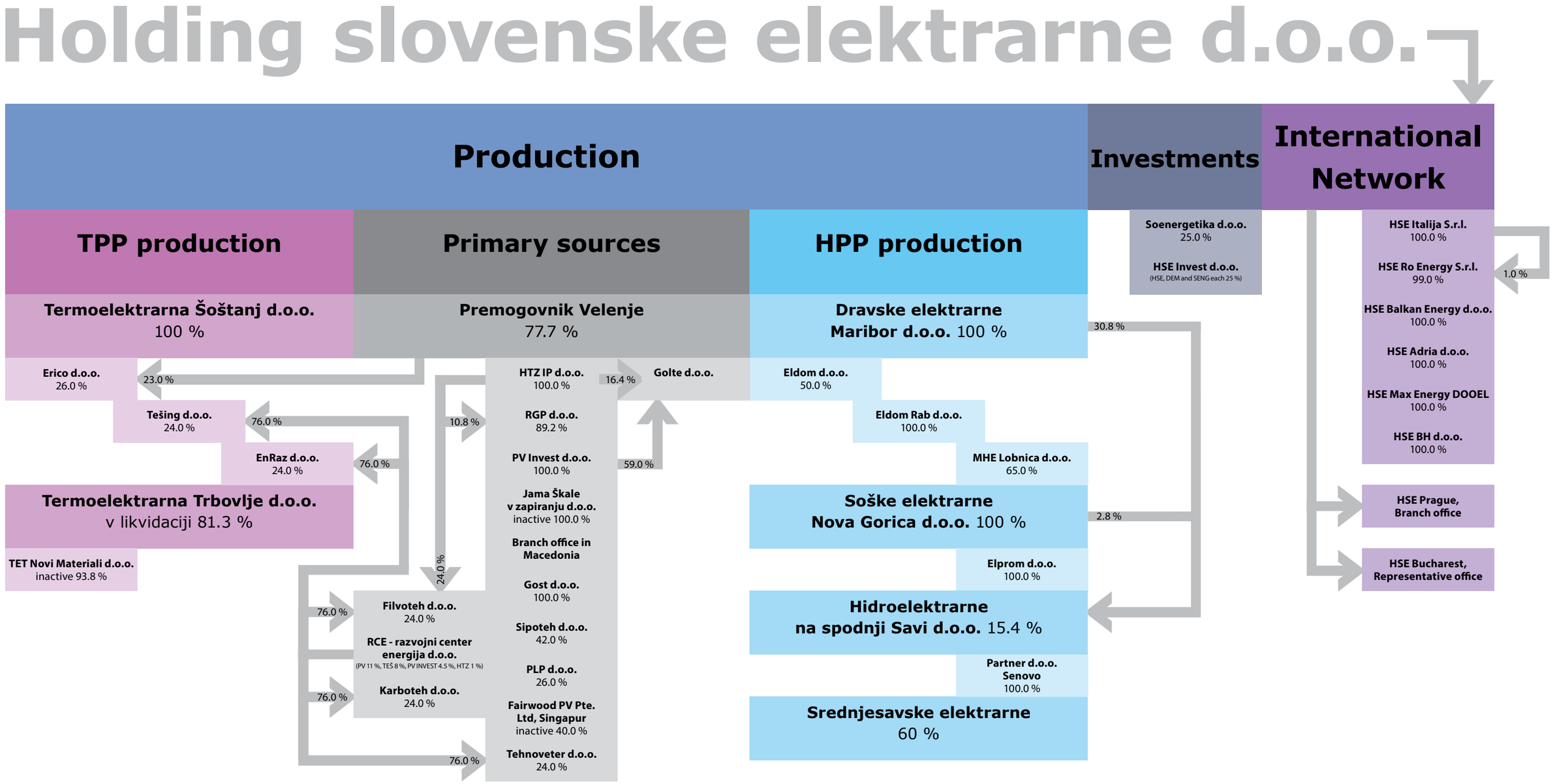
Matjaž Eberlinc, PhD
Managing Director
Termoelektrarne Šoštanj, d.o.o.

2.1.5 Relations with the controlling company

Termoelektrarna Šoštanj d.o.o. is part of the Holding Slovenske elektrarne Group. On 31 December 2014, Holding Slovenske elektrarne d.o.o., with its registered office at Koprska 92 in Ljubljana, was the Company's sole shareholder, i.e., the controlling company, which prepared the 2014 consolidated annual report for the group companies under its control.

Organisational chart of the HSE Group as at 31 December 2014

Pursuant to Articles 545 and 546 of the Companies Act, the Company's Board of Management submitted a report on relations with the controlling company and other subsidiaries in the Group, establishing that given the circumstances known to the Company at the time of a specific legal transaction, TEŠ d.o.o. assesses that it had not been disadvantaged in any such legal transaction with the controlling company and its related companies, and that in 2014 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 Capital links with other companies

Company	Subsidiary / Associate	Company registration number	Address	Year of establishment	Main activity	Total equity in EUR as at 31 Dec 2014	Share capital in EUR as at 31 Dec 2014	Controlling company's equity share
Erico d.o.o., Velenje	associated	558305	Koroška cesta 58, Velenje	1st Apr 1992	74.900	1,381,197	278,494	26 %
Tešing d.o.o., Velenje	associated	6689655000	Preloška cesta 001, Velenje	24th Sep 2014	71.129	4,167	7,500	24 %
Enraz d.o.o., Velenje	associated	6689027000	Preloška cesta 001, Velenje	24th Sep 2014	74.900	4,047	7,500	24 %

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 in various fields will prepare, manage, direct and verify environmental rehabilitation measures in the Šalek Valley.
In 2007, Erico was transformed into a limited liability company, whose shareholders are Gorenje GA d.d. (51 %), Premogovnik Velenje d.d. (23 %) and TEŠ d.o.o. (26 %).

On 24 September 2014, the companies EnRaz, d.o.o. and TEŠING d.o.o. were established with the purpose of performing development and consulting activities in the area of energy business and environmental protection. The founders of the companies are TEŠ d.o.o. with a 24 % share and RCE d.o.o. with a 76 % share.

As at 31 December 2014, TEŠ d.o.o. impaired its entire shareholding in the companies EnRaz d.o.o. and TEŠING d.o.o. due to the findings of the Ministry of Economic Development and Technology relating to its alleged violation of the Contract on Co-financing.

2.2 Company's business policy

Mission
The mission of Termoelektrarna Šoštanj is to provide adequate quantities of energy at competitive prices with the production of electricity and thermal power, and in this way contribute to economic growth and the quality of work and life of its customers. By supplying the needed power, we are enabling the electricity system to operate reliably and safely.

Vision
Termoelektrarna Šoštanj is and strives to remain the largest thermal power system in Slovenia, which will provide its customers with reliable, safe, competitive and environmentally friendly production of electricity and thermal power. We want to be a socially responsible company, to maintain and develop our activity at the existing location in co-operation with local communities, as well as to become as flexible as possible in all areas of our operation.

Principal long-term goals
To maintain our production capacities and ensure long-term, reliable, safe, competitive and environmentally friendly electricity and thermal power production based on the use of diverse primary sources. To increase the utilisation rate of conversion of primary sources of energy into electricity, reduce adverse environmental impacts, and improve availability, safety and reliability.

To fulfil our principal goals, we have set long-term specific area objectives, including annual goals.

2.3 Management system policy

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

TEŠ has established an integrated management system comprised of:
- a quality management system as required by SIST ISO 9001:2008 (since 5 April 2000);
- an environmental management system as required by SIST EN ISO 14001:2004 (since 25 February 2003);
- an oocupational health and safety management system as required by OHSAS 18001:2007 (since 6 July 2005), and
- an information security management system as required by ISO/IEC 27001:2005 (since 1st 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 by certified institutions, and through the achievement of planned objectives. As every year so far, we successfully passed the external assessment of certificated management systems. No inconsistencies were found, and some recommendations were given, which we systematically addressed and took into consideration.

External reviewers assessed that the reviewed management system, in particular with regard to:
- scope and policy,
- identification and regular risk monitoring/measurement (jeopardising buyers, information security, environmental safety, health and safety of employees), safety aspects of the organization and legal or statutory requirements,
- qualifications, experience and competences of employees in relation to the management system,
- selected and implemented safety controls, activities for informing employees about the management system,
- execution of internal assessments and managerial reviews,
- promoting a permanent improvement process,

is effective, and that the bases have been provided for maintaining and improving the management system.

2.3.2 Occupational health and safety and fire safety

A safe and healthy working environment is one of the principles of the power plant's operations. Our occupational health and safety system is managed systematically on the basis of the OHSAS 18001 standard, which we have been successfully certified with for several years.

In 2014, the Occupational Safety Department carried out regular preventive measures ensuring a high level of occupational health and safety and fire safety on all organizational levels.

In addition to performing legislation-compliant operations, we established effective mechanisms for identification of negative aspects and risks, which allows us to develop measures, goals and improvements.

In 2015, the Company will continue to devote considerable attention to the occupational safety training of employees, regulation of fire safety within the Company, inspections of work equipment, and the purchase of quality safety equipment.

In the given economic circumstances, we shall be careful to select programs and activities that will contribute to a maximum extent towards ensuring a healthier and safer working environment.

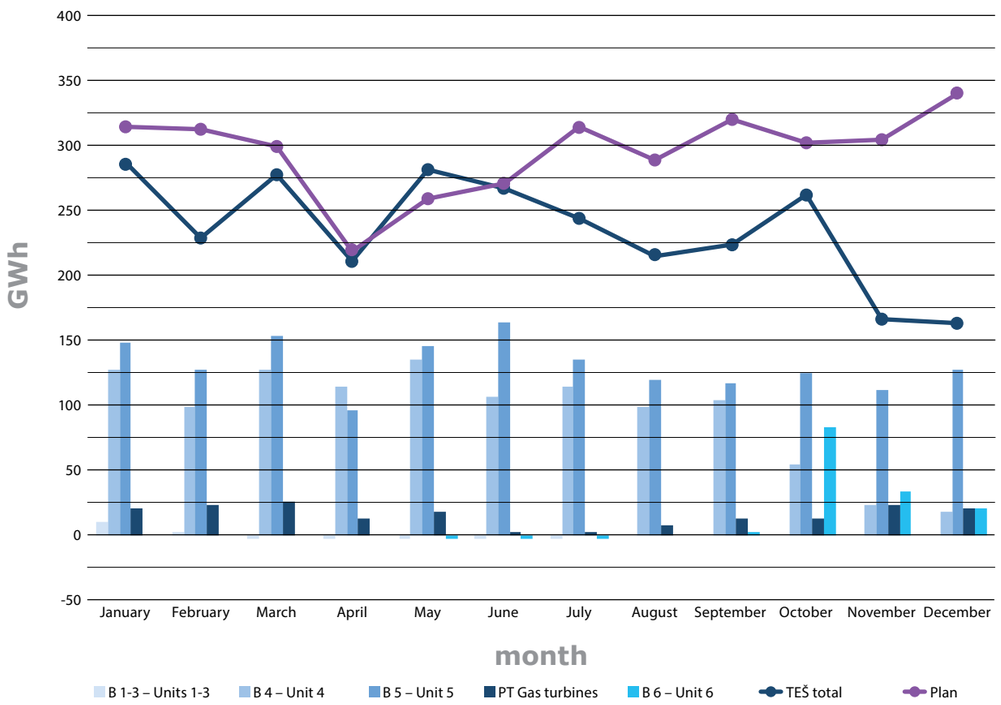
2.4 Production

Production of electricity (net)

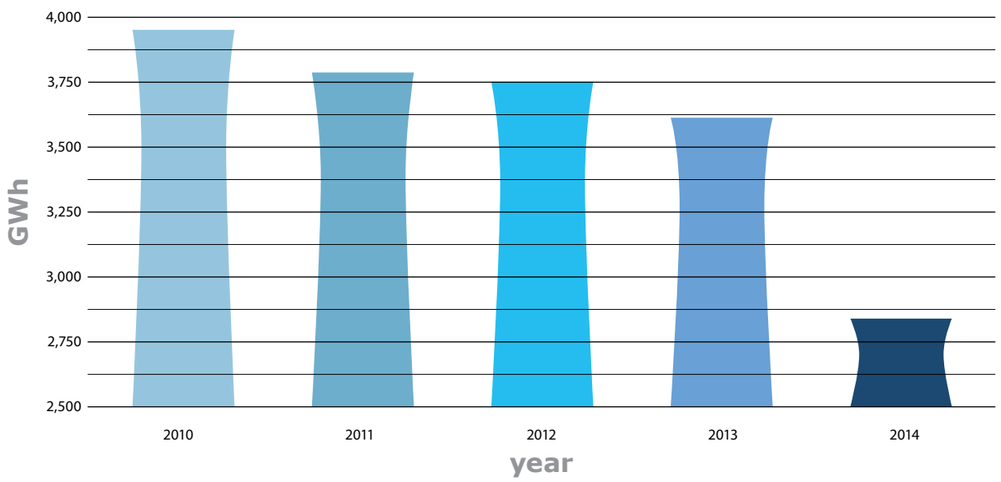
In 2014, TEŠ produced 2,835 GWh of electricity (including Unit 6), which is 715 GWh or 20 % less than planned and 21 % below the 2013 figure. Lower production than planned is the consequence of extraordinary hydrology in the previous year, which was high above the average of past years, as well as restrictions in the operation of units due to difficulties of the Velenje Coal Mine in the extraction and supply of coal.

2,829 GWh of electricity was produced from coal and 6 GWh from gas.

Net electricity production per month in 2014



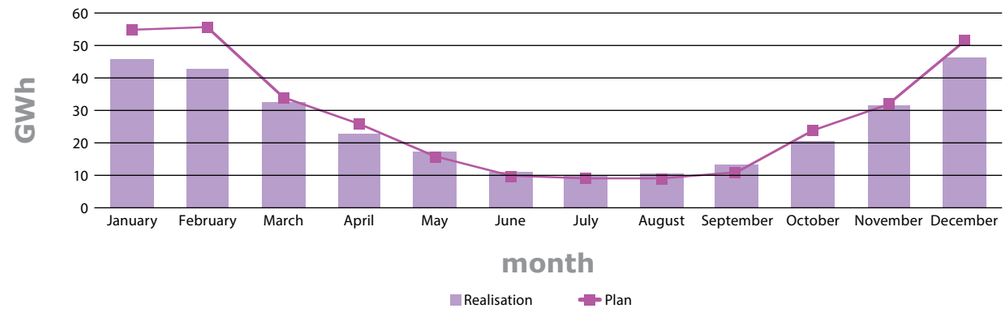
Net electricity production per year



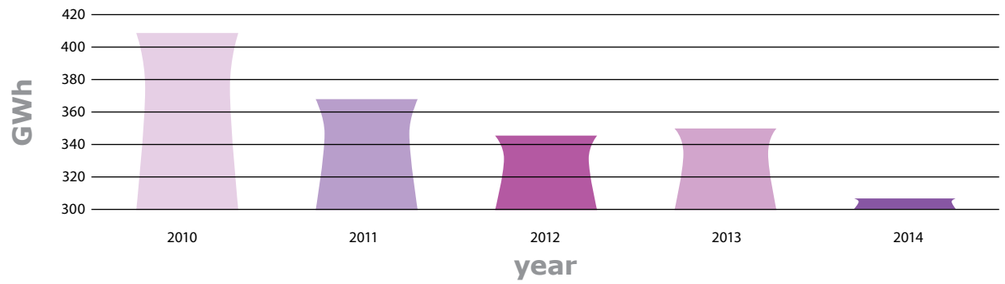
Thermal energy production

In 2014, TEŠ produced 306 GWh of thermal power for heating, which is 28 GWh or 8 % less than planned and 43 GWh less than in 2013. Nevertheless, we met all demands for thermal power and ensured its undisturbed supply to customers. The considerably lower production was due to external temperatures, which were slightly higher than the long-term average, particularly in January and February 2014.

Thermal energy production per month in 2014



Thermal energy production per year



Consumption of energy products

In 2014 we used 3,048 thousand tons of coal, of which 2,952 thousand tons were used for electricity production and 96 thousand tons for thermal energy production. The average calorific value of supplied coal was 11,174 kJ/kg, which is less than in 2013, when the calorific value was 11,591 kJ/kg.

Emission coupons

Paragraph one of Article 130 of the Environmental Protection Act (EPA) stipulates that the Ministry of the Environment and Spatial Planning shall, on the basis of the national plan and at the request of the plant operator, determine the total quantity of emission coupons attributable to the plant operator in a specific period. Pursuant to a decision of the Ministry of Agriculture and the Environment, TEŠ, as plant operator with the designation SI-4, received, without obligation to pay, the entire quantity of 579,013 emission coupons to which it is entitled for the period from 1 January 2013 to 31 December 2020.

In 2014, TEŠ emitted approx. 3,500,404 tons of CO_2 into the environment through electricity production. According to the provisions of the Environmental Protection Act, the Company is consequently obliged to pay an environmental pollution tax (1 coupon per ton of CO_2). To settle this tax, TEŠ possesses 108,541 free coupons. The difference in the amount of 3,391,863 emission coupons will be purchased from HSE.

2.5 Maintenance

To ensure the undisturbed production of electricity, the power plant had to maintain three steam production units (Unit 3, Unit 4 and Unit 5), a gas production unit (intended for tertiary reserve), two thermal stations, a coal transport system, water preparation in the hydrogen production facility, and joint facilities. All of these facilities, plants and installations need to be systematically maintained if we wish to operate safely and reliably, in an environmentally sound manner, with high availability, high flexibility of production units, and an optimal utilisation rate, until the end of the service life of our units.

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

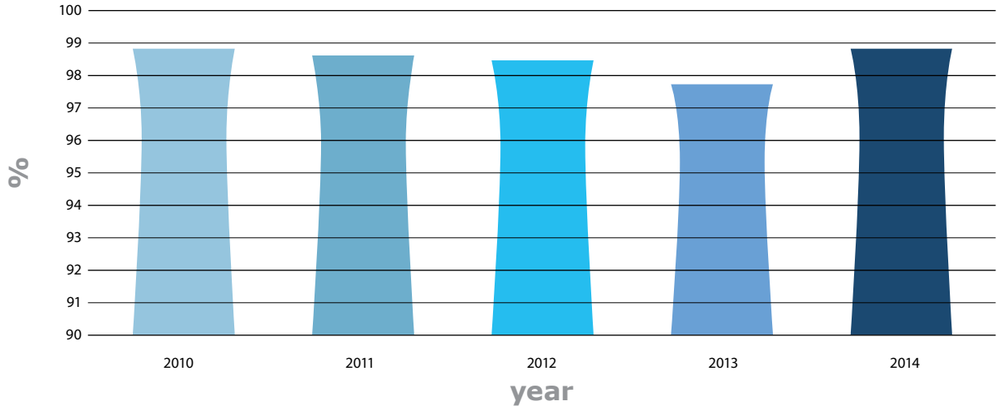
Regular preventive maintenance comprises inspections, controls, analyses and interventions, all of which ensure the reliable operation of all plants. This also includes repairs and replacement of individual plant assemblies. Unavoidable work on plants is performed during the shutdown of units, which is usually on weekends.

This area also includes maintenance activities such as inspections, measurements, installation and dismantling, repairs and replacement of machine and plant spare parts that require the elimination of machines and plants, or of the entire production unit, from operation.

A total of EUR 6,398,116 was spent for the maintenance of all drive units, other facilities and plants, which is 9 % more than in 2013. We predominantly performed preventive maintenance, which comprised inspections, controls and procedures enabling the reliable operation of all plants. Based on priorities, some repairs have been postponed and will be performed in future.

The operating availability of units is on the level of previous years. It was lower in 2013 due to the lesser capacity of Unit 3 as the result of the very poor condition of the turbine.

Operating availability of units

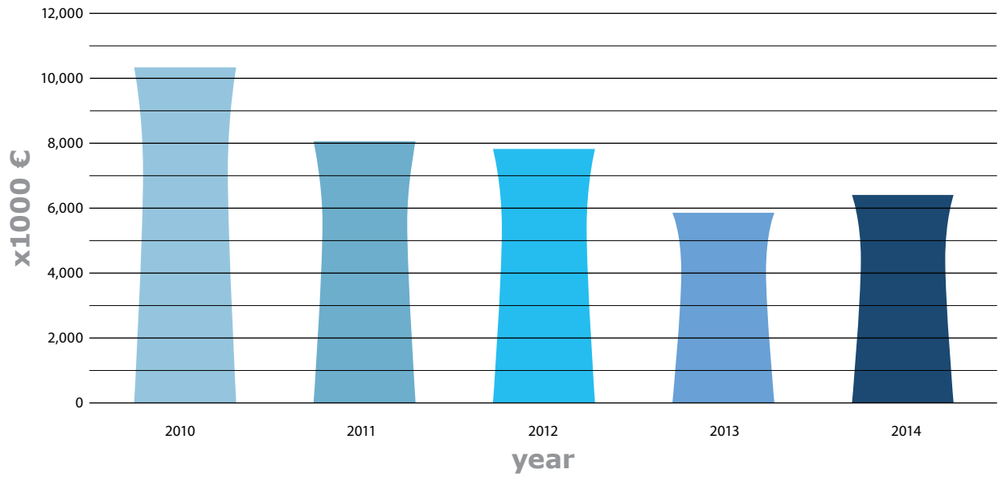


Given the good operating availability of production units, we can conclude that the maintenance strategy is solid.

We are confident that all plant repairs were performed economically. However, in order to optimise our business operation, we will have to reduce the scope of external plant maintenance services in upcoming years.

The changes in maintenance costs, which include costs of maintenance services and costs of maintenance materials, in the period from 2010 to 2014 are shown in the following graph:

Changes in maintenance costs from 2010 to 2014



2.6 Market position

2.6.1 Economic environment in 2014

The GDP increased by 2.6 % in 2014, while the recovery of economic activity continued at a slower pace in the last quarter compared to the middle of the year. Economic growth was considerably higher than on average in the Eurozone, mainly as the consequence of one-off factors. Although external demand has remained the principal factor of economic growth, a substantial contribution was also made by investments of the state that were partly financed with European funds. Owing to the improved situation in the international environment, the stabilisation of euro financial markets, and economic policy measures implemented in past years, economic growth in 2014 reached its highest level since the onset of the economic crisis.

The solid growth of economic activity that began in the first half of 2013 continued in 2014. Nevertheless, following a period of extremely rapid growth in the middle of the year, it stabilised at 0.3 % in the last quarter, equalling that of the Eurozone. The average annual growth was, however, considerably higher than in the Eurozone, where it reached only 0.9 %. In addition to favourable exports, this was largely due to the growth of investments in public infrastructure.

Exports in 2014 were supported by solid foreign demand and improved cost competitiveness. By the end of the year, the interim annual growth of exports even intensified. This is largely owing to the stabilisation of economic activity in the majority of our major trade partners, as well as the effectiveness of companies in searching for new sales markets. More stable signals from the international community were reflected in sentiment indicators, which continued to improve at the beginning of 2015.

The year 2014 was marked by high investments in infrastructure, primarily on the local level, financed partly by European funds. The high growth of investments was the result of certain factors, mostly of a temporary nature, that were reflected in the strong decline in investments in the second half of the year. At the same time, investments in machines and equipment decreased in the past year, which is not encouraging from the aspect of raising production potential. After declining for a number of years, government spending increased slightly in the last quarter of 2014.

Despite favourable circumstances in the labour market thanks to the growth of employment and salaries in 2014, private consumption did not increase noticeably. This increase was mostly due to new jobs with predominantly flexible forms of employment. Although these provide more adaptability to companies, they simultaneously slow down the growth of household consumption. The structure of unemployment is becoming increasingly concentrated on the rising share of long-term unemployed persons. Outflows from registered unemployment have strongly increased because of recruitments, while increased inflows into unemployment as a result of the expiry of fixed-term contracts at year-end point to the subsiding effects of the labour market reform.

The declining prices of raw materials in world markets and the continuing weak domestic demand contributed to strong deflation, which on average amounted to 0.4 % in 2014 and equalled the Eurozone figure.

In 2014 the current account surplus amounted to 5.8 % of GDP, which is slightly higher than in 2013. Contributing to the high surplus were the solid growth of goods exports and the increased deficit of primary income, primarily due to the growing burden of interest payments on the public debt.

In conditions of favourable growth of exports, the current account surplus is reflected in high net savings in the private sector, which enables deleveraging of the economy. Alongside the further reduction of debts and the weak nominal growth of investments, companies have continued their net saving for the past three years. The scope of companies‘ liabilities arising from bank borrowings repeatedly decreased in the past year. The reduction of lending to the private sector is, despite strengthened economic growth, primarily the consequence of high indebtedness of companies, which remains concentrated in a small number of activities, and the unwillingness of banks to accept lending risks. As a result, companies are searching for alternative sources of financing within the framework of available possibilities, such as foreign borrowings and retained earnings. In the past year, the financial surplus of households remained close to the level recorded at the end of 2013. Despite their higher income, households remained cautious in their consumer decisions.

In 2014, trust in the domestic banking system gradually began to strengthen. This was reflected in the growth of deposits by non-banks in practically all sectors. Increased trust in banks was influenced by the successful process of rehabilitation and stabilisation of the domestic banking sector. Reducing the balance sheet totals of banks on the resources side was the consequence of reducing bank indebtedness to the Eurosystem and to foreign countries. Lower bank investments in the past year were primarily influenced by the further decrease in loans to the private sector.

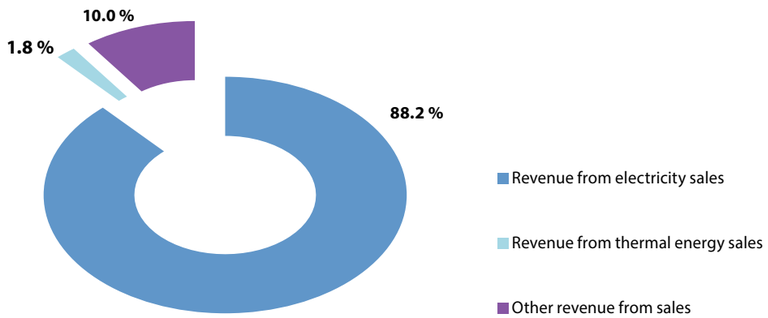
The state was again the only sector with a financial deficit in 2014. According to the estimates of the Statistical Office of the Republic of Slovenia (SURS), this deficit amounted to 4.9 % of GDP. Excluding assistance to financial institutions and other one-off influences, this figure decreased in comparison with the previous year and amounted to 3.5 % of GDP. At year-end the country‘s external debt amounted to 80.9 % of GDP. A considerable decrease was registered in the primary deficit, which does not have one-off effects. Excluding interest, the primary deficit amounted to only 0.3 % of GDP.

The total electricity produced by Slovenian power plants in 2014 and supplied to the transmission network amounted to 15,221 GWh, which is 1,227 GWh more than in 2013. Hydro-power plants supplied 5,794 GWh, thermal power plants supplied 3,242 GWh, and the Krško Nuclear Power Plant supplied 6,060 GWh (100 %) of electricity. The users of the transmission network imported 9,585 GWh and exported 12,313 GWh of electricity in the past year.

2.6.2 Sales and customers

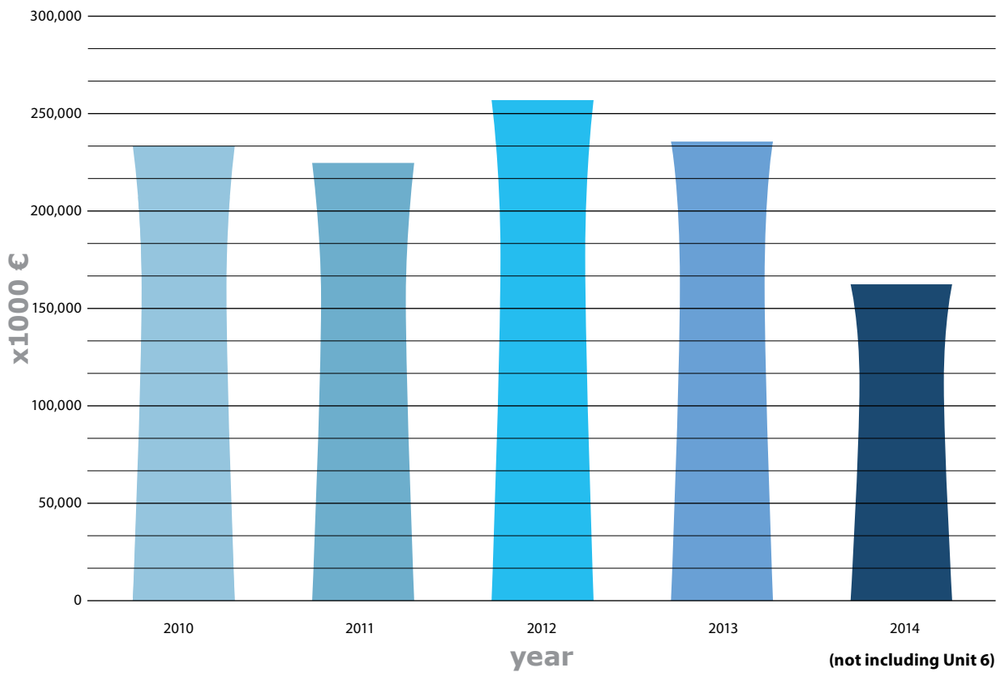
In 2014, Termoelektrarna Šoštanj generated EUR 185,474,049 in sales revenue, which is EUR 58,191,417 or 24 % less than in 2013. This figure does not include revenue from the sale of electricity and thermal power produced by Unit 6, which are recognized under investments (EUR 10,499,193). The sales revenue is lower primarily due to the lower quantity and price of coal-based electricity sold. The Company sells electricity in the market within the scope of its owner, Holding Slovenske elektrarne d.o.o.

Sales revenue structure in 2014:



As the Company's largest customer, Holding Slovenske elektrarne d.o.o. purchases all of the electricity produced, which accounts for 88.2 % of the total sales. In 2014 TEŠ produced and sold minimal quantities of electricity from natural gas (natural gas is generally purchased for the purpose of buyback).

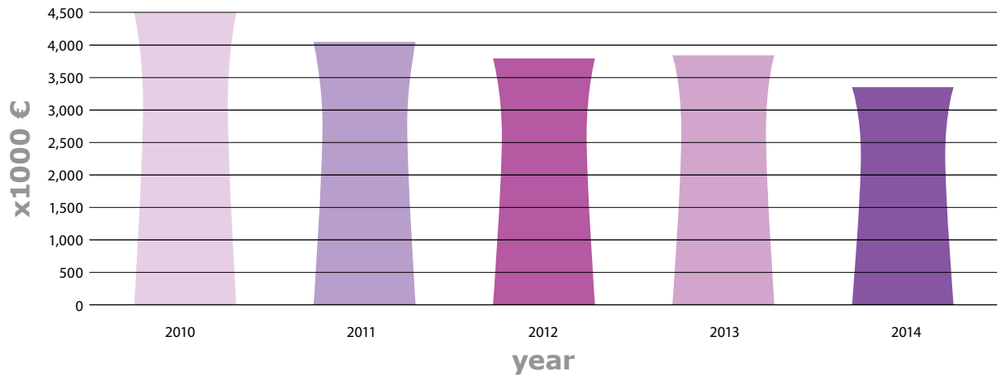
Revenue from electricity sales per year:



Sales of thermal energy

In 2014 the Company generated EUR 3,354,695 in revenue from the sale of thermal energy, which is EUR 486,943 or 13 % less in comparison with 2013.

Revenues from thermal energy sales:



Sales – buyback of gas

On the basis of a concluded purchase/sales contract for natural gas, TEŠ has a guaranteed supply of specified quantifies of natural gas. Since the production of electricity from gas was not planned in 2014, TEŠ concluded a buyback contract with its natural gas supplier. The income generated from this transaction amounted to EUR 16,790,839 (under this contract TES recorded a loss of EUR 5,331,412).

Other sales

Other revenues from sales of products and services comprise revenue from 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 revenue from canteen services (lunch, meals, etc.).

2.6.3 Purchasing and suppliers

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

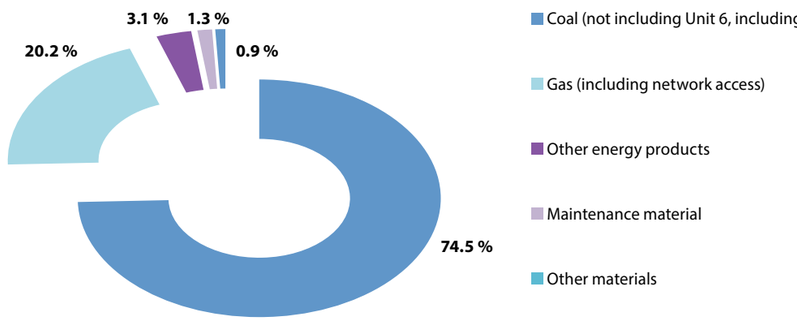
TEŠ is obliged to carry out public procurements in line with the Public procurement in the water, energy, transport and postal services sectors Act (PPWETPSSA).

The Company's most important strategic supplier is Premogovnik Velenje d.d.. The purchase of coal for electricity and thermal energy production accounts for 29 % of all purchases. In the past year, 31,576 TJ of coal were used in electricity production, and 1,045 TJ of coal in thermal energy production (not including Unit 6).

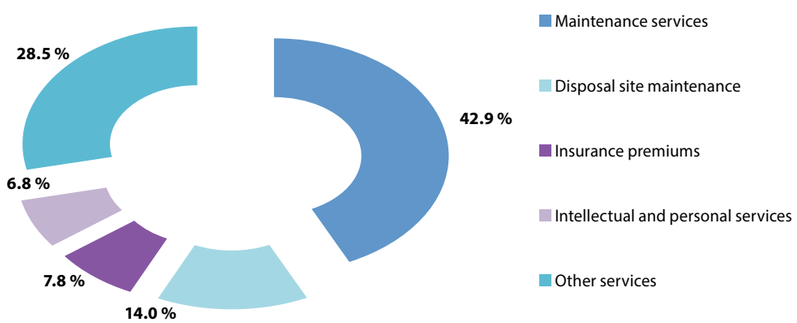
In the past year, 1.7 million Sm^3 of gas was used for the production of electricity, and 54.4 million Sm^3 of gas was intended for buyback.

Purchases of materials accounted for 39 % of all purchases.

The materials purchasing structure is as follows:



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



The share of capital investment accounts for 57 % of the total purchases, and refers primarily to purchases for the needs of construction of replacement Unit 6. The principal supplier of investment equipment is the Alstom company, with which TEŠ has concluded a contract for the supply and installation of main technological equipment.

2.7 Investments

The existing production facilities are nearing the end of their useful life. Some began to operate as early as in 1956, when Units 1 and 2 were built, while the most recent ones have been in operation since 1977, when Unit 5 was constructed. Unit 2 was shut down in 2008, Unit 1 at the end of March 2010, and Unit 3 at the end of August 2014. According to the plan, Unit 4 will stop operation in 2015, and Unit 5 will foreseeably operate until the end of 2027.

Investments *in EUR*

	Completed in the January-December 2014 period		
	Other own funds	Debt assumption contracts (Recapitalisation)	TOTAL
NEW FACILITIES		**182,773,658**	**182,773,658**
Unit 6 (incl. advance payment for purchase of MTE)		182,773,658	182,773,658
INVESTMENTS IN PRODUCTION RELIABILITY	**23,535**		**23,535**
Wastewater collecting basin (completion)	23,535		23,535
MINOR INVESTMENTS	**177,453**		**177,453**
BUSINESS INFORMATION SYSTEM	**113,934**		**113,934**
MAJOR MAINTENANCE	**43,288**		**43,288**
Major maintenance of GT 51	43,288		43,288
TOTAL COMPANY	**358,210**	**182,773,658**	**183,131,868**

Note: In 2014, the payments executed under debt assumption contracts and relating to the investment in Unit 6 amounted to EUR 155,905,867.

Unit 6

The growing share of RES-based electricity, particularly from photovoltaic power stations, has revealed deficiencies in the electricity market concept, which is based on electricity trading while disregarding electric power. Namely, energy is only the consequence of available electric power, which is crucial for its reliable and safe supply. This is provided primarily by system power plants such as **Termoelektrarna Šoštanj,** which, owing to their availability and provision of systemic services, still represent the backbone of the electricity system. Taking into consideration the unpredictability and randomness of RES energy, investments in such production units have to be followed by investments in reliable system power plants.

The principal reason for the new replacement Unit 6 is the wear and tear of the majority of existing production units at Termoelektrarna Šoštanj (TEŠ), as these are operating with an obsolete technology which in upcoming years will not long fulfill the requirements for such plants. Unit 5 is the only unit that will remain operational, foreseeably until the year 2027 inclusive, and will therefore need to be technologically modernised to meet environmental requirements. Of key importance in assessing the reasonableness of the investment is also the energy location with available coal, as well as all the necessary infrastructure for electricity transmission.

In previous stages of investment document preparation, the investor verified the technological possibilities for constructing a new coal production unit. Taking into consideration the available coal, required capacity, verified and accessible equipment, as well as the requirement of maximum efficiency, the variant with a boiler fired by coal dust and with a nominal power of 600 MW was selected as the optimal solution.

The construction of the new replacement unit will substantially decrease environmental loads caused by emissions of substances into the environment thanks to the use of the latest (BAT) technology. Owing to its higher efficiency, specific CO_2 emissions will be substantially reduced, i.e., per unit of electricity generated.

The key investment goals are:

- to ensure the reliable and safe supply of electricity to the Republic of Slovenia from domestic sources;
- to maintain electricity production at the TEŠ location using domestic coal;
- to generate electricity at an approx. 30 % lower specific use of coal[1];
- to reduce the emission factor (kg CO_2/kWh) from 1.25 to below 0.9;
- to fulfil environmental commitments within the EU.

The draft Revised Investment Programme, initially prepared in October 2013 *(RIP 6, October 2013 issue)*, was drawn up due to:

- the findings dating from May 2013 as specified in the »Report on the status of the replacement Unit 6 project of 27 May 2013«, which states that the project does not meet the financial and timeline commitments under the Contract regulating relations in connection with the project for the construction of 600 MW replacement Unit 6 at TE Šoštanj (as the result of discrepancies between RIP 5 and the actual status of the project), concluded between TEŠ, the Ministry of Finance and the Ministry of Infrastructure and Spatial Planning;
- compliance with the Slovenian Government's Decision No. 35400-5/2013/11 of 15 July 2013, instructing TEŠ to prepare a revision of the investment programme for the Unit 6 construction project at TEŠ.

Moreover, due to:

- the HSE d.o.o. management's request for harmonisation of the revised investment programme RIP 6 among HSE d.o.o., Termoelektrarna Šoštanj d.o.o. and Premogovnik Velenje d.d., issued on the basis of Decision No. 7 of the Slovenian Compensation Company dated 21 January 2014,
- changes in key input data obtained from HSE on 30 October 2014, i.e. electricity price, emission coupon price, scope of production, and coal price,
- compliance with the modification of the Slovenian Government's Decision No. 35400-5/2013/11, adopted on 13 November 2014, instructing TEŠ to submit the revision of the investment programme for the Unit 6 construction project at TEŠ by 31 December 2014,
- the cost calculation method employed for installation works and spare parts under the Contract for the supply and installation of MTE (signed in October 2009) between TEŠ and ALSTOM, as well as pertaining addendums and variations,
- increased costs of financing,
- observance of energy costs in the phase of start-up tests,

the investor a new version of the revised investment programme, i.e., *RIP 6, December 2014 issue*, in line with the Decree on the uniform methodology for the preparation and treatment of investment documentation in the field of public finance (Official Gazette of the Republic of Slovenia, nos. 60/2006 and 54/2010).

The electricity produced at TEŠ, as well as ancillary services, are purchased in their entirety by HSE. HSE sells the electricity produced at TEŠ as part of its production programme together with the electricity produced by the hydro power plants within the HSE Group. This enables HSE to enter markets with competitive products from its own sources, which it can complement with electricity purchased from other sellers in the market. The HSE Group thus operates as an economic unit, and pursues on these markets the interests of related companies in the Group as a whole. In doing so, it can synergistically take advantage of the opportunities to sell cheaper electricity from hydro power plants, whose availability depends on the water level of rivers, or electricity from thermal power plants, which is more expensive, but always available.

1 Reduction is foreseen on the basis of the weighted average utilisation rate of TEŠ's existing production units (Units 3, 4 and 5), which ranges from 32.5 % to 33 %. In comparison with Unit 6, whose maximum utilisation rate is approx. 43 %, this represents approx. a 30 % reduction.

At present, electricity prices on markets are low, but forecasts of electricity price movements point to their growth in future.

Activities in 2014

The design and supply of the main technological equipment in Unit 6 were completed in 2014.

Boiler plant

Works were completed on the pressure part of the boiler plant, the steel structure, facades, other equipment, channels, $DeNO_X$ system, insulation, linings, heating and cooling systems. Building works, except for some rehabilitations and minor finishing works, were completed. Within the scope of start-up tests, the following activities were completed: thermal treatment of T24, chemical cleaning of boiler, and 500-hour operation because of the formation of magnetite film.
Since the first synchronization, the steam boiler is operating according to the start-up test programme.

Powerhouse

Cold and hot start-up tests were completed on turbine regulation and protections, generator cooling, heating of supply lines, condensate pumps and thermal station 3. Start-up tests were also completed on sealing steam systems, generator, supply lines, steam lines, auxiliary pairs, condensate heating, condensate cleaning, and on the LUBECO system. 400 kV, 110 kV, 10 kV and 400 V electric equipment is functioning. Settings, optimisation of device operation and finishing of insulation on MP/LP pipelines are in progress. Oil leaks in supply pumps are being eliminated and the mechanical seal on the 06LAC10 supply pump is being replaced.

Among the building works that had to be completed at the end of 2014 were the application of final Epoxy floor coating at angles +15.0 m and -4.0 m, grouting underneath steel structures inside the facility, installation of missing steel stairs, repair of damaged carpentry and joinery, application of final paint coating on walls, ceilings, fences, etc.

Desulphurisation of flue gases

Cold start-up tests as well as building and craft works were completed. Start-up tests are under way in co-operation with the Alstom company.

Coal transport 1, 2

All steel structures are finished, technological equipment is installed, hot start-up tests and optimisation of technology are under way.

Transport of products

All installations, as well as all cold start-up tests, are completed. Hot start-up tests and optimisation of technology are in progress. Building works are completed on all three silos, culverts, and the foundations of product transport. Some craftworks are still being performed in the silos (incorporation of carpentry and joinery, fences, painting, final floorings) and defects are being eliminated according to records of quality inspections.

Water preparation

Installations in pumping plant facilities, filtration bypass, and decarbonisation are completed. An ITP was carried out for bypass filtration, the water gate on the Paka River, decarbonisation, and the pumping plant. Cold start-up tests are also completed. Hot start-up tests in co-operation with Alstom and optimisation of technology are in progress. Building works on water preparation facilities are completed. Asphalting of external areas is yet to be completed.

Ammonia water storage

ITP has been performed and cold start-up tests are completed. We are awaiting Alstom's request to commence hot

start-up tests. Building works on ammonia facilities are completed. Still to be completed is the railway track inside the UTK01 facility, which is the subject of a contract for external landscaping of the Unit 6 project at TEŠ.

Cooling system
ITP has been performed, works are completed. Start-up tests and trial operation of the cooling system are completed. A record on the temporary takeover of the cooling system was signed on 17 December 2014.

400 kV switchyard (GIS)
ITP has been performed, works are completed. The 400 kV transmission line has been connected to the 06BAT10 transformer. Six-month trial operation was begun on 28 August 2014.

Technological connections
The energy bridge has been mounted, and the internal and external pipelines for technological connections have been installed. Thermal insulation of pipelines and the energy bridge facade is in the final phase.

External landscaping and sewage system of the MTE facility
Four bids for the execution of works were received and the most favourable bidder was selected. Works on the rainwater sewage system and hydrant network are in the final phase.

Important dates in 2014:

- Start of thermal treatment of T 24 material: 7 April 2014,
- Connection to the network: 12 May 2014,
- First firing of boiler with oil: 23 July 2014,
- First firing of boiler with coal: 9 August 2014,
- First infeed of steam into the turbine: 17 September 2014,
- First synchronization of Unit 6 with the electricity network: 24 September 2014 at 14:36 h,
- First operation with a nominal power of 600 MW: 21 October 2014 at 13:25 h.

Project financing

The financing of the project is planned as a combination of equity and debt financing. Equity sources are planned as a combination of TEŠ's own resources and the capital increase of the controlling company HSE. To finance the investment, HSE provided EUR 248.7 million for recapitalisation and EUR 166.1 million under debt assumption agreements by 31 December 2014.

Debt capital is planned in the form of long-term loans. In April 2010, a contract was signed with EIB for a loan of EUR 440 million, as well as an annex to the contract concluded in 2007, under which the amount of loan was reduced from EUR 350 million to EUR 110 million. On 17 February 2011, after fulfilling all the requirements, TEŠ managed to draw EUR 110 million of the loan, which is collateralised with a bank guarantee by five guarantor banks (GFA Agreement). Prior to drawing, cross-border effects with the Republic of Austria had to be arranged. On 14 March 2013, the loan of EUR 440 million, secured with a government guarantee[2], was drawn.

2 Immediately after signing the Loan Agreement, TEŠ and EIB initiated procedures for the adoption of a relevant act regulating the guarantee of the Republic of Slovenia for the loan raised with EIB. The respective Act Regulating the Guarantee of the Republic of Slovenia for liabilities arising from the long-term loan in the amount of EUR 440 million raised by TEŠ d.o.o. with EIB for the purpose of financing the project for the construction of the 600 MW Unit 6 at TEŠ (ZPODPTEŠ) was passed by the National Assembly of the Republic of Slovenia on 18 July 2012, and came into force on 1 August 2012. On 30 November 2012 two agreements were signed: first, TEŠ, the Ministry of Finance and the Ministry of Infrastructure and Spatial Planning signed an agreement for the settlement of mutual relations in connection with the project for the construction of the 600 MW Unit 6 at TEŠ; and second, TEŠ and the Ministry of Finance signed an agreement on the methods and conditions for securing the guarantee of the Republic of Slovenia. The Guarantee Agreement concluded between the Republic of Slovenia (RS) and EIB for a long-term loan in the amount of EUR 440 million was signed on 7 December 2012. In line with standard procedures, the Guarantee Agreement between RS and EIB had to be ratified by the National Assembly of the Republic of Slovenia. The Act ratifying the Guarantee Agreement between RS and EIB (TEŠ – Termoelektrarna Šoštanj/B (MPEIBTEŠ) was passed by the National Assembly of the Republic of Slovenia on 21 December 2012 and came into force on 30 December 2012. In January 2013, EIB received from the Republic of Slovenia the complete documents required for the validity of the government guarantee for the EUR 440 million loan for the Unit 6 project at TEŠ.

The actual drawing of loans moved considerably away from the loan utilisation planned in RIP 5 due to delayed acquisition of the government guarantee, as well as complications that arose in the period between application for loan drawing in January 2013 and its confirmation in March 2013. The bank verified in detail all the potential additional risks in connection with project quality, government guarantee reliability, and corruption accusations.

The loan was used for the payment of deferred overdue liabilities to Alstom as the supplier of main technological equipment for Unit 6, and for the repayment of bridging loans raised with 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 1st June 2011. Due to a clause of the loan agreement under which the bank limited the possibility of drawing in relation to the drawing of other sources of financing, the remaining portion of the EBRD loan was released only after successful drawing of the EIB loan. The second instalment in the value of EUR 117.5 million was drawn on March 19 2013.

On the basis of the contract regulating relationships in connection with the replacement Unit 6 project between the Republic of Slovenia and TEŠ, on 24 May 3013 the Company's management informed the competent Ministry of Infrastructure and Spatial Planning and the Ministry of Finance on the assessment of status of the Unit 6 project. The management's assessment was that the final price of the project could amount to EUR 1.44 billion. The increase in the assessed value of the project is mostly due to the untimely provision of long-term funding and the resulting suspension, and higher costs. The management also assessed that the Company would not be able to obtain an operating permit by the foreseen date (15 February 2016).
TEŠ actively initiated negotiations with the supplier, Alstom, on the possibility of moving up the deadline for project completion. The result was the conclusion of Annex No. 9 to the Contract, under which the time schedule for the completion of construction was reconciled and the date of temporary takeover changed from 27 November 2015 to 26 June 2015. Owing to the lack of liquid funds, HSE settled a portion of TEŠ's liabilities to Alstom at the end of 2013 under a debt assumption agreement, while TEŠ began to arrange for the extension of deadlines for repayments to MTE suppliers and other relevant suppliers.

Based on the HSE d.o.o. management's request for harmonisation of the Revised Investment Programme RIP 6 among HSE d.o.o., Termoelektrarna Šoštanj d.o.o. and Premogovnik Velenje d.d., issued on the basis of Decision No. 7 of 21 January 2014 by the Slovenian Compensation Company and amended key input data, i.e., electricity price, emission coupon price and scope of production, the investor (TEŠ) prepared a new issue of the Revised Investment Programme: RIP 6, February 2014 issue.

Since the conditions for further financing of the project have not yet been fulfilled, HSE settled the agreed liabilities to Alstom and other suppliers of Unit 6 by 30 December 2014 on the basis of debt assumption contracts. Negotiations for the postponement of payment liabilities are simultaneously being conducted with other suppliers performing works on the project. EBRD consented to the amendment of contracts with those suppliers in the Unit 6 project that were approved by EBRD and in which the amendment relates solely to the agreed postponement of payment.

TEŠ was exposed with respect to EIB because of the inadequate credit ratings of two banks: Intesa Sanpaolo and Unicredit Bank AG München. In the case of ISP, a favourable arrangement was achieved. Negotiations were conducted with the bank's advisors, resulting in a harmonised Offer Letter. With the purpose of ensuring the status of a qualified guarantor, ISP submitted to EIB, as additional collateral, securities falling due in 2019. This will encumber TEŠ with the payment of an additional annual fee in an acceptable amount. With respect to the reduction of UniCredit Bank's rating below the required

level, EIB arranged for the bank's acceptability without the direct participation of TEŠ. On 8 October 2014, EIB sent TEŠ a draft letter stating that the credit rating of UniCredit Bank AG was adequate under specific conditions. TEŠ signed a letter of consent to such a solution.

The Company regularly informed the banks on current events in connection with the project in its letters sent in July 2014 and October 2014. In October 2014, the banks were notified that they would receive the long-term projections of business operation of the HSE Group and TEŠ, and RIP 6 – December 2014 issue, by 31 January 2015. Activities involving the preparation of projections were begun and, on the basis of harmonised data on the prices of electricity and coal, planned production, and other relevant data, the long-term projections of business operation of TEŠ, the HSE Group and RIP 6 – December 2014 issue were on 30 January 2015 delivered to the banks, competent ministries and the Slovenian Sovereign Holding. Also linked to the preparation of projections was the performance of a test by a private investor (PIT test) as one of the necessary elements for the settlement of agreed sources of financing for the construction of Unit 6. On the basis of these documents, TEŠ and HSE addressed applications to the banks and two competent ministries for acquiring the necessary consent regarding derogations from the commitments specified in financial agreements. The banks are discussing the application in credit committees, and procedures are under way for the settlement of relations with the government.

TEŠ's liabilities to financial institutions and the Republic of Slovenia are regularly settled on their due dates.

Overview of investments in the construction of replacement Unit 6

in EUR

Investments in replacement Unit 6	Estimated value of RIP, Revision 6, December 2014 issue	Estimated value of RIP, Revision 5	Concluded contracts as at 31 Dec 2014	Invoiced as at 31 Dec 2014 (not incl. advance to Alstom)	Paid as at 31 Dec 2014
Building works	79,026,900	67,589,700	71,979,521	70,988,042	64,612,905
Equipment	1,193,590,300	1,126,738,500	1,169,349,593	1,132,107,271	1,079,382,541
Other	31,481,200	26,067,900	30,296,766	28,434,313	26,063,355
Cost of financing	124,359,300	82,096,200	99,776,443	99,776,443	94,628,177
TOTAL	**1,428,457,700**	**1,302,492,300**	**1,371,402,323**	**1,331,306,069**	**1,264,686,978**

Sources of financing for the investment in Unit 6	Estimated value of RIP, revision 6, December 2014 issue	Estimated value of RIP, revision 5	Paid as at 31 Dec 2014	IND (Paid/RIP 6)
HSE capital increase	489,502,300	324,927,700	248,663,301	85
Payments under debt transfer agreements HSE			166,113,790	
EIB loan	550,000,000	550,000,000	550,000,000	100
EBRD loan	200,000,000	200,000,000	200,000,000	100
HSE Group loans	83,000,000	83,000,000		0
Own sources of TEŠ	105,955,400	144,564,600	99,909,887	94
TOTAL	**1,428,457,700**	**1,302,492,300**	**1,264,686,978**	**89**

Investing in reliable production

Within the scope of investments in reliable production, TEŠ spent EUR 23,535 in 2014 for the completion of works on the wastewater collecting basin. The execution of other planned investments in reliable production, i.e., DeNOX on Unit 5 and the ecological rehabilitation of the disposal site is moving into the year 2015.

2.8 IT

The IT Department covers the needs of users and systems in various areas of operation and activity of the thermal power plant, and is also engaged in various areas of the Unit 6 project. In addition, the department actively participates in the management of joint IT services for HSE's related companies.

Overview of significant activities in 2014 by area

Processes and standardisation
Internal and external audits were conducted. The findings were integrated in the 'Corrective measures' application. We participated in the internal and external audits of HSE, and in the audit of procedures of HSE's IT Department. Procedures were formalised for the takeover of custodial care of joint IT services in the Group by new custodians – employees of TEŠ.

Communication infrastructure and system rooms
The system computer infrastructure was modernised with additional active network equipment, a HP 3par disc system, and Blade services for support to the VmWare virtual environment.

We performed activities alongside building installations on the facilities of TEŠ 6 (fibre optics network, telephone network, cabinets, work stations), and prepared a project for the modernisation of TEŠ's communication infrastructure, including a wireless WiFi network.

System equipment and services – »Datacentre«
Regular proactive management and maintenance of »datacentre« infrastructure at the TEŠ location are being conducted. TEŠ's equipment for ensuring functional autonomy of the information system was modernised and projects for the renewal of system infrastructure for TEŠ and the HSE Group were launched. The Lync service featuring the option of video conference calls was added for users.

System equipment and services – audio and video
Analog telephones (head of works SHW + laboratory) were replaced with IP telephones and additional network connections. TEŠ's telephone switchboard was replaced. Additional cameras were included in the video control system and a system for adequate storage of materials was set up.

Technological IS
For the needs of control in Unit 5 (SCADA system), the setup of the system on new computer hardware was conducted. A project was prepared for integration of the process system in Unit 6 into TES's process system. A solution was created for virtual PREM01 management stations on the basis of the thin client.

Ecological IS
In the area of monitoring, the equipment is maintained and modernised regularly to meet applicable legislation requirements.

In Unit 5, a gas exhaust and pressure gauge was installed in the smokestack, and a new O2 gauge was installed at a new location at a height of 62 m. Invitations for bids were prepared for the needs of the TEŠ 6 emission measuring station and the project for reference automatic measuring stations in Šoštanj and Zavodnje.

Business IS
The upgradings of the business-information system were based on the requirements of and changes in legislation, as well as on other requirements of users at TEŠ. At KOPA ERP, we reorganised the cost centres, restated inventories using the FIFO method, and made other minor adjustments.

We prepared and carried out a project for the optimisation of printer services.

User equipment and services
TEŠ's IT Department actively participates in the performance of tasks within the competences and responsibilities of the HSE Service Support Centre. At the TEŠ location, we manage and co-ordinate activities and players who are contractually engaged by HSE to provide support to joint IT services.

Due to the termination of Windows XP support, we carried out the transfer to Windows 7 or Windows 8 in the area of operating systems for work stations. The Lync service was installed for users, who were also connected to the new Exchange 2013 postal system.

Support to TEŠ 6 project
Project activities were carried out for the needs of TEŠ 6 (plans for communication channels, audio-visual installations, maintenance systems, ecological monitoring, and e-mail correspondence management).

2.9 Business performance analysis

2.9.1 Business operations in 2014

The business operations of TEŠ in 2014 were based on the Long-term contract for coal purchase, lease of power and purchase of electricity concluded between TEŠ d.o.o., HSE d.o.o. and Premogovnik Velenje d.d.; the Contract on coal purchase, lease of power and purchase of electricity concluded between TEŠ, HSE and Premogovnik Velenje for 2014, which was signed in March 2014, together with pertaining addendums thereto; and on the Business Plan of TEŠ for the year 2014, which was approved by the Supervisory Board of the Company in March 2014. In line with the provisions of the Articles of Association, the sole shareholder approved the Business Plan for the year 2014, together with the additional plan for 2015 and 2016, on 19 June 2014.

In 2014 the Company generated a net loss in the amount of EUR 89,275,670. The poor business result was influenced by the low selling price of electricity, low production, and the impairment of assets and inventories of spare parts on the basis of a valuation of movable and immovable property, plant and equipment as well as inventories.

Operating results in EUR	2014	2013
Operating profit or loss	(87,612,594)	2,487,347
Net cash	(952,957)	(619,662)
Profit or loss before tax	**(88,565,551)**	**1,867,685**
Corporate income tax	0	0
Deferred tax	710,119	(182,437)
Net profit or loss	**(89,275,670)**	**2,050,122**

Revenue

Revenue in EUR	2014	%	2013	%
Operating revenue	191,046,120	99.99	247,996,581	99.98
Financial revenue	18,932	0.01	46,197	0.02
Revenue	**191,065,052**	**100.00**	**248,042,778**	**100.00**
- change in value of inventories	0		0	
Total	**191,065,052**		**248,042,778**	

In 2014 the Company achieved EUR 191,065,052 in revenue. The 2014 revenue was lower by 23 % compared to the previous year. The largest decrease in revenue was recorded in net sales revenue, particularly from electricity sales, due to the lower selling price and quantities of electricity sold.

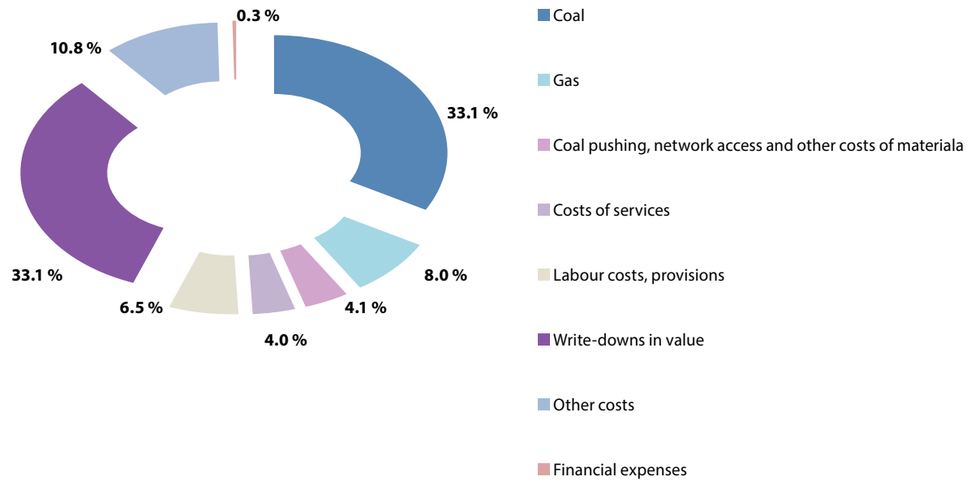
Expenses

Expenses in EUR	2014	%	2013	%
Operating expenses	278,658,714	99.65	245,509,234	99.73
Financial expenses	971,889	0.35	665,859	0.27
Expenses	**279,630,603**	**100.00**	**246,175,093**	**100.00**

In 2014, expenses amounted to EUR 279,630,603, which is 14 % more than in 2013.

Operating expenses increased in 2014 in comparison with 2013, primarily due to impairments of assets and inventories on the basis of a valuation.

Expense structure in 2014:



Assets, equity and liabilities

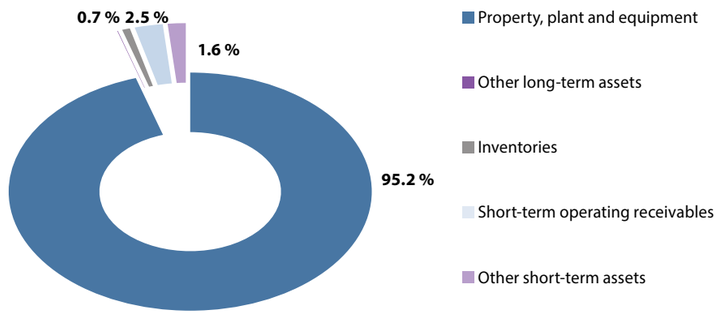
The balance sheet sum amounted to EUR 1,498,884,806 and increased by 6 % or EUR 90,063,176 in comparison with the balance as at 31 December 2013.

Taking into account the inflation rate (December 2014/December 2013), which stood at 0.2 %, the balance sheet sum increased by 5.8 % in real terms.

Assets

As at 31 December 2014, the Company's assets amounted to EUR 1,498,884,806 (31 December 2013: EUR 1,408,821,630) and increased by 6 % from the beginning of the year. Long-term assets increased by 7 %, while current assets decreased by 6 %. The highest increase among long-term assets was recorded by property, plants and equipment, which was due to investments in the construction of replacement Unit 6. Among current assets, other short-term assets (uncharged revenue from lease of electricity for emission coupons) and inventories (impairment) decreased.

Structure of assets as at 31 December 2014:

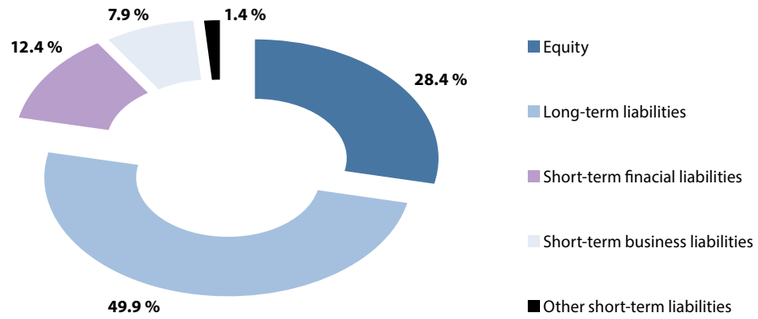


Equity and liabilities

As at 31 December 2014, the Company's equity to debt ratio stood at 1:2, which is similar to the previous year's ratio.

Under equity and liabilities, equity represents 28 % of the total amount, which is slightly less than at the end of 2013 (37 %). In 2014, equity decreased by 17 % or EUR 89,323,527, of which EUR 89,275,670 due to loss. Long-term liabilities, mostly consisting of long-term loans from banks, represent 50 % of all liabilities. In 2014 long-term liabilities decreased by 2 % due to the transfer of principal amounts, which fall due for payment in 2015, to short-term liabilities. Short-term liabilities account for 22 % of the total liabilities and increased by EUR 192,317,564 in 2014. These liabilities increased because of HSE's payments under debt assumption contracts to suppliers of Unit 6, outstanding liabilities to suppliers of equipment for Unit 6, and HSE's advance payment for lease of power. Following the swap of TEŠ's short-term liabilities arising from HSE's payments under debt assumption contracts to equity, the structure of liabilities will improve.

Structure of liabilities as at 31 December 2014:



Business segments

In 2014, all business segments (electricity production, steam and hot water supply, and social standard), except for the canteen, recorded losses, also as the result of impairment of assets and inventories of spare parts on the basis of a valuation of movable and immovable assets and inventories.

2.9.2 Main activities and goals achieved

The Company set specific annual goals in its business plan for 2014. We were above all unable to achieve the goals linked to electricity production, which was well below the long years' average due to extremely favourable hydrology conditions in 2014.

Proizvodnja električne in toplotne energije (na pragu)

In 2014, the Company's net electricity production reached 2,835 GWh, which is 20 % or 715 GWh less than planned. Lower production is the consequence of exceptional hydrology, which was well above the average of recent years, and the reduction of operation in units due to difficulties faced by Premogovnik Velenje d.d. in the extraction and supply of coal.

The quantity of electricity produced in 2014 represents 34 % of the total HSE Group's output, and 21 % of Slovenia's total electricity production. TEŠ's share in 2014 is smaller compared to the previous year. Productivity decreased and amounted to 6 GWh per employee.

Thermal energy production was slightly lower in 2014, and reflects the demand for this type of energy. We produced 306 GWh of thermal energy, which is 28 GWh less than planned for 2014.

Sales of electricity and thermal energy

The measurable target of electricity sales was lower than planned. The quantities of electricity sold were 21 % lower, and the revenue from the sale of such energy was 9 % lower. The revenue decreased by a smaller amount due to an increase in the selling price of electricity produced from coal.

The measurable target of thermal energy sales was not achieved due to lower demands for such energy. The quantities of thermal energy sold were 8 % lower than planned, as was the revenue from the sale of such energy.

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

According to measurable indicators, the target of ensuring appropriate structure, skills, efficiency and availability of human resources has been achieved. The trend of decrease in the number of employees continued in 2014, not only in the segment of permanent employees, but also in the total number of employees, which decreased by 11 compared to 2013. As at 31 December 2014, the Company employed 439 persons, with almost all remaining measurable characteristics in relation to this objective being met.

Purchase of primary resources, spare parts, materials and services

The business target was achieved by successfully negotiating the most favourable terms and conditions of purchase with suppliers. Purchasing criteria are determined by verifying supplier competitiveness, quality of product selection among various suppliers, through business analyses of selected and potential suppliers, and by negotiating the best possible terms and conditions of purchase.

2.9.3 Ensuring solvency

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

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

Several measures had to be carried out in order to ensure solvency:

- streamlining of daily operations,
- execution of payments to suppliers for Unit 6 through the parent company, HSE d.o.o., on the basis of debt assumption agreements,
- daily planning of inflows and outflows,
- negotiating deferrals of invoice payments to suppliers at Unit 6 from 2014 to 2015 (period from January-March 2015),
- maturity extension of overdue liabilities to suppliers in regular operations.

Current liquidity was ensured in 2014 by making payments through HSE under debt assumption contracts, by drawing a short-term blanket credit line with a commercial bank, and by accepting prepayments for transmitted electricity and advance payments for lease of power.

To manage daily liquidity in 2014, we utilised a short-term loan raised with a commercial bank, which was repaid by the end of the year.

2.9.4 Ensuring necessary financial resources

The cash flow statement is prepared using the direct method. In 2014, the cash receipts amounted to EUR 508,224,149 and cash payments totalled EUR 508,226,364.

The analysis of the cash flow statement showed the following:

Cash receipts from operating activities generated 58.9 % of all cash receipts (of which 84.8 % derive from electricity trading, 1.4 % from thermal energy trading, 6.8 % from gas sales, 6.3 % from duties payable to the state, 0.3 % from sales of services, and 0.5 % from other operations).

Cash receipts from investing activities account for 0.1 % of all cash receipts (of which 4 % derive from cash receipts from interest and 96 % from cash receipts from disposal of property, plants and equipment).

Cash receipts from financing activities account for 41 % of all cash receipts, all of which derive from short-term loans and other short-term financial liabilities – contracts on the assumption of debts by HSE.

The Company made 44.9 % of its cash payments from operating activities to maintain its operating capacity, the majority of which was used to purchase an energy product for electricity production (58.9 %), for maintenance, materials, and services (13.5 %), gas (12.6 %), labour costs (7.8 %), duties payable to the state (4.3 %), other payments from operating activities (1.6 %), and for the purchase of coal for thermal energy (1.3 %).

Cash payments from investing activities accounted for 45.4 %, predominantly to acquire property, plants and equipment (73.3 %), and for payments to acquire intangible assets, primarily for the purchase of emission coupons (17.1 % and capitalised interest (9.6 %) (Unit 6).

Cash payments from financing activities, which account for 9.8 % of all payments, refer to the repayment of short-term loans and other short-term financial liabilities (96.2 %), repayment of long-term loans and other long-term financial liabilities (2.8 %), and repayment of interest on borrowings (1 %).
Cash payments for short-term loans refer to the repayment of short-term bridging loans and the repayment of a short-term loan to a commercial bank.

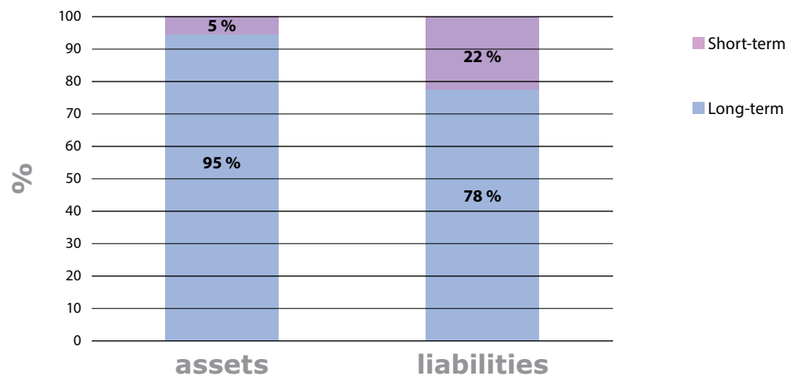
2.9.5 Capital adequacy

The Company's goal is to secure sufficient capital for its operations with regard to the scope and type of transactions it performs and the risks to which it is exposed. Capital adequacy is a prerequisite for borrowing and investing capacity, as well as a consequence of previous business decisions.

A horizontal analysis of the structure of assets and liabilities as at 31 December 2014 indicates that the Company's assets are financed as follows:

- with long-term sources – 78 % (of which 28 % refer to equity and 50 % to long-term liabilities), and
- with short-term sources – 22 %.

Structure of the Statement of financial position as at 31 December 2014:



After the capital increase is completed – requalification of payments under debt assumption contracts, drawing of long-term loans with HSE, and capital increase in 2015, the structure of financing will improve.

2.9.6 Debt ratio

As at 31 December 2014, the Company's financial liabilities to banks (short-term and long-term) totalled EUR 758,332,223 and accounted for 51 % of the total equity and liabilities. The majority of these liabilities relate to long-term borrowings.

2.10 Company's ratios

The Company monitored its business performance from the financial evaluation perspective with the following indicators:

Financing state ratios

Equity financing rate in EUR	31 Dec 2014	31 Dec 2013
1. Equity and liabilities	1,498,884,806	1,408,821,630
2. Equity	426,353,458	515,676,985
Equity financing rate = 2 / 1	**28.44**	**36.60**

At year end, the Company's equity accounted for 28 % of its total equity and liabilities. In comparison with 2013, the equity financing rate decreased due to the loss in 2014 in the amount of EUR 89 million and the increase in short-term liabilities (HSE payments to suppliers of the Unit 6 investment under debt assumption contracts).

Long-term financing rate in EUR	31 Dec 2014	31 Dec 2013
1. Equity	426,353,458	515,676,985
2. Long-term liabilities	748,507,020	761,437,881
3. Total (1 + 2)	1,174,860,478	1,277,114,866
4. Equity and liabilities	1,498,884,806	1,408,821,630
Long-term financing rate = 3 / 4	**78.38**	**90.65**

TEŠ financed 78 % of its assets from long-term sources and 22 % from short-term sources. The long-term financing rate was lower by 13 percentage points in comparison with the end of 2013, primarily

as the consequence of increased short-term financial liabilities (HSE payments under debt assumption contracts). The swap of these financial liabilities to equity of the Company is foreseen in 2015.

Operating fixed assets rate in EUR	31 Dec 2014	31 Dec 2013
1. Nepremičnine, naprave in oprema	1,426,251,486	1,330,475,280
2. Neopredmetena sredstva	544,573	410,847
3. Skupaj stalna sredstva po neodpisani vrednosti (1 + 2)	1,426,796,059	1,330,886,127
4. Sredstva	1,498,884,806	1,408,821,630
Stopnja osnovnosti investiranja = 3 / 4	**95.19**	**94.47**

The ratio shows the share of operating fixed assets in the Company's total assets. Property, plant and equipment and intangible assets account for 95 % of the Company's assets. The higher rate in comparison with 2012 is the result of continued investment in replacement Unit 6. A high operating fixed assets rate can be expected, as the Company operates in a very intensive sector in terms of technology.

Horizontal financial structure ratios

Equity to fixed assets ratio in EUR	31 Dec 2014	31 Dec 2013
1. Equity	426,353,458	515,676,985
2. Property, plant and equipment	1,426,251,486	1,330,475,280
3. Intangible assets	544,573	410,847
4. Total fixed assets at carrying amount (2 + 3)	1,426,796,059	1,330,886,127
Equity to fixed assets ratio = 1 / 4	**0.30**	**0.39**

The equity to operating fixed assets ratio stood at 0.30 at the end of 2014, which means that less than half of the most illiquid assets were financed from equity. Compared to the balance at the end of 2013, the ratio is lower because of the loss and the consequent decrease in equity.

Quick ratio in EUR	31 Dec 2014	31 Dec 2013
1. Cash and cash equivalents	8,543	10,758
2. Short-term financial assets	0	0
3. Short-term operating receivables	37,434,910	23,464,900
4. Total (1 + 2 + 3)	37,443,453	23,475,658
5. Short-term liabilities	324,024,328	131,706,764
Quick ratio = 4 / 5	**0.12**	**0.18**

The quick ratio stood at 0.12 at the end of 2014, which means that TEŠ covers 12 % of its short-term liabilities from short-term receivables. Compared to the balance at the end of 2013, the ratio is lower due to the increase in short-term financial and operating liabilities.

Current ratio in EUR	31 Dec 2014	31 Dec 2013
1. Current assets	71,901,139	76,789,946
2. Short-term liabilities	324,024,328	131,706,764
Current ratio (short-term liabilities) = 1 / 2	**0.22**	**0.58**

The current ratio amounted to 0.22 at the end of 2014, which means that TEŠ covered 22 % of its short-term liabilities from its short-term assets. Compared to the balance at the end of 2013, the ratio is lower due to the increase in short-term financial and operating liabilities.

Operating efficiency and profitability ratios

Operating efficiency ratio in EUR	2014	2013
1. Operating revenue	191,046,120	247,996,581
2. Operating expenses	279,658,714	245,509,234
Operating efficiency ratio = 1 / 2	**0.69**	**1.01**

TEŠ's operating expenses exceeded its operating revenue by 31 % in 2014. The ratio is lower in comparison with 2013 due to the unfavourable operating profit or loss (impairment of assets and inventories).

Net return on asssets ratio (ROA) in EUR	2014	2013
1. Net profit or loss	(89,275,670)	2,050,122
2. Average assets	1,453,853,218	1,300,462,346
ROE = 1 / 2	**-0.061**	**0.002**

The net return on assets ratio (ROA) in 2014 is negative. This is due to the loss recorded in 2014.

Financial ratios by contracts with banks

EBITDA / Financial expenses for loans received in EUR	2014	2013
1. EBIT – Operating profit or loss	(87,612,594)	2,487,347
2. Depreciation/Amortisation	28,924,565	27,436,065
3. EBITDA (1+2)	(58,688,029)	29,923,412
4. Financial expenses for loans received	533,899	432,767
EBITDA / Financial expenses for loans received = 3/4	**-109.92**	**69.14**

The ratio is lower in comparison with 2013 due to the negative operating profit or loss.

Total financial liabilities / Assets in EUR	31 Dec 2014	31 Dec 2013
1. Long-term financial liabilities	741,226,191	753,472,223
2. Short-term financial liabilities	185,500,110	11,597,087
3. Total financial liabilities (1+2)	926,726,301	765,069,233
4. Assets	1,498,884,806	1,408,821,630
Total financial liabilities / Assets = 3/4	**0.62**	**0.54**

The ratio showing the relationship between indebtedness and assets increased slightly in comparison with 2013, mostly due to the increased indebtedness of the Company.

2.11 Risk management

By implementing a comprehensive risk management system in all its activities, the Company ensures a systematic approach to timely risk identification and management. This comprehensive risk management is performed using adequate management strategies, consistent criteria for dealing with risks, monitoring and identification of risk levels, and with prompt information and measures.

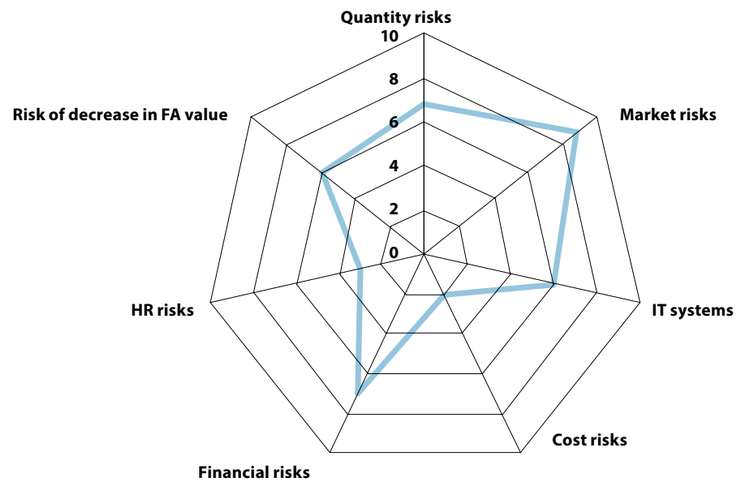
In preparing lists and assessing risks in individual areas of operation, consideration was given to the fact that the Company operates within the HSE Group and is therefore less exposed to certain risks. However, it can increase the quantity risk within HSE by poor management, in particular of quantity risk and human resources risk.

The construction of replacement Unit 6 is in the final phase. Due to the intensive investment cycle, regular operations risks and investment activity risks are dealt with separately.

Regular operations risks include:

- **business risks,** which relate to the ability to generate revenue and control costs, as well as the ability to maintain the value of operating assets. This group includes quantity risk, market risk, risk of decrease in operating assets, IT system functioning risk, and risks related to the management of costs and investments within the scope of regular operations;
- **financial risks,** which relate to the 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 liquidity, borrowing, interest rate and inflation risks;
- **HR risks** are associated with ensuring the necessary staff structure and qualifications of employees.

Regular operations risk profile



The Company was predominantly focused on the management of quantity risk and cost management. The primary and secondary critical components were defined and risk matrices created. This set the basis for improving the identification and management of key quantity risks, which had already been successfully managed in the previous period thanks to the quality and professional performance of regular maintenance, quick repairs in case of compulsory shutdowns, and adequate plant management.

The management of costs and investments during regular operation is of key importance for successful operation and a prerequisite for providing the necessary own funds for the construction of Unit 6. Risks were managed by consistently implementing the plan, monitoring costs, analysing deviations, and taking immediate action 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 preparation of expert analyses and proposals of measures. Risks relating to IT system functioning were managed by ensuring availability of backup systems and functioning of security systems.

Financial risks include liquidity, borrowing, interest rate, and inflation risks. Borrowing risks were managed by the conclusion of an annual contract with the largest buyer, containing provisions for securing receivables, regular monitoring of all overdue, unpaid receivables, and the use of adequate collection procedures. Liquidity risks were managed with the careful planning of cash flows, time co-ordination of receivables and liabilities, and cash management within the HSE Group. Financial risks are described in section 4.11.

HR risks comprise any possible untimely and inadequate provision of the required structure and professional qualifications of staff. They were managed by consistently pursuing the prescribed system procedures and upgrades on the basis of regularly performed analyses.

Operational risks were managed through the consistent implementation of the ISO 9001 quality management system, the ISO 14001 environmental management system, the OHSAS 18001 occupational health and safety system, and the ISO 27001 information management system. These systems determine 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.

Investment activity risks related to the construction of replacement Unit 6

In past years, TEŠ and the controlling company HSE prepared, for the purposes of the Unit 6 investment, two comprehensive documents addressing and assessing all the risks associated with this project. Due to the different roles of the companies engaged in this project, the definitions of risks differ to a certain extent as well. While TEŠ lays greater emphasis on technical and environmental aspects, HSE focuses more on financial and economic ones.

In December 2014, the 6th revision of the revised investment programme – Construction of 600 MW replacement Unit 6 (RIP 6) – was prepared. The »Risk Analysis« section of the December 2014 version of RIP 6 provides detailed risk definitions and matrices. It includes a description of individual risks and their consequences, an assessment of the probability of their occurrence and impact, as well as instruments for the management of identified risks. On these bases, matrices were created, classifying risks in four levels: low, medium, high and very high.

Risk analysis in RIP 6 is based on the following:

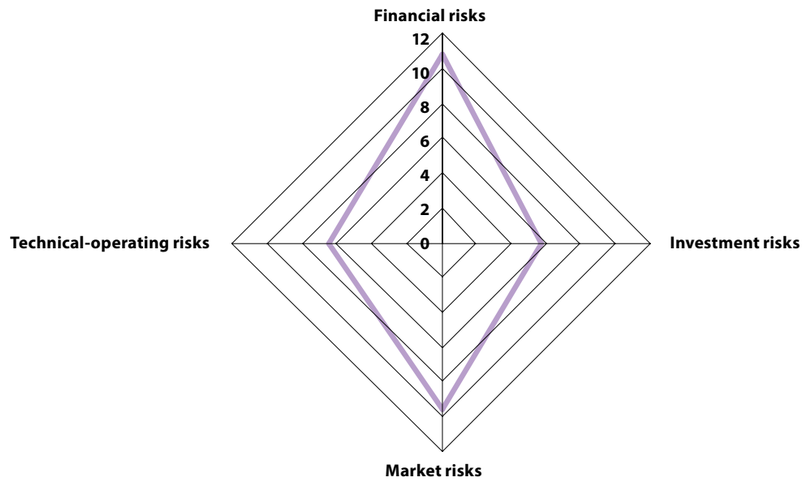
- 98 % project realisation, which means that the most project-related risks have been managed.
- By the end of 2014, EUR 750 million in loans and EUR 348 million of own funds of TEŠ and HSE have been spent on the project. To complete the project, TEŠ and HSE will have to provide an additional EUR 163 million, mostly from own sources.
- In recent times, the conditions on electricity markets have changed, i.e., deteriorated, and forecasts for the future development of electricity markets in the short term are less optimistic and more demanding with respect to ensuring economical operation in the initial stages of replacement Unit 6's operation.
- TEŠ and HSE will manage to obtain, in due time, all the necessary approvals needed for acquiring adequate sources of financing and for launching the operation of Unit 6.

In preparing the risk analysis, contracts were reviewed and an estimate of the degree of certainty was prepared. Information was obtained from Premogovnik Velenje d.d. on the heat values of coal for each year in the entire exploitation period of Unit 6. All other issues assessed by the investor as potentially risky were examined as well. In this context, consideration was given to the fact that the degree of certainty of the entire investment was 98 % at the end of 2014, and that the majority of contracts had already been concluded in the amount of 96 % of the total project value. This means that there are less and less unknowns, while the reliability of evaluations continues to increase.

To identify the risks, we used a matrix of categories of potential risks by the following areas and categories of the degree of influence, likelihood, risk, and risk manageability assessment.

Risk profile

All key risks detected were examined and their probability determined. With the performed risk analysis, its consistent monitoring, and appropriate measures, all potential, emerging risks were managed.



2.12 Public relations

The basic PR tools for communication with the external and internal publics continue to be TEŠ's website, press releases, responses, articles and interviews in various local and national media, the electricity sector newspaper »Naš stik« (Our Contact), and the HSE Group publication »HSE Energija« (HSE Energy).

In communications with the internal public, we also make use of the intranet, e-mail, and notice boards. TEŠ's website features a special sub-site, Unit 6, where we will continue to regularly post the latest information on the construction of Unit 6. In the »Ask us« section, visitors can post questions at any time, and we will reply promptly. A recently opened section on our website is »Open house day«, where visitors receive current information on this topic.

Using the above-mentioned tools, we will continue to inform the target public on current developments at TEŠ and our development strategy, which includes the construction of replacement Unit 6, and on the course of Unit 6 construction.

2.13 Research and development

Due to the optimisation of business operations, only minor activities were conducted in the area of research and development. These were oriented towards implementing projects aimed at achieving the target useful lives of existing production units, introducing new technologies, and searching for new development opportunities.

Based on the expected target useful life of Unit 5 up to the year 2027 and stricter environmental protection requirements with respect to emissions of nitrogen oxides after 1st January 2016, we prepared in 2013 a document entitled »Document on identification of an investment project for the construction of a plant for the elimination of nitrogen oxides from Unit 5 flue gases«. The installation of a $DeNO_X$ appliance for the reduction of nitrogen oxides in Unit 5 would allow for the uninterrupted operation of this production unit after 2015 as well.

Based on the expected target useful life of Unit 5 up to the year 2027 and stricter environmental protection requirements with respect to emissions of nitrogen oxides after 1 January 2016, we prepared in 2013 a document entitled »Document on identification of an investment project for the construction of a plant for the elimination of nitrogen oxides from Unit 5 flue gases«. The installation of a $DeNO_X$ appliance for the reduction of nitrogen oxides in Unit 5 would allow for the uninterrupted operation of this production unit after 2015 as well.

The emission limits of sulphur dioxide (SO_2) from the existing heating plants will be stricter after 2015. In the previous year, we conducted research on possible ways of solving the problem of SO_2 emission reduction by optimising the operation of the Unit 5 gas desulphurisation plant.

Two projects were continued in 2014: »Use of ventilation air from the Šoštanj ventilation station in TEŠ's combustion plants«, and »Improvement device for green surfaces«. The projects were conducted within Razvojni center energija (RCE) (Energy Development Centre) and were partly co-financed with non-repayable funds from the Ministry of Economic Development and Technology. Based on the findings of the Ministry revealing unearmarked utilisation of funds and other violations, the projects were discontinued.

Within the scope of implementing measures aimed at the rationalisation of all business processes, we conducted a study on the optimisation of combustion using ESR sensors on the boiler in Unit 5, as well as a thermal-economic comparison of independent and combined operation of Unit 5 and PLT 51.

2.14 Plans for the future

In future, the Company intends to further pursue its long-term goals in the following areas:

Production of electricity and thermal energy

- net production of electricity from coal: 3,898 GWh,
- production of thermal energy: 332 GWh,
- provision of necessary system services (secondary reserve, possible up to +/-49 MW),
- ensuring tertiary reserve PT 51 (32 MW) and PT 52 (32 MW)
- optimisation of average specific consumptions of units, as follows:

Unit 4	max 11,900 kJ/kWh
Unit 5	max 11,100 kJ/kWh
Unit 6	max 8,441 kJ/kWh

- optimisation of coal consumption,
- ensuring high operational availability K > 95 %,
- providing high reliability.

Sales of electricity and other services

- electricity: at least 3,898 GWh,
- thermal energy 332 GWh,
- marketing of services on the basis of own knowledge and capabilities,
- marketing of other TEŠ products (ash, gypsum, demineralised water, hydrogen, oxygen).
-

Capital investments

- priority is finishing the construction of 600 MW Unit 6 by June 2015,
- reducing NO_X emissions at Unit 5 by optimising combustion processes, and upgrading the »SNCR« method of reducing nitrogen oxides, and
- transformer.

Purchasing of primary resources, spare parts, materials and services

- coal for electricity production: 35,974 TJ,
- coal for thermal energy production: 703 TJ,
- purchase of energy products, emission coupons, spare parts, materials and services under the most favourable terms.

Performance of activities for the construction of Unit 6

- Performance of activities according to the applicable time schedule,
- Assurance of quality performance of works.

Assurance of funds for development and undisturbed operation

- to provide long-term sources of financing for the undisturbed funding of the Unit 6 investment by ensuring optimal sources of financing,
- to ensure short-term liquidity by implementing an appropriate liquidity policy,
- to ensure short-term and long-term solvency by means of long-term borrowing within the HSE Group,
- to generate EUR 192 million in revenue from the sale of products and services.

Rationalisation and management of costs

- to achieve the lowest possible purchase prices of services, materials, spare parts and energy products with a transparent publication of tender documentation (ARPPWETPS),
- to optimise maintenance costs through prevention activities aimed at preventing the occurrence of breakdowns, rational use of materials used, AND shortening deadlines for repairing individual appliances so that maintenance costs do not exceed the planned amount of EUR 4,600,000,
- to implement a cost optimisation plan.

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

- employment: 411 permanent employees (or in line with the financial and business restructuring of the Company),
- training: not less than 40 hours/employee,
- provide training for operational and maintenance staff for Unit 6.

3 Social responsibility report

3.1 Responsibility to employees

The success of a company depends to a great extent on its employees – their potential and competences, dedication, loyalty, motivation, etc. This is why the area of human resources management, which includes responsibility to employees, is in reality a company's strategic function that not only belongs to the sphere of human resources, but is an integral part of the activities and organisational thinking of all employees.

We can say that Termoelektrarna Šoštanj is a responsible employer. Despite the process of rationalising and optimising our business operations, we are constantly endeavouring to provide adequate job positions for our employees, keep them informed and engage them in dialogue, educate them, and in this way provide each employee with the opportunity for professional as well as personal development.

We strive to provide new challenges, and we encourage innovativeness, self-initiative, professional training and promotion, as well as target education for our employees.

3.2 Human resources

As at 31 December 2014, TEŠ had 439 employees, of whom 437 were full-time employees and 2 had fixed-term contracts. In comparison with 31 December 2013, the number of employees decreased by 11. In 2014 we concluded 5 employment contracts and terminated 16 employment contracts.

Without trainees/trainees	31 Dec 2013	1 Jan 2014	31 Dec 2014
Without trainees	448	448	439
Trainees	2	2	0
TOTAL	**450**	**450**	**439**

Fixed term/permanent	31 Dec 2013	1 Jan 2014	31 Dec 2014
Fixed term	3	3	2
Permanent	447	447	437
TOTAL	**450**	**450**	**439**

CA/MC	31 Dec 2013	1 Jan 2014	31 Dec 2014
CA – collective agreement	445	445	434
MC – management contract	5	5	5
- of these: no. of management board members	1	1	1
Skupaj	**450**	**450**	**439**

At the end of 2014, TEŠ had 89 % male and 11 % female employees, which is comparable to previous years and strongly reflects the main activity of the Company.

As at 31 December 2014, the average age structure of permanent employees was 46 years and 4 months, and their average period of service was 25 years and 7 months.

The past years have been dynamic, as we are undergoing a phase of restructuring, rationalisation and optimisation of business operations. Various measures aimed at optimising labour costs were implemented, i.e., we hired approx. 2 % less employees than planned; we partly changed our organisation

of work, particularly in professional services departments; despite the accelerated construction of Unit 6, we are reducing and optimising overtime and on-duty work; we reduced commuting costs; we temporarily stopped payment of the employer's share into the second pension pillar; despite the provisions of TEŠ's Entrepreneurial Collective Agreement, we did not pay out a Christmas bonus in 2014; despite the enormous increase in the scope of work, we are performing the majority of works with our own staff and thus reducing the number of external providers of services; we terminated contracts on the lease of company vehicles to managerial employees, etc. Radical measures in the areas of work organisation and human resources, as well as labour costs, are foreseen in 2015.

3.3 Education and training

Investments in knowledge are investments in the future. We therefore devote considerable attention to adequate staff development. By offering opportunities for education and other forms of training, we are cultivating a supportive attitude towards our employees.

In the 2014/2015 academic year, 16 employees or 3.7 % of all employees are engaged in part-time education. Due to the ongoing rationalisation process, we are not co-financing part-time education of employees in 2014/2015. The average age of employees included in part-time education is 39 years and 3 months. In 2014, four employees completed their studies and acquired a higher level of professional education.

165 employees participated in internal training programmes in 2014. External trainings were attended by 380 employees. Our employees also attended 78 different seminars. This means that 87 employees underwent individual training, while 293 employees participated in group training programmes.

3.4 Responsibility to the natural environment

Responsibility towards the natural environment has for several years been a central component of TEŠ's policy, and is carried out mostly through constant controls, warnings, measures and improvements. We perform regular controls of emissions and air quality of the surroundings, and analyses of the number of hours when 2XMEV was exceeded. Thanks to such controls and measures, we managed to keep the annual and monthly averages of pollutants, such as NO_X, CO, SO_2 and dust, under emission thresholds at all large combustion plants. All large combustion plants operated within the tolerance margin of 120 hours (the so-called purification plant shutdown status).
It should be mentioned that we were not able to precisely control the above-mentioned conditions on the new facility, Unit 6, as it was still in the phase of start-up tests in 2014. Nevertheless, by constantly drawing attention to deficiencies, we contributed to the quicker elimination of initial environmental weaknesses. Moreover, the 24-hour tolerance margin of SO_2 emission concentrations in air and the 18-hour tolerance margin of NO_2 emission concentrations have not been exceeded for several years.

Despite our compliance with the legally prescribed amounts, we are facing an increase in dust concentrations during shutdowns of LCP 2 and 3. It is a fact that electrostatic precipitators perform less favourably when flue gases do not contain SO_3, which is the case when a boiler is cooled forcibly, this being a prerequisite for safe maintenance work. We managed to slightly improve the situation in the current year, as only 14 hours of dust particle removal plant shutdown were recorded at LCP 2. Due to the different approach applied for LCP 3, we do not have relevant information on its shutdowns; however, we assess the situation to be similar.

In terms of efficient use of combustion residue, a more detailed analysis of stabilisation material production was performed in 2013. Due to a major defect in the tube-type conveyor belt, which occurred on Unit 5, it was not possible to produce the stabilisation material for four weeks. Ash and gypsum were transported to the mixing plant of Unit 4, but there being indications that these were being transported hydraulically, we increased supervision over the content of extracts in the closed loop system for water. Due to a defective gauge for measuring ash suspension thickness on Unit 4, it was not possible to supervise the accuracy of the mixture. The majority of activities in this period were focused on sending warnings to the custodians of individual systems. Due to the unfinished installation of automated and alarm devices, difficulties occurred with respect to unbalanced sales of ashes and gypsum.
In March we reported our CO_2 emission concentrations to the coupon register, and in April we handed over the CO_2 coupons. In December we sent to the Ministry of the Environment and Spatial Planning our remarks regarding the draft decree on CO_2 tax, which would give producers from other EU countries a competitive advantage over TEŠ. Our remarks were taken into consideration.

Within the scope of the Unit 6 construction site, we devoted special attention to the balance between produced waste and excavated material, the supervision of dust and draining of construction rainwater, the convenient outdoor storage of hazardous substances, and informing supervisors of any deficiencies. In 2014, the permissible variation of PM10 particles was not exceeded at any station.

Exceeded values of pH, and occasionally also of solid particles and iron, are still present at the sewage outflow into the Paka River due to scattered concrete on the construction site, but this has not caused any apparent deterioration in the Paka River.

During start-up runs, we focused our attention in April to the drying of walls and thermal treatment of boiler piping, because the outflow of flue gases via purification plants was not yet foreseen at the time and oil burners were temporarily used.

Considerable attention was devoted to acid washing of the boiler, performed in June. Highly concentrated hydrofluoric acid was used, and a series of temporary pipelines was sufficient reason for greater concern. Training was organised for participants and some members of the fire brigade, and measures were prepared in case of any leakages. The washing and draining of acid was closely supervised. A great deal of time was devoted to searching for qualified companies to carry out the filtration and removal of precipitate forming after the neutralisation of acid. After learning that Slovenian companies are not experienced in this type of work, we handed over the works to the main contractor.

In July, Unit 6 entered the phase of hot start-up tests. The procedure was started with oil burners, to which coal burners were later added. Due to extremely poor combustion during oil heating, sootiness was manually measured, and revealed that sootiness is high if there is not at least one coal burner in operation. Consequently, additional measurements were conducted using diffusion tubes at the locations of Šoštanj and Valmiki very, which showed the concentrations of some typically volatile organic substances to be low.

During the period of hot start-up tests, we were faced with increased noise levels. In December, we managed to conduct temporary sound measurements without the operation of Unit 4, and these showed that the noise levels were within legally prescribed limits. This indicates that Cooling tower 4 is still the sole continuous producer of increased noise, and will therefore need to be rehabilitated in the event that the exception specified in Article 33 of the Industrial Emissions Directive (IED) is applied. However, because the measurements did not include the release of steam from the degasser of the supply vessel, and because the tents which partly retain the noise from cooling tower 6 had not yet been removed at the time of measurement, it will be necessary to repeatedly verify the noise level after external landscaping is completed.

In September, Poyry repeatedly conducted an inspection after having previously found several improperly stored containers of hazardous substances in the area of Unit 6. In particular, there were no traps or roofs on the convenient storage and on the container for paint packaging wastes.

In line with the EBRD requirements and form sheet, we prepared an overview of environmental matters in the previous year. A meeting of the project council was held in May, and was attended by the representative of one nongovernmental organisation.

Direct purchases of equipment abroad without a Slovenian supplier rank our Company among the payers of environmental tax on packaging waste, and among parties obliged to conclude contracts with so-called packaging waste management companies (PWMC). Owing to the appeal of an excluded bidder, we managed to select a PWMC just before the expiry of the deadline set by the environmental inspector. In order to determine these obligations for the current year, we began to collect data on the anticipated quantity of packaging in the upcoming period. Since the main contractor presented very low quantities, which were confirmed at year-end, we did not select a PWMC for the year 2014. Owing to postponements in the supply and consumption of packaged goods, we extended our contract with the previous PWMC. In this period we examined the environmental tax systems for electric and electronic equipment, lubricating oils, paints, lacquers and fluorinated greenhouse gases. In the case of electric and electronic equipment, lubricating oils and fluorinated greenhouse gases, we became liable for the payment of tax in the current year as the result of supplies without a previous supplier, and thus submitted the required

official application. A PWMC was selected for electronic and electric equipment. Certain information regarding paints and lacquers still point to the fact that we are supposedly not obliged to pay tax.

As for the separate collection of maintenance wastes, we monitored trends in the generation and disposal of mixed construction and municipal wastes. The results in the area of mixed municipal wastes have improved, whereas construction wastes are always too voluminous. The majority of mixed construction wastes are recorded at the Unit 6 construction site, which points to the fact that the poor separation of wastes can be attributed primarily to external contractors of construction works.

In line with public procurement requirements, we prepared specifications, conditions and criteria for the selection of providers for the optimisation of biocide treatment in the Cooling tower, monitoring the condition of the soil and plants, rehabilitating acidified cultivated land, monitoring the Paka River in the vicinity of TEŠ, monitoring leachates, dust residues and aerosols from the coal deposit, monitoring emissions and immissions, monitoring areas with rehabilitated ground depressions, monitoring dust from silos, monitoring lakes in the vicinity of TEŠ, evaluating wastes, monitoring technological waste waters, and conducting the first measurements on Unit 6.

The Company had already applied for a water permit extension in the previous year, and did not yet receive any reply from the Slovenian Environment Agency in 2014.

Within the scope of ISO 14001, we renewed the environmental aspects, revised the environmental programmes, completed the internal audits, and successfully passed the external audit. Fourteen ecological projects are planned in this area, but due to the optimisation of business operations, we regretfully were not able to invest in any environmental projects, except in the new Unit 6 and partly in the centrifuge. The completion of the interception tank for the rainwater sewage system was not continued in this year. We did, however, manage to complete the construction of a decarbonisation centrifuge for muddy water, which will contribute to improving the balance of the closed loop water transport and indirectly result in the more rapid reduction of high concentrations of sulphate and molybdenum in the Velenje Lake, though it has not yet been connected with the DEKA 1 and DEKA 2 mud systems. The projects for alerting in case of defects in the preparation of stabilisation material by humidification on the intermediate storage facility, and for the more environmentally friendly utilisation of Družimirje Lake were postponed to the future. We were also not able to continue developing, in the current year, the idea of enabling the controlled, underground inflow of surface water into the Velenje Lake, which would have positive effects on the reduction of high concentrations of sulphates and organic substances, as well as on the anaerobic environment in deeper layers of the lake.

In the framework of Environmental Management Systems (EMS) programmes, we managed to realise the goals that do not require investment sources. Among these, we should mention the maintenance of the annual quantity of Nox below 7692 tons. The pumping of water from Topolšica was less manageable this year, which is why the goal of pumping less than 800,000 m^3 was surpassed. Nevertheless, the pumped quantity is within allowable limits.

With respect to the possibility of utilising other coals, we submitted an application for changing our environmental permit. Based on our application, the Slovenian Environment Agency called on us to complete our application with data on the composition of fuels and products, including proof of their compliance with the existing Slovenian Technical Approval, a determination of precise quantities of coal and product mixtures, transport routes, etc. The Agency's notice indicated a strong probability that a new assessment of environmental impact would subsequently be required, which would considerably

extend the procedure. A condition for continuing the preparation of all required environmental data is a study of coals accessible in the market, which would enable determination of the spectre and area of contained substances, but this was not available. Because we did not possess the required data and would not have been able to acquire them in a reasonable period of time, we withdrew our application.

In May, we repeatedly initiated a project for acquiring a Seveso environmental permit. Due to one of the hazardous substances used by the Company, TEŠ is a so-called minor environmental risk plant. In this case, »minor« does not mean smaller; this expression is taken from legislation, which requires the preparation of a concept of prevention of major disasters with hazardous substances, which includes studies for all locations with explosion hazards, so-called Hazop, Hazid studies for all hazardous substances in TEŠ, preparation of scenarios of high-risk disasters, and modelling of their spread into the surroundings. This is a condition for the acquisition of a so-called environmental permit for a plant. In this respect we also obtained data on Ex zones, participated in meetings at the Slovenian Environment Agency (SEA), conducted inspections of dangerous zones at TEŠ with an SEA advisor for Sevesa, and submitted the amendment in October. We did not receive any reply in 2014.

3.5 Responsibility to the wider community

With its location and activities, TEŠ is significantly integrated not only in the wider, but also in the local environment. At TEŠ we are aware of the importance of the environment in which we operate and which we are actively co-shaping. We are particularly aware of this because of the environmental impacts of our electricity production, all the more so in 2015 with the construction of Unit 6. We are therefore assuming a responsible role in the development of the area by participating in various projects and financially supporting them. In 2014 we co-operated with numerous educational institutions and professional organisations, and made donations to cultural and sports associations. We also sponsored the Elektra basketball club.

We support an international research camp for secondary students, which is organised in summer by the ERICO Institute for Ecological Research in Velenje.

The Company is aware of the significance of the environment in which it operates and which it actively co-shapes. We realize that during the construction of Unit 6 in particular, the presence of TEŠ in the local community will not be undisturbing, which is why we shall continue to assume a responsible role in its development in future.

Owing to the optimisation of business operations, the funds intended for donations and sponsorships will be substantially reduced in upcoming years.

Donations in EUR	2013	2014	2014/2013
Donation	209,399	184,666	88
Total	**209,399**	**184,666**	**88**

Sponsorships in EUR	2013	2014	2014/2013
Sponsorships	233,400	185,273	79
Total	**233,400**	**185,273**	**79**

Financial report

4 Financial report

4.1 Auditor's report

KPMG

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Independent Auditor's Report

To the Shareholder of Termoelektrarna Šoštanj d.o.o.

Report on the Financial Statements

We have audited the accompanying financial statements of the company Termoelektrarna Šoštanj d.o.o. (hereinafter also 'Company'), which comprise the statement of financial position as at 31 December 2014, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualification

As outlined in Note 16 - *Non-current financial liabilities* in the statement of financial position, the Company is not meeting its bank covenants as at 31 December 2014 that are defined in certain non-current loan agreements. Pursuant to the International Accounting Standard 1 – *Presentation of Financial Statements*, non-current borrowings in the amount of EUR 739,143 thousand should be transferred from non-current financial liabilities and disclosed within current financial liabilities, as the Company on the date of the statement of financial position did not have written confirmations from its bank partners on the waivers of its

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KPMG

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

Qualified Opinion

Except for the effects of the matter clarified under *Basis for qualified opinion*, in our opinion the financial statements present fairly, in all material respects, the financial position of Termoelektrarna Šoštanj d.o.o. as at 31 December 2014, and its financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

We draw attention to section 4.3.6 of the annual report's accounting part – *Events after the reporting date*, which discloses that the sole shareholder of the Company adopted a decision as of 30 June 2015 on increasing the share capital of Termoelektrarna Šoštanj d.o.o. by means of a non-cash contribution amounting to EUR 248,553 thousand. The same section further reads that after successfully completed launches and the contractual test operations, the Company took over the managing of the main building of unit 6 as at 19 June 2015. The aforesaid indicates that the production capacities of unit 6 are at the full disposal of the Company and its owner HSE, which enables the maximum utilisation and optimisation of production capacities of unit 6 and thus achieving best possible financial effects.

Other Matters

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

Report on Other Legal and Regulatory Requirements

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

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

Danilo Bukovec
Certified Auditor

Boris Drobnič
Partner

Ljubljana, 6 August 2015

KPMG Slovenija, d.o.o.
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4.2 Statement of management responsibility

The management is responsible for preparing financial statements for each individual financial year in accordance with the International Financial Reporting Standards (IFRS) and applicable laws as adopted by the European Union, in such a manner that they give a true and fair view of the financial position of the company Termoelektrarna Šoštanja 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 have been prepared on a going concern basis.

The management›s responsibility in preparing the financial statements includes the following:

- accounting politics are appropriately selected and consistently used,
- judgments 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, at every moment, present the Company›s financial position with reasonable precision, as well as for ensuring that the Company›s financial statements are consistent with IFRS. The management is also responsible for protecting the Company›s property, as well as for preventing and detecting abuse and other irregularities.

The management confirms that the financial statements are prepared in accordance with the provisions of IFRS without qualifications as to their use.

The management approved the Company›s financial statements for the financial year ended 31 December 2014 on 6th August 2015.

Šoštanj, 6 August 2015

Matjaž Eberlinc, PhD
Managing Director

4.3 Introductory notes to the preparation of financial statements

Pursuant to a resolution of the General Meeting of the owner of Termoelektrarna Šoštanj dated 20 August 2010, as of 1st January 2011 the Company prepares the financial statements and the accompanying notes in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the EU.

The auditing company KPMG Slovenija d.o.o. has audited the financial statements and the accompanying notes and prepared the independent auditor's report included at the beginning thereof.

4.3.1 Reporting company

Termoelektrarna Šoštanj d.o.o. (hereinafter: the »Company«) is a company with its registered office in Slovenia. The address of its registered office is Cesta Lole Ribarja 18, Šoštanj. Separate financial statements of the Company for the year ended 31 December 2014 are presented below.

The consolidated financial statements for the Holding Slovenske elektrarne Group are prepared by 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 in Ljubljana.

4.3.2 Basis for preparation

In preparing the financial statements as at 31 December 2014, the Company considered the following:

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

a) Standards and interpretations that came into effect in the 2014 financial year

In 2014, the following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EUR came into effect:

- **IFRS 10 »Consolidated financial statements« - Investment entities,** adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014). IFRS 10 replaces the guidance in connection with the consolidation in IFRS 27 »Consolidated and separate financial statements« and in SIC 12 »Consolidation – Special purpose entities« with the introduction of a uniform consolidation model for all entities that is based on control, irrespective of the nature of the entity into which an investment is being made (i.e., whether the entity is controlled by the voting rights of investors or by other contractual agreements, as is frequently the case in special purpose entities). According to IFRS 10, control is based on whether the investor

has (a) an influence on the entity in which it is investing; (b) exposure or a right to variable yields from its co-operation with the entity in which it is investing; and (c) the possibility to use its influence over the entity in which it is investing for influencing the amount of yields. The standard does not affect the financial position or business operation of the entity, because the entity does not have any such investments.

- **IFRS 11 »Joint arrangements«,** adopted by the EU on 4 April 2013 (applicable to the annual periods starting on or after 1 January 2014).
  IFRS 11 introduces new accounting requirements for joint arrangements which replace IAS 31 Interests in joint ventures. The option of using the proportionate consolidation method when accounting for jointly controlled companies was removed. Additionally, IFRS 11 currently reverses jointly controlled assets and defines only the distinction between joint operations and joint ventures. Joint operation is a joint arrangement in which the parties with joint control have the right to assets and are bound by liabilities. Joint venture is a joint arrangement in which the parties with joint control have the right to net assets. Since the company does not have any such investments, this standard will have no influence on its financial position or performance.

- **IFRS 12 »Disclosure of interests in other entities«,** adopted by the EU on 20 November 2013 (applicable to the annual period starting on or after 1 January 2014).
  IFRS 12 requires better disclosures for consolidated as well as unconsolidated entities controlled by the company. The aim of IFRS 12 is to require information so that the financial statements' users can evaluate the controlling base, any limits to consolidated assets and liabilities, risk exposures arising from controlling of unconsolidated structured entities and involvement of non-controlling equity owners in the activities of consolidated companies. Since the company does not disclose any significant interests in other entities, no additional disclosures were made.

- **IAS 27 (revised in 2011) »Separate financial statements«,** adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014).
  The requirements regarding separate financial statements have remained unchanged and are included in the amendment to IAS 27. The other parts of IAS 27 were replaced by IFRS 10. The revised standard will have no influence on the company's financial position or performance.

- **IAS 28 (revised in 2011) »Investments in associates and joint ventures«,** adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
  IAS 28 was amended in accordance with the issuance of IFRS 10, IFRS 11 and IFRS 12. The revised standard will not affect the financial position or performance of the company.

- **Amendments to IFRS 10 »Consolidated financial statements«, IFRS 11 »Joint arrangements« and IFRS 12 »Disclosure of interests in other entities« - Transition Guidance,** adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014).
  The aim of the amendments is to make the transition to IFRS 10, IFRS 11 and IFRS 12 easier by »limiting the requirement for providing adjusted comparable data to only a comparable transition period«. IFRS 11 and IFRS 12 were also amended to remove the requirement to provide comparable data for the periods prior to the current transition period. The revised standard will not affect the financial position or performance of the company.

- **Amendments to IAS 32 »Financial instruments: Presentation« - Offsetting financial assets and financial liabilities,** adopted by the EU on 21 November 2013 (effective for annual periods starting on or after 1 July 2014).
  The amendments provide explanations of the use of offsetting rules and focus on four major areas: (a) the meaning of 'currently has a legally enforceable right to set-off', (b) use of simultaneous realisation and settlement, (c) offsetting guarantee amounts, (d) unit of account for offsetting requirements.
  The amendments to the standard have not led to any additional disclosures.

- **Amendments to IAS 36 »Impairment of assets« - Recoverable amount disclosures for non-financial assets,** adopted by the EU on 23 December 2013 (effective for annual periods starting on or after 1 January 2014).
  The discussed amendments to IAS 36 refer to the disclosure of information on the recoverable amount of impaired assets, if the value is based on fair value less the cost of disposal. When preparing IFRS 13 'Fair value measurement', IASB decided to revise IAS 36 by requiring disclosure of the recoverable amount of impaired assets. The current changes explain the IASB's initial purpose to limit the scope of such disclosures to the recoverable amount of impaired assets, which is based on fair value less the cost of disposal.
  The amendments to the standard have not led to any additional disclosures.

- **Amendments to IAS 39 »Financial instruments: Recognition and measurement« - Novation of derivatives and continuation of hedge accounting,** adopted by the EU on 20 November 2013 (effective for annual period starting on or after 1 January 2014).
  The amendments discussed allow for continued hedge accounting in cases when a derivative that was previously defined as a hedging instrument is redefined for the purpose of clearing with the central counterparty pursuant to laws and regulations, if certain conditions are met (in this case, novation requires all contracting parties to agree that the previous counterparty be replaced with a new one). The amendments to the standard have not led to any additional disclosures.

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

The company has not adopted any standards or interpretations that will come into effect on or after 1 January 2015.

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

- **IAS 19 »Employee benefits – Employee contributions«,** adopted by the EU on 17 December 2014 (effective for annual period starting on or after 1 February 2015).
  The amendments are important only for programmes with specific earnings or the fulfilment of requirements relating to the contributions of employees or third parties. This includes contributions which: a) are determined by the formal provisions of the programme, b) are linked to a service performed; c) are independent of the number of years of service. If these criteria are met, the company may (optionally) recognise the contribution as a reduction of the service cost in the period in which the relevant service is rendered. The company assumes that the amendment

will not influence the financial statements, as it does not have any programmes with specific earnings related to employees or third parties.

- **IFRIC 21 »Levies«,** adopted by the EU on 1 December 2012 (effective for annual periods starting on or after 17 June 2014).
  IFRIC 21 provides guidance in defining the obligating event that gives rise to a liability, and determining the timeframe for recognising a liability for a levy. The interpretation specifies that the obligating event is the activity that triggers the payment of the levy, as defined by legislation, while the liability to pay the levy is recognised upon the occurrence of the event. The liability to pay a levy is recognised gradually if the obligating event occurs in a specific time period.
  If the obligating event represents the attainment of the activity's lowest threshold (as the lowest amount of generated revenue or produced outputs), the relevant liability is recognised when the lowest threshold of the activity is attained.
  The interpretation further specifies that the company does not have any indirect obligation to pay a levy that will be triggered by operating in a future period, if, for economic reasons, it has to continue operating in the specified future period.
  The company foresees that the interpretation will not significantly influence the financial statements on the first day of its application, as it does not require any changes in accounting policies with respect to levies.

- **Amendment to IFRS 3 »Business combinations«,** adopted by the EU on 23 December 2014 (effective for annual periods starting on or after 1 July 2014).
  The amendment to IFRS 3 (consequently includes amendments of other standards) clarifies a contingent consideration when it is a financial instrument; in this case, according to IAS 32, the instrument is classified as a liability or equity. The amendment further clarifies that a contingent consideration classified as an asset or liability is to be measured at its fair value as at the reporting date.
  The company foresees that the amendment will not influence the financial statements.

- **Amendments to various standards of the »IFRS Improvements (2010-2012 period)«,** included in the annual project for improving IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily for the purpose of eliminating inconsistencies and explaining texts (applicable to annual periods beginning on or after 1 July 2014).

- **Amendments to various standards of the »IFRS Improvements (2011-2013 period)«,** included in the annual project for improving IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40), primarily for the purpose of eliminating inconsistencies and explaining texts (applicable to annual periods beginning on or after 1 July 2014).

4.3.3 Basis of measurement

The financial statements are prepared on the basis of the going concern assumption and taking into account the occurrence of a business event.

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 presentation currency

The financial statements contained in this Report are presented in euros (EUR) without cents. The euro is simultaneously the functional and presentation currency of the Company. Due to the rounding of amounts, the totals in the tables may deviate insignificantly.

4.3.4.2 Translation of foreign currencies

Transactions expressed in a foreign currency are translated into the relevant functional currency at the exchange rate applicable on the date of the transaction. Cash and liabilities expressed in a foreign currency at the end of the reporting period are translated into the functional currency at the then applicable exchange rate.

Positive or negative foreign exchange differences are differences between amortised costs in the functional currency at the beginning of the period corrected by the amount of effective interest and payments during the period, and amortised cost in foreign currency translated at the exchange rate at the end of the period.

Noncash assets and liabilities expressed in a foreign currency and measured at fair value are translated into 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 to the net principle (difference between positive and negative foreign exchange differences under revenue, or difference between negative and positive foreign exchange differences under expenses).

4.3.5 Use of estimates and judgments

The preparation of financial statements requires that the management form 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 the given circumstances, and on the basis of which the judgments on the carrying amount of assets and liabilities are expressed. Since the assessments and assumptions are subject to subjective judgment and a certain degree of uncertainty, subsequent actual results can differ from the assessments. The assessments are examined on a 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 the change and in future periods in case the change affects future periods.

Assessments and assumptions are present in at least the following judgments:

- 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 statement of financial position date

Significant events after the date of the statement of financial position:

- In the first quarter of 2015, the following documents were presented to state bodies and banks: RIP 6, Revision 5, December 2014 issue; Long-term projections of business operation of TEŠ and the HSE Group for the 2015-2030 period. On the basis of the documentation sent, the Company addressed an application to banks (EIB, EBRD and GFA) requesting a waiver from obligations under financial agreements.
- On 12 March 2015, the Long-term Contract on coal purchase, lease of power and purchase of electricity in the period from 1 January 2015 until 31 December 2054 was concluded between HSE d.o.o., TEŠ d.o.o. and Premogovnik Velenje d.d..
- Pursuant to a final decision, the company Tešing d.o.o. was, as of 1 June 2015, deleted from the court register in a summary procedure.
- On 3 June 2015, TEŠ received a letter from the European Bank for Reconstruction and Development (EBRD) regarding the requested waiver from obligations. The waiver from obligations relates to the higher price of coal for a period of one year and a financial ratio on the level of the HSE Group in 2014. In its letter, EBRD required that the planned capital increase be carried out by 30 June 2015. TEŠ and EBRD additionally harmonised their mutual contractual relationship by concluding Addendum No. 2 to Loan Agreement No. 40417 of 24 July 2015, in which consent was given to the estimated costs of the project, the financing plan, and the deadline for project completion.
- On 11 June 2015, TEŠ received from an agent of Intesa SanPaolo a letter regarding the waiver from obligations with respect to the higher price of coal and financial ratios on the level of the HSE Group. The letter states that consent is subject to the payment of a compensation and a letter of waiver from obligations from EIB. On 23 June 2015, TEŠ paid the fee. On 28 July 2015, TEŠ received from EIB a draft letter of conditional waiver from obligations.
- On 11 June 2015, two long-term loan agreements were concluded with HSE, i.e., Loan Agreement No. 1/ HSE/TEŠ/15 in the value of EUR 83,000,000, and Loan Agreement No. 2/HSE/TEŠ/2015 in the value of EUR 33,800,000. The deadline for the repayment of both loans is 2 January 2026.
- On 19 June 2015, after successfully completed start-up tests and contractual trial operation, TEŠ took over the management of the main drive facility of Unit 6 from the main supplier (ALSTOM). This means that the production capacities of Unit 6 are available to TEŠ and its owner, HSE, in their entirety, which will enable maximum utilisation and optimisation of the production capacities of Unit 6 in the sense of attaining the best possible financial effects.
- Pursuant to a final decision, the company Enraz d.o.o. was, as of 24 June 2015, deleted from the court register in a summary procedure.
- On 30 June 2015, the shareholder HSE adopted a decision on capital increase by the payment of an in-kind contribution in the value of EUR 248,552,790.13. The increase shall be carried out by the payment of an in-kind contribution in the form of a swap of short-term financial liabilities under relevant debt assumption contracts to equity. Owing to the increase, the share capital thus amounts to EUR 578,579,850.13.
- On 28 July 2015, TEŠ received from EIB a draft letter of waiver from obligations under specific conditions, which have not yet been fulfilled. The validity of the document is subject to the consent of the Ministry of Finance, the agent Intesa SanPaolo, HSE d.o.o., and TEŠ d.o.o.. An additional condition to be fulfilled is the submission of an opinion of the State Attorney's Office on the validity of the state guarantee for the loan in the amount of EUR 440.0 million. If these conditions are fulfilled, EIB will consent to the financial plan and the deadline for project completion.

4.3.7 Significant accounting policies

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

Whenever necessary, the comparative information was adjusted so as to be in accordance with the presentation of information 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. The 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 the 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 the 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 of the Slovenian Institute of Auditors.

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

The residual value of an intangible asset is an estimated amount which the Company would receive upon the disposal of such an asset after it is reduced by the 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 upon their purchase.

Intangible assets with an 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 shortened, the amortisation cost increases. The adjustment of useful life has to be calculated in a manner that the intangible asset will be amortised in the new predicted useful life. The change in useful life is considered as a change in the accounting estimate, and it affects only the period in which the accounting estimate was changed, and every following period of the remaining useful life.

The amortisation rates used for individual intangible assets are:

Amortisation groups of intangible assets

Group of intangible assets	Amortisation rate (%)
Software	7.6 % - 50.0 %
Licences	12.5 % - 50.0 %

Subsequent costs in relation to intangible assets are capitalised only in cases when they increase future economic benefits arising from the 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 part of the 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 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.

The anticipated costs of major regular inspections and repairs (overhauls) of plant and equipment are considered as parts. These include repairs that are usually carried out every few years (periodically), and require substantial resources.
The Company has no items of property, plant and equipment acquired free of charge.

Borrowing costs that are directly allocated to the purchase, construction or production of a qualifying asset, i.e., until capitalisation of the asset, are recognised as a part of the 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 method of depreciation, 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 the estimated useful lives of individual production units.

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

Depreciation groups of production units

Property, plant and equipment	Depreciation rate for property (%)	Depreciation rate for production plant and equipment (%)	Depreciation rate for parts of production plant and equipment (overhauls) (%)
Unit 4	1.9 % - 5.1 %	0.9 % - 10.0 %	16 % - 38.7 %
Unit 5	0.3 % - 3.1 %	0.3 % - 6.0 %	25.0 %
Gas units 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 groups of other property, plant and equipment

Property, plant and equipment	Depreciation rate (%)
Buildings - other	2.1 % - 2.9 %
Parts of buildings	2.5 % - 20.0 %
Computer equipment	20.0 % - 50.0 %
Furniture	10.0 % - 20.0 %
Cars	9.0 % - 20.0 %
Other vehicles	4.0 % - 20.0 %
Other plant and equipment	12.5 % - 33.3 %

Methods of depreciation, useful life, and other values of the 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 financial year discussed, whereas if 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 only affects the period in which the accounting estimate was changed and every subsequent period of the remaining useful life.

The costs of replacement of a part of an asset are attributed to the carrying amount of the asset, if it is possible that future economic benefits related to a part of the 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 residual value of an asset is the estimated amount the Company would receive upon disposal of such asset after its reduction by the 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 residual value upon their purchase.

Gains and losses that occur in the disposal of property, plant and equipment are recognised as the difference between net sales value and carrying amount of the 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; generally, its stake in such a 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 includes the following items:

- 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.

A financial asset is derecognised when the 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 the 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.

The Company measures financial assets at cost in the event that 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 and are not quoted in an active market.

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

Loans are recognised in books of account at the settlement date, and receivables at the trading date.

Receivables are recorded under short-term assets, except those maturing more than 12 months after the date of the statement of financial position. In this case they are disclosed under long-term assets.

Advances receivable are recorded 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 an 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 initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Loans received are initially recognised at the settlement (payment) date, while other non-derivative financial liabilities are recognised at the trading 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

Assets or a 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.

An asset or a group of assets held for sale is measured at carrying amount or fair value less costs of sale, whichever is lower.

4.3.7.6 Inventories

Inventories are valued at historical cost or net realisable value, whichever is lower. 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 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 an individual purchase.

Inventories of materials and low-value assets are valued using the weighted average price method. The respective method is also applied when recording costs or expenses.

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

Net realisable value is the estimated selling price in the ordinary course of business, reduced by the estimated costs of completion and sales. Write-downs of damaged, expired and useless inventories are regularly performed during the year per individual items.

At least once per year, at the reporting date, the impairment test is conducted where there is an indication of impairment of inventories. The impairment of inventories is assessed for each individual type of inventory. Individual types of inventories are classified as groups of inventories with similar characteristics on the basis of the time component of changes in inventories. In the assessment of impairment for an individual group, the criteria of professional assessment, further use or sale are applied.

4.3.7.7 Impairment of assets

4.3.7.7.1 Financial assets

A financial asset is considered impaired, if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be reliably measured.

Objective evidence on the impairment of financial assets can be: non-fulfilment or breach 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 it is assessed that the carrying amount of a 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 considered disputed receivables.

For the final write-off of receivables, relevant documents of proof are needed: legally enforceable decisions on forced settlement, bankruptcy proceedings, court ruling, or other relevant documents.

In the event that all actions were performed in accordance with the due diligence principle, with the intention to repay certain unsettled receivables, and in cases when, due to the amount of receivables, it would not be economical for the Company to enter the collection procedure through a court, the receivables are fully written off on the basis of the management's decision.

Impairment losses in relation to financial assets are recognised in profit or loss.

4.3.7.7.2 Non-financial assets

At each reporting date, the Company verifies the carrying amount of significant non-financial assets in order to establish whether there are any indications of impairment. If such indication exists, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. When determining the value of an asset in use, the expected future cash flows are discounted to their current value 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 when its carrying amount exceeds its recoverable amount. Impairment is recorded in the income statement.

At the end of each reporting period, the Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. The increased carrying amount of an asset attributable to a reversal of impairment loss shall not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised for the asset in prior years.

4.3.7.8 Equity

The 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 the owners and the amounts generated in the course of operation that belong to the owners. It is decreased by the loss from operations and payments to the owners, and increased by the profit for the period.

Share capital and capital surplus represent the owner's cash and in-kind contributions.
Capital surplus comprises the general equity revaluation adjustments. The amount may only be used for capital increase.

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

Fair value reserves represent the amounts of revaluation of individual categories of assets.

Retained earnings include the profit or loss carried forward from previous periods as well as the profit or loss for the period.

4.3.7.9 Provisions for jubilee and termination benefits

In accordance with legal regulations, the collective agreement and internal rules, the Company is obliged to pay jubilee benefits to employees and termination benefits upon their retirement, for which long-term provisions are created. No other pension liabilities are recorded.

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 upon retirement and the 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 upon retirement and jubilee benefits decrease the created provisions.

4.3.7.10 Other provisions

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

The amount of the provision must be equal to the present value of the expenditure expected to be required to settle the liability. Since provisions are intended for covering probable, but not certain obligations, the amount recognised as a provision is merely the best estimate of the expenditure needed for settlement of the 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 the costs or expenses for which they were created to cover. This means that in the financial year such costs or expenses are no longer recorded under profit or loss.

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 it has not yet been charged. Other liabilities include long-term and short-term accrued costs and deferred revenue.

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

Deferred revenue is the revenue that will cover the estimated expenses during a period of more than one year. They also include received state subsidies and assets-related subsidies.

4.3.7.12 Contingent liabilities and assets

A contingent liability is:

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

A contingent asset is an asset that could arise from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events that the Company does not fully control.

The Company does not yet 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 receivables arising from this repayment, decreased by repayments and discounts, rebates for further sale, and quantity discounts. The revenue is recorded when the buyer assumes all significant types of risks and benefits related to the ownership of the asset, when there is certainty as to the recoverability of a compensation and related costs, or the possibility of return 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 sale of merchandise.

Sale of services is recognised in the accounting period in which the services are rendered, by reference to the completion of services provided as a proportion of the total services to be provided.

Revenue arising from **default interest** charges and related receivables are recognised upon occurrence, if it is probable that the economic benefits related to the transaction will inflow to the Company. In the reverse case, default interest charges are recorded as contingent assets and are recognised in the Company's books of account upon payment. Recording of default interest is considered on a case per case basis.

Other operating revenue related to products and services is revenue from the reversal of provisions, revenue from the utilisation of deferred revenue, gains arising from sales of fixed assets, reversal of impairment of receivables, received compensations and contractual penalties, and similar revenue (e.g., government grants).

A government grant is treated as deferred revenue which is recognised on a systematic and rational basis as other operating revenue over the useful life of the relevant asset (on the other hand, the Company discloses the costs of depreciation of such an asset under operating expenses).

Financial revenue comprises revenue from shares in investments, interest revenue from loans granted and deposits, foreign exchange gains from financing, and profits 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 when incurred.

Costs of materials are historical costs of materials purchased that are directly used for creating products and services (direct costs of materials), as well as costs of materials 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, low-value assets whose useful life does not exceed one year, office supplies, specialised literature, and other items. Costs of materials also cover the accrued costs of shrinkage, wasting, breakage and failure. In case the Company records more negative than positive foreign exchange differences from operation, such differences are recorded under 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 mainly includes 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 trips, 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 also comprise impairments, write-downs and losses from the sale 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 the creation of products and services (costs of direct work), or they have the nature of indirect costs and are included in relevant purpose (functional) groups of indirect costs.

Other operating expenses occur in relation to the 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 Tax

Taxes include current and deferred tax liabilities. Current tax is included in the income statement. Deferred tax is recognised in the income statement and in the statement of financial position.

Current tax liabilities are based on taxable profit for the period. The taxable profit differs from the net profit reported in the profit or loss, since it excludes the items of revenue or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. The Company's current tax liabilities are calculated using the tax rates 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 the financial statements. Deferred tax is determined using the tax rates (and legislation) applicable on the reporting date and for which it is expected to be in use when the deferred tax asset is realised or the deferred tax liability is settled.

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

4.3.8 Statement of other comprehensive income

The 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

The 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 for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

- the first level comprises quoted prices (unmodified) in active markets for equal assets or liabilities,
- the 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,
- the third level comprises input data for an asset or liability that are not based on evident market data.

The fair value of individual groups of assets for the purposes of measuring or reporting was determined using the methods described in section 4.7.5 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 risk in the management report. In terms of value, financial risks are disclosed in item 4.7 of the Notes.

4.4 Statement of financial position

Statement of financial position

in EUR

	Note	31 Dec 2014	31 Dec 2013
ASSETS		**1,498,884,806**	**1,408,821,630**
A. LONG-TERM ASSETS		**1,426,983,667**	**1,332,031,684**
I. Intangible assets	1	544,573	410,847
II. Property, plant and equipment	2	1,426,251,486	1,330,475,280
V. Other long-term financial assets and loans	3	60,003	260,003
VI. Long-term operating receivables	4	90,277	141,170
VII. Other long-term assets	5	37,328	34,266
VIII. Deferred tax assets	6	0	710,118
B. SHORT-TERM ASSETS		**71,901,139**	**76,789,946**
I. Assets held for sale	7	201,723	201,723
II. Inventories	8	10,453,202	12,572,280
IV. Short-term operating receivables	9	37,434,910	23,464,900
VI. Other short-term assets	10	23,802,761	40,540,285
VII. Cash and cash equivalents	11	8,543	10,758
EQUITY AND LIABILITIES		**1,498,884,806**	**1,408,821,630**
A. EQUITY	**12**	**426,353,458**	**515,676,986**
I. Called-up capital		330,027,060	330,027,060
II. Capital surplus		116,883,008	116,883,008
III. Revenue reserves		68,771,666	67,797,859
IV. Fair value reserve		(52,606)	(4,749)
V. Retained earnings		(89,275,670)	973,808
B. LONG-TERM LIABILITIES		**748,507,020**	**761,437,880**
I. Provisions for termination and jubilee benefits	13	2,516,594	2,784,182
II. Other provisions	14	2,716,040	2,309,390
III. Other long-term liabilities	15	2,048,195	2,872,085
IV. Long-term financial liabilities	16	741,226,191	753,472,223
C. SHORT-TERM LIABILITIES		**324,024,328**	**131,706,764**
II. Short-term financial liabilities	17	185,500,110	11,597,010
III. Short-term operating liabilities	18	117,829,161	77,155,838
V. Other short-term liabilities	19	20,695,057	42,953,916

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

4.5 Income statement

Income statement

in EUR

	Note	2014	2013
OPERATING REVENUES		**191,046,120**	**247,996,581**
1. NET SALES REVENUE	1	185,474,049	243,665,466
3. CAPITALISED OWN PRODUCTS AND OWN SERVICES	2	144,783	2,826,106
4. OTHER OPERATING REVENUE	3	5,427,288	1,505,009
GROSS OPERATING INCOME		**191,046,120**	**247,996,581**
OPERATING EXPENSES		**278,658,714**	**245,509,234**
5. COSTS OF GOODS, MATERIAL AND SERVICES	4	137,614,487	150,578,686
6. LABOUR COSTS	5	18,103,491	19,012,973
7. WRITE-DOWNS IN VALUE	6	92,607,272	27,655,354
8. OTHER OPERATING EXPENSES	7	30,333,464	48,262,221
OPERATING PROFIT OR LOSS		**(87,612,594)**	**2,487,347**
9. FINANCIAL REVENUE	8	18,932	46,197
10. FINANCIAL EXPENSES	9	971,889	665,859
TOTAL PROFIT OR LOSS		**(952,957)**	**(619,662)**
PROFIT OR LOSS BEFORE TAX		**(88,565,551)**	**1,867,685**
TAX		**710,119**	**(182,437)**
12. Deferred taxes	10	710,119	(182,437)
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR		**(89,275,670)**	**2,050,122**
Majority stakeholder	11	(89,275,670)	2,050,122
Minority stakeholder			

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

4.6 Statement of other comprehensive income

Statement of other comprehensive income

in EUR

	2014	2013
13 . Net profit or loss for the period	**(89,275,670)**	**2,050,122**
17. Actuarial gains and losses of employee defined benefit plans	(47,857)	(16,314)
Items that will not be transferred to profit or loss	**(47,857)**	**(16,314)**
23. Total comprehensive income for the reporting period	**(89,323,527)**	**2,033,808**

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

4.7 Statement of changes in equity

Statement of changes in equity

in EUR

	CALLED-UP CAPITAL		REVENUE RESERVE			RETAINED EARNINGS			
	Share capital	CAPITAL SURPLUS	Statutory reserves	Other revenue reserves	FAIR VALUE RESERVES	Profit or loss from previous periods	Net profit or loss for the period	TOTAL
As at 1 January 2013	**211,652,459**	**116,883,008**	**3,526,077**	**47,776,551**	**11,565**	**15,418,917**	**0**	**395,268,577**
B.1. Transactions with owners	**118,374,601**	**0**	**0**	**0**	**0**	**0**	**0**	**118,374,601**
Subscription of called-up equity	118,374,601	0	0	0	0	0	0	118,374,601
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**0**	**(16,314)**	**0**	**2,050,122**	**2,033,808**
Net profit or loss for the period	**0**	**0**	**0**	**0**	**0**	**0**	**2,050,122**	**2,050,122**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**0**	**(16,314)**	**0**	**0**	**(16,314)**
Actuarial gains and losses of employee defined benefit plans	*0*	*0*	*0*	*0*	*(16,314)*	*0*	*0*	*(16,314)*
B.3. Changes in equity	**0**	**0**	**102,506**	**16,392,725**	**0**	**(15,418,917)**	**(1,076,314)**	**0**
Allocation of a portion of net profit for the comparative reporting period to other components of equity	0	0	102,506	973,808	0	0	(1,076,314)	0
Allocation of a portion of net profit to additional reserves pursuant to a General Meeting resolution	0	0	0	15,418,917	0	(15,418,917)	0	0
As at 31 December 2013	**330,027,060**	**116,883,008**	**3,628,583**	**64,169,276**	**(4,749)**	**0**	**973,808**	**515,676,986**
As at 1 January 2014	**330,027,060**	**116,883,008**	**3,628,583**	**64,169,276**	**(4,749)**	**973,808**	**0**	**515,676,986**
B.1. Transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**0**	**(47,857)**	**0**	**(89,275,670)**	**(89,323,527)**
Net profit or loss for the reporting period	**0**	**0**	**0**	**0**	**0**	**0**	**(89,275,670)**	**(89,275,670)**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**0**	**(47,857)**	**0**	**0**	**(47,857)**
Actuarial gains and losses of employee defined benefit plans	*0*	*0*	*0*	*0*	*(47,857)*	*0*	*0*	*(47,857)*
B.3. Changes in equity	**0**	**0**	**0**	**973,808**	**0**	**(973,808)**	**0**	**0**
Allocation of a portion of net profit to additional reserves pursuant to a General Meeting resolution	0	0	0	973,808	0	(973,808)	0	0
As at 31 December 2014	**330,027,060**	**116,883,008**	**3,628,583**	**65,143,083**	**(52,606)**	**0**	**(89,275,670)**	**426,353,458**

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

4.8 Cash flow statement at direct method

Cash flow statement

in EUR

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
a) Cash receipts from operating activities	**299,497,747**	**353,153,972**
1. Cash receipts from electricity operations	253,934,813	270,753,337
a) Domestic market	253,934,813	270,753,337
2. Cash receipts from thermal energy operations	4,211,060	4,703,021
3. Cash receipts from premiums, subsidies, donations, etc.	6,473	18,370
6. Cash receipts from the sale of emission coupons	0	17,001,359
8. Cash receipts from duties payable to the state, except for corporate income tax	18,711,258	47,553,887
9. Cash receipts from corporate income tax refund	0	808,169
10. Cash receipts from sale of services	739,564	618,205
11. Other cash receipts from operating activities	21,894,579	11,697,624
b) Cash payments from operating activities	**(228,019,621)**	**(238,677,440)**
2. Cash payments for thermal energy operations	(3,020,076)	(3,327,372)
4. Cash payments for coal	(134,380,335)	(129,892,247)
5. Cash payments for gas	(28,813,403)	(28,305,429)
6. Cash payments for purchase of emission coupons	0	(18,493,108)
8. Cash payments for duties payable to the state, except for corporate income tax	(9,805,976)	(5,586,247)
11. Cash payments for maintenance, materials and services	(30,736,093)	(28,936,931)
12. Cash payments for labour costs	(17,689,710)	(18,367,574)
13. Other cash payments for operating activities	(3,574,028)	(5,768,532)
c) Net cash from operating activities	**71,478,126**	**114,476,532**
CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	**329,535**	**31,870**
1. Cash receipts from interest	13,400	29,659
4. Cash receipts from property, plant and equipment	316,135	2,211
b) Cash payments from investing activities	**(74,765,193)**	**(469,171,138)**
1. Cash payments to acquire intangible assets	(39.361.515)	(11,946)
2. Cash payments to acquire property, plant and equipment (incl. advances)	(13,223,240)	(451,632,837)
3. Cash payments to acquire capitalised interest	(22,176,838)	(17,526,355)
5. Cash payments to acquire investments in subsidiaries, associates and jointly controlled companies	(3,600)	0
c) Net cash from investing activities	**(74,435,658)**	**(469,139,268)**
CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	**52,491,000**	**790,505,601**
1. Cash proceeds from paid-in capital	0	118,374,601
2. Cash proceeds from long-term loans and other long-term financial liabilities	0	557,500,000
3. Cash proceeds from short-term loans and other short-term financial liabilities	52,491,000	114,631,000
b) Cash payments from financing activities	**(49,535,683)**	**(435,837,768)**
1. Interest paid on loans received	(515,794)	(455,889)
2. Cash repayment of long-term loans and other long-term financial liabilities	(1,388,889)	(8,330,879)
3. Cash repayment of short-term loans and other short-term financial liabilities	(47,631,000)	(427,051,000)
c) Net cash from financing activities	**2,955,317**	**354,667,833**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**10,758**	**5,661**
Increase/decrease in cash and cash equivalents	(2,215)	5,097
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**8,543**	**10,758**

4.9 Notes to the financial statements

4.9.1 Notes to the statement of financial position

Note 1

Intangible assets .....EUR 544,573

Intangible assets

in EUR

	31 Dec 2014	31 Dec 2013
CO2 emissions coupons	446,679	138,684
Other long-term property rights	97,894	272,163
Total	**544,573**	**410,847**

The predominant portion of the Company's intangible assets are emission coupons. Pursuant to the Environmental Protection Act and the Ordinance on the list of operators of installations emitting greenhouse gases, the state granted 579,013 free emission coupons to the Company for the period from 2013 to 2020. The free emission coupons were handed over to the Company in April 2014. The amount of emission coupons amounts to 110,006 for the year 2014 and 90,334 for the year 2015. In upcoming years, the quantity of free emission coupons will decrease. In March 2014, TEŠ purchased 4,223,386 emission coupons from HSE in order to fulfil its obligations arising from emissions generated in 2013. In April 2014, the amount of coupons decreased by 4,362,082 (Report on assessment of the Report on greenhouse gas emissions for 2013) coupons that were handed over for the emissions produced in 2013. As at 31 December 2014, the Company recorded among its long-term property rights 446,679 free emission coupons.

Intangible assets include EUR 97,894 worth of licences and other software which, depending on their useful life, are amortised at rates ranging from 7.6 % to 50 %.

As at 31 December 2014, an impairment of intangible assets in the amount of EUR 17,157 was carried out on the basis of a valuation performed by a certified appraiser.

The Company does not have any intangible fixed assets under financial lease.

Changes in intangible assets

in EUR

	Emission coupons	Other long-term property rights	Total
Cost as at 1 Jan 2013	**4,301,696**	**1,560,002**	**5,861,698**
Acquisitions	384,809	1,265,640	1,650,449
Disposals	(4,547,821)	(1,247,323)	(5,795,144)
Cost as at 31 Dec 2013	**138,684**	**1,578,319**	**1,717,003**
Written-down value as at 1 Jan 2013	**0**	**1,116,655**	**1,116,655**
Amortisation expense	0	189,501	189,501
Written-down value as at 31 Dec 2013	**0**	**1,306,156**	**1,306,156**
Carrying amount as at 1 Jan 2013	**4,301,696**	**443,347**	**4,745,043**
Carrying amount as at 31 Dec 2013	**138,684**	**272,163**	**410,847**

in EUR

	Emission coupons	Other long-term property rights	Total
Cost as at 1 Jan 2014	**138,684**	**1,578,319**	**1,717,003**
Acquisitions	4,670,077	26,571	4,696,648
Disposals	(4,362,082)	0	(4,362,082)
Cost as at 31 Dec 2014	**446,679**	**1,604,890**	**2,051,569**
Written-down value as at 1 Jan 2014	**0**	**1,306,156**	**1,306,156**
Amortisation expense	0	183,683	183,683
Impairment loss	0	17,157	17,157
Written-down value as at 31 Dec 2014	**0**	**1,506,996**	**1,506,996**
Carrying amount as at 1 Jan 2014	**138,684**	**272,163**	**410,847**
Carrying amount as at 31 Dec 2014	**446,679**	**97,894**	**544,573**

Note 2

Property, plant and equipment ..... EUR 1,426,251,486

Property, plant and equipment

in EUR

	31 Dec 2014	31 Dec 2013
Land	2,310,917	3,711,949
Buildings	15,426,781	27,987,463
Production equipment	78,911,407	151,668,938
Other equipment	4,246,348	6,948,287
Property, plant and equipment being acquired	1,325,356,033	1,140,158,643
Total	**1,426,251,486**	**1,330,475,280**

For assets under construction, which primarily refer to replacement Unit 6, the Revised Investment Programme, Revision 6 (September) foresaw that at a 7 % discount rate the net present value of the investment would be positive and that the internal rate of return would amount to 7.75 %; in the Revised Investment Programme, Revision 6 (December 2014 issue), the net present value at a discount rate of 5.89 % using the weighted average cost of capital method (WACC) is positive, and IRR stands at 6.19 %.

Based on a valuation of property, plant and equipment, the Company verified their recoverable value. Due to the specific nature of the Company, the measurement of fair value less cost of disposal is not reasonable, which is why the value of an asset in use was used to determine the recoverable value of required assets. The valuation was performed by a certified appraiser holding a licence from the Slovenian Institute of Auditors. The following assumptions were considered in the valuation:

- value is estimated using the method of present value of expected free cash flows, (value in use),
- the forecasts up to the year 2054 were considered,
- a discount rate reflecting the required rate of return of the Company's total equity (WACC) was used, i.e., 6.37 % in 2015, 5.67 % in 2016 and 2017, and 5.36 % from 2018 onward.

On the basis of the valuation, the Company impaired its property, plant and equipment in a total amount of EUR 58,977,039 (of which EUR 17,157 relate to intangible assets), and the impairment was allocated to assets. Unit 6 was not impaired due to the positive net present value obtained using the discount rate of 5.89 % when applying the weighted average cost of capital method (WACC).

The Company also defined redundant assets and determined their recoverable value on the basis of fair value less costs of disposal. The fair value specified in the valuation report prepared by a certified appraiser holding a licence from the Slovenian Institute of Auditors was taken into account. Based on the valuation, the Company impaired redundant assets in the amount of EUR 358,442.

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

Changes in property, plant and equipment

in EUR

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost as at 1 Jan 2013	**3,711,949**	**205,864,396**	**1,036,222,413**	**15,698,305**	**894,947,739**	**2,156,444,802**
Acquisitions	0	0	0	0	255,103,602	255,103,602
Disposals	0	(42,199)	(7,690,135)	(204,037)	0	(7,936,371)
Transfers from investments	0	59,468	9,433,908	399,322	(9,892,698)	0
Cost as at 31 Dec 2013	3,711,949	**205,881,665**	**1,037,966,186**	**15,893,590**	**1,140,158,643**	**2,403,612,033**
Written-down value as at 1 Jan 2013	**0**	**174,502,275**	**871,202,828**	**8,109,695**	**0**	**1,053,814,798**
Disposals	0	(39,602)	(7,685,541)	(199,466)	0	(7,924,609)
Depreciation expense	0	3,431,529	22,779,961	1,035,074	0	27,246,564
Written-down value as at 31 Dec 2013	**0**	**177,894,202**	**886,297,248**	**8,945,303**	**0**	**1,073,136,753**
Carrying amount as at 1 Jan 2013	**3,711,949**	**31,362,121**	**165,019,585**	**7,588,610**	**894,947,739**	**1,102,630,004**
Carrying amount as at 31 Dec 2013	**3,711,949**	**27,987,463**	**151,668,938**	**6,948,287**	**1,140,158,643**	**1,330,475,280**

in EUR

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost as at 1 Jan 2014	**3,711,949**	**205,881,665**	**1,037,966,186**	**15,893,590**	**1,140,158,643**	**2,403,612,033**
Acquisition	0	0	0	0	186,122,720	186,122,720
Disposals	0	(107,951)	(12,909)	(197,702)	0	(318,562)
Transfers from investments	0	0	49,188	325,234	(392,649)	(18,227)
Transfers – repostings	0	0	0	0	(532,681)	(532,681)
Disposals	0	0	0	0	0	0
Cost as at 31 December 2014	**3,711,949**	**205,773,714**	**1,038,002,465**	**16,021,122**	**1,325,356,033**	**2,588,865,283**
Written-down value as at 1 Jan 2014	**0**	**177,894,202**	**886,297,248**	**8,945,303**	**0**	**1,073,136,753**
Disposals	0	(87,557)	(10,626)	(165,731)	0	(263,914)
Depreciation expense	0	3,430,372	24,275,831	1,034,679	0	28,740,882
Impairment loss	1,401,032	9,109,916	48,528,605	1,960,523	0	61,000,076
Written-down value as at 31 Dec 2014	**1,401,032**	**190,346,933**	**959,091,058**	**11,774,774**	**0**	**1,162,613,797**
Carrying amount as at 1 Jan 2014	**3,711,949**	**27,987,463**	**151,668,938**	**6,948,287**	**1,140,158,643**	**1,330,475,280**
Carrying amount as at 31 Dec 2014	**2,310,917**	**15,426,781**	**78,911,407**	**4,246,348**	**1,325,356,033**	**1,426,251,486**

Investments in property, plant and equipment in 2014 were financed through the drawing of short-term loans raised with commercial banks in a total amount of EUR 12,500,000, debt assumption contracts concluded with the parent company HSE in the amount of EUR 155,905,867, and other own assets.

Land ..... EUR 2,310,917

The value of land decreased by the amount of impairment based on the valuation of assets conducted in 2014.

Buildings ..... EUR 15,426,781

The value of buildings is within the scope of planned values, and decreased over the previous year by the amount of the depreciation expense, impairment loss, sale of apartments, and removal of the reception.

Production plants, machinery and other equipment ..... EUR 83,157,755

The value of production plants, machinery and other equipment decreased by the amount of the depreciation expense, impairment loss, and write-downs of equipment. Acquisitions in the amount of EUR 374,422 are the result of realisation of the plan for the purchase of small devices, machines and equipment, such as a fire-fighting vehicle, trench digger, flue gas flow meter, and other. Assets also increased due to capitalisation of capital maintenance costs of the PT51 gas turbine, which was completed in 2013.

For reasons of inoperability, the Company impaired production equipment (replacement of generator at Unit 5) in the amount of EUR 1,681,752. Based on the valuation, the Company additionally impaired production plant and other equipment in the total amount of EUR 48,807,376.

Property, plant and equipment being acquired ..... EUR 1,325,356,033

A major part of the increase in property, plant and equipment under construction relates to investments in the construction of replacement Unit 6 in the amount of EUR 186,122,720. The construction of main technological equipment accounted for EUR 54,416,742 and its installation accounted for EUR 51,814,972. EUR 2,210,916 was used for the construction of the cooling system, EUR 12,196,995 for the construction of the desulphurisation plant, EUR 12,998,479 for product processing, EUR 1,841,641 for connection to the Slovenian electricity network, EUR 6,626,079 for the construction of the main drive facility, EUR 3,046,606 for other construction works, and EUR 3,539,922 for other equipment. Financing costs totalled EUR 34,248,549, of which 24,457,126 accounted for capitalised interest expense, EUR 5,500,000 for the costs of a government guarantee, EUR 2,399,174 for the costs of bank guarantees, EUR 1,879,749 for the costs of the HSE guarantee, and EUR 12,500 for other financing costs. Other investments were realised in the amount of EUR 2,831,951 (consulting, geodetic services, preparation of building permit design and execution design, and other).

Due to the acceptance of spare parts for the needs of Unit 6 at the warehouse, investments decreased by EUR 531,830, while inventories of spare parts increased.

The estimated value of the construction of replacement Unit 6 is EUR 1,302,492,300 (RIP, Revision 5). In RIP, Revision 6 (October 2013), the estimated value amounted to EU 1,428,544,300. In RIP, Revision 6 (February 2014), the amount was estimated at EUR 1,428,457,694. The last-mentioned increased due to certain costs arising from delays in the provision of funds and issue of permits, or due to bankruptcy of contractors and certain previously underestimated, overlooked or omitted costs. In the RIP, Revision 6 (December 2014), the estimated value has not changed.

Until 31 December 2014, the Company concluded EUR 1,270,153,926 (financing costs excluded) worth of contracts for the supply of main technological equipment, the flue gas desulphurisation plant, construction of the cooling system and main drive facility, and other items. By the end of 2014, the Company received EUR 1,230,596,099 (financing costs excluded) worth of invoices for the above-mentioned contractual

liabilities. The deferred liabilities arising from the acquisition of fixed assets (financing costs excluded) therefore amount to EUR 39,557,827.

In 2014, the amount of capitalised capital investments totalled EUR 392,649. The total value of unfinished capital investments is EUR 1,325,356,033.

Changes in investments in property, plant and equipment under construction

in EUR

	Investments in production reliability	Investment documen-tation	Investments in Unit 6	Capital mainten-ance	Other pro-perty, plant and equip-ment being acquired	TOTAL
Cost as at 1 Jan 2014	**2,189,656**	**487,598**	**1,137,463,161**	**0**	**18,228**	**1,140,158,643**
Acquisitions	23,536	0	185,772,852	43,288	283,044	186,122,720
Transfer from construction in progress	0	0	(48,089)	(43,288)	(301,272)	(392,649)
Reposting	0	0	(532,681)	0	0	(532,681)
Cost as at 31 Dec 2014	**2,213,192**	**487,598**	**1,322,655,243**	**0**	**0**	**1,325,356,033**

Note 3

Other long-term financial investments and investments in associates EUR 60,003

Other long-term investments and loans

in EUR

	31 Dec 2014	31 Dec 2013
Long-term investments in associates	59,503	59,503
Available-for-sale long-term financial assets	0	200,000
Other long-term investments	500	500
Total	**60,003**	**260,003**

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

Investments in associates include a 26 % share in Erico d.o.o..

In 2011, TEŠ invested EUR 200,000 in the establishment of a research and development centre, RCE – Razvojni center energije d.o.o.. Its share in the company amounts to 8 %. In September 2014, TEŠ established, with an initial contribution of EUR 3,600, two new entities together with Razvojni center energija d.o.o.: TEŠING, svetovanje in inženiring, d.o.o., and EnRaz, razvoj in svetovanje na področju energetike in varstva okolja, d.o.o.. TEŠ has a 24 % share in each company in relation to its share capital.

On 31 December 2014, TEŠ impaired its entire investments in the companies RCE – Razvojni center energije d.o.o., TEŠING, svetovanje in inženiring, d.o.o., and EnRaz, razvoj in svetovanje na področju energetike in varstva okolja, d.o.o., due to the findings of the Ministry of Economic Development and Technology relating to its alleged violation of the Contract on Co-financing.

Other shares in the amount of EUR 500 represent investments in Center odličnosti nizkoogljične tehnologije (Centre of Excellence for Low-carbon Technologies).

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

Changes in other long-term investments

in EUR

	2014	2013
Balance as at 1 January	**260,003**	**260,003**
Acquisitions	3,600	0
Impairment loss	(203,600)	0
Balance as at 31 December	**60,003**	**260,003**

Investments in associates ..... EUR 59,503

Data on associates as at 31 December 2014

Company	Address	Activity	Co-owner company	% co-ownership
Erico d.o.o.	Koroška 59, Velenje	74.900	Premogovnik Velenje d.d. in Gorenje Surovina d.d.	26
Tešing d.o.o.	Preloška cesta 1, Velenje	71.129	RCE d.o.o.	24
Enraz d.o.o.	Preloška cesta 1, Velenje	74.900	RCE d.o.o.	24

Significant amounts from the financial statements of associates for 2014

in EUR

Company	Amount	Liability (without equity)	Revenue	Net profit or loss for the period	Total equity
Erico d.o.o.	1,804,417	423,220	2.147.040	50.445	1.381.197
Tešing d.o.o.	6,466	2,299	3,010	-3,333	4,167
Enraz d.o.o.	6,331	2,284	3,014	-3,453	4,047

Long-term investments in associates

in EUR

Associate	31 Dec 2014	31 Dec 2013
Erico d.o.o.	59,503	59,503
Tešing d.o.o.	0	0
Enraz d.o.o.	0	0
Total	**59,503**	**59,503**

Other long-term investments ..... EUR 500

Other long-term investments

in EUR

	31 Dec 2014	31 Dec 2013
Center odličnosti nizkoogljične tehnologije	500	500
Razvojni center energija - RCE d.o.o.	0	200,000
Total	**500**	**200,500**

Note 4

Long-term operating receivables ..... EUR 90,277

Long-term operating receivables

in EUR

	31 Dec 2014	31 Dec 2013
Long-term advances receivable	82,319	131,090
Long-term operating receivables due from others	7,958	10,080
Total	**90,277**	**141,170**

Among its long-term operating receivables, the Company discloses EUR 82,319 of long-term advances receivable and EUR 7,958 of long-term receivables from buyers of apartments that were sold under the Housing Act (Official Gazette of RS, no. 18/91).

Advances include a long-term advance given in the amount of EUR 82,319 for a 10-year compensation for damages under an easement contract with the Parish of St. Martin in Velenje, which is secured by the entry of easement in the land register.

Note 5

Other long-term assets ..... EUR 37,328

Other long-term assets

in EUR

	31 Dec 2014	31 Dec 2013
Long-term operating receivables from Group companies	37,328	34,266
Total	**37,328**	**34,266**

Other long-term assets include payments made by the Company as the floor owner of apartments, which will be used to cover the future costs of maintenance under the Housing Act.

Note 6

Deferred tax assets ..... EUR 0

Deferred tax assets

in EUR

	31 Dec 2014	31 Dec 2013
Provisions	0	319,228
Impairment loss	0	30,827
Depreciation and amortisation expense	0	360,063
Total	**0**	**710,118**

As at 31 December 2013, the Company disclosed deferred tax assets in connection with the creation of long-term provisions for jubilee and termination benefits upon retirement, amortisation/depreciation exceeding the rates determined by the Corporate Income Tax Act, and impairment of long-term investments. Due to the uncertainty of future taxable profits, the Company did not create deferred tax assets at the end of 2014.

As at 31 December 2014, the Company disclosed unused investment reliefs in the amount of EUR 93,432,934 from 2012, which may be used in the next four tax periods. In 2014, the unused investment reliefs increased by EUR 56,960,511, which may be used by the Company in the next five tax periods. Due to the uncertainty of future taxable profits, the Company did not create deferred tax assets.

Changes in deferred tax assets

in EUR

	Provisions	Impairment	Amortisation/ depreciation	Total
As at 1 January 2013	**286,924**	**30,827**	**209,930**	**527,681**
To debit/credit of profit or loss	32,304		150,133	182,437
As at 31 Dec 2013	**319,228**	**30,827**	**360,063**	**710,118**
As at 1 Jan 2014	**319,228**	**30,827**	**360,063**	**710,118**
To debit/credit of profit or loss	(319,228)	(30,827)	(360,063)	(710,118)
As at 31 Dec 2014	**0**	**0**	**0**	**0**

Note 7

Assets held for sale ..... EUR 201,723

Held-for-sale assets

in EUR

	31 Dec 2014	31 Dec 2013
Held-for-sale assets	201,723	201,723
Total	**201,723**	**201,723**

Assets held for sale include a part of the 'Crikvenica' holiday complex. The sale of more than half of the complex to a Croatian buyer was completed in 2006. Due to unresolved ownership relations, the remaining part of the complex has not yet been sold.

Note 8

Inventories ..... EUR 10,453,202

Inventories

in EUR

	31 Dec 2014	31 Dec 2013
Material	10,453,202	12,572,280
Total	**10,453,202**	**12,572,280**

Inventories are mostly comprised of inventories of spare parts in the amount of EUR 7,057,854 and inventories of maintenance materials in the amount of EUR 2,318,823, which are needed for immediate repairs of production plant and equipment and, consequently, reliable operation. Inventories of spare parts decreased by impairment based on a valuation in the amount of EUR 2,622,791.

An inventory count of materials revealed a surplus in the amount of EUR 88 and a deficit in the amount of EUR 9.

Inventory surpluses and deficits

in EUR

	31 Dec 2014	31 Dec 2013
Surpluses in year-end count	88	5
Deficits in year-end count	9	177
Total	**79**	**(172)**

Note 9

Short-term operating receivables ..... EUR 37,434,910

Short-term operating receivables

in EUR

	31 Dec 2014	31 Dec 2013
Short-term operating receivables due from Group companies	23,844,587	10,308,356
Short-term operating receivables due from associates	169	140
Short-term trade receivables	1,499,079	1,634,143
Short-term advances receivable	2,739,281	1,525,219
Short-term operating receivables due from government and other institutions	8,830,565	9,988,962
Short-term operating receivables due from others	521,229	8,080
Total	**37,434,910**	**23,464,900**

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

Short-term operating receivables due from Group companies

in EUR

		31 Dec 2014	31 Dec 2013
HOLDING SLOVENSKE ELEKTRARNE d.o.o., Ljubljana	Slovenija	9,986,005	10,219,669
PREMOGOVNIK VELENJE d.d., Velenje	Slovenija	13,855,469	1,213
RGP d.o.o.	Slovenija	20	84,355
HSE INVEST d.o.o., Maribor	Slovenija	3,093	3,119
Total		**23,844,587**	**10,308,356**

Part of the receivables from Group companies consist of receivables from Holding Slovenske elektrarne d.o.o. in the amount of EUR 9,952,705 for electricity sold in the period from 1 to 31 December 2014. Receivables from Group companies also include short-term advances receivable in the amount of EUR 13,729,300, which relate to advances given for supplies of coal that were lower than planned.

Receivables for thermal energy sold are secured with a blank bill of exchange. Advances receivable in the amount of EUR 131,528 are secured with a bank guarantee. Security is not required for other receivables due to their specific nature.

Advances receivable mostly refer to advances receivable from the company Primorje under receivership. Under receivables due from Primorje under receivership, the Company has overpayments recorded in its books of account in the amount of EUR 2,522,920; this finding is based on temporary progress reports of Primorje on overcharged and overpaid works (the works performed were not finally measured and recorded in the construction book). In December 2014 a court settlement was reached in which the parties agreed to offset the receivables and liabilities for retained amounts upon the presentation of a performance bond. The offset was carried out after the court settlement became final in January 2015.

The majority of overdue receivables refers to the receivables declared in the bankruptcy estate of Primorje, while other overdue trade receivables refer to rents receivable for apartment lease and other trade receivables.

Overdue and outstanding trade receivables include receivables due from buyers of fly ash, rents receivable for apartment lease, and other receivables. Receivables by due date are presented in section 4.11.1.

Note 10

Other short-term assets ..... EUR 23,802,760

Other short-term assets

in EUR

	31 Dec 2014	31 Dec 2013
Short-term deferred costs and expenses	204,588	109,033
Accrued revenues	23,598,172	40,431,252
Total	**23,802,760**	**40,540,285**

The majority of short-term accrued revenues in the amount of EUR 20,373,965 consist of revenue from Addendum 5 to the Contract on coal purchase, lease of power and purchase of electricity, by which the parties agreed to change the amount for leased power in 2014 in order to settle the costs of purchase of lacking CO_2 emission coupons for 2014.

Part of the accrued revenues in the amount of EUR 3,224,207 refer to revenue taken into account for

hot start-up tests relating to the operation of Unit 6. The revenue is calculated on the basis of the degree of completion with respect to the foreseen total revenue in the testing period.

Other short-term assets include deferred costs related to services that were invoiced, but not provided in 2014 in the amount of EUR 204,588. Short-term deferred costs refer to the costs of one-year licenses, tuition fees, subscriptions, and other items for the year 2015 which so far have no effect on the profit or loss. The amounts of short-term deferred costs are justified and are evident from relevant documents on their inception.

Note 11

Cash and cash equivalents ..... EUR 8,543

Cash and cash equivalents *in EUR*

	31 Dec 2014	31 Dec 2013
Cash in hand and cheques received	224	252
Cash in banks	8,319	10,506
Total	**8,543**	**10,758**

Cash and cash equivalents include cash on the Company's accounts, a deposit redeemable upon notice in the cash-pooling system, and cash on hand.

Note 12

Equity ..... EUR 426,353,458

Equity *in EUR*

	31 Dec 2014	31 Dec 2013
Called-up capital	330,027,060	330,027,060
Capital surplus	116,883,008	116,883,008
Revenue reserves	68,771,666	67,797,859
Fair value reserve	(52,606)	(4,749)
Retained earnings	(89,275,670)	973,808
Total	**426,353,458**	**515,676,986**

The Company's total equity consists of share capital, capital surplus, revenue reserves, fair value reserves, retained earnings from the previous period, and temporarily still undistributed net profit for the financial year.

The Company's share capital is determined in its accounting amount in its Articles of Association and has been duly registered with the court. It totals EUR 330,027,060.

Capital surplus *in EUR*

	31 Dec 2014	31 Dec 2013
Paid-in capital surplus	116,883,008	116,883,008
Total	**116,883,008**	**116,883,008**

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

Pursuant to the shareholder's resolution of 26 August 2014, the Company allocated the entire accumulated profit for 2013 in the amount of EUR 973,808 to other revenue reserves for the realisation of development projects.

Revenue reserves in the amount of EUR 68,771,666 comprise legal reserves in the amount of EUR 3,628,583 and other revenue reserves in the amount of EUR 65,143,083.

Reserves increased by EUR 973,808 over the course of the year due to the shareholder's decision to allocate the entire net profit or loss for 2013 to reserves.

Change in fair value reserve *in EUR*

	Actuarial gains/losses in severance upon retirement	Other	Total
As at 1 January 2013	**0**	**11,565**	**11,565**
Decrease	(16,314)	0	(16,314)
As at 31 December 2013	**(16,314)**	**11,565**	**(4,749)**
As at 1 January 2014	**(16,314)**	**11,565**	**(4,749)**
Decrease	(47,857)	0	(47,857)
As at 31 December 2014	**(64,171)**	**11,565**	**(52,606)**

In 2014 the fair value reserve was decreased by the actuarial loss from severance payments in the amount of EUR 47,857.

Note 13

Provisions for termination and jubilee benefits ..... EUR 2,516,594

Provisions for termination and jubilee benefits *in EUR*

	31 Dec 2014	31 Dec 2013
Provisions for severance	1,635,950	1,835,190
Provisions for jubilee benefits	880,644	948,992
Total	**2,516,594**	**2,784,182**

Long-term provisions comprise provisions for jubilee benefits and termination benefits on retirement as determined in the actuarial calculation as at 31 December 2014.

The actuarial calculation was based on the following assumptions:

- average salary growth of 0.5 % in the period from 2015 to 2017, and 2.0 % per year in the following years, and
- discount interest rate of 4.5 % p.a.

In 2014 the Company paid EUR 127,733 in jubilee benefits and EUR 70,368 in termination benefits.

Changes in provisions for termination and jubilee benefits

in EUR

	Provisions for severance	Provisions for jubilee benefits	Total
As at 1 January 2013	**1,666,106**	**1,025,897**	**2,692,003**
Establishment - increase	198,436	55,955	254,391
Decrease - drawing	(29,352)	(132,860)	(162,212)
As at 31 December 2013	**1,835,190**	**948,992**	**2,784,182**
As at 1 January 2014	**1,835,190**	**948,992**	**2,784,182**
Establishment - increase	0	59,385	59,385
Decrease - drawing	(70,368)	(127,733)	(198,101)
Decrease - reversal	(128,872)	0	(128,872)
As at 31 December 2014	**1,635,950**	**880,644**	**2,516,594**

Sensitivity analysis

in EUR

	2014				2013			
	Discount rate		Salary growth		Discount rate		Salary growth	
	Decrease by 0.5	Increase by 0.5	Decrease by 0.5	Increase by 0.5	Decrease by 0.5	Increase by 0.5	Decrease by 0.5	Increase by 0.5
Provisions for termination on retirement	80,597	(74,672)	81,417	(76,092)				
Provisions for jubilee benefits	31,535	(29,687)	31,853	(30,256)				
Total	**112,132**	**(104,359)**	**113,270**	**(106,348)**	**0**	**0**	**0**	**0**

Note 14

Other provisions ..... EUR 2,716,040

Other provisions

in EUR

	31 Dec 2014	31 Dec 2013
For lawsuits	1,288,579	1,225,810
Other provisions	1,427,461	1,083,580
Total	**2,716,040**	**2,309,390**

Changes in other provisions

in EUR

	For lawsuits	Other provisions	Total
As at 1 January 2013	**941,101**	**649,476**	**1,590,577**
Establishment - increase	284,709	740,081	1,024,790
Decrease - drawing	0	(284,698)	(284,698)
Decrease - reversal	0	(21,279)	(21,279)
As at 31 December 2013	**1,225,810**	**1,083,580**	**2,309,390**
As at 1 January 2014	**1,225,810**	**1,083,580**	**2,309,390**
Establishment - increase	62,769	749,585	812,354
Decrease – drawing	0	(405,704)	(405,704)
As at 31 December 2014	**1,288,579**	**1,427,461**	**2,716,040**

Other provisions of the Company predominantly include unpaid Christmas bonuses in a value that is lower than foreseen for 2012 and 2013 in the Entrepreneurial Collective Agreement. In 2014, other

provisions increased by the amount of unpaid Christmas bonus for 2014, and decreased by the amount of partial payment of Christmas bonus for 2013.

The majority of provisions for legal actions were created in 2011 on the basis of a received order of execution dated 15 February 2012 in connection with payment to the creditor Elektro Slovenija d.o.o..

The Company, as the debtor, received from the creditor a draft Contract on access to the transmission network in 2011 for electricity consumption (»Contract on access to the network«). The conclusion of the Contract on access to the network would allow the creditor and debtor, in line with the Act on the methodology for determining network charges and criteria for identifying eligible costs for electricity networks, and the methodology for the calculation of network charges (Official Gazette of RS, no. 59/2010) (the »Act«), to settle their relations with respect to the payment of network utilisation costs of electricity consumption from the transmission network.

Although the contract between the creditor and the debtor has never been reconciled and signed, the creditor sent the debtor invoices for the payment of network charges for the period from January to June 2011. The Company rejected all the previously mentioned invoices, since in its opinion they were not issued in accordance with the provisions of the Act.
The Company reasonably and on sold grounds contradicts the creditor's receivable, and has filed an objection against the order of execution. The lawsuit was not finalised in 2014. On 27 May 2015 we received an unfavourable judgment for TEŠ. An appeal will be filed against the judgment within the legally prescribed period.

At the end of the year, three labour disputes filed in 2013 remained open. The Company created provisions for these legal actions in the amount of EUR 284,709, and an additional EUR 62,769 of provisions in 2014.

Note 15

Other long-term liabilities ..... EUR 2,048,195

Other long-term liabilities

in EUR

	31 Dec 2014	31 Dec 2013
Emission coupons	338,138	0
Quotas for the disabled	145,769	159,546
Other state aid received	1,564,288	2,712,539
Total	**2,048,195**	**2,872,085**

Other long-term liabilities in the amount of EUR 1,564,288 relate to government grants received for the acquisition of property, plant and equipment. These are used in proportion to the accumulated depreciation.

The Company records among deferrals the emission coupons received free of charge from the state for the period from 2013 to 2020. The amount of emission coupons in 2014 decreased by the amount of foreseen coupons received, which the Company took into account in fulfilling its obligations for handing over the coupons for emissions generated in 2014.

Deferrals arising from exemptions from the payment of contributions were created in accordance with the Vocational rehabilitation and employment of persons with disabilities Act. They are used to cover the costs specified in the relevant Act.

Changes in other long-term liabilities

in EUR

	Emission coupons	Quotas for the disabled	Other state aid received	Total
As at 1 January 2013	**0**	**192,225**	**3,648,172**	**3,840,397**
Acquisitions	132,157	3,632	0	135,789
Disposals	(132,157)	(36,311)	(935,633)	(1,104,101)
As at 31 December 2013	**0**	**159,546**	**2,712,539**	**2,872,085**
As at 1 January 2014	**0**	**159,546**	**2,712,539**	**2,872,085**
Acquisitions	446,856	13,161	0	460,017
Disposals	(108,718)	(26,938)	(1,148,251)	(1,283,907)
As at 31 December 2014	**338,138**	**145,769**	**1,564,288**	**2,048,195**

Note 16

Long-term financial liabilities ..... EUR 741,226,191

Long-term financial liabilities

in EUR

	31 Dec 2014	31 Dec 2013
Long-term financial liabilities to banks	741,226,191	753,472,223
Total	**741,226,191**	**753,472,223**

Long-term loans are denominated in EUR. The nominal interest rates for long-term loans ranged from 0.527 % to 5.97 %.

Changes in long-term financial liabilities

in EUR

	Long-term financial liabilities to banks	Total
As at 1 January 2013	**197,361,112**	**197,361,112**
Acquisitions	557,500,000	557,500,000
Transfers to short-term liabilities	(1,388,889)	(1,388,889)
As at 31 December 2013	**753,472,223**	**753,472,223**
As at 1 January 2014	**753,472,223**	**753,472,223**
Transfers to short-term liabilities	(12,246,032)	(12,246,032)
As at 31 December 2014	**741,226,191**	**741,226,191**

Changes in long-term financial liabilities

in EUR

No.	Creditor	Contract value	Purpose	As at 31 Dec 2013	Repayment of principal	As at 31 December 2014		
						Total	Short-term portion	Long-term portion
1.1	EIB	EUR 110 million	fin. B6	110,000,000	0	110,000,000	0	110,000,000
1.2	EIB	EUR 440 million	fin. B6	440,000,000	0	440,000,000	0	440,000,000
1.3	EBRD	EUR 200 million	fin. B6	200,000,000	0	200,000,000	10,857,143	189,142,857
	TOTAL long-term loans from foreign banks			**750,000,000**	**0**	**750,000,000**	**10,857,143**	**739,142,857**
2.1	NLB d.d., Ljubljana	EUR 12.5 million	invest. vlaganja	4,861,112	1,388,889	3,472,223	1,388,889	2,083,334
	TOTAL long-term loans from domestic banks			**4,861,112**	**1,388,889**	**3,472,223**	**1,388,889**	**2,083,334**
2.2	**TOTAL LONG-TERM LOANS FROM BANKS**			**754,861,112**	**1,388,889**	**753,472,223**	**12,246,032**	**741,226,191**

Note: The table also includes short-term portions of long-term loans

In 2014 the repayments of principal amounts and interest were made according to maturity dates and in accodance with existing amortisation schedules.

The portion of long-term financial liabilities in the amount of EUR 12,246,032 that falls due for payment in 12 months was recorded among short-term financial liabilities.

The Company was fully compliant with IFRS, except for the disclosure of certain long-term financial liabilities according to IAS 1 – Presentation of financial statements, because the management expects that, within a twelve-month period from the date of the statement of financial position, there will be no actual requirement to repay the long-term financial liabilities under the loan agreements with EIB (EUR 440 million and EUR 110 million) and EBRD (EUR 200 million), despite the fact that TEŠ has found there to be some deviations in connection with the loan agreements as at 31 December 2014. In June 2015 and July 2015, EBRD, Intesa SanPaolo as the agent under the guarantee agreement, and EIB issued dispensation letters.

IAS 1.74 stipulates that long-term loans recognised under long-term financial liabilities should be classified under short-term financial liabilities if, before the end of the reporting period, the Company violates a provision of the long-term agreement, due to which the liability should be settled on demand and, as is also applicable for TEŠ, the Company should not have unlimited right to defer settlement of a liability for at least twelve months from the date of the statement of financial position.

The Company regularly reported the derogations to both banks, but the banks did not initiate any activities or procedures for withdrawing the long-term loans. These derogations from commitments in the loan agreements are the following:

1. Loan agreement between EIB and TEŠ for EUR 110 million and EUR 440 million:

- Increase in project costs. In line with the loan agreement, TEŠ is required, in the event of any increase in costs by more than 10 %, to duly submit a financial plan to the bank. TEŠ notified EIB on the increase in project costs and submitted RIP6, Revision 5, December 2014 issue, which also contains a financial plan. In its applications for waiver of obligations, TEŠ requested the bank's consent to the financial plan of the project and the increased costs of the investment.

2. Loan agreement between EBRD and TEŠ for EUR 200 million:

- Compliance with relevant contracts. TEŠ undertook to observe and fulfill all relevant contracts to which it is a party or which are binding for its assets. According to the loan agreement, TEŠ has

the possibility to eliminate such a derogation within an additional 30-day period from the date of EBRD's request for the elimination of such deviation. The price of coal in 2014 was higher than specified in the long-term tripartite agreement in effect until 31 December 2014, of which the bank was notified, but failed to send a request for the elimination of deviations.

- Borrowing limit. TEŠ undertook not to borrow, assume or allow the existence of any financial debt, except for, among others, a shareholder loan (any TEŠ debt to HSE or other member of the HSE Group). HSE and TEŠ concluded a contract on dept assumption, under which the swap of these liabilities to equity is foreseen in 2015. The Company has not yet received any demand from EBRD; however, such a deviation may be eliminated by the swap of liabilities to equity or with the consent of the bank.

Collateral for long-term financial liabilities (together with the short-term portion)

in EUR

	31 Dec 2014	31 Dec 2013
Government guarantees	440,000,000	440,000,000
Assignments, pledge of receivables	40,000,000	40,000,000
Bills of exchange	3,472,222	4,861,112
HSE guarantee	160,000,000	160,000,000
Bank guarantee	110,000,000	110,000,000
Total	**753,472,222**	**754,861,112**

As at 31 December 2014, TEŠ had 58.3 % of its financial liabilities insured with a government guarantee, 21.2 % with a HSE guarantee, 14.6 % with a bank guarantee, 5.3 % with assignments or a pledge of receivables, and 0.5 % with bills of exchange.

To secure the liabilities under the loan agreement – TEŠ Power Plant Šoštanj/B Finance Contract, FI No. 25.541 SI, concluded with the European Investment Bank for the purpose of financing Unit 6 (22 April 2010), in the amount of EUR 440 million, the Republic of Slovenia and the European Investment Bank concluded a guarantee agreement in the amount of EUR 440 million. The contract became effective on 6 March 2013 (Official Gazette of RS, no. 4/15 March 2013).

On 24 November 2010 the Agreement on the issue of a bank guarantee for EUR 110 million was concluded between TEŠ, HSE and five guarantor banks (The Bank of Tokyo – Mitshubishi UFJ, Caja Madrid, Intesa SanPaolo, Societe Generale, and UniCredit Bank) for the purpose of providing a guarantee to the European Investment Bank in accordance with the provisions of the loan agreement with EIB in the amount of EUR 110 million. The date of issue of the guarantee was 28 January 2011.

The guarantees tied to this agreement are the following:

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

Guarantee of HSE d.o.o., with which it guarantees for the pledge of TEŠ's liabilities under the loan agreement for EUR 200 million. HSE guarantees for 80 % of the loan value (EUR 160 million) as of the date of signing the contract (12 January 2011) and for the duration of the loan agreement (15 years). As additional collateral:

- TEŠ pledged bank accounts and cash as collateral that will secure the existing and future, actual and contingent liabilities of the pledger under the loan agreement of EBRD or in accordance with it, namely, by pledging each of the secured accounts and cash, including interest. The agreement was concluded on 3 February 2011 and is effective for the duration of the loan agreement, and
- TEŠ assigned receivables as collateral for the total repayment of all secured liabilities in the maximum amount of EUR 200 million with interest, including default interest. TEŠ signed the respective agreement with EBRD. The agreement on the assignment of receivables was concluded on 3 February 2011 and is effective for the duration of the loan agreement.

Note 17

Short-term financial liabilities ..... EUR 185,500,110

Short-term financial liabilities

in EUR

	31 Dec 2014	31 Dec 2013
Short-term financial liabilities to Group companies	167,544,097	10,207,923
Short-term financial liabilities to banks	17,106,032	1,389,087
Other short-term financial liabilities	849,981	0
Total	**185,500,110**	**11,597,010**

Short-term financial liabilities to banks as at 31 December 2014 comprised the principals arising from long-term debts in the amount of EUR 12,246,032, which under loan agreements fall due in the next 12 months, and a short-term loan in the amount of EUR 4,860,000.

The Company concluded a debt assumption contract with HSE, which is effective until 31 December 2014 and on the basis of which HSE directly settled TEŠ's liabilities to suppliers for replacement Unit 6 in the total amount of EUR 166,113,790. Under the debt assumption contract concluded between HSE and TEŠ, a financial liability of TEŠ towards HSE was created. Liabilities under debt assumption contracts bear interest at the rate applicable for loans between related parties (6-month EURIBOR + 1.00 % p.a.). As at 31 December 2014, the Company recorded EUR 1,430,307 in liabilities for interest based on debt assumption contracts.

The debt assumption contracts were concluded for the purpose of preventing economic loss and avoiding the suspension of works by the Alstom company and other suppliers of the replacement Unit 6 at TEŠ. The liability will be settled once the issues regarding capital increase of TEŠ (state aid) are resolved. It is therefore projected that the debt will be swapped to TEŠ's equity.
To solve the issue of debt to equity swap, a private investor test (PIT) had to be carried out within the scope of an independent review. A successful PIT would mean that the capital increase of TEŠ as projected above would be allowed, as it would not represent illegal state aid. In the first quarter of 2015, the private investor test was conducted and showed a positive result.

As at 31 December 2014, the Company recorded short-term liabilities to banks in the amount of EUR 4,860,000.

In 2014, interest rates under contracts concluded for short-term loans ranged from the lowest, agreed rate of 1.179 % to the highest, 6.05 %.

Changes in short-term financial liabilities

in EUR

	Short-term financial liabilities to Group companies	Short-term financial liabilities to banks	Other short-term financial liabilities	Total
As at 1 January 2013	**301,453,507**	**20,157,246**	**0**	**321,610,753**
Increase	45,207,923	79,631,198	0	124,839,121
Transfers from long-term liabilities	0	1,388,889	0	1,388,889
Repayments	(336,453,507)	(99,788,246)	0	(436,241,753)
As at 31 December 2013	**10,207,923**	**1,389,087**	**0**	**11,597,010**
As at 1 January 2014	**10,207,923**	**1,389,087**	**0**	**11,597,010**
Increase	157,336,174	52,491,000	849,981	210,677,155
Transfers from long-term liabilities	0	12,246,032	0	12,246,032
Repayments	0	(49,020,087)	0	(49,020,087)
As at 31 December 2014	**167,544,097**	**17,106,032**	**849,981**	**185,500,110**

Note 18

Short-term payables ..... EUR 117,829,161

Short-term payables

in EUR

	31 Dec 2014	31 Dec 2013
Short-term payables to Group companies	31,590,079	17,995,307
Short-term payables to associates	370,189	261,363
Short-term trade payables	80,020,607	52,966,772
Short-term advances payable	514	287
Short-term payables to employees	1,462,299	1,410,015
Short-term payables to government and other institutions	4,380,929	4,515,559
Short-term payables to others	4,544	6,535
Total	**117,829,161**	**77,155,838**

Short-term payables to Group companies

in EUR

		31 Dec 2014	31 Dec 2013
HOLDING SLOVENSKE ELEKTRARNE d.o.o., Ljubljana	Slovenia	19,499,232	3,095,816
PREMOGOVNIK VELENJE d.d., Velenje	Slovenia	7,703,232	9,109,787
HTZ IP d.o.o.	Slovenia	395,413	320,975
GOST d.o.o.	Slovenia	0	1,139
PV INVEST d.o.o.	Slovenia	31,940	33,155
RGP d.o.o.	Slovenia	3,015,121	4,443,161
HSE INVEST d.o.o., Maribor	Slovenia	945,141	991,274
Total		**31,590,079**	**17,995,307**

Payables to Group companies include advances payable to HSE d.o.o. in the amount of EUR 17,318,207 in line with Addendum 1 and Addendum 4 to the Contract on coal purchase, lease of power and

purchase of electricity for unsupplied quantities of coal, payables to Premogovnik Velenje d.d. for supplied quantities of coal for the production of electricity and thermal energy in the amount of EUR 7,703,232, payables to Group companies for the construction of Unit 6 in the amount of EUR 6,322,758, and other payables to the Group. The payables were not yet due on the reporting date.

The main portion of trade payables includes payables for investments in property, plant and equipment in the amount of EUR 69,055,346. Other payables in the amount of EUR 10,965,261 are recorded under materials and services received.

As at 31 December 2014, the Company recorded EUR 64,931 in overdue and outstanding trade payables. All overdue payables were settled by 31 January 2015. The payables and their due dates are presented in section 4.11.2.

Other short-term payables include:

- salaries and other employment-related emoluments payable to employees for the month of December 2014 in the amount of EU 1,462,299, which were settled on 14 January;
- liabilities to government and other institutions in the amount of EUR 4,380,929. The environmental tax for CO_2 emissions accounts for the largest liability, which in 2014 totalled EUR 3,500,404 (1 coupon per ton of CO_2) and was settled by 30 April 2015;
- and other short-term liabilities in the amount of EUR 4,544.

The Company generally settles all its liabilities by the agreed deadlines.

Note 19

Other short-term liabilities..... EUR 20,695,057

Other short-term liabilities

in EUR

	31 Dec 2014	31 Dec 2013
Other short-term accrued costs and expenses	20,695,057	42,953,916
Total	**20,695,057**	**42,953,916**

The main portion of other short-term liabilities include accrued costs of emission coupons. At the end of the year, the Company was short of 3,391,863 coupons to settle its liability to the government regarding CO_2 emissions generated in 2014. Costs in the amount of EUR 16,993,234 are accrued at the price set in the Contract for the purchase of CO_2 emission coupons less the portion recorded under payables to the state.

The accrued costs also comprise the costs of suppliers in the amount of EUR 3,121,522 on the basis of accrued costs of suppliers, mostly for the construction of Unit 6, and accrued costs of unused annual leave at the end of 2014, which amount to EUR 3,121,522.

Note 20

Contingent liabilities and assets

Contingent liabilities

in EUR

	31 Dec 2014	31 Dec 2013
Guarantees given to others	0	179,147
Other	8,700	17,847
Total	**8,700**	**196,994**

Contingent assets

in EUR

	31 Dec 2014	31 Dec 2013
Bank guarantees received for regular operations	237,550	611,716
Bank guarantees received for investments	118,294,551	117,576,071
Total	**118,532,101**	**118,187,787**

In 2013, a bank performance guarantee issued to Razvojni center energija d.o.o. (RCE) in the amount of EUR 179,147, and a liability to NLB bank for a business card in the amount of EUR 8,700 were recorded under contingent liabilities. Due to the foreseen honouring of the bank guarantee, the Company created provisions in 2015 for its honouring and recorded the liability in the Statement of financial position as at 31 December 2014.

Contingent assets include bank performance guarantees, which mostly relate to the construction of Unit 6.

4.9.2 Notes to the income statement

Note 1

Net sales revenue ..... EUR 185,474,049

Net sales revenue

in EUR

	2014	2013
In the domestic market	**185,461,798**	**243,622,653**
Electricity	163,640,055	238,021,580
Thermal energy	3,354,696	3,841,638
Other products	31,781	92,731
Other merchandise and material	17,392,039	630,584
Other services	1,043,227	1,036,120
In foreign markets	**12,251**	**42,813**
Other merchandise and material	12,251	42,813
Total	**185,474,049**	**243,665,466**

Net sales revenue in the amount of EUR 185,474,049 was recorded at invoiced amounts. The major portion of revenue (90.0 %) was generated through the sale of electricity and thermal energy.

The major portion of revenue from the sale of merchandise and material in the amount of EUR 16,790,839 includes revenue from the sale of gas under the concluded buyback contract.

Note 2

Capitalised own products and own services ..... EUR 144,783

Capitalised own products and services

in EUR

	2014	2013
Capitalised own products and services	144,783	2,826,106
Total	**144,783**	**2,826,106**

Capitalised own services included materials used and own work performed for the construction of Unit 6 and the implementation of start-up tests.

In 2013, capitalised own services included materials used and own work performed during the capital maintenance of Units 3 and 4 and the PLT51 gas turbine, and in other investments. No capital maintenance of the units was recorded in 2014.

Note 3

Other operating revenue ..... EUR 5,427,288

Other operating revenue

in EUR

	2014	2013
Revenue from the reversal of provisions	257,730	64,890
Use of deferred revenue	1,148,250	935,633
Gain on disposal of fixed assets and reversal of impairment of receivables	3,724,423	134,535
Revenue from compensation for damages and contractual penalties	17,111	29,595
Other operating revenue	279,774	340,356
Total	**5,427,288**	**1,505,009**

Revenue from the reversal of provisions in the amount of EUR 257,730 refers to the reversal of provisions for jubilee and termination benefits.

Revenue from subsidies and other state aids includes revenue from subsidies, grants relating to property, plant and equipment for use of long-term liabilities in the amount of EUR 1,148,250 in accordance with the amount of depreciation expense and impairment loss.
Revenue from the sale of fixed assets in the amount of EUR 148,977 includes gain on disposal of apartments and equipment. Revenue from the reversal of impairment of receivables in the amount of EUR 3,575,447 mostly includes revenue from the reversal of impairment of advances receivable from Primorje. Based on a court settlement concluded with Primorje, receivables were offset with retained payments in 2015.

A portion of other revenue includes revenue from emission coupons in the amount of EUR 108,718, which are recognised in the amount of a proportional share for 2014.

Other operating revenue includes revenue from default interest receivable in the amount of EUR 125,244.

Note 4

Costs of goods, material and services ..... EUR 137,614,487

Costs of goods, material and services

in EUR

	2014	2013
Total costs of material	**126,536,341**	**139,729,374**
Total costs of services	**11,078,146**	**10,849,312**
Total	**137,614,487**	**150,578,686**

Costs of goods, material and services

in EUR

	2014	2013
Costs of material	123,761,646	135,020,905
Costs of auxiliary material	135,071	171,107
Costs of energy	132,908	141,107
Cost of spare parts	1,750,845	3,613,377
Costs of low-value assets	139,275	155,756
Other costs of material	616,596	627,122
Total costs of material	**126,536,341**	**139,729,374**
Costs of services in creating products	506,044	352,155
Cost of transport services	277,651	260,139
Maintenance services	5,164,380	4,975,067
Costs of rent	813,095	674,842
Refund of work-related expense to employees	62,114	108,546
Costs of insurance and bank services	947,632	977,019
Costs of intellectual and personal services	608,183	728,906
Costs of research and development	143,849	115,540
Costs of trade fairs, advertising and entertainment	213,797	288,227
Costs of services rendered by natural persons	73,670	114,368
Other costs of services	2,267,731	2,254,503
Total costs of services	**11,078,146**	**10,849,312**
Total	**137,614,487**	**150,578,686**

Costs of material include a net foreign exchange loss in the amount of EUR 42 for 2014, and a net foreign exchange gain in the amount of EUR 140 for 2013.

The major portion of costs of material include the costs of coal consumption as an energy generating product in the production of electricity and thermal energy, and costs incident to coal. In addition to coal, the Company also used gas to produce electricity.

Costs of spare parts and materials for the maintenance of property, plant and equipment include materials for maintenance and spare parts in the value of EUR 1,750,845. Details are disclosed in the chapter on maintenance.

Following an inventory count of materials, surpluses of EUR 88 and deficits of EUR 9 were established.

Costs of services related to the maintenance of fixed assets comprise costs of regular maintenance in the amount of EUR 5,164,380.

Costs of intellectual and personal services include auditing costs in the amount of EUR 23,000.

Audit costs

in EUR

	2014	2013
Audit of the Annual Report	23,000	20,226
Other non-audit services	0	5,058
Total	**23,000**	**25,284**

Note 5

Labour costs..... EUR 18,103,491

Labour costs

in EUR

	2014	2013
Salaries and wages	13,656,504	13,907,931
Pension insurance costs	1,719,742	1,967,954
Other insurance costs	1,046,887	1,084,430
Other labour costs	1,680,358	2,052,658
Total	**18,103,491**	**19,012,973**

Number of employees and average number of employees by education structure

Education level	As at 1 Jan 2014	As at 31 Dec 2014	Average no. of employees
1	6	6	6
2	30	29	30
3	12	11	12
4	124	123	124
5	158	150	154
6/1	57	58	58
6/2	23	22	23
7	29	29	29
8/1	10	9	10
8/2	1	2	2
Total	**450**	**439**	**445**

Labour costs are based on the collective agreement and individual employment contracts. Salaries are comprised of the basic pay, allowances (for less favourable working hours, environmental impacts, etc.), and the variable incentive pay.

Continued pay includes compensations for sick leave, annual leave, training, and other. Employees are entitled to compensation either on the basis of the Employment Relations Act, the collective agreement or individual employment contracts.

The costs of supplementary pension insurance relate to the co-funding of the pension scheme by the employer under the Contract on the creation of a supplementary pension insurance scheme, concluded between Termoelektrarna Šoštanj d.o.o. and the TPP Šoštanj trade union. The pension scheme, labelled PN1, is managed by the insurance company Modra zavarovalnica d.d., Ljubljana.

Other employees' earnings, benefits and refunds represent vacation bonuses, termination pay upon termination of employment contracts, and other.

Labour costs do not include costs of meal allowance in the amount of EUR 574,576. In the 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 43,490,189

Write-downs in value

in EUR

	2014	2013
Amortisation of intangible assets	183,683	189,501
Depreciation of property, plant and equipment	28,740,882	27,246,564
Allowance for or write-down of receivables and inventories	2,640,336	210,171
Disposal and write-down of property, plant and equipment and intangible assets	61,042,371	9,118
Total	**92,607,272**	**27,655,354**

The depreciation/amortisation expense in 2014 totalled EUR 28,924,565 and is accounted for at depreciation/amortisation rates determined on the basis of the valuation or the impairment of property, plant and equipment in 2001, or at rates applicable to new purchases as determined by the internal client/principal. In 2014, for the purpose of adjusting the useful life of Unit 4 to its lifetime, the Company changed the assessment of useful life in a number of inventory numbers that are directly linked to the operation of Unit 4. Due to the shortened useful life, the depreciation/amortisation expense increased by EUR 739,852 in 2014.

The revaluation operating expenses in the amount of EUR 63,302,707 refer to:

- the write-off of unuseable goods in the amount of EUR 25,139, which is equivalent to their carrying amount. The assets were written off because they were worn out, and technologically and economically obsolete. The assets were excluded from use or sold;
- the impairment of intangible assets, property, plant and equipment based on a valuation in the total amount of EUR 59,335,481. Impairment was also carried out for equipment no longer in use and which cannot be sold as functional in the amount of EUR 1,681,752. On the basis of the previously mentioned, impairment was carried out up to the amount of the recoverable value of an asset in the sale of waste material;
- the impairment of receivables by EUR 17,545 due to doubts as to their collection;
- the impairment of inventories of spare parts on the basis of a valuation in the total amount of EUR 2,622,791.

Note 7

Other operating expenses ..... EUR 30,333,464

Other operating expenses

in EUR

	2014	2013
Provisions	179,147	0
Fee for building site use	4,427,700	4,379,079
Environmental protection charges	21,554,971	40,583,529
Donations	184,666	209,399
Other operating expenses	3,986,980	3,090,214
Total	**30,333,464**	**48,262,221**

Costs of provisions in the amount of EUR 179,147 include the costs of creation of provisions for an issued bank guarantee that was honoured in 2015.

The greater portion of charges relates to the liability arising from payment of a fee for building site use in the amount of EUR 4,427,700.

The majority of environmental protection charges refer to the costs of emission coupons in the amount of EUR 20,492,278. According to estimates, the Company produced 3,500,404 tons of CO_2 during the year. Under the Environmental Protection Act, the Company is required to hand over 3,500,404 emission coupons to the government.

Other operating expenses mostly comprise expenses for compensations for damage under concluded compensation agreements for environmental loads, concluded with individual local communities and municipalities, in the amount of EUR 3,453,417.

Note 8

Financial revenue ..... EUR 18,932

Financial revenue

in EUR

	2014	2013
Financial revenue from loans and deposits	13,400	28,414
Other financial revenue	5,532	17,783
Total	**18,932**	**46,197**

Revenue from loans include interest revenue from time deposits with the bank in which HSE holds a treasury account.

Note 9

Financial expenses ..... EUR 971,889

Financial expenses

in EUR

	2014	2013
Financial expenses for loans received	533,899	432,767
Change in fair value of financial investments through profit or loss	203,600	0
Other financial expenses	234,390	233,092
Total	**971,889**	**665,859**

The major portion of expenses for financial liabilities comprises interest expenses for long-term and short-term loans. Interest is accounted for in accordance with contracts concluded between lenders and borrowers.

In 2014 the Company impaired its investments in RCE d.o.o., Tešing d.o.o., and Enraz d.o.o.

Note 10

Tax ..... EUR 710,119

Tax *in EUR*

	2014	2013
Deferred taxes	710,119	(182,437)
Total corporate income tax recognised in income statement	**710,119**	**(182,437)**

Owing to the loss recorded in the financial year and the uncertainty of future taxable profits, the Company reversed in 2014 the deferred taxes recognised in previous years.

Effective tax rate calculation *in EUR*

	2014	2013
Profit or loss before tax	(88,565,551)	1,867,685
Tax calculated at applicable tax rate		317,506
Tax from revenue reducing tax base		(969)
Tax from tax relief		(642,318)
Tax from non-deductible expenses		361,234
Tax from other changes in tax balance sheet		(35,453)
TAX	**0**	**0**
Effective tax rate	**0.00 %**	**0.00 %**

In line with the Corporate Income Tax Act, the Company prepared a corporate income tax return for the period from 1 January 2014 to 31 December 2014, and established that due to the loss recorded in the period, the Company is not required to record tax liabilities. As at 31 December 2014, the transferred tax loss thus amounts to EUR 89,907,946.

As at 31 December 2014, the Company recorded unused investment reliefs in a total amount of EUR 234,762,002, i.e., EU 93,432,934 from 2012, which may be used in the next three tax periods, EUR 84,368,557 from 2013, which may be used in the next four tax periods, and EUR 56,960,511 from 2014, which may be used by the Company in the next five tax periods.
The future taxable profits being uncertain, the Company did not create deferred tax assets.

Note 11

Net profit or loss .....EUR (89,275,670)

Net profit or loss *in EUR*

	2014	2013
Gross operating yield	191,046,120	247,996,581
Operating profit or loss	(87,612,594)	2,487,347
Financial profit or loss	(952,957)	(619,662)
Profit or loss before tax	(88,565,551)	1,867,685
Net profit or loss	**(89,275,670)**	**2,050,122**

4.9.3 Notes to the statement of other comprehensive income

In the statement of other comprehensive income, the Company discloses actuarial losses from termination benefits upon retirement based on an actuarial calculation of mandatory provisions for jubilee benefits and termination benefits upon retirement.

4.9.4 Notes to the cash flow statement

The cash flow statement for 2014 is prepared using the direct method and comprises all cash receipts and cash payments in the period from 1 January to 31 December 2014.

Cash flows broken down by subgroups:

Cash flows *in EUR*

	2014	2013
Cash flows from operating activities	71,478,126	114,476,532
Cash flows from investing activities	(74,435,658)	(469,139,268)
Cash flows from financing activities	2,955,317	354,667,833
Net cash for the period	**(2,215)**	**5,097**

The cash flow statement shows that in 2014 the Company generated net cash from operating activities in the amount of EUR 71,478,126, and net cash from financing activities in the amount of EUR 2,955,317, which were used entirely to cover cash payments from investing activities.

4.9.5 Statement of changes in equity

The statement of changes in equity shows the changes in equity components in the reporting period.

The Company prepares the statement of changes in equity in the form of a composite spreadsheet.

The total comprehensive income of the reporting period decreased by EUR 89,323,527, that is, by EUR 89,275,670 of net loss for the period, and by EUR 47,857 of actuarial loss from the creation of provisions for termination benefits upon retirement.

Retained earnings from 2013 in the amount of EUR 973,808 were, by resolution of the shareholder, allocated to other revenue reserves.

Accumulated profit or loss *in EUR*

	2014	2013
Net profit or loss for the period	(89,275,670)	2,050,122
Increase (additional creation) of revenue reserves	0	(1,076,314)
Accumulated profit or loss	**(89,275,670)**	**973,808**

4.10 Other disclosures

4.10.1 Related parties

Data on related companies

in EUR

	Disposals	Acquisitions
HSE d.o.o.	171,244,273	24,290,941
PV d.d.	126,781	96,662,914
HTZ VELENJE I.P. d.o.o.	469	2,263,686
GOST d.o.o.	0	1,395
PV Invest d.o.o.	0	53,445
RGP d.o.o.	703	4,528,235
HSE Invest d.o.o.	15,303	2,140,303
Total 2014	**171,387,529**	**129,940,919**

4.10.2 Emoluments

Information on the board of management, supervisory board, and employees employed under individual employment contracts that are not subject to the tariff part of the collective agreement.

Emoluments

in EUR

	Salary	Other earnings	Bonuses	Refund of expenses	Total
Members of the Board of Management	115,787	2,556	2,226	149	120,718
Members of the Supervisory Board and Audit Committee	25,325	45,138	52	1,510	72,025
Employees not subject to the tariff part of the collective agreement	406,833	41,536	10,020	750	459,139
Total 2014	**547,945**	**89,230**	**12,298**	**2,409**	**651,882**

The emoluments of members of the Board of Management and of other employees employed under individual employment contracts that are not subject to the tariff part of the collective agreement comprise:

- gross emoluments, according to the payout principle,
- other emoluments,
- premiums paid for voluntary supplementary pension insurance, and
- refunds.

The emoluments of members of the supervisory board and audit committee include gross meeting attendance fees and refunds. The emoluments of those members of the supervisory board who are representatives of employees also include emoluments from employment for the duration of their term of office.

Emoluments of the Board of Management in 2014

in EUR

Name and surname	Gross salary	Incentive bonus	Other emoluments	Bonuses	Voluntary supplementary pension insurance	Refund of expenses	Gross meeting attendance fee	Total
Peter Dermol (1 Jan 2014 – 5 Dec 2014)	106,451	0	789	1,853	1,767	0	0	110,860
Matjaž Eberlinc, PhD (3 Nov 2014 – 31 Dec 2014)	9,336	0	0	373	0	149	0	9,858
Total emoluments	**115,787**	**0**	**789**	**2,226**	**1,767**	**149**	**0**	**120,718**

Emoluments of members of the Supervisory Board in 2014

in EUR

Name and surname	Gross meeting attendance fee	Travel costs	Training costs	Bonuses	Other emoluments	Total
Roman Šturm, PhD	7,579	530	0	0	0	8,109
Janja Špiler	4,983	177	0	0	0	5,160
Herman Janež	5,412	353	0	0	0	5,765
Marjan Penšek, MSc	5,385	72	0	0	0	5,457
Janez Ramšak	5,792	149	0	31	23,437	29,409
Andrej Višnar	5,792	145	0	21	10,986	16,944
Total	**34,943**	**1,426**	**0**	**52**	**34,423**	**70,844**

Emoluments of members of Supervisory Board committees in 2014

in EUR

Name and surname	Committee name	Gross meeting attendance fee	Travel costs	Training costs	Bonuses	Other emoluments	Total
Franjo Mlinarič, PhD	Audit Committee	338	84	0	0	0	422
Janja Špiler	Audit Committee	429	0	0	0	0	429
Janez Ramšak	Audit Committee	330	0	0	0	0	330
Total		**1,097**	**84**	**0**	**0**	**0**	**1,181**

4.11 Financial instruments and risks

This section is connected with section 2.11 of the business part of this report regarding financial risks

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, we also risk the failure of settling other non-financial liabilities. The consequence of risk is the lack of liquid assets. The consequences could be the non-payment of liabilities to suppliers and the cessation of works, as well as the costs of default interest.

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

Receivables from the sale of thermal energy are secured with a blank bill of exchange. Advances receivable in the amount of EUR 131,528 are secured with a bank guarantee.

The majority of overdue advances receivable refer to advances receivable from Primorje d.d. under receivership. In January 2015, advances receivable from Primorje d.d. under receivership were set off in the amount of EUR 2,522,920, except for the remaining part of the advance payment in the amount of EUR 206,731, for which allowances were created in the past.

Other overdue and outstanding trade receivables include trade receivables from the sale of fly ash, rents receivable from apartment leases, and other.

Long-term receivables by maturity

in EUR

	DUE DATE			
	Up to 2 years after the date of SFP	From 3 to 5 years after the date of SFP	Over 5 years after the date of SFP	Total
Long-term advances given	39,625	9,147	82,318	131,090
Long-term operating receivables from others	4,154	4,063	1,863	10,080
Total as at 31 Dec 2013	**43,779**	**13,210**	**84,181**	**141,170**

in EUR

	DUE DATE			
	Up to 2 years after the date of SFP	From 3 to 5 years after the date of SFP	Over 5 years after the date of SFP	Total
Long-term advances given	9,146	27,439	45,734	82,319
Long-term operating receivables from others	2,032	5,926	0	7,958
Total as at 31 Dec 2014	**11,178**	**33,365**	**45,734**	**90,277**

Short-term operating receivables by maturity date

in EUR

	DUE DATE						
	NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	OVERDUE FROM 3 TO 6 MONTHS (91 to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (181 to 270 days)	OVERDUE FROM 9 TO 12 MONTHS (271 to 360 days)	OVERDUE MORE THAN ONE YEAR (in excess of 360 days)	TOTAL
Short-term operating receivables due from Group companies	10,308,315	41	0	0	0	0	10,308,356
Short-term operating receivables due from associates	140	0	0	0	0	0	140
Short-term trade receivables	1,562,572	37,915	5,891	6,372	5,521	57,215	1,675,486
Short-term advances receivable	894,768	0	0	85	0	4,409,175	5,304,028
Short-term operating receivables due from government and other institutions	9,988,849	113	0	0	0	0	9,988,962
Short-term operating receivables due from others	8,080	0	0	0	0	0	8,080
Total as at 31 December 2013	**22,762,724**	**38,069**	**5,891**	**6,457**	**5,521**	**4,466,390**	**27,285,052**

in EUR

	DUE DATE						
	NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	OVERDUE FROM 3 TO 6 MONTHS (91 to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (181 to 270 days)	OVERDUE FROM 9 TO 12 MONTHS (271 to 360 days)	OVERDUE MORE THAN ONE YEAR (in excess of 360 days)	TOTAL
Short-term operating receivables due from Group companies	23,844,567	20	0	0	0	0	23,844,587
Short-term operating receivables due from associates	169	0	0	0	0	0	169
Short-term trade receivables	1,464,017	19,459	6,806	6,198	6,158	51,960	1,554,598
Short-term advances receivable	216,362	0	0	0	0	2,729,650	2,946,012
Short-term operating receivables due from government and other institutions	8,830,565	0	0	0	0	0	8,830,565
Short-term operating receivables due from others	521,229	0	0	0	0	0	521,229
Total as at 31 December 2014	**34,876,909**	**19,479**	**6,806**	**6,198**	**6,158**	**2,781,610**	**37,697,160**

Changes in allowances for short-term operating receivables

in EUR

	2014	2013
As at 1 January 2014	**3,820,152**	**3,615,679**
Collected receivables written off	(3,575,447)	(5,698)
Creation of allowances for receivables	17,545	210,171
As at 31 December 2014	**262,250**	**3,820,152**

4.11.2 Liquidity risk

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

As at 31 December 2014, the Company recorded EUR 20,177,382 in overdue and outstanding liabilities to suppliers. All overdue liabilities were settled by 31 January 2015.

Long-term liabilities by maturity

in EUR

	DUE DATE			
	Up to 2 years after the date of SFP	From 3 to 5 years after the date of SFP	Over 5 years after the date of SFP	Total
Long-term financial liabilities to banks	40,715,058	143,330,216	569,426,949	753,472,223
Total as at 31 December 2013	**40,715,058**	**143,330,216**	**569,426,949**	**753,472,223**

in EUR

	DUE DATE			
	Up to 2 years after the date of SFP	From 3 to 5 years after the date of SFP	Over 5 years after the date of SFP	Total
Long-term financial liabilities to banks	28,469,028	143,330,215	569,426,948	741,226,191
Total as at 31 December 2014	**28,469,028**	**143,330,215**	**569,426,948**	**741,226,191**

Short-term operating and financial liabilities by maturity date

Short-term operating and financial liabilities by maturity date

in EUR

	DUE DATE		
	NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	TOTAL
Short-term payables to Group companies	28,072,598	130,632	28,203,230
Short-term payables to associates	261,363	0	261,363
Short-term trade payables	32,914,679	30,046,750	52,961,429
Short-term advances payables	5,630	0	5,630
Short-term payables to employees	1,410,015	0	1,410,015
Short-term payables to government and other institutions	4,515,559	0	4,515,559
Other short-term payables	6,535	0	6,535
Short-term financial liabilities to banks	1,389,087	0	1,389,087
Total as at 31 December 2013	**68,575,466**	**20,177,382**	**88,752,848**

in EUR

	DUE DATE		
	NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	TOTAL
Short-term payables to Group companies	31,565,805	24,274	31,590,079
Short-term payables to associates	370,189	0	370,189
Short-term trade payables	79,979,950	40,657	80,020,607
Short-term advances payable	514	0	514
Short-term payables to employees	1,462,299	0	1,462,299
Short-term payables to government and other institutions	4,380,929	0	4,380,929
Other short-term payables	4,544	0	4,544
Total as at 31 December 2014	**117,764,230**	**64,931**	**117,829,161**

Due to the nonfulfilment of requirements for acquiring sources of financing for Unit 6, as well as the nonfulfilment of requirements for the capital increase of TEŠ by the parent company, HSE, the Company and the entire HSE Group faced liquidity risks. The difficulties arose in the process of acquiring the necessary permissions due to the nonfulfilment of the following requirements: reconciled long-term projections of TEŠ and the HSE Group, RIP 6 – Revision 5 – December 2014 issue, and the private investor test (PIT).

The risk of delayed capital increase was managed by the conclusion of debt assumption contracts by HSE, on the basis of which HSE directly settled TEŠ's liabilities to suppliers for Unit 6 by short-term borrowing, as well as by optimising liquidity and business operations. This risk was assessed as being adequately managed in 2014.

In 2015, a resolution on capital increase was adopted by the shareholder and a long-term loan agreement was concluded. More details are provided in section 4.3.6. Events after the reporting date.

4.11.3 Interest rate risk

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

The Company was exposed to the following interest rate risks (only instruments that affect profit or loss are taken into account):

Financial instruments

in EUR

FINANCIAL INSTRUMENTS - BALANCE	2014	2013
Financial instruments at variable interest rate		**4,861,111**
Financial liabilities	3,472,222	4,861,111
TOTAL	**3,472,222**	**4.861.111**

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

The Company does not have any financial instruments at fixed interest rate defined at fair value through profit or loss, or any derivatives defined for hedging fair value against risks. Therefore, a change in fair value will not affect net profit or loss at the reporting date.

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

A change in interest rate by 50 base points (bp) at the reporting date would increase (decrease) net profit or loss by the values indicated below:

Financial instruments at variable interest rate *in EUR*

FINANCIAL INSTRUMENTS	Net profit/loss 2014		Net profit/loss 2013	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial liabilities	(63,043)	63,042	(68,248)	68,248

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 ensures the trust of creditors and the market, and maintains the future development of the Company's activities.

The Company monitors changes in equity using the financial leverage ratio, calculated by dividing the net liabilities by the total amount of net liabilities and the total amount of equity. The net liabilities of the Company include loans received and other financial liabilities less cash.

Capital management *in EUR*

	31 Dec 2014	31 Dec 2013
Long-term financial liabilities	741,226,191	753,472,223
Short-term financial liabilities	185,500,110	11,597,010
Total financial liabilities	926,726,301	765,069,233
Equity	488,099,112	515,676,986
Financial liabilities/equity	**1.899**	**1.484**
Cash and cash equivalents	8,543	10,758
Net financial liabilities	926,717,758	765,058,475
Net debt/equity	**1.899**	**1.484**

4.11.5 Fair value

The Company assesses that the fair values of financial assets and liabilities do not deviate from their carrying amounts.

Carrying amounts and fair values of financial instruments *in EUR*

Financial instruments	31 Dec 2014		31 Dec 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**60,003**	**60,003**	**260,003**	**260,003**
Available-for-sale financial assets	60,003	60,003	260,003	260,003
Non-derivative financial assets at amortised cost	**37,533,730**	**37,533,730**	**23,616,798**	**23,616,798**
Operating receivables	37,525,187	37,525,187	23,606,040	23,606,040
Cash	8,543	8,543	10,758	10,758
Total	**37,593,733**	**37,593,733**	**23,876,801**	**23,876,801**
Non-derivative financial liabilities at amortised cost	**877,011,365**	**877,011,365**	**832,017,148**	**832,017,148**
Bank loans	758,332,223	758,332,223	754,861,310	754,861,310
Other financial liabilities	849,981	849,981	0	0
Operating liabilities	117,829,161	117,829,161	77,155,838	77,155,838
Total	**877,011,365**	**877,011,365**	**832,017,148**	**832,017,148**

Financial assets carried at fair value by hierarchy *in EUR*

	31 Dec 2014	31 Dec 2013
Financial assets at third-level fair value	260,003	260,003
Total	**260,003**	**260,003**

Short-term receivables and liabilities are recorded at carrying amount, which is considered as amortised cost.

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 that 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, catering services
Social standard	Rents of apartments and holiday facilities

The criteria for the allocation of revenue and expenses are as follows:

- revenue is normally allocated directly,
- expenses are all allocated directly. Indirect expenses (general costs of production and professional departments) are allocated to business segments prorata.

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

5.1.1 Statement of financial position by business segments

in EUR

31 December 2014	TOTAL TEŠ	Electricity production	Steam and hot water supply	Other business segments
TOTAL ASSETS	**1,498,884,806**	**1,496,672,136**	**1,454,873**	**757,797**
Non-current assets	1,426,983,667	1,426,191,666	293,653	498,348
Current assets	71,901,139	70,480,470	1,161,220	259,449
TOTAL LIABILITIES AND EQUITY	**1,498,884,806**	**1,491,296,017**	**4,052,679**	**3,536,110**
Equity	426,353,459	419,969,885	3,090,027	3,293,547
Long-term liabilities	748,507,020	748,413,813	11,651	81,556
Short-term liabilities	324,024,328	322,912,319	951,002	161,007
Receivables/ liabilities by business segments		**5,376,119**	**(2,597,806)**	**(2,778,313)**

5.1.2 Income statement by business segments

in EUR

2014	TOTAL TEŠ	Electricity production	Steam and hot water supply	Other business segments
Sales revenue	185.474.049	181.634.101	3.387.011	452.937
Other revenue	6.319.297	5.323.289	114.099	881.909
TOTAL REVENUE	**191.793.346**	**186.957.390**	**3.501.110**	**1.334.846**
TOTAL EXPENSES	**280.358.897**	**275.156.452**	**3.883.784**	**1.318.661**
Total tax	(710.119)	(668.537)	(1.341)	(40.241)
NET PROFIT OR LOSS	**(89.275.670)**	**(88.867.599)**	**(384.015)**	**(24.056)**

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

Abbreviations

SEA – Slovenian Environment Agency
GDP – Gross domestic product
CCS – Capture and storage of CO_2
CE LCT – Centre of Excellence Low-carbon Technologies
VAT – Value-added tax
NA – National Assembly
EBRD – European Bank for Reconstruction and Development
EIB – European Investment Bank
ERP – KOPA information system
MTE – Main technological equipment
HESS – Hidroelektrarne na spodnji Savi d.o.o.
HSE – Holding Slovenske elektrarne d.o.o.
MF – Ministry of Finance
MEDT – Ministry of Economic Development and Technology
IFRS – International Financial Reporting Standards
MISP – Ministry of Infrastructure and Spatial Planning
RIP – Revised Investment Programme
SB – Supervisory Board
ODOS – Electronic document system
PAC – Provisional Acceptance Certificate
GT – Gas turbines
PV – Premogovnik Velenje d.d.
FGD – Flue gas desulphurisation
VLM – Velenje Lignite Mine
RS – Republic of Slovenia
SCC – Slovenian Compensation Company
SIC – Standing Interpretations Committee
EMS – Environmental Management System
STA – Slovenian Technical Approval
TEŠ – Termoelektrarna Šoštanj d.o.o.
GG – Greenhouse gases
LCP – Large combustion plant
OHS – Occupational health and safety
CITA – Corporate Income Tax Act
FOIPCDA – Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
CA – Companies Act

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