

ANNUAL REPORT
OF BORZEN
2011

Borzen

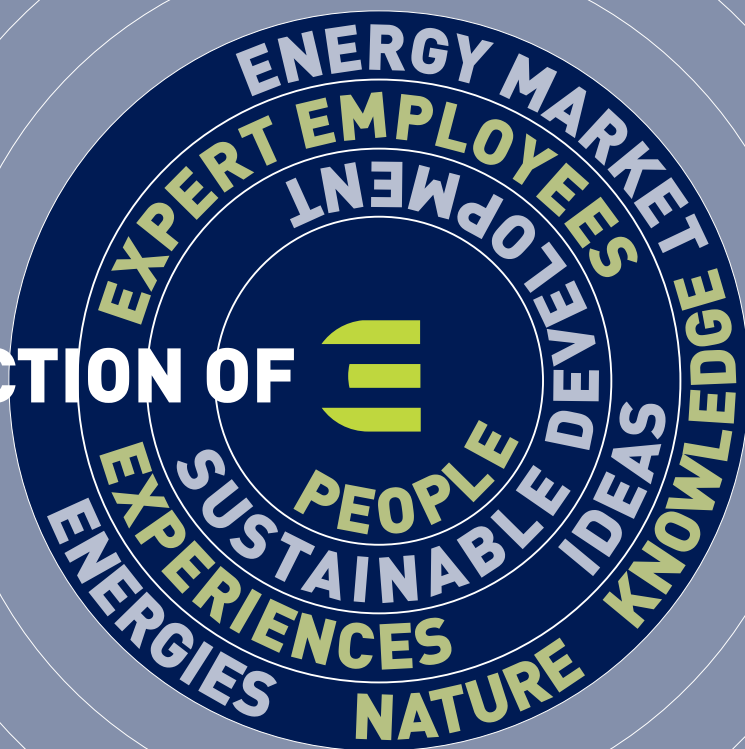
Organizator trga z električno energijo, d.o.o.



At Borzen we wish to act as a junction. Junction of energies. Junction of energy markets. We aim to represent a place where services from the energy field meets knowledge, high professionalism and satisfied bussines partners.

We strive to be the best in what we do.

THE JUNCTION OF



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GENERAL MANAGER'S ADDRESS



Professionalism and trust are important values that accompanied Borzen in a decade of its operations. Today we are entering into the 11th year of business operation and are filled with pride when looking back on the path trodden. A lot has happened on Slovenian electricity market – from the establishment of the internal market, its liberalization to competitive market as known today. Borzen is happy to have been able to co-create this story and we firmly believe that we will be its co-writers also in the future.

As the Power Market Operator, Borzen seeks to create high-quality conditions that will enable the development towards a modern and advanced energy market as well as its integration into the single European market. Some of the steps towards the achievement of the latter were taken in 2011. Market coupling on the Slovenian - Italian border has proven to be extremely positive and similar synergy effects will be generated by balancing market that is expected to be introduced in 2012. The number of electricity market players has experienced steady growth since its complete opening in 2007 and there are more and more foreign companies. In total there were 62 registered Balance Groups and Subgroups at the end of 2011 and there were record 93,958 Closed Contracts and operating forecasts recorded.

Modern power market is undoubtedly a market that follows the sustainable development trends representing the forefront of operations in many companies. Borzen provides support for electricity generated in an environmentally-friendly manner and encourages efficient energy use and knowledge transfer in this field. In the previous year there was a steep increase in the construction of power plants that generate electricity from renewable energy sources and of high-efficiency cogeneration and the most significant upturn was noticed in solar power stations. At the end of 2011, there were 1522 power plants included in the support scheme. As regards the electricity generated by the power plants participating in the support scheme, it accounts for 7 or 8 percent of total Slovene annual consumption. The continuation of this trend is also expected in 2012.

I can look back to 2011 with satisfaction – the key objectives were attained. I believe it is all of us in Borzen who work with great vigour, new ideas and who on a daily basis prove that together we can do even more that can take the credit for these results.

Together on a path to new challenges.

Karol Peter Peršolja, M.Sc.

REPORT ON THE SUPERVISORY BOARD OPERATION

In 2011, Borzen marked its 10th anniversary of the existence and operations and when looking back we have every reason to be proud of the previous years. In this decade it qualitatively performed activities as a Power Market Operator in Slovenia and simultaneously contributed to the liberalisation and development of this market. I am pleased to note that in 2011 the Company followed the vision, mission and the objectives set for the financial year, which is reflected in correct performance of the planned activities. I estimate that Borzen successfully completed the 2011 financial year. The foundation of such operations is certainly responsible and professional work of all the employees in the Company who contribute to quality services on the power market and consequently enable desirable transparency on the market. I believe that the already achieved results and new plans as well as the new powers that are conferred upon it by the Act Amending the Energy Act will be the real motivation and a challenge for good work in the future.

SUPERVISORY BOARD COMPOSITION

The composition of the Company's Supervisory Board changed in 2011. By 19 August 2011, the Supervisory Board consisted of two members: Mr Vekoslav Korošec, M.Sc. (chairman) and Mrs Mojca Kert Kos (member). On that day the Capital Assets Management Agency of the Republic of Slovenia recalled Mrs Mojca Kert Kos from the post and appointed two new alternates: Mr Janko Kramžar, Deputy Chairman, and Tomaž Fatur M.Sc., member.

COOPERATION WITH THE COMPANY'S MANAGEMENT

The Supervisory Board actively cooperated with the management throughout the year. The Supervisory Board was timely informed by the management of business results as well as of the implementation of the business policy and was thus enabled to monitor the operations and efficiently conduct supervision. According to the estimation of the Supervisory Board the cooperation with the management was good.

SUPERVISORY BOARD FUNCTIONING

In 2011, the Supervisory Board regularly followed and supervised the work of the Company's management. It met at five regular sessions. All the members fully cooperated and participated in all the sessions. They were also attended by the management who the chairman of the Supervisory Board cooperated with also in the period between regular sessions. With regard to the size of the company, the composition and structure of the Supervisory Board the latter assessed that no committee was necessary to be appointed for its functioning.

The Supervisory Board addressed the issues in accordance with the applicable legislation, the Act on the formation of Borzen and the Rules of procedure of the Supervisory Board. It took note of the quarterly reports by the management and thoroughly followed the procedure of the renewal of the Company's premises. In May, it considered the audited annual report of the company for 2010 and adopted the explanatory opinion. The Supervisory Board adopted the proposal by the management to transform all the non-allocated profit to other revenue reserves. All the time it also closely followed the operations of BSP Regional Energy Exchange where Borzen has a 50-percent stake. The Supervisory Board adopted a business plan of the Company for the period from 2012 to 2014. It also monitored the compliance with the provisions of the Corporate Governance Code for Companies with State Capital Investments and the recommendations by the Capital Assets Management Agency of the Republic of Slovenia.

Vekoslav Korošec, M.Sc.
Chairman of Borzen's Supervisory Board

RELEVANT DATA ON THE COMPANY'S OPERATIONS

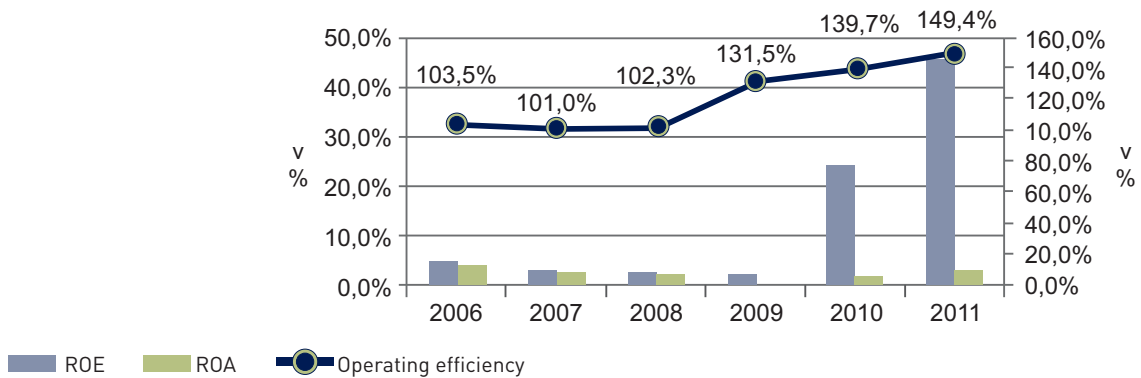
Borzen concluded the 2011 financial year with net profit amounting to EUR 1.66 million. In this period, Borzen generated EUR 4.37 million of total revenues, which were 33% higher than the planned values and 20% more than in the previous year. Total expenses amounted to EUR 2.30 million and were 1% lower than the planned ones and according to the previous year they were 16% lower.

As at 31 December 2011, it had a balance sheet size of EUR 58.06 million and compared to the previous year it decreased by 2%. On 31 December 2011, the Company's equity capital equalled EUR 4.25 million, which was 37% higher than in the previous year.

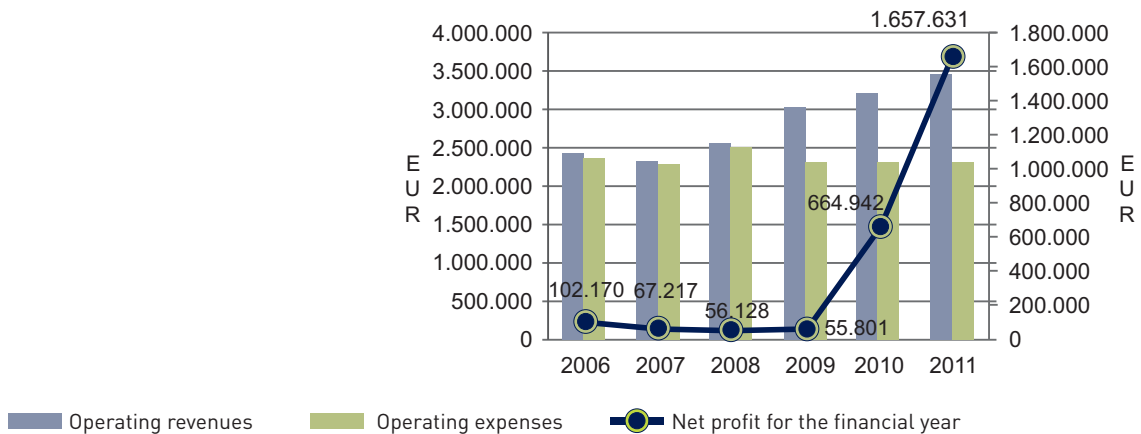
in EUR

	2006	2007	2008	2009	2010	2011
FROM BALANCE SHEET (Dec. 31st)						
Assets	2.515.447	2.598.788	2.573.676	22.514.614	58.981.682	58.059.206
Equity	2.309.884	2.351.654	2.407.785	2.427.653	3.092.594	4.250.223
FROM THE INCOME STATEMENT						
Operating revenues	2.418.793	2.293.345	2.517.532	3.006.223	3.188.061	3.442.491
Operating expenses	2.336.862	2.270.424	2.460.819	2.285.735	2.282.256	2.303.883
Total revenues	2.464.715	2.369.736	2.546.669	3.146.509	3.631.440	4.369.642
Total expenses	2.339.654	2.270.742	2.460.823	2.980.711	2.742.690	2.303.931
Net profit for the financial year	102.170	67.217	56.129	55.801	664.942	1.657.631
EBIT - Earnings before interest and taxes – operating profit	81.931	22.921	56.713	720.488	905.805	1.138.608
EBITDA – operating profit + depreciation	298.322	362.324	444.705	1.067.476	1.113.080	1.400.308
Investments	767.935	424.617	162.319	166.205	1.255.653	723.562
PERFORMANCE INDICATORS						
Return on equity - ROE	4,5%	2,9%	2,4%	2,3%	24,1%	45,1%
Return on assets - ROA	4,0%	2,6%	2,2%	0,4%	1,6%	2,8%
Operating efficiency	103,5%	101,0%	102,3%	131,5%	139,7%	149,4%
NUMBER OF EMPLOYEES (Dec. 31st)	26	28	22	26	29	29

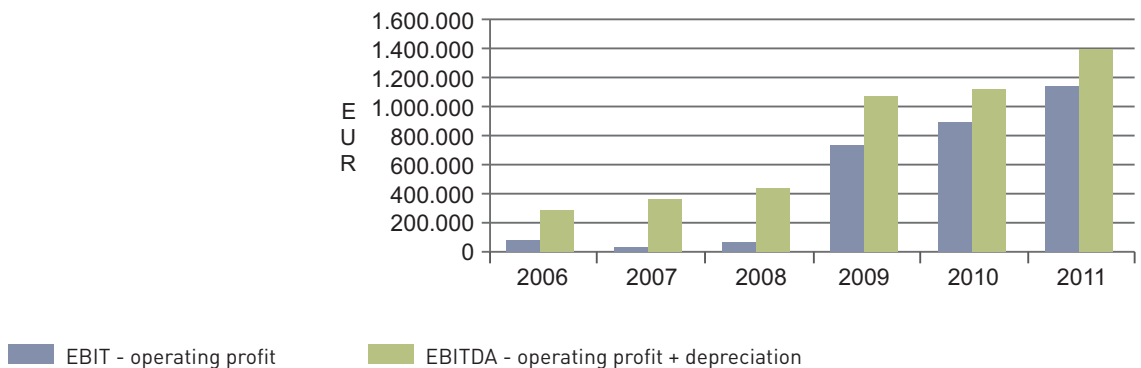
Return on assets (ROA), equity capital (ROE) and operating efficiency



Revenues and expenses from operation and movement of net profit



Movement of EBIT and EBITDA



QUANTITY OF ELECTRICITY FROM RECORDED CONTRACTS AND OPERATING FORECASTS	
2010	62.942.491,50 MWh
2011	73.114.232,30 MWh

QUANTITY OF ELECTRICITY GENERATED BY PRODUCTION UNITS INCLUDED IN THE SUPPORT SCHEME	
2010	995.508.812 MWh
2011	939.724.363 MWh

NUMBER OF RECORDED CONTRACTS AND OPERATING FORECASTS	
2010	78.411
2011	93.957

NUMBER OF PRODUCTION UNITS INCLUDED IN THE SUPPORT SCHEME	
2010	904
2011	1.522

IMPORTANT EVENTS IN 2011

10 YEARS OF BORZEN'S OPERATION

In 2011, Borzen marked its 10th anniversary and various activities were implemented throughout the year. We can expose the event that Borzen prepared in cooperation with the Energy Agency of the Republic of Slovenia in June at Brdo pri Kranju and that was attended by the most important representatives in this field. We are also proud of the publication »10-YEARS OF BORZEN« that was published for this occasion and that summarizes the developments on Slovene energy market in last ten years as well as the development and growth of Borzen, Slovene Power Market Operator.

ELECTRICITY MARKET COUPLING ON THE SLOVENIAN-ITALIAN BORDER

Market coupling on the Slovenian – Italian border started in January. The market coupling system constitutes an implicit and efficient manner of allocating cross-border transmission capacities on the day-ahead electricity market with energy and cross-border capacity as the transmission restriction being allocated simultaneously. In such a system the participating players – Power Market Operator, exchange and system operator – provide a service to the participants on the market that in contrast to explicit systems of allocating cross-border transmission capacities represents a unified system in terms of participants. The establishment of implicit system has an additional and very important advantage in Slovenia – increased liquidity on our electricity exchange and consequently the provision of a stable, relevant price signal that eases competition on the market.

ACQUISITION OF THE »FAMILY FRIENDLY ENTERPRISE CERTIFICATE«

At Borzen efforts are constantly being made to make it easier for the employees to reconcile work and family life; therefore the company decided to acquire the »Family Friendly Enterprise« certificate. In May we acquired the basic »Family Friendly Enterprise« certificate and formalized some already existing family friendly measures and added some new ones and thus started a three-year period of their implementation.

NEW BUSINESS PREMISES OF THE COMPANY

In July 2011, Borzen moved to its own new premises in a business building at Dunajska cesta 156, Ljubljana, also known as WTC Ljubljana.

AUCTION OF THE CENTRE FOR SUPPORT FOR THE FORWARD SALE OF A PART OF ELECTRICITY

An auction for the 2012 energy was held on 12 December 2011. Due to structural changes in the balance group of the Centre for Support (Eco Group) a part of peak power (hours 8 – 20) was sold in addition to base load product. 12 lots of base-load electricity products and 5 lots of Euro-peak load products were offered. Twelve companies took part of which three were successful. The average weighted agreed price was 56.74 EUR/MWh for base-load product and 70.57 EUR/MWh for Euro-peak load product.

ADOPTION AND PUBLICATION OF THE CHANGES AND AMENDMENTS OF THE RULES FOR THE OPERATION OF THE ORGANISED ELECTRICITY MARKET

In compliance with the Energy Act Borzen adopted the Changes and amendments of the Rules for the operation of the organised electricity market and in December it published them in the Official Gazette of the RS No. 97/2011. The rules entered into force on 1 January 2012. Prior to the submission of the Rules to the Government for the approval, Borzen released the draft of changes and amendments for two public considerations and had several coordination meetings with the Balance Scheme members and the Ministry of Economy. In compliance with the Energy Act the draft Changes and amendments of the Rules was also coordinated with the Energy Agency of the Republic of Slovenia.

IMPORTANT EVENTS AFTER THE END OF THE 2011 BUSINESS YEAR

ADOPTION OF THE ACT AMENDING THE ENERGY ACT

When on 11 January 2012 the Act amending the Energy Act entered into force Borzen as a public service acquired new powers within the Centre for Support. New powers primarily include the tasks related to information provision, awareness raising, training and the publication of information on efficient energy use and renewable energy sources.

PUBLICATION OF A HANDBOOK »USEFUL TIPS FOR SMALL POWER PLANT CONSTRUCTION«

In cooperation with SODO Borzen published the third updated version of the handbook "Useful tips for Small Power Plants for Production of Electricity from Renewable Energy Sources and Cogeneration of Heat and Electricity" that should provide relevant information to potential investors. One of significant novelties in the reproduced handbook is a scheme that simply and transparently presents the basic steps in constructing a small power plant from the acquisition of the location information to the start of operation of the new production unit in the support scheme. The handbook was published in Slovene and English.

BALANCING MARKET

At the beginning of 2012, Borzen, ELES and BSP Regional Energy Exchange agreed that the Establishment of Balancing Market Project and the "Intra-day" Trading Project would be united. Joint operational implementation of the balancing market and the intra-day trading in one place will generate numerous positive synergy effects such as the satisfaction of technical requirements by ELES and commitments of Borzen posed by the Energy Act. This will lead to the utilisation of a 7-day trading regime, joint clearing and relationships with market participants. Final form of joint organization of both markets is expected to be known by the end of the first quarter in 2012.

At Borzen we wish to act as a junction of development and progress. Having fresh ideas, motivation and being neutral, we aim to create high-quality conditions that will enable the development towards a modern and advanced energy market.

Creating a modern and advanced energy market.



BUSINESS
REPORT

I

1. COMPANY PRESENTATION

1.1 Identity Card

FULL NAME	Borzen, organizator trga z električno energijo, d.o.o.
SHORT NAME	Borzen, d.o.o.
ADDRESS	Dunajska 156, 1000 Ljubljana, Slovenija
PHONE	01 620 76 00
FAX	01 620 76 01
E-MAIL	info@borzen.si
WEBSITE	www.borzen.si
PRINCIPAL ACTIVITY	66.110 Upravljanje finančnih trgov
REGISTRATION NUMBER	1613383000
TAX NUMBER	27799468
NUMBER OF ENTRY IN COURT REGISTER	1/34438/00
DATE OF ENTRY IN COURT REGISTER	28. marec 2001
PLACE OF ENTRY IN COURT REGISTER	Okrožno sodišče v Ljubljani
SHARE CAPITAL	1.963.279,00 EUR
GENERAL MANAGER	mag. Karol Peter Peršolja
CHAIRMAN OF THE SUPERVISORY BOARD	mag. Vekoslav Korošec

As on 31 December 2011

1.2 About the Company

Borzen was founded on 28 March 2001. The establishment of a Power Market Operator was one of the obligations arising from the Energy Act and at the same time one of the fundamental conditions for the opening of internal power market in Slovenia.

The company's principal activity is the implementation of the public service obligation relating to the organisation of the electricity market that includes organisation of the electricity market in a narrow sense and activities of the Centre for Support - implementation of the Support Scheme for the production of electricity from renewable energy sources and high-efficiency cogeneration of heat and power.

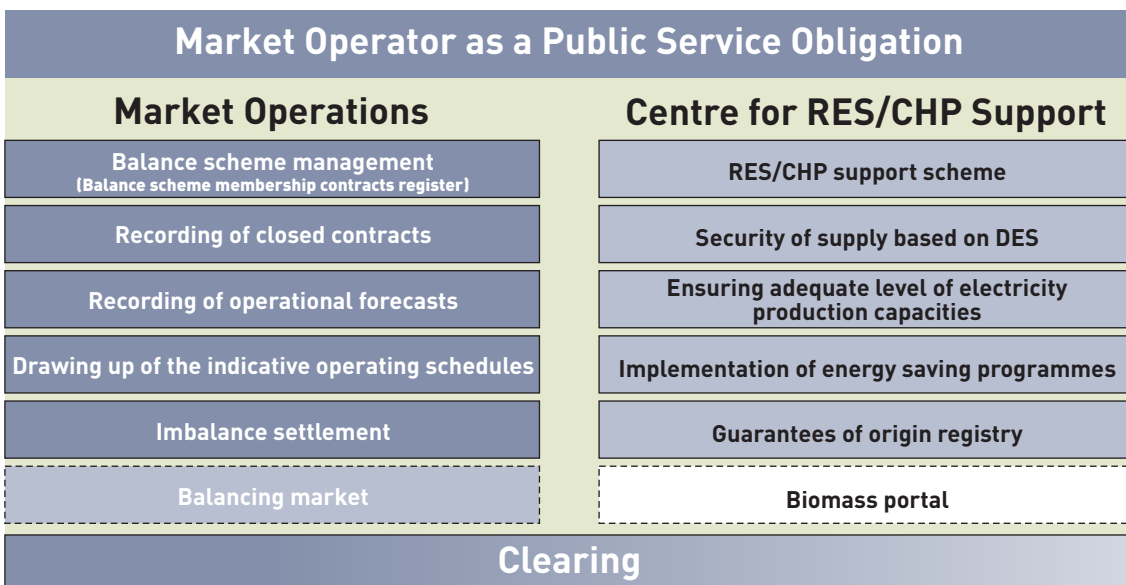


Figure 1: Tasks of a public utility service relating to the power market organisation

The public utility service related to the organisation of the electricity market, which is performed by Borzen on the basis of a concession in accordance with the Decree on the method for the implementation of public service obligation relating to the organisation of the electricity market (Official Gazette of the RS No. 8/2009), includes the following tasks:

- Balance Scheme management;
- Recording contracts of Balance Scheme Membership, and open and closed contracts;
- Imbalance Settlement;
- Implementation of the balancing power market;
- Implementation of activities of the Centre for RES/CHP support;
- Collecting and publishing data for providing transparency in the organised electricity market operation;
- Providing clearing and financial settlement.

1.3 Strategy of operations and the Company's plans

MISSION, VISION, VALUES

Borzen's vision is to act as the Slovenian juncture of knowledge and ideas, as well as perform quality services in the field of energy markets. Being highly professional and neutral, Borzen's wish is to create high-quality conditions that will enable the development towards a modern and advanced energy market.

By providing quality services in the field of energy markets, Borzen's mission and wish is to ensure transparent and efficient operation for all participants. As the promoter of the development of these markets, Borzen strives towards a regulated and competitive Slovenian market and the promotion and increased use of green energy.

Borzen's values – social responsibility, ethical business operation, high professionalism, knowledge, orientation towards development and progress – are embedded in our operation and are reflected in all our relations.

Borzen's vision is to act as the Slovenian juncture of knowledge and ideas, as well as perform quality services in the field of energy markets. Being highly professional and neutral, Borzen's wish is to create high-quality conditions that will enable the development towards a modern and advanced energy market.

KEY STRATEGIC GUIDELINES

The most important strategic goals can be summarised as follows:

- Business growth in the sense of Borzen's placement as the juncture of activities on the Slovenian power market;
- Striving for system-defined, transparent, effective, and competitive Slovenian electricity market and its further integration into the European internal market;
- Promotion and provision of support mechanisms for renewable energy sources to contribute to the increased use of renewable sources and environmental protection and to indirectly contribute to the achievement of Slovenian commitments in the international framework;
- Optimal management of the Eco Balance Group of the Centre for RES/CHP Support, which includes transparent sale of electricity and the endeavours to reduce imbalance costs of the balance group;
- Preservation of the equity stake in BSP Regional power exchange and the co-creation of conditions for further development;
- Efficient management of regulatory risks by monitoring legislative and legal processes and co-creation of the legal framework for successful performance of the tasks by the Power Market Operator;
- Establishment of balancing market and the provision of undisturbed trading in balancing energy;
- Ensuring optimal Company's accelerated liquidity ratio and current ratio;
- Endeavours to improve the educational structure of employees and encouraging the employees to acquire new knowledge and to take part in life-long learning;
- Company's operation in the spirit of sustainable development and living, which has positive impact on the employees and a wider social environment; Responsible conduct preserves and additionally strengthens trust in successful and stable operation of the Company.

IMPACT OF ECONOMIC AND LEGISLATIVE SITUATION ON THE OPERATION AND THE DEVELOPMENT STRATEGY IMPLEMENTATION IN 2011

Although the economic situation in 2011 can be marked by general economic stagnation, the electricity consumption increased by 4 percent compared to 2010. A trend of more investments into renewable energy sources with the aim of reaching minimal shares stipulated by Directive 2009/28/EC continued in the previous year in Europe

and Slovenia as a response to gradually increasing energy consumption. In some countries (for example Czech Republic, Great Britain, Spain) considerable growth of the construction of power plants resulted in problems related to the provision of sufficient funds and consequently the adjustment of support, subsidy schemes to the situation on the market. Such adjustment, primarily in the field of solar power stations, also took place in Slovenia since lower investments were followed by lower support.

Further integration of the European power market as one of the most important tasks of the European Union marked the previous year as well. Slovenia was also actively focused on the integration of the European internal market since on 1 January 2011 the coupling of the Slovenian and Italian daily electricity market started.

In Slovene energy sector, the 2011 financial year was in the anticipation of new energy legislation with which our country would transpose the third European energy package into the national law. The Ministry responsible for energy released the new Energy Act for public consideration in June 2011, however the procedure concluded with the preparation of amended Energy Act that only transposed the most urgent European matters in January 2012. Legislative delay had an impact on Borzen's planned investments and also introduced considerable changes since the Power Market Operator was given new tasks related to efficient energy use.

The Company's operation in 2011 was impacted by the active role of the Capital Assets Management Agency of the Republic of Slovenia that exercises the rights of the Company's only partner. In the spirit of efficient corporate governance the Capital Assets Management Agency adopted numerous documents, including the Corporate Governance Code for Companies with State Capital Investments, the Guidelines concerning reporting and individual recommendations. Borzen examined all the documents and harmonised its activities accordingly. This was an important step to even more transparent operation. Borzen's goal setting and implementing is thus closely intertwined with the conditions in European and Slovene legislation and the situation and trends on energy markets, which also reflected in business operations of last year.

We may summarize that in 2011 the Company made every effort to continue along the path defined in the strategy and met the objectives that are closely related to quality implementation of tasks of a public service of the organised electricity market and the development of power market in Slovenia. The Company carried out various activities in the following fields to meet the strategic objectives:

- Promotion of the employee training and education,
- Establishment of a comprehensive risk management system in the Company,
- Efficient functioning of Slovene power market,
- Integration of Slovene market into the internal European market,
- Efficiency of the Company's internal business processes,
- Borzen's reputation and recognisability,
- Optimization of services and relations with the stakeholders,
- Optimization of the conditions for further development of the associate company, BSP Regional Energy Exchange.

KEY PLANS OF THE COMPANY IN 2012

In the following paragraphs there are summarised key objectives that the Company will be striving for in 2012 and are a part of continuous implementation of our long-term strategy.

In the field of efficient service implementation and market segments:

- Development of energy market in Slovenia,
- Market coupling on Slovenian borders,
- Development of new services within the Centre for Support,
- Balancing market,
- Elaboration of a five-year strategy of the Company.

In the field of optimization and quality operations:

- Optimization of internal business processes,
- Single information system,
- Comprehensive risk management,
- Introduction of a plan of continuous operation.

In the field of sustainable development and communications:

- Green office,
 - Attention focused on users,
 - Learning and growth,
 - Positioning and reputation of the Company.
-

1.4 Management of the Company

CORPORATE-GOVERNANCE STATEMENT

The management and the Company's Supervisory Board give a corporate-governance statement in accordance with Article 70 of the Companies Act and point 73 of the Corporate Governance Code for Companies with State Capital Investments.

The corporate-governance statement in compliance with the Corporate Governance Code for Companies with State Capital Investments and the recommendations by the Capital Assets Management Agency of the Republic of Slovenia contains the content as required by Article 70 of the Companies Act for public limited companies.

1. System of corporate governance of the Company

Borzen, organizator trga z električno energijo, d.o.o., has a two-tier system of governance. Managing bodies of the Company: the management, Supervisory Board and the Partner.

MANAGEMENT OF THE COMPANY

The management of the company is a one-member body, General Manager, appointed by the Supervisory Board for a five-year period. General Manager, since 1 January 2010 the position has been taken by Karol Peter Peršolja M.Sc., runs the Company and represents it.

General Manager of the company is also designated to the following positions in other non-affiliated companies and institutions:

- A member of the Council of the Slovenian Competition Protection Agency (still in the process of transformation from the Competition Protection Office) and
- A member of the Supervisory Board of Casino Kobarid d.d.

General Manager is entitled to basic payment (salary), acceptable payment for the performance of the company (performance award) and annual holiday payment. These receipts are presented in more detail in the Financial report.

SUPERVISORY BOARD OF THE COMPANY

In line with the Act on the formation of Borzen the Supervisory Board consists of three members appointed by the Partner for a period of five years.

The composition of the Company's Supervisory Board changed in the 2011 financial year. Until 19 August 2011 the Supervisory Board was composed of only two members that was necessary to constitute a quorum. The Supervisory Board was chaired by Vekoslav Korošec M.Sc., and a member was Mrs Mojca Kert Kos. On 19 August 2011, Mrs Mojca Kert Kos was recalled by the Partner who appointed two new alternates. Since that date the Supervisory Board of the Company was composed of:

- Chairman of Borzen's Supervisory Board: Vekoslav Korošec, M.Sc.,
- Vice-Chairman of the Supervisory Board: Janko Kramžar,
- Supervisory Board Member: Tomaž Fatur, M.Sc.

In line with the Act on the formation of Borzen the Supervisory Board has the following competences:

- Appointment and recall of the General Manager,
- Adoption of the annual plan,
- Publishing a reasoned opinion to the annual report and the plan of Company's development,
- Conclusion of the employment contract with the General Manager and the confirmation of the content of other contracts that the Company concludes with either the General Manager or procurator,
- Giving a consent to the General Manager to appoint a member of the supervisory or administrative body of the legal entity where the Company effectively exercises a dominant influence,
- Giving a consent to the General Manager to dispose of the shares or a stake of the legal entity where the Company effectively exercises a dominant influence,
- Posing a requirement to the General Manager to provide any information necessary to perform control in the Company or in subsidiaries.

In accordance with the Companies Act, the Act on the formation of Borzen and the Rules of procedure of the Supervisory Board it meets at least once every quarter. In the 2011 financial year it had five regular sessions. The Supervisory Board did not establish a special committee for its work.

The Supervisory Board Members have positions in other companies that are not associated with Borzen:

- Vekoslav Korošec, M.Sc.: Supervisory Board Member of HSE d.o.o.
- Janko Kramžar: General Manager of Snaga d.o.o.
- Tomaž Fatur M.Sc.

In 2011, the Supervisory Board Members were entitled to receipts for the performance of their function based on the applicable decision of the partner, which are presented in detail in the Financial Report.

PARTNER

The Republic of Slovenia is the only partner of Borzen. Based on the Management of Equity Investments of the Republic of Slovenia Act the rights of the partner are exercised by the Capital Assets Management Agency of the Republic of Slovenia.

The Partner independently makes decisions in all matters within its competences. In accordance with the Act on the formation of Borzen the Partner shall decide on the following:

- Appointment of an auditor,
- Adoption of the annual report and plan of the Company,
- Use of the accumulated profit and covering losses,
- Granting discharge to the management,
- Appointment and recall of the Supervisory Board Members,
- Granting discharge to the Supervisory Board Members,
- Measures to increase or decrease share capital,
- Division and cessation of stakes,

- Representing the Company in legal proceedings before the courts against the Supervisory Board Members,
- Dissolution of the Company and reorganisation of the status,
- Other matters stipulated by law and not transferred to the Supervisory Board.

The Partner normally hold one session each year – Assembly. In the financial year the Assembly was convened in August 2011 where the Partner:

- Adopted the Annual Report of Borzen for 2010 in the submitted text with the opinion of the certified auditor and the reasoned opinion by the Supervisory Board;
- Adopted a decision on the accumulated profit distribution;
- Granted discharge to the General Manager and the Supervisory Board Members for 2010,
- Recalled the Supervisory Board Member Mojca Kert Kos and appointed alternative Supervisory Board Members: Tomaž Fatur M.Sc. and Janko Kramžar;
- Defined the attendance fees and payment for the performance of the function and
- Adopted the amendments to the Act on the formation of Borzen.

2. Declaration of Conformity with the Provisions of The Corporate Governance Code for Companies with State Capital Investments

The Management and the Supervisory Board of Borzen, organizator trga z električno energijo, d.o.o. hereby declare that the Company in its business operation respects the provisions of the Corporate Governance Code for Companies with State Capital Investments, the Reporting Guidelines for the Companies with State Capital Investments and individual recommendations by the Capital Assets Management Agency of the Republic of Slovenia excluding the recommendation on self-assessment of the Supervisory Board.

In line with the comply-or-explain principle the Supervisory Board explains that in the 2011 financial year it did not succeed in performing the procedure of evaluating the efficiency of own work. Due to changed composition of the Supervisory Board and the appointment of two alternate members the Supervisory Board estimated that it was not reasonable to perform this procedure right after the assumption of duties by the new members, therefore the procedure will be carried out in 2012.

In accordance with Article 60 of the Companies Act, the management and the Supervisory Board hereby ensure that the annual report of Borzen, organizator trga z električno energijo, d.o.o., was compiled and published in accordance with the Companies Act and the Slovenian Accounting Standards.

The management approves and confirms Borzen's financial statements for the year finishing 31 December 2011 and Notes on financial statements compiled on the assumption of the Company's continued operation and in accordance with the applicable legislation and the Slovenian Accounting Standards.

The management confirms that appropriate accounting policies were used in the creation of the financial statements and that the accounting estimates were made according to the precautionary principle and the principle of good management, and that the financial statements reflect the true and fair picture of the company's assets and results of its business operations for 2011.

3. System of internal controls and risk management of the Company

In the Company a system of internal controls is implemented in compliance with a system of comprehensive risk management as described in detail in Chapter 5 of this report.

4. Associated companies

Borzen has a stake in BSP Regional Energy Exchange LL C whose co-founder it is.

BSP Regional Energy Exchange LL C is managed by Borzen and Eles d.o.o. each having a 50-percent stake.

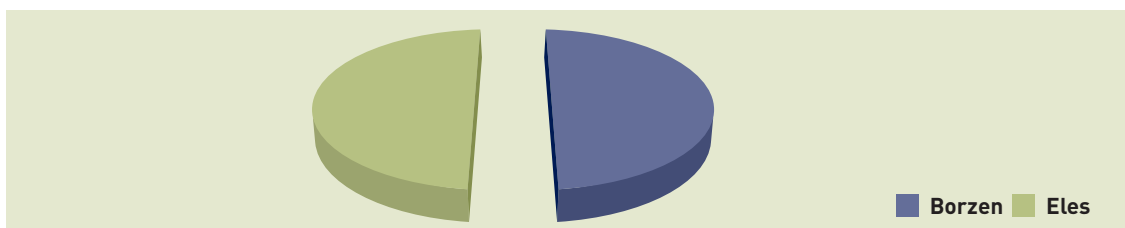


Figure 2: Stakes in BSP Regional Energy Exchange LL C

BSP Regional Energy Exchange provides complete and high-quality liquid, competitive, and transparent services of organised electricity market to market participants. At the moment, BSP enables electricity trading on Slovenian and Serbian market; however, in the future trading will also be possible on other markets in the region. The ultimate objective of the BSP Regional Energy Exchange is, firstly, to become a leading cross-border energy exchange in the South-Eastern European region and, secondly, to become a bridge among European energy markets through the mechanisms of market coupling or implicit auctions.

After successful restructuring of BSP Regional Energy Exchange at the end of 2010 it then exceeded the expectations in 2011 since it operated with positive results. Changed business model and successful implementation of the project Market Coupling on the Slovenian - Italian Border had a positive impact on the company. The development of the day-ahead trading is an important signal to all market participants that strengthens trust into transparency of the market player performance.

2. ORGANISATION OF THE ELECTRICITY MARKET IN SLOVENIA

2.1 Recording of closed contracts, operational forecasts and preparation of an indicative operating schedule of the transmission and distribution network

The Energy Act imposes on the Power Market Operator the obligation of recording contracts of Balance Scheme Membership and Open and Closed Contracts. All contracting liabilities in which electricity is bought or sold in the Republic of Slovenia or is transferred outside the regulation area are recorded. Closed contracts and operational forecasts are recorded on a daily level seven days in a week. The Power Market Operator draws up an indicative operating schedule of the transmission and distribution network that is submitted to the Transmission System Operator (ELES). In the event of a change in concluded closed contracts and operational forecasts that can be reported in accordance with the Rules for the Operation of the Organised Electricity Market due to »intra-day« trading also the corrected final schedule is prepared.

The number of recorded closed contracts and operating forecasts in 2011 increased by 19.8% compared to 2010. Total power based on the contracts was 16.2% higher.

RECORDING OF CLOSED CONTRACTS AND OPERATIONAL FORECASTS

In 2011, there were 93,958 registered closed contracts and operational forecasts within the framework of open contracts in total quantity of 73,114,379 MWh. Compared to the previous year, the number of recorded closed contracts and operational forecasts was, in the same period, 19.8 percent higher and total quantity was 16.2 percent higher.

Month	Closed contracts (in MWh)	Operating forecasts (in MWh)	The number of CC and OF
January	3.807.057	2.543.510	7.613
February	3.431.766	2.235.585	7.041
March	3.929.776	2.471.622	7.831
April	3.526.082	2.236.225	7.700
May	3.753.496	2.295.351	8.069
June	3.711.447	2.320.858	7.784
July	3.556.766	2.239.025	7.850
August	3.516.254	2.237.499	7.931
September	3.156.362	2.240.842	7.340
October	4.277.169	2.339.453	8.235
November	4.341.957	2.341.580	8.168
December	4.280.855	2.323.842	8.396
Total	45.288.987	27.825.392	93.958

Table 1: Monthly volumes of electricity sold or bought through closed contracts (CC) and operational forecasts (OF) and recorded closed contracts and operational forecasts on the organised market in Slovenia in 2011

Table 1 shows the volumes of electricity sold or bought based on closed contracts and operational forecasts. Compared to 2010, the volume of electricity from closed contracts was 28.0 percent higher, whereas the volume of electricity sold through operational forecasts was 1.0 percent higher. This means that the activities of trading participants increased by more than a quarter whereas the consumption and generation did not considerably change and grew in accordance with the expectations.

A comparison of the number of recorded closed contracts and the total quantity of electricity from recorded closed contracts in last four years (from 2008 to 2011) shows that the quantity and number of contracts increased most in 2011. The data indicate increased activity of market participants, especially in last two years. Unlike the energy quantities, the number of recorded contracts in last four years grew rather steadily but with a high percentage.

Slovenia was a net importer of electricity in 2010 as well as in 2011. In 2010, the import amounted to 4.69% and in 2011 it totalled 13.44% of the energy consumed in Slovenia.

Comparison of the number of recorded closed contracts and the total quantity of electricity from recorded closed contracts from 2008 to 2011

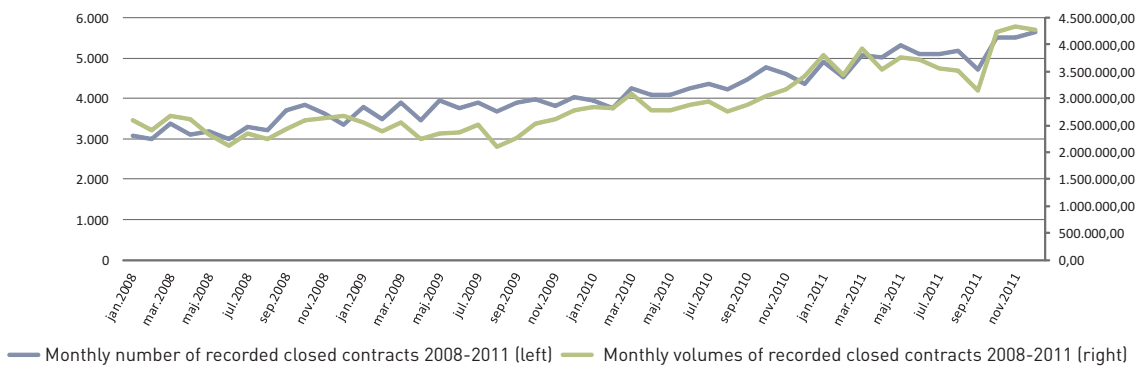


Figure 3: Monthly volumes of electricity sold or bought through closed contracts (CC) and operational forecasts (OF) and recorded closed contracts and operational forecasts on the organised market in Slovenia in 2008-2011

The data on growth trends in last four years are also presented in the next table.

Year	Annual volume of recorded CC [Mwh]	Increased number of CC in % compared to the previous year	Recorded CC at the annual level	Increased number of CC in % compared to the previous year
2008	29.686.083		39.737	
2009	29.275.292	-1,38%	45.606	14,77%
2010	35.393.791	20,90%	51.169	12,20%
2011	45.288.986	27,82%	61.541	20,27%

Table 2: Yearly volumes of electricity sold or bought through closed contracts (CC) and operational forecasts (OF) and recorded closed contracts and operational forecasts on the organised market in Slovenia from 2008 to 2011

From 2008 to 2011 total electricity bought through closed contracts and operational forecasts increased by 52.6% and the number of recorded closed contracts and operational forecasts on the organised market in Slovenia rose by 54.9%.

TRANSMISSION OF ELECTRICITY ON THE BORDERS OF THE SLOVENIAN REGULATION AREA

Transmission of electricity on the borders of the Slovenian regulation area in 2011 accounted for 1,264,266 TWh, which means that in Slovenia there was a surplus of electricity compared to total consumption in Slovenia. However, since 2,971.129 MWh of electricity from the Krško Nuclear Power Plant (NPP) belonged to Croatian network, Slovenia was a net importer of electricity in 2011. Net import totalled 1,724,961 MWh representing 13.44% of Slovene consumption taking into account losses in the transmission system.

Month	Export	Export from NEK	Import	Net	Net position
January	845.189	1.103.237	912.090	191.147	-66.901
February	708.575	942.910	879.096	63.814	-170.521
March	830.607	1.072.516	1.063.936	8.580	-233.329
April	719.263	967.902	790.057	177.845	-70.794
May	773.757	1.028.751	911.880	116.871	-138.123
June	782.084	1.029.022	914.973	114.049	-132.889
July	714.571	965.117	889.120	75.997	-174.549
August	627.155	877.971	744.984	132.987	-117.829
September	556.265	796.950	680.725	116.225	-124.460
October	780.327	1.035.371	913.390	121.981	-133.063
November	723.611	972.811	889.172	83.639	-165.561
December	682.336	940.409	879.278	61.131	-196.942
Total	8.743.740	11.732.967	10.468.701	1.264.266	-1.724.961

Table 3: Total import and export of electricity on the borders of Slovenian regulation area in 2011 in MWh

Compared to 2010, the export of electricity excluding the Croatian energy from the Krško NPP increased by 17.5% and equalled 8,743,740 MWh whereas the import in the same period rose by 30.6% and equalled 10,468,701 MWh.

Increased cross-border transmission capacities daily allocated to be exported on the Italian border mainly contributed to this change. Increased cross-border transmission capacities on this border enabled the commencement of the use of a phase shifting transformer set up in Divača switching substation. Based on the data it can be concluded that the majority of electricity that due to increased export to Italy transited the Slovenia network was imported from Austria and Croatia. Table 3 shows electricity import and export on the borders of Slovenian regulation area.

In 2011, the export on the Austrian border compared to 2010 was 30.4 percent higher and amounted to 2,263,319 MWh, import, on the other hand, was 34.3 percent higher and amounted to 5,961,114 MWh.

In 2011, the export on the Croatia border that included the Croatian part of the Krško NPP was 35.4 percent higher than in 2010. The export amounted to 5,437,356 MWh. The import was 25.5 percent higher and amounted to 4,453,950 MWh in the same period. Total power generation in the Krško NPP rose by 11.2% compared to 2010 and equalled 5,942,258 MWh

In 2011, the export on the Italian border was 41.0 percent lower than in 2010, the import, however, was in negligible quantity and amounted only to 53,637 MWh in the same period.

Table 4 in the continuation presents the data on recorded closed contracts concerning electricity export and import in 2011 by borders.

Border	AUSTRIA		ITALY		CROATIA		
	Export	Import	Export	Import	Exp. from NEK	Import	Imp. from NEK
January	444.855	282.661	342.799	648	315.583	628.781	258.048
February	192.085	444.000	378.390	2	372.435	435.094	234.335
March	359.589	458.844	365.189	576	347.738	604.516	241.909
April	253.401	381.609	326.208	156	388.293	408.292	248.639
May	255.072	464.611	293.508	1.253	480.171	446.016	254.994
June	274.562	502.113	284.543	396	469.917	412.464	246.938
July	112.973	622.954	344.347	1.209	507.797	264.957	250.546
August	122.582	464.146	297.992	5.692	457.397	275.146	250.816
September	40.438	482.680	323.563	6.087	432.949	191.958	240.685
October	110.461	603.397	390.908	523	534.002	309.570	255.044
November	59.389	618.121	330.687	16.679	582.735	254.372	249.200
December	37.912	636.078	354.158	20.416	548.339	222.784	258.073
Skupaj	2.263.319	5.961.114	4.032.292	53.637	5.437.356	4.453.950	2.989.227

Table 4: Recorded closed contracts by borders for import and export of electricity in 2011 in MWh

2.2 Imbalance settlement

The report covers the billing period in 2011 that contains concluded imbalance settlement from January to December. The results are presented by the text and pictures in the continuation.

Average daily values of basic imbalance prices C+ in C- in 2011

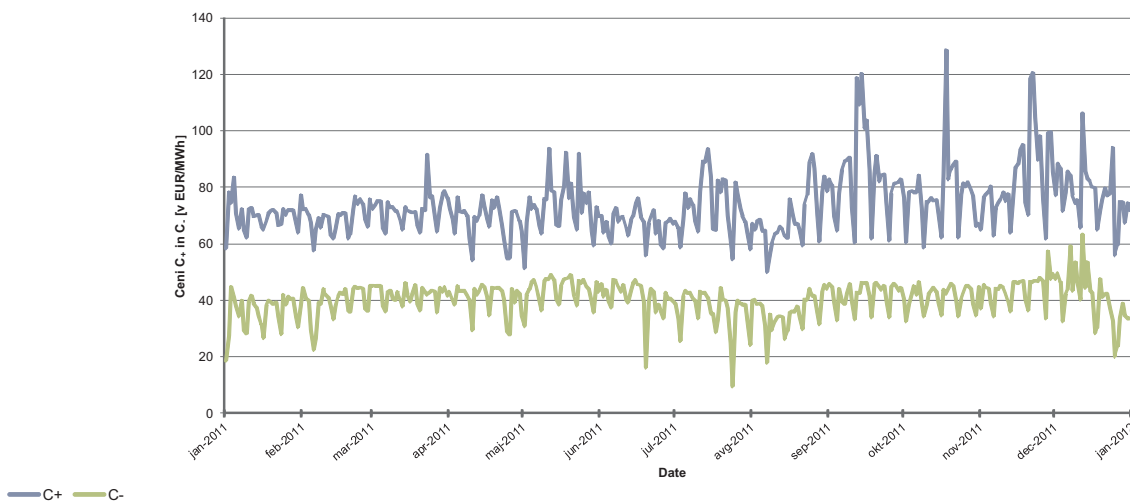


Figure 4: Average daily values of basic imbalance prices C+ in C- in 2011

In the first part of 2011, average daily values of prices C+ in C- fluctuated rather steadily and constantly whereas in the second part of the year they were more volatile and their range was broader.

In the second half of 2011, we registered some slightly pronounced price jumps where the price C+ increased, namely on 12 September, 18 October and 21 November for C+ and on 19 June, 24 July and 25th December for C-. The reason for these price jumps in September can be identified in increased electricity quantities required by the system balancing. In October and November, the prices for positive imbalances C+ jumped due to the activation of tertiary regulation by the system operator.

In 2011, the average value of basic price for positive imbalances C+ was 73.13 EUR/MWh and 39.59 EUR/MWh for negative imbalance C-. In comparison, the average value of the Slovenian hourly exchange index, SIPX, in 2011 amounted to 57.20 EUR/MWh. Within this period, the highest price value for C+ was 267.08 EUR/MWh and the lowest was 35.08 EUR/MWh. The highest price C+ occurred on 11 May 2011 in 21st hourly block and the lowest occurred on 25 September in 5th hourly block. The highest price value of C- was 158.28 EUR/MWh on 7th December 2011 in 18th hourly block whereas the lowest price value of C- was -12.29 EUR/MWh on 1 January 2011 in 7th hourly block.

CSLOp and CSLOn indexes were determined on the basis of average peer prices C+ and C- for working days, Saturdays, Sundays and holidays as specified in the Rules for the operation of the organised electricity market. As can be seen from the diagram [Figure 5] of average daily index values, both indexes followed the basic imbalance prices C+ and C- throughout the whole period. Average index values CSLOp and CSLOn were 70.98 EUR/MWh and 40.87 EUR/MWh.

Average daily index values CSLOp and CSLOn in 2011

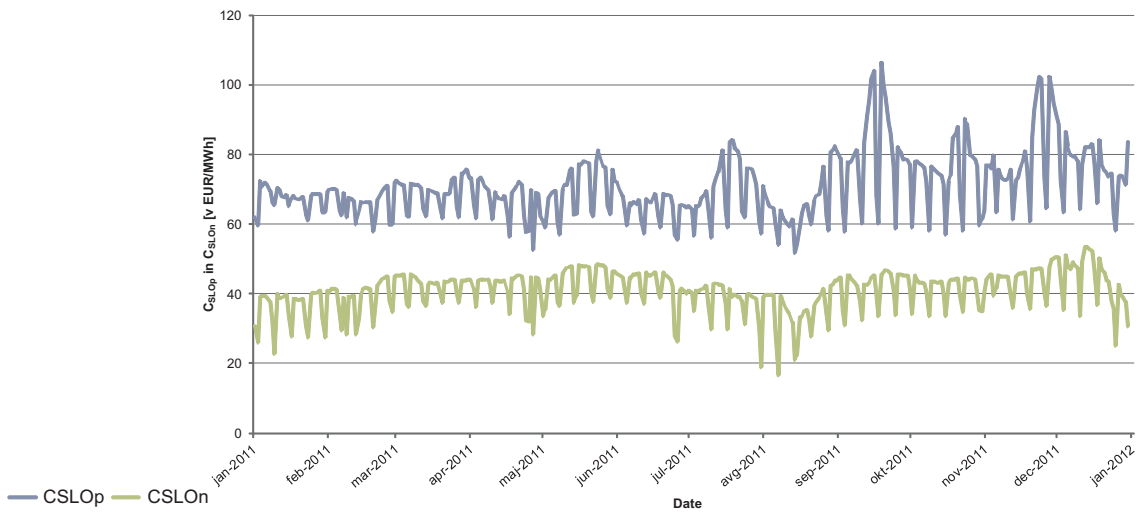


Figure 5: Average daily index values CSLOp and CSLOn in 2011

Figure 6 shows the total positive and negative imbalances of all Balance Groups in Slovenia in 2011. The biggest positive imbalances were recorded in August totalling 38,670.26 MWh and the biggest negative imbalances were recorded in December totalling 42,186.44 MWh. The lowest positive imbalances totalling 18,835.90 MWh were recorded in February and the lowest negative imbalances totalling 21,387.76 MWh in September.

Imbalances in positive direction reflect a shortage of electricity in the power system, and imbalances in the negative direction reflect a surplus of electricity in the Slovenian electricity system.

Monthly imbalances in the Slovenian network in 2011

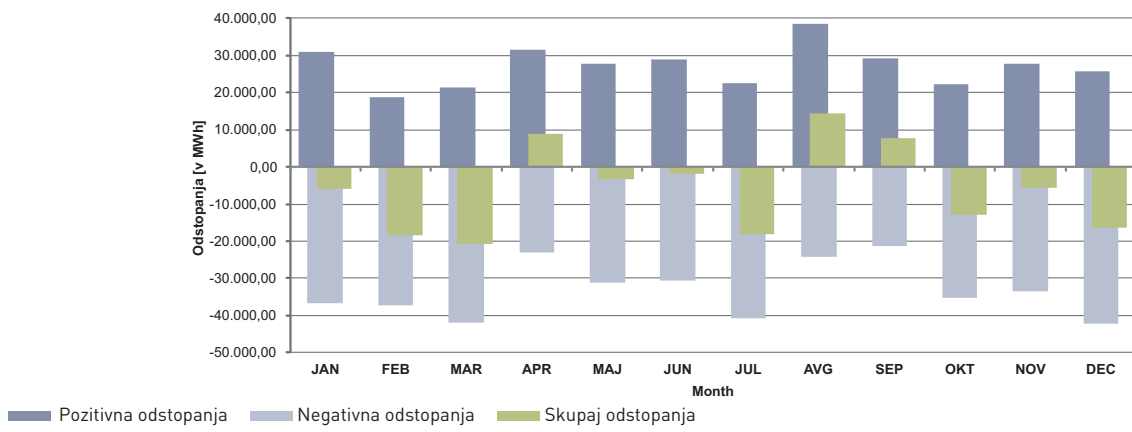


Figure 6: Monthly imbalances in the Slovenian network in 2011

Based on the comparison of monthly imbalances between 2011 and 2010 it can be concluded that values of positive and negative imbalances in 2011 reduced by 0.51% and 6.50%.

Balancing energy for the settlement of positive and negative imbalances in the electricity system of Slovenia is provided by the Transmission System Operator ELES. In 2011, total of 137,490.95 MWh was used for the settlement of positive imbalances and 209,459.36 MWh for negative imbalances. Compared to the same period in 2010, the energy for the settlement of positive imbalances increased by 19.64% whereas the energy for the settlement of negative imbalances reduced by 2.05%.

The financial settlement system is designed so that it encourages market participants to be precise in forecasting the consumption of final users as well as the production since the prices for imbalances are as a rule less favourable than the market prices. Balance group have two options when it comes to the formation of their portfolios. If they decide to be long in trading, this means that they prefer to purchase more electricity than it is used by their customers or they sell it less than it was the volume of production. If they decide to be short, it means they will do the opposite. The strategy of trading and portfolio formation that are mostly applied by the participants on Slovene market can be established on total values of imbalances of balance groups that are presented in the table in the continuation.

In 2011 as well as in the previous year balance groups tended to be long since total negative imbalances are 23% higher than the positive ones. Thus balance groups avoided the payment of high prices of imbalances and preferred to take a risk related to energy surplus for which they received payments with a lower price of imbalance than the market price on the day-ahead market. This means that power market participants in the Republic of Slovenia apply a similar strategy, which was confirmed by the analyses of market participants on foreign markets, such as on German and Dutch market.

Year	Total positive imbalances of BG [MWh]	Total negative imbalances of BG [MWh]
2010	326.710	-424.619
2011	326.247	-398.217

Table 5: Total positive and negative imbalances of balance group (BG) in 2010 and 2011

RECALCULATION

Since the imbalance settlement applies the so-called analytical procedure to determine the realisation of delivery points without the execution of measurements in each quarter of an hour, their consumption is estimated based on the remaining consumption of the area. The differences thus generated among quantities acquired on the basis of the analytical procedure and the actual realized quantities are recalculated within the annual recalculation. This is conducted annually after the completion of all imbalance settlements.

In 2011, annual recalculation was made for 2010. Redistribution of differences between balance groups is made on the basis of calculated differences and average annual prices that equals the annual average C+ and C- and amounted to 50.27 EUR/MWh. Within the 2010 annual recalculation 12,224.89 MWh of electricity was redistributed totalling EUR 614,545.04.

VALUE OVERVIEW OF IMBALANCE SETTLEMENT IN 2010

In 2011, Borzen also distributed surpluses over expenses from the 2010 imbalance settlement. In accordance with Article 25d of the Energy Act the Energy Agency of the Republic of Slovenia conducted a procedure of establishing and distributing the surpluses and tasked Borzen to carry out the distribution of surplus from 2010 to balance groups that had participated in the imbalance settlement in the accounting year concerned. Total surplus of 2010 amounting to EUR 3,173,206.57 was distributed among balance groups.

2.3 Balance scheme

Organised electricity market is hierarchically arranged into a Balance Scheme. Any legal or natural person that wishes to operate on electricity market actively must become a member of the Balance Scheme. Membership and structure of the Balance Scheme are defined with the balancing agreements, concluded with the Power Market Operator, and with compensation agreements concluded with Balance Scheme members. Power Market Operator, which represents the peak of the Balance Scheme, provides balancing energy delivery to the balance groups through balancing agreements. Transmission system operator physically implements the balancing of the electric power system. Power Market Operator is responsible for keeping, updating, and publishing the record of balance scheme membership contracts on its website.

In 2011 there were 9 new balance groups included in the balance scheme. In the same period, 6 balance groups withdraw from the Balance Scheme. As of 31 December 2011, there were 43 balance groups registered in the Republic of Slovenia (28 foreign and 15 Slovene companies) and 19 balance subgroups (5 foreign and 14 Slovene companies). The year of 2011 was concluded with 62 Balance Scheme members.

No.	Balance Groups	Balance Subgroups	Balance Subgroups
1	ALPIQ ENERGY SE		
2	B.E.K. GROUP s.r.o.		
3	Borzen, d.o.o. - Centre for RES/CHP Support (Eco Group)		
4	BSP d.o.o.		
5	Danske Commodities A/S		
6	DB Energy Commodities Limited		
7	e&t Energiehandelsgesellschaft m.b.H		
8	Edelweiss Energia S.p.A.		
9	EDF Trading Limited		
10	Edison Trading S.p.A.		
11	Electrabel S.A.		
12	Electrade S.p.A		
13	ELEKTRIČNI FINANČNI TIM d.o.o.	Energy Financing Team (Switzerland) AG	
14	Elektrizitäts-Gesellschaft Laufenburg AG		
15	ELEKTRO ENERGIJA d.o.o.	SODO d.o.o., (for distribution areas: Elektro Celje, Elektro Primorska, Elektro Maribor, Elektro Gorenjska)	
16	ELEKTRO PRODAJA E.U. d.o.o.	Elektro prodaja d.o.o.	
17	ELES, d.o.o., Ljubljana		
18	ENEL TRADE S.p.A.		
19	Energieallianz Austria GmbH		
20	E.ON Energy Trading SE		
21	Europe Energy S.p.A.		
22	Ezpada s.r.o.		

No.	Balance Groups	Balance Subgroups	Balance Subgroups
23	Gazprom Marketing & Trading Limited		
24	Gala S.p.A.		
25	GEN-I, d.o.o.	GEN energija d.o.o. Ekowatt d.o.o. UNI energija, družba za upravljanje d.o.o.	
26	HEP - TRGOVINA d.o.o.		
27	HOLDING SLOVENSKE ELEKTRARNE d.o.o.	E 3, d.o.o. ELEKTRO CELJE ENERGIJA d.o.o. ELEKTRO GORENJSKA PRODAJA d.o.o. ELEKTRO MARIBOR ENERGIJA PLUS d.o.o. PETROL ENERGETIKA, d.o.o. TALUM d.d. Kidričevo SODO d.o.o., (for distribution area: Elektro Ljubljana)	GORENJSKE ELEKTRARNE, d.o.o. ACRONI, d.o.o.
28	IMC Energy Trading B.V. Amsterdam, Cham Branch		
29	Interenergo d.o.o.		
30	JAS Budapest Zrt.	JAS Energy Trading s.r.o.	
31	Merrill Lynch Commodities (Europe) Limited		
32	Morgan Stanley Capital Group Energy Europe Limited, trgovanje z energijo		
33	MVM Partner Energija, družba za energijo, d.o.o.		
34	NORDJYSK ELHANDEL A/S		
35	PETROL d.d., Ljubljana		
36	REPOWER Trading Češka republika s.r.o.	Rezia Energia Italia S.p.A.	
37	RUDNAP ENERGY LIMITED	RUDNAP ENERGY GMBH	
38	RWE Supply & Trading GmbH		
39	SODO d.o.o.		
40	Statkraft Markets GmbH		
41	TE-TOL, d.o.o., Ljubljana		
42	UKR-ENERGIJA d.o.o.	Korlea Invest, a.s.	
43	VERBUND AG		

Table 6: List of balance groups and subgroups as of 31 December 2011

2.4 Financial Settlement of Imbalances

As the clearing agent, Borzen provides financial settlement of liabilities arising from imbalance settlement of financial settlement participants. All final imbalance settlements of an individual Balance Group in a specific time period are the subject of the financial settlement.

The following table presents the values of financial settlement of imbalances for 2011.

In EUR excluding VAT

Month	Imbalance settlement	Costs of balancing	Surplus
January	567.634	-129.367	438.266
February	-346.231	580.941	234.710
March	-398.443	638.042	239.599
April	1.070.462	-790.728	279.734
May	392.948	-167.605	225.343
June	456.180	-250.168	206.012
July	-82.151	369.860	287.709
August	1.551.582	-1.283.204	268.378
September	1.393.319	-1.151.918	241.401
October	446.512	79.480	525.992
November	889.953	-459.285	430.668
December	-4.383	398.576	394.192
Total	5.937.382	-2.165.376	3.772.004

Table 7: Value overview of imbalance settlement in 2011

Imbalance settlement item represents the difference between invoices for supplied electricity of positive imbalances and invoices for received electricity of negative imbalances by individual months. Expenditures or revenues occur by purchasing or selling electricity for the purposes of balancing imbalance settlements of the electricity system in the Republic of Slovenia. Financial settlement of imbalance settlement is conducted between the Transmission System Operator and Power Market Operator. In the table above, the negative values represent outflow and positive values represent inflow for the Power Market Operator.

The surpluses of revenues over expenditures arising from the imbalance settlement are intended for risk management in case of non-fulfilment of financial liabilities or late payments and are administered on a separate account for booking imbalance settlement surpluses. Surpluses of the imbalance settlement for 2011 amounted to EUR 3,772,004.

3. THE CENTRE FOR SUPPORT

3.1 System of support

In accordance with the Energy Act, the Centre for support is the support scheme operator for generation of energy from renewable energy sources and highly efficient cogeneration of heat and power.

BENEFICIARIES OF SUPPORT

The entry into the system of support (the so-called new support scheme) is enabled to CHP production units that are divided into micro and small (<1 MW) and others (no more than 200 MW) and units RES divided to a group up to 5MW of power and other (up to 125MW). Only production units not older than 10 years (high-efficiency cogeneration – CHP) or 15 years (renewable sources – RES) can enter new support system. If the production unit is older than 10 (CHP) or 15 years (RES) but has undergone reconditioning or reconstruction during this time, an application for the Decision on the provision of support can still be submitted to the Energy Agency of the RS, which then assesses whether the reconstruction met the conditions of the relevant regulations and if the production unit can re-enter the support system as a "reconditioned production unit".

TYPES OF SUPPORT

CHP production units with less than 1MW and RES production units with less than 5MW can choose between two types of support – guaranteed purchase and operating support. Larger production units can only receive operating support and are not entitled to guaranteed purchase. For CHP production units the support is limited to those that are not more than 10 years old and for RES production units this limit is 15 years.

Guaranteed purchase means that Support Centre receives electricity and pays the price stipulated in the decision. The production unit is included in a special Balance Group or Subgroup established by the Centre for RES/CHP Support ("Eco Group"). Centre for RES/CHP Support settles the differences between forecasted and realised production (e.g. coverage of "imbalances") for units with this support type. Guaranteed purchase is similar to "obligatory purchase or price" from the previous support system.

At the end of 2011, both schemes contained 1522 power plants with total power of 293 MW representing approximately 9% of installed capacities in the Republic of Slovenia. This means a 68-percent increase in the number of power plants and a bit less than 25-percent increase in power compared to the end of 2010

Operational support means (or "financial support for the current business") that Support Centre does not assume and does not pay for electricity but on the basis of produced net quantities of electricity pays only the operational support aimed to compensate production unit for the difference between production costs and market price which the unit acquires on the open market. Production units receiving this type of support have to arrange the settlement of differences between the announced and realised production and the balancing affiliation on their own behalf, or this can be done by the supplier with whom they concluded an open contract for the sale of electricity. This type of support is similar to support in a form of a "premium" in the old system.

In the previous year, the Centre for Support managed the new support scheme described in the paragraph above as well as the old support scheme in the transition period¹ that in compliance with the legislation ended at the end of the year.

¹ On 1 January 2009 Borzen (Centre for Support) took over the implementation of a support scheme for the production of electricity from renewable sources and high-efficiency cogeneration of heat and power from 5 electricity boards (Elektro Celje, Elektro Gorenjska, Elektro Ljubljana, Elektro Maribor, Elektro Primorska) and from ELES. The transition period completed on 31 December 2011.

3.2 Support schemes for electricity production from RES and CHP

3.2.1 Power plants in the systems of support

There were 568 production units included and thermal power plants Šoštanj and Trbovlje (biomass co-incineration) in the transitional period (the so-called old support scheme) starting on 1 January 2009. Micro and small hydropower plants and solar power stations predominated by number. Total nominal power of power plants included in the transitional period was slightly over 211 MW, disregarding thermal power plants Šoštanj and Trbovlje. The part of hydropower plants was approximately one half of this sum; thermal power plants for district heating accounted for less than one third. At the end of 2010, the old scheme contained 374 power plants with total nominal power of 133 MW and at the end of 2011 when the old scheme ended it still included 351 power plants with total nominal power of 124 MW. Approximately 38% of power plants of the old scheme accounting for 41% transited to the new scheme.

At the end of 2011, the new system covered 1171 power plants with total nominal power of more than 169 MW. More detailed distribution by types is presented in the table below.

At the end of 2011, both schemes contained 1522 power plants with total power of 293 MW representing approximately 9% of installed capacities² in the Republic of Slovenia. This means a 68-percent increase in the number of power plants and a bit less than 25-percent increase in power compared to the end of 2010. The fact that the increase in the number is much higher than the increase in power can be explained with new units of solar power plants (502 units) that are on average of slightly lower power.

In comparison with 2010, the share of solar power plant that already account for a quarter of support with only 5% of energy production significantly increased. Other types of units experienced no considerable changes and the drop of hydro power plants is partly the consequence of smaller number of new units as well as worsened hydrological situation

The share of units in the new support scheme that independently sell electricity on the market (and thus receive support in a form of operational funding) only slightly decreased compared to 2010. At the end of 2010, it accounted for 55% and at the end of 2011 a bit less than 53%. That may be the result of the fact that banks in some cases make loans conditional on the selection of support in a form of guaranteed purchase and the fact that most of the increase in the number of power plants is based on smaller power plants where guaranteed purchase is normally a more practical choice from the perspective of the investor.

² According to the data provided by the Energy Agency of the Republic of Slovenia (Report on the Energy Sector in Slovenia in 2010) the installed capacity at the power plant threshold amounted to 3,363 MW.

Source according to the new system	Number	Power in kW
Biogas from waste up to 1 MW	2	1.195
Biogas from biomass up to 1 MW	17	15.721
Biogas from biomass above 1 and up to 10 MW	3	9.992
Hydro power plants up to 50 kW	36	884
Hydro power plants above 50 kW up to 1 MW	68	17.339
Hydro power plants above 1 MW up to 10MW	5	8.523
Landfill gas up to 1 MW	1	625
Landfill gas above 1 MW up to 10MW	2	4.371
Wind farms up to 50 kW	4	24
Solar power plants – on buildings up to 50 kW	824	23.105
Solar power plants – on buildings above 50kW up to 1 MW	117	24.652
Solar power plants – other up to 50 kW	22	491
Solar power plants – other on buildings above 50kW up to 1 MW	18	9.260
CHP using fossil fuel up to 4000 hours, up to 50 kW	20	466
CHP using fossil fuel up to 4000 hours, above 50 kW up to 1 MW	12	6.341
CHP using fossil fuel up to 4000 hours, above 1 MW up to 5 MW	5	10.838
CHP using fossil fuel up to 4000 hours, above 5 MW up to 25 MW	2	17.338
CHP using fossil fuel above 4000 hours, above 50 kW up to 1MW	3	2.391
CHP using fossil fuel above 4000 hours, above 1 MW up to 5 MW	3	7.153
CHP using fossil fuel above 4000 hours, up to 50kW	2	55
CHP using wood biomass up to 4000 hours, above 50kW and up to 1MW	1	550
CHP using wood biomass up to 4000 hours, above 50kW and up to 1MW	1	140
Power plants using wood biomass above 50 kW up to 1 MW	1	540
Power plants using wood biomass above 1 MW up to 10 MW	1	6.150
Individual treatment of RES	1	930
TOTAL	1171	169.074

Table 8: Power plants in the new system of support – as of 31 Dec. 2011

With the Amendment of the Energy Act EZ-D which entered into force at the beginning of April, the Centre for RES/CHP Support obtained a possibility to put units which chose guaranteed purchase to the balance group as soon as the operation starts. In particular, according to the provisions in the Amendment EZ-D (Article 30 or paragraph 12 of Article 64n) electricity producers of new production units from renewable sources with nominal capacity of 5 MW and new micro and small production units with high-efficient co-generation which do not have any balancing affiliation and have no concluded Open Contract and submit an application for obtaining a declaration for production unit and an application for obtaining support as guaranteed purchase, can sell produced electricity from the start of operation of the new production unit to the start of obtaining support on the basis of an agreement on guaranteed purchase, but no longer than eight months, to the Centre for RES/CHP Support according to a special decision issued by the Centre for RES/CHP Support at reference market price. Producers must submit a written application for purchase to the Centre for RES/CHP Support at least one month prior to the expected start of operation.

The trend of increasing payments of support continued also in 2011 when despite a bit lower total quantity of produced electricity (5% less than in 2010) the amount of paid support increased by 43% and the average support equalled 73.69 EUR/MWh. The production that enjoys one of the two forms of support accounts for 7 to 8% of Slovene annual consumption.

In 2011, 307 decisions were issued; which is a 30-percent increase compared to 2010 when 236 decisions were issued. The increase in power accounts for 50% compared to the previous year. Details are presented in the table below.

Power plant type	Number	Power in kW
Power plants using biogas	1	999
Solar power plants	304	37.038
CHP	2	1.004
Total	307	39.042

Table 9: Issue of Eco decisions in 2011

3.2.2 Payments of support

The trend of increasing payments of support continued also in 2011 when despite a bit lower total quantity of produced electricity (5% less than in 2010) the amount of paid support increased by 43% and the average support equalled 73.69 EUR/MWh. The production that enjoys one of the two forms of support accounts for 7 to 8% of Slovene annual consumption³.

Year	2011	2010	2009
Quantity of electricity (in MWh)	943.253.650	995.508.812	934.180.729
Payment of support acc. to contracts (in EUR, excl. VAT)	69.505.462	48.588.434	22.736.785
Average support (in EUR/kWh)	0,07369	0,04881	0,02434

Table 10: Payments of support from 2009 to 2011⁴

Payments by types of units are presented in the table below. A part of production related to the old support scheme equals 428,149,611 kWh, which is more than a quarter less than in 2010, and the share of support totalled EUR 7,582,468, which is one third less than in 2010.

Unit type	Produced electricity (kWh)	(EUR)	Share of energy (%)	Share of support (%)
Hydro PP (source 1,2; HE codes)	359.868.890	8.447.099	38,2%	12,2%
Solar PP (source 8, 9; SE codes)	50.046.479	17.169.629	5,3%	24,7%
Wind farms (VE codes)	7.034	671	>0	>0
Biogas power plants (source 10, 12, 13; BG, OP codes)	152.702.362	19.355.832	16,2%	27,8%
Biomass PP (source 3, 4, SL, LB)	94.077.667	8.207.741	10,0%	11,8%
CHP using fossil fuels (source 14, 15; SF codes)	286.238.067	16.251.905	30,3%	23,4%
Other	313.152	72.586	>0	>0
TOTAL	943.253.650	69.505.462	100%	100%

Table 11: Support in 2011⁵

³ According to the data provided by the Energy Agency of the Republic of Slovenia (Report on the Energy Sector in Slovenia in 2010) the installed capacity at the power plant threshold amounted to 12,159 MW.

⁴ Data for 2011 as of 16 February 2012

⁵ Data for 2011 as of 16 February 2012

In comparison with 2010, the share of solar power plant that already account for a quarter of support with only 5% of energy production significantly increased. Other types of units experienced no considerable changes and the drop of hydro power plants is partly the consequence of smaller number of new units as well as worsened hydrological situation.

Unit type	Support share in 2010	Support share in 2011	Difference in share in % (%t)	Energy share in 2010/%	Energy share in 2011/%	Difference in energy in % (%t)
Hydro PP (source 1,2; HE codes)	23,20%	12,15%	-11,05%	48,52%	38,15%	-10,37%
Solar PP (source 8, 9; SE codes)	7,44%	24,70%	17,26%	1,04%	5,31%	4,27%
Wind farms (VE codes)	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Biogas power plants (source 10, 12, 13; BG, OP codes)	30,68%	27,85%	-2,83%	12,47%	16,19%	3,71%
Biomass PP (source 3, 4, SL, LB)	11,96%	11,81%	-0,15%	10,12%	9,97%	-0,15%
CHP using fossil fuels (source 14, 15; SF codes)	26,72%	23,38%	-3,33%	27,85%	30,35%	2,50%
Other	0,00%	0,10%	0,10%	0,00%	0,03%	0,03%

Table 12: Comparison of payments by types of units between 2011 and 2010⁶

⁶ Data for 2011 as of 16 February 2012

3.3 Other activities connected with the Centre for RES/CHP Support

3.3.1 Programmes of electricity saving

In accordance with the Regulation on energy savings ensured to final customers (published in the Official Gazette No. 114/2009 on 31 December 2009) Borzen started collecting and managing the funds for programmes for increasing the efficiency of energy use within the framework of implementation of activities of the Centre for RES/CHP Support. Within this Borzen issued a Decision on the financial settlement for the implementation of programmes for increasing the efficiency of energy use.

The Centre for RES/CHP Support collects information on supplied quantities of energy to final customers from all operators and providers. It also issues invoices to small operators and providers (who supply less than 300 GWh per annum) and submits the funds received to Eco Fund while it only submits information regarding large operators and providers to Eco Fund in accordance with provisions of the Regulation until large operators and providers have no confirmed programmes. After the programme confirmation the Centre for Support collects funds in an amount confirmed with the programme for large operators and providers.

The data on supplied quantities and collected contribution funds for 2011 are shown in the table below..

2011	Small operators and providers		Large operators and providers		
Period	Notified quantities (in kWh)	Collected funds (in EUR excl. VAT)	Notified quantities (in kWh)	Confirmed quantity programme (in kWh)	Collected funds (in EUR excl. VAT)
January	78.641.692	39.321	954.356.577	0	0
February	84.963.072	42.482	859.320.212	0	0
March	91.687.245	45.844	987.585.848	0	0
April	91.495.250	45.748	864.559.013	0	0
May	97.375.471	48.688	1.010.745.581	0	0
June	96.163.846	48.082	904.450.679	0	0
July	52.187.826	26.094	1.084.058.617	0	0
August	36.615.179	18.308	788.656.035	0	0
September	39.138.448	19.569	866.567.725	0	0
October	34.711.981	17.356	825.882.069	0	0
November	35.383.026	17.692	793.550.461	0	0
December	36.425.134	18.213	636.602.370	188.424.040	94.212
Total	774.788.170	387.397	10.576.335.187	188.424.040	94.212

Table 13: Overview of supplied quantities and collected funds for programmes for increasing the efficiency of energy use

3.3.2 Provision of secure electricity supply with the use of domestic sources of primary energy

By a Decision of Ministry of the Economy No. 360-80/2011/11 on 15 November 2011, the thermal power plant Termoelektrarna Trbovlje d.o.o. (TET) was chosen as electricity producer to take over the obligation of providing secure electricity supply with the use of domestic primary sources of energy in 2011. TET is obliged to use brown coal from the mine Rudnik Trbovlje Hrastnik d.o.o. and according to the Decision of the Ministry of Economy is entitled to coverage of eligible, additional expenses due to production from domestic primary sources of energy.

At the end of September, an agreement between Borzen and TET has been concluded on the basis of which net assets of 7,461,000 EUR has been paid for the provision of secure electricity supply with the use of domestic primary sources of energy in 2011.

3.3.3 Guarantees of Origin Registry

The guarantees of origin (GoO) are electronic certificates that certify that a certain amount of energy was produced in a certain amount of time in a certain power plant in a way that is determined by the guarantee of origin of electricity.

The guarantees of origin registry is computer support for the system of issuing the guarantees of electricity origin. The users can gain, transfer, and redeem GoOs in a transparent and simple manner using the World Wide Web. Different lists supported by the GoO Registry enable the permanent overview of a user's accounts. Data can also be exported and freely processed using appropriate software.

The Energy Act stipulates that the Energy Agency of the RS is responsible for the issue of Guarantees of Origin for the whole of Slovenia. In accordance with Article 32 of the Decree on the method for implementing public service obligation relating to the organised electricity market (Official Gazette of RS, No. 8/2009), in its role as the Centre for RES/CHP Support Borzen is also responsible for maintaining a joint application support for registries that are required for the implementation of the support system for the production of electricity from RES and CHP, which includes the Guarantees of Origin Registry.

The GoO Registry, which is an upgrade of the central guarantees of origin database, was established in cooperation with the Energy Agency of the RS. Borzen administers the application software, while the Energy Agency of the RS issues the guarantees of origin.

The GoO Registry consists of a web portal and a database. The web portal serves for the overview, entry, and printing of the information sought, whereas the database contains all information regarding the issue, transfer, printing, and redemption of GoO.

In 2011, the Registry was aligned with the major provisions of the new EU Directive on renewable energy sources. At the same time a project of thorough upgrading of the Guarantees of Origin Registry was started that will ensure not only full compliance with the Directive but also with the international EECs standard and enable the transfer of certificates via the so-called AIB Hub Register, which will enable Slovene users to sell their certificates also in the EU. A special account of the Centre for RES/CHP Support intended for the management of the GoOs transferred to the Centre for RES/CHP Support within the Support Scheme for the production of electricity from RES and CHP was established already in 2009. The Energy Agency has not issued the guarantees or transferred them to the account of the Centre for Support.

On 31 December 2011, Guarantees of Origin Registry included 54 users: administrator account (Borzen), issuer of guarantees of origin account (Energy Agency of the RS), the Centre for RES/CHP Support account and 6 System Operators accounts, 9 trading accounts and 36 producer accounts. A total of 100 production units were registered with with total nominal power of 1,047,390 kW, of which two were CHP and the rest RES. In seven RES units the source energy was solar, the other units were smaller or larger hydro power plants. In 2011 the issued GoO totalled 4,093,212,588 kWh (29% more than in 2010), of which GoO for 3,430,053,704 kWh were issued for the production in the calendar years 2008, 2009 and 2010. In total, 1,366,279,870 kWh were transferred between user accounts in this period.

3.3.4 Management of the energy of the Balance Group within the Centre for Support

The Balance Group within the Centre for Support, the so-called Eco Group, consists of power plants that sell electricity via the Centre for Support. In 2011, these were the power plants included into the old and new support scheme as well as power plants with the so-called "Eco decisions of the Centre for Support".

Power plant type	As of 31 Dec. 2009		As of 31 Dec. 2010		As of 31 Dec. 2011	
	Number	Sum of power (v kW)	Number	Sum of power (v kW)	Number	Sum of power (v kW)
Solar	36	1.219	371	27.015	755	65.353
Hydro energy	6	125	43	10.985	40	10.458
CHP	8	3.633	19	6.748	21	6.989
Biogas	2	1.970	12	15.544	12	11.416
Wind	3	20	3	20	4	23,5
Landfill gas	1	469	2	3.171	2	3.171
Biogas from wastewater treatment plants sludge	1	130	1	130	1	130
Total	57	7.566	451	63.613	835	97.541

Table 14: Power plants in the Eco Group 2009 - 2011

The graph below shows hourly realisation of the Centre for RES/CHP Support's Balance Group from 1 January 2009 to 31 December 2011. Increased quantities and great variability can be observed.

Compared to the situation at the end of 2010, there were almost twice as many power plants in the Balance Scheme of the Centre for Support at the end of 2011 and total power increased by 53%. Power nearly reached 100MW

Hourly realisation of the Eco Group

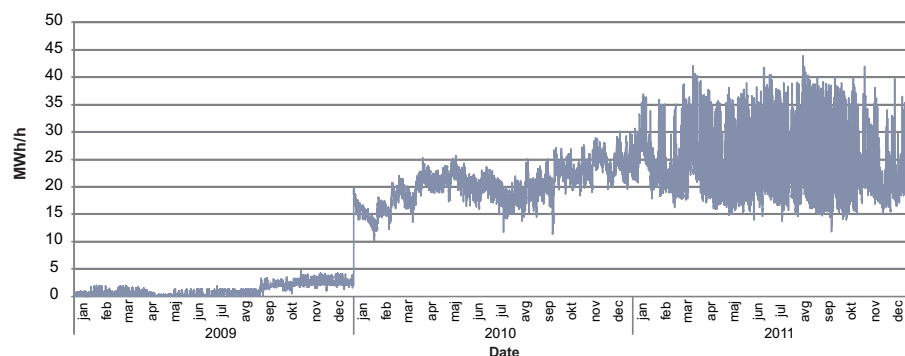


Figure 7: Hourly realisation of the Eco Group in 2009 - 2011 (in MWh/h)

Practically, the entire increase in power at the end of 2011 compared to 2010 is the result of power plants having joined the group and this explains increased variability as well as what will be presented in the continuation, namely that the energy quantities received did not considerably increase.

The figure below additionally illustrates this structural change since it presents a comparison of hourly profile of 2011 and 2010. The increase in peak power hours when solar power plants operate is clear.

Average daily profile for the ECO BG by years

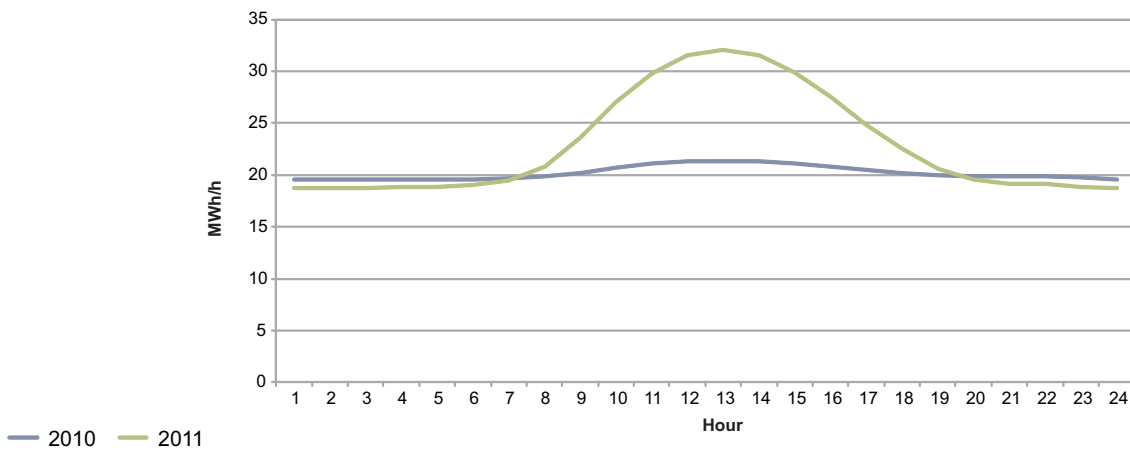


Figure 8: Average daily profile – comparison of 2011 according to 2010

In 2011, the realization of produced and consumed electricity in the Balance Scheme of the Centre for Support increased by 13% compared to 2010. The financial result was 47% higher partly due to better market conditions and partly due to lower imbalances. Total average price achieved in 2010 equalled 39.6 EUR/MWh and in 2011 52.8 EUR/MWh, which is 30% higher.

Within risk management the Centre for Support sells energy on the forward as well as day-ahead market. Forward sale is performed via auctions, whereas the sale on the day-ahead market is conducted at the BSP Energy Exchange. The auction for the energy of 2011 was performed on 8 December 2010. All 18 lots of base load product that were offered were sold. 11 companies participated of which 3 were successful. There were two foreign companies among them. An auction for the 2012 energy was held on 12 December 2011. Due to structural changes in the Balance Group a part of peak power (hours 8 – 20) was sold in addition to base load product.

Year	2010	2011
Total (MWh)	176.902	201.488
Sales at auctions (MWh)	86.148	157.680
Sales at BSP (MWh)	34.962	35.533
Imbalances (MWh)	55.792	8.112
Annual recalculation for 2010	0	163
Total (EUR)	7.005.612	10.643.592
Sales at auctions (MWh)	3.469.180	8.064.982
Sales and purchase at BSP (EUR)	1.726.709	2.253.570
Imbalance settlement (EUR)	1.809.723	6.072
Recalculation of imbalances and return of surplus for 2010	0	318.968
Final agreed price (taking into account imbalances, EUR/MWh*)	39,60	52,82
Price achieved at auctions (EUR/MWh)	40,27	51,15
Weighted price of the sale at BSP (EUR//MWh)Price achieved at auctions (EUR/MWh)	49,39	63,42
BSP MAX (EUR /MWh*)	117,02	165,01
BSP MIN (EUR /MWh*)	4,76	0,00

*rounded to two decimal places

Table 15: Sale of energy in the Eco Group 2010 - 2011

The majority of realized quantities is generated in the units included into the Support Scheme. In 2010, power plants with Eco decisions produced 1,372 MWh, and 9,705 MWh in 2011.

3.4 Financial data of the Centre for Support

The contributions are paid into a special account of the Centre for RES/CHP Support and used for the provision of support, the operation of the Centre for RES/CHP Support and other purposes stipulated by law.

The table below shows the contributions and expenditures of the Centre for RES/CHP Support, namely the planned values in comparison with the realisation for 2011.

		Value excl. VAT	
Item		Plan 2011	Realisation 2011
A	Opening balance	24.000.000	43.227.609
1	Inflows	66.037.074	72.741.271
	RES+CHP contribution	58.637.755	65.249.711
	DES (domestic energy source) contribution	7.399.319	7.491.560
2	Outflows	82.112.993	78.149.228
	RES+CHP support	74.261.933	70.097.228
	DES support	7.260.060	7.461.000
	Operation of the CS	591.000	591.000
3	Total (1-2)	-16.075.919	-5.407.957
4	Total (A+3)	7.924.081	37.819.652

Table 16: Overview of the Centre for RES/CHP Support's Inflows and Outflows in 2011

The Centre for RES/CHP Support collected EUR 65,249,711 net RES/CHP contributions and EUR 7,491,560 net DES contributions. The RES/CHP contributions also include the funds received from imbalance settlement for the Eco Group of a net value of EUR 325,040 and sale of electricity of the Centre for RES/CHP Support at an auction and on exchange in a net value of EUR 10,332,052. The funds received from imbalance settlement for Eco Groups in 2011 also include the funds received from imbalance settlement and surplus distribution from 2010.

The RES/CHP outflows for 2011 amount to EUR 70,097,228 net and include the purchase of electricity of the Eco Group at the BSP Southpool exchange equalling EUR 13,500. DES support was paid amounting to EUR 7,461,000 net. In accordance with the tariff of the Power Market Operator the contribution for the Centre for Support operation in 2011 amounted to EUR 591,000 net.

3.4.1 Support Scheme financing and contributions

The Support Scheme is financed by all consumers. In January 2009, the financing source of the scheme also changed in accordance with amendments and supplements of the Energy Act and adopted regulations. All electricity consumers are charged contributions, namely:

- Contribution for the provision of secure electricity supply with the use of domestic sources of primary energy;
- Contribution for ensuring supports for production of electricity from high-efficiency cogeneration and from renewable energy sources

Contributions are charged monthly per unit of accounting power as a special item on the bill for the use of the network. These are separate contributions and are not part of the price for the use of the network.

The contribution for the provision of supports is intended for the financing of Support Scheme for RES and CHP and the contribution for the provision of secure electricity supply with the use of domestic sources of primary energy is intended for the implementation of an additional activity of the Centre for RES/CHP Support with the same nomination.

Since February 2010 final consumers of electricity have also been obliged to pay contribution for the implementation of programmes aiming at increasing electricity use efficiency that is calculated based on the energy consumed and is collected by suppliers. Contribution is bound by an additional activity of the Centre for RES/CHP Support "the implementation of energy saving programmes". The funds received are intended for financing the programmes executed by persons liable (suppliers) and were submitted by the Centre for RES/CHP Support to Eco Fund entirely in 2011 since programmes had not been prepared yet.

Clearing of support is performed on a monthly basis. In the current month and on the basis of the received decision or a contract concluded with the Centre for RES/CHP Support, the eligible producer issues the Centre for RES/CHP Support an invoice for the previous month with a payment deadline of 30 days from its date.

4. INVESTMENTS

In 2011, we implemented the majority of planned investments or started their implementation. Thus, both investments related to the renovation and fitting-out of premises were realized. The realisation of a part of investments into the information system such as the investments into software of the Centre for Support, upgrading the Guarantees of Origin Registry and software for the balancing market and software for electronic data exchange of the Power Market Operator for the purposes of imbalance settlement moved to 2012.

RENEWAL OF THE COMPANY'S PREMISES

In 2011, we completely renewed the premises at Dunajska cesta 156, 1000 Ljubljana, 5th floor. Premises in the existing building were refurbished and adapted to the needs of the working process while trying to preserve as many elements as possible from the existing arrangement. All the offices are on the outer side of the building, which contributes to better working conditions of the employees since the offices are provided with sufficient natural light.

PURCHASE, MANUFACTURE, SUPPLY AND ASSEMBLY OF THE OFFICE FURNITURE FOR THE PREMISES

In parallel to the renewal of premises we also invested into the furniture of the premises with which we wanted to make optimal use of the space and provide pleasant working conditions for the employees. The design and making of furniture provides sufficient space for potential extension of our activities and for document archiving.

SOFTWARE FOR RECORDING CLOSED CONTRACTS, OPERATING FORECASTS AND SCHEDULE PREPARATION

The investment into the development of new software for recording closed contracts, operating forecasts and schedule preparation was completed in 2011. It was realised in accordance with the time schedule and within the contractual frame so that in May 2012 it will be available to all market participants.

APPLICATION TO SUPPORT PUBLIC PROCUREMENT PROCEDURES

An investment was made into an application for supporting public procurement procedures that enables management of public procurement procedures, the implementation of the application into the customer's information system and application maintenance. This application provides easier organization and management of public procurement. In addition, it enables electronic archiving of public procurement documents.

INVESTMENTS INTO SYSTEMIC HARDWARE AND SOFTWARE

A quality information system is of key importance for successful performance of the tasks of a public service that are to a great extent based on a most advanced information technology.

Most funds intended for the server infrastructure optimization in 2011 covered the needs in the time of moving to a new location. The existing virtual environment was strengthened with an additional high-power host of virtual servers and an additional system of disk arrays, which ensures more reliable functioning and better response to the needs for additional information sources in the Company. We also provided longer autonomy of the information system functioning in the case of electricity supply failure at the Company's location. Additional optical connection grants more reliable data transfer between both server locations.

Better communication conditions were set by upgrading the existing mail server that enables new functionalities in addition to modernised already established services. At the end of year, junk mail and malicious software blocking software was updated within the communication service update as well as we upgraded communication servers for VoIP technology.

NON-IMPLEMENTED INVESTMENTS

In 2011 there were certain planned investments that were not implemented, namely the investment into the software of the Centre for Support, upgrading of the Guarantees of Origin Registry, software for the balancing market and the software for electronic data exchange of the Power Market Operator for the purposes of imbalance settlement. With all these investments the procedure is either in the phase of public procurement or contract signature; therefore it is realistic to expect their implementation in 2012. Delays resulted from the failure to adopt adequate legal basis and there were also delays in public procurement procedures. The plan and realisation of these investments were consequently transferred to 2012.

Upgrading of the Guarantees of Origin Registry is mainly based on the requirements of Directive 2009/28/EC on the promotion of the use of energy from renewable sources that was not yet transposed into Slovene legislation. In October 2011, Borzen received a letter from the Energy Agency stating that it would shift to the issue of guarantees of origin that are compliant with the Directive irrespective of the fact that it had not been transposed into our legislation. This was a clear message to the Company that these solutions also needed to be integrated into the Registry despite the fact that neither the Directive nor the new Energy Act was transposed into Slovene national law. After relevant provisions of the Directive were transposed with the Act amending the Energy Act at the beginning of 2012, the project implementation speeded up since there were no more legislative impediments. Formal procedures to reach full compliance with the Directive were completed at the beginning of March 2012.

During the preparation of specification concerning the implementation of the Centre for Support's application it was established that due to the scope that was to be covered by the application it was reasonable to integrate the project into the EIS (Single information system) project since this system will applicatively be supporting all the processes of the Company and not only of the Centre for Support, therefore this decision implies rationalisation of costs of the investment into the information system.

The investments into the balancing market software and the software for electronic data exchange for the purposes of imbalance settlement are in the phase of a public tender implementation, namely the decision with regard to the provider of software for electronic data exchange for the purposes of imbalance settlement is already final whereas the selection of a provider of the application for the balancing market is in a phase of bid evaluation.

5. RISK MANAGEMENT

The openness of the electricity market and thereby its varied structure and number of participants bring about greater risks and insecurities we are faced with daily. For a successful business operation it is of great importance to identify risks in most efficient manner and to provide successful management.

In the second half of 2011 we started to renew the comprehensive risk management system, which required the assistance of our external consultants to prepare the inventory of processes and the initial risk systematization. We developed the Rules on comprehensive risk management, appointed a risk coordinator and identify the risks to which the Company is exposed. A risk registry was started at the beginning of 2012. The risk coordinator's tasks include risk registry management, the development of methodologies and tools, warning of potential risks pertaining to individual activities and operating functions and cooperation and assistance provision in the implementation of risk management processes by decision makers. The objective is to identify all potential risks that might have impact on the attainment of the Company's business objectives.

Risk identification is conducted in parallel with the Company's business plan preparation, the strategic business plan preparation or revision and in parallel with major business decisions, project or considerable change on the market or of relevant legislation. Identified risks are analysed in detail whereby the significance of a risk is defined as well as the necessary measures to manage it. The initial risk identification and monitoring is the responsibility of risk owners, namely the organisational unit heads, risk coordinator and other authorised professional staff.

Priorities are set based on performed risk assessments and cost and benefit weighting and the most appropriate risk management is selected so that after the implementation of measures the risk will be at the desired exposure level. Thus we choose between strategies to avoid the risk, risk reduction, risk transfer to third party or risk acceptance.

Continuous monitoring and regular reporting on risks are conducted at the end of every quarter as a part of quarterly reporting.

In the first phase of identification, risks are classified into four groups based on the size of the company and its activities, number of employees, acting on the market and the legislative framework that limits and binds the company, namely:

- Strategic / business risks
- Operational risks
- Financial / market risks
- Risk of non-compliance with the regulations - legislation

In the continuation we present the key identified risks in individual risk groups that are estimated to be present and to which we will be exposed also in the next period.

STRATEGIC / BUSINESS RISKS

Strategic or business risks are related to successful implementation of the strategy and the Company's objectives, the ability to generate short-term and long-term operating revenues and the maintenance of assets and the Company's reputation. These risks are related to changes of legislation and statutory acts and the impacts of environment, and the organization of the Company, its activities and restrictions of operations depending on the former.

One of strategic risks is also the investment risk that is connected with the investment into BSP Regional Energy Exchange LL C where Borzen has a 50-percent stake. It is mainly about a risk related to the investment management, which is the issue that has been addressed by both partners and their mutual coordination concerning the management and further development of the company. The risk is related to the non-implementation of the business plan and therefore the representatives in the Supervisory Board have an important role in monitoring the operations and acquiring information from the management.

Other business risks arise from investments and public procurement procedures that are managed by constant improvement of the quality of investment preparation, implementation, activation and monitoring.

OPERATIONAL RISKS

Operational risks are related to damage caused by improper execution of internal procedures, improper actions by employees, information-technology errors and low-quality services of external providers. Operational risk identification and management are crucial for successful business operation of the Company since efficient internal procedures, professional, experienced and highly-motivated employees represent a guarantee for the prevention of operational risks and correct and efficient adaptation of business operation in all economic situations.

More important information system risks include possible disruptions to the operation of the applicative and system software, hardware, and communication and network connections; special attention is also given to information security risks. The risks are primarily reduced by redundant independent optical connections between the two locations, synchronous replication and data backup. In the future, these risks will be further reduced by a central control system.

Human resource risks are highly important for Borzen due to implementation of different activities within organisation of the electricity market and specificity of the assigned activities. Additional tasks allocated to Borzen each year demand that the employees constantly upgrade their existing knowledge and obtain new knowledge, flexibility and quality team work. The biggest risk for the company is the possibility to lose the key employees; this is why special attention is given to social dialogue, additional professional training, motivation of employees and providing stimulating working conditions and working environment.

Processes account for important operational risk, which is why we made, together with the external provider, the inventory of all the processes in the Company and based on this a coordinated matrix of all the processes and their owners was prepared. In the future, the processes in the Company will be optimized.

Other operational risks are limited by clearly defined processes, precisely defined roles, responsibilities and authorities of the employees, and adopted rules.

FINANCIAL / MARKET RISKS

The effects of financial crisis are seen, among other things, in overindebtedness of the companies, insolvency and late payments. Power Market Operator is tasked to manage such situations and strive for short- and long-term solvency and business operation in accordance with the Rules which dictate deadlines and obligations regarding payment implementation to the Power Market Operator. The financial risk management also implies the attainment of stable operations, management of financial expenses within the planned framework and long-term solvency.

The RISK OF NON-FULFILMENT OF FINANCIAL OBLIGATIONS means that there is a risk that the counterparty would not fulfil its financial obligations in accordance with contractual terms. Management of these risks is important for ensuring better liquidity and consistency of financial flows between inflows and outflows. This risk is estimated to be moderate. This risk of non-fulfilment of financial liabilities is present mainly in the financial settlement of the imbalance settlement. To this end, Borzen included this type of risk management to the Rules for operation of the organised electricity market. Future Balance Scheme members' verification is carried out upon their application request by careful verification of their credit ratings and with monitoring of their business operation accordingly. Prior to joining the Balance Scheme, members are obliged to submit adequate financial guarantees in the form of a cash deposit or a bank guarantee payable upon first call. The process of managing the

risks of non-fulfilment of financial obligations includes the calculation of requisite variable financial guarantees when joining the Balance Scheme and in case of imbalances. The variable financial guarantees are increased on the basis of forecasted imbalances (on a daily level) or every time an invoice for positive imbalances is issued if the imbalances are higher than submitted guarantees. In case of Financial Settlement Participants' non-fulfilment of financial liabilities, Borzen can use their financial guarantees and, as a last resort, exclude a Balance Scheme Member from the Balance Scheme. In 2011, Balance Scheme Members fulfilled their liabilities in time; therefore it was not necessary to cash in financial guarantees in this respect.

LIQUIDITY RISK defines the ability to provide adequate financial funds for prompt payment of due liabilities. Borzen ensures the highest financial liquidity by always having at its disposal sufficient liquid assets for the settlement of due liabilities within the deadline. On a daily basis, the company plans its short-term solvency by regularly monitoring cash flows and careful planning of outflows and inflows on monthly / weekly basis. A system for the management and optimisation of short-term financial surpluses is also in place. In addition, diversification of financial investments and coordination of maturity of liabilities and receivables and their consistent recovery are also ensured. In 2011, we were not exposed to significant risk regarding inflows, and all due liabilities were settled in due time in accordance with contractual terms. Considering that the Centre for Support manages the Support Scheme funds the level of which is determined by the Energy Agency and also given that we cannot have impact on the outflow of funds from the Support Scheme (number of beneficiaries, quantity of produced electricity) we estimate that liquidity risk is high.

Beside aforementioned risks, we also monitor **FOREIGN-EXCHANGE RISKS** and **INTEREST RISKS** which were fairly modest and did not need any special management. Clearings in different segments of business operation within foreign-exchange business operation is done in Euro. Interest risk is integrated with unexpected increased financing costs due to a change in interest rates on the market. Since the company took out no loans in 2011 and previous years and is also the sole owner of its share capital, these risks are deemed insignificant.

LEGISLATIVE RISKS / COMPLIANCE WITH THE RULES

Borzen manages **LEGAL RISKS** related to the damage due to breaching or non-compliance with law and statutory acts are managed mainly by precise and clear Rules for the organisation of the electricity market and by the operation of the Centre for Support and consequently by best possible defined contractual provisions. In 2011, no action was brought against Borzen and there was no court or administrative procedure initiated.

REGULATORY RISKS arise from changes in legislation, unclear and incomplete market rules and changing environmental legislation. They are managed by adequate contractual provisions to insure against the changes of legislation and by monitoring and actively participating in the preparation of statutory regulations. The company responds to regulatory changes by regularly adapting its business operation.

6. SUSTAINABLE REPORT

6.1 Human resource management

We are aware of how important people, the employees, are for the success of the company. Therefore we provide their personal and professional growth. We strive for the creation of working environment where requirements and results are combined with satisfaction, motivation, commitment and good relationships.

6.1.1 Internal organization of the Company

At the beginning of 2011, the Company underwent a process of internal reorganisation that enables optimal implementation of commercial processes.

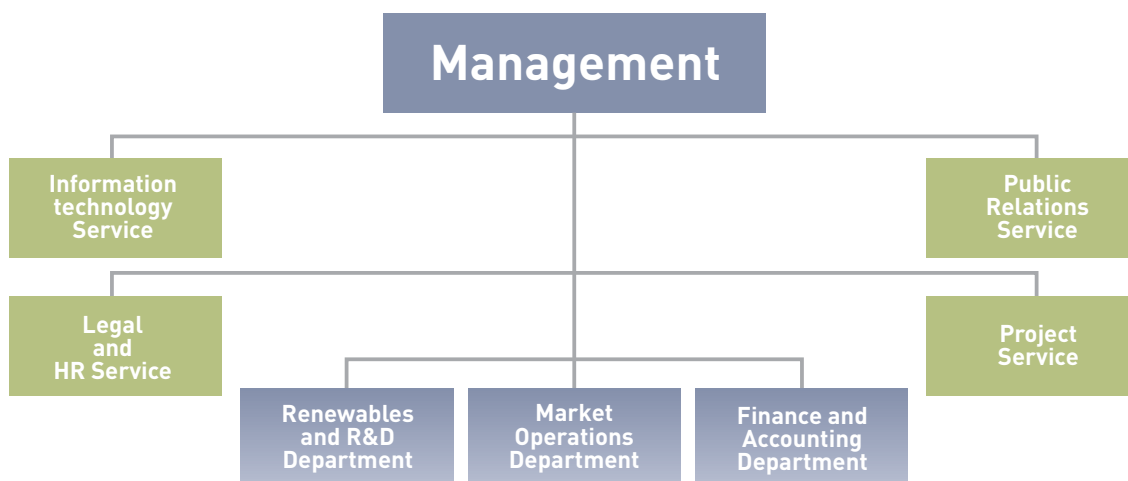


Figure 9: Scheme of Borzen's internal organization

6.1.2 Human resources indicators

NUMBER OF EMPLOYEES

On 31 December 2011, the Company was employing 29 employees. The average number of employees in 2011 was 29 and did not change compared to the average number of employees in 2010.

The share of fixed-term co-workers accounted for less than 7 percent of all the employees at the end of 2011 and compared to the previous year it reduced by 10 percentage points, which is the consequence of a changed employment relation from fixed term employment to employment relationship of indefinite duration and also of the end of training contracts.

AGE STRUCTURE

The average age of employees was 33 (32.8) years, which is reflected in a young and ambitious team. The age structure shown in the chart below shows that most of the employees are aged between 30 to 34 years, i.e. 34 percent of all the employees, and close behind it with 31 percent is the 25 to 29 age group.

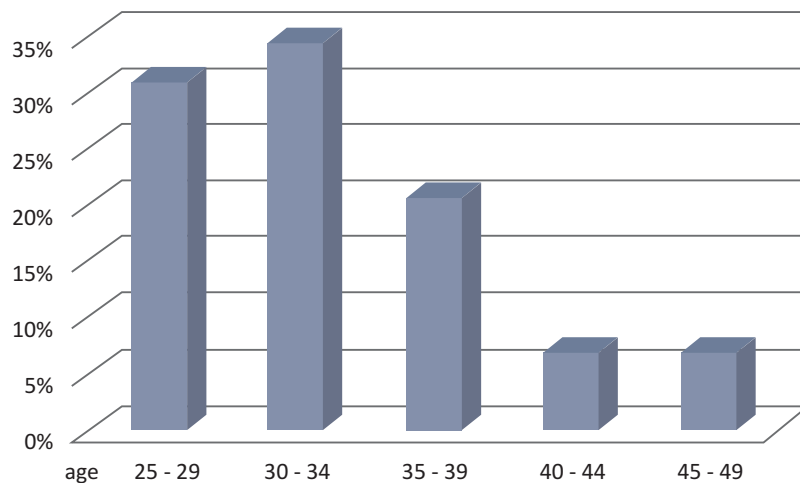


Figure 10: Age structure of employees in percentage as of 31 December 2011

STRUCTURE BY GENDER

There are 15 women among the employees in Borzen accounting for 52 percent and 14 men equalling 48 percent of all the employees. This ratio does not significantly change each year.

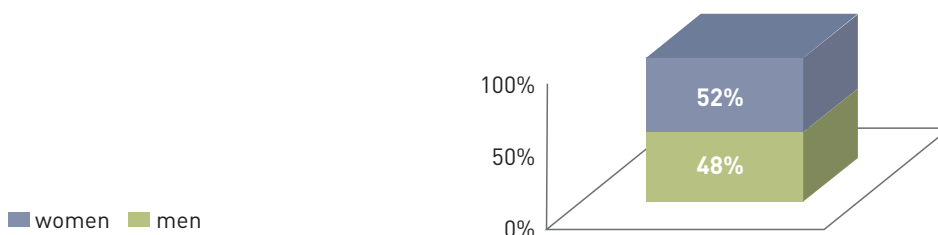


Figure 11: Structure of the employees by gender as of 31 December 2011

EDUCATIONAL STRUCTURE

Compared to 2010, the educational structure of employees improved in 2011. The majority of employees have the seventh level of education, namely 73 percent, this is followed by the fifth level with 17 percent and the eighth level with 10 percent.

Level	Professional qualifications	2010	Share in %	2011	Share in %
IX.	Doctorate				
VIII.	Master's degree	3	10	3	10
VII/2.	University degree	16	55	16	55
VII/1.	Four-year tertiary professional qualification	4	14	5	18
VI.	Two-year tertiary professional qualification	1	4	0	0
V.	Secondary education	5	17	5	17
	Total	29	100	29	100

Table 17: Educational structure of the employees as of 31 December 2010 and 31 December 2011

The overview of the employees' educational structure reflects the attainment of the objective concerning HR aiming at the improved educational structure of the employees and is in accordance with the strategic guidelines of Borzen.

6.1.3 Development and education and training of the staff

It is of key importance to Borzen to employ people who are professionally educated and qualified to perform the tasks. Employment is therefore upgrading careful planning and staff development.

Every year, an annual educational plan is elaborated covering the educational needs of the employees and following the strategic objectives of the Company. The educational plan focuses on individuals covering the necessary content and taking into account also individual wishes that are in line with the goals of the Company. The employees attend various seminars, courses, training sessions and conferences.

Already acquired knowledge and education can be upgraded and improved with in-service training. The employees are very interested in further schooling to acquire higher formal educational level. Borzen supports this kind of personal growth with training leave. In 2011, there were 3 employees integrated into study programmes to obtain a higher educational level.

The Company takes care of the internal knowledge transfer among the employees and of the presentations of new procedures in operations. In the fields that are important to the majority of employees we organize training sessions in the head office.

An important aspect of development and education is professional literature and membership in professional associations where informal knowledge transfer takes place.

6.1.4 Bonuses and motivation of the employees

The base of the remuneration system is job classification into tariff groups and salary grades. An individual tariff group is further divided into classes where the employees are classified according to their educational level and the complexity and scope of work performed.

The head of an organisational unit monthly follows work of the employee and rewards him for the performance with the so-called stimulation that represents the variable part of the salary. Special attention is placed on the immaterial remuneration such as integration into various projects, working groups and similar that additionally motivates the staff.

6.1.5 Communication with the employees

Regular annual interviews with the employees are a tool to establish performance of individuals in the past and to recognise their competences in the future. The content of these annual interviews is an in-depth conversation focusing on current tasks, the work performed and the results, objectives and tasks for the future period as well as on the individual's personal growth and professional path.

The employees are promptly informed of the actions of Borzen via the Intranet, e-mail and various formal and informal meetings. They can take part in the formation of the company's objectives and can freely express their opinion and at the level of the Company we have defined an Open Door Policy.

We are of the opinion that good communication is necessary between the levels in the Company as well as quality communication within the team. This is also the focus of our on-line communication, which is also reflected in regular team-building programmes.

The representatives of the employees elect a workers' representative who is always available and ready to listen to co-workers and if necessary, this person adequately reacts.

6.1.6 Care for Employees

HEALTH AND SAFETY AT WORK

Borzen provides all the employees with safe, healthy and pleasant working environment. Necessary activities related to safety and health at work and fire safety are regularly carried out. Regular periodical medical examinations are organized that enable monitoring of the health status and the ability to perform tasks. Risk assessment was prepared for every job and all measures are prescribed that ensure adequate safety of the employees. Working environment of employees is protected appropriately and enables work with advanced and environmentally friendly technology and material.

In November 2011, the Safety statement with the risk assessment of the Company was revised and a new Fire regulations for the new premises elaborated that are binding for the Company to implement measures, provide information, training and necessary resources.

The rate of sick leave is negligible. The reason for this is the address of health issues of the employees and preventive measures to maintain the health status.

FAMILY FRIENDLY ENTERPRISE

Borzen is aware that nowadays the reconciliation of working and family life is a challenge of ever increasing proportions and thus the Company decided to acquire the »Family Friendly Enterprise« certificate. In May 2011 we acquired the basic »Family Friendly Enterprise« certificate and formalized some already existing family friendly measures and added some new ones and thus started a three-year period of their implementation. The Audit Council will examine the implementation of the plan based on the annual reports on the progress made and in the case of three positive audits the Company will be awarded a full certificate of Family Friendly Enterprise after a three-year period.

SPORTS ACTIVITIES

Borzen provides its employees with different sports activities since we believe in the proverb – A sound mind in a healthy body. The Company supported the endeavours of the employees to establish the Borzen's Sports Club that provides various sports activities by renting sports halls and courts, the purchase of tickets for sports events and the purchase of sports equipment. Members of the Sports Club can take part in various sports days and tournaments offered by external providers.

VOLUNTARY ADDITIONAL PENSION INSURANCE AND ACCIDENT INSURANCE

Borzen provides all the employees with voluntary additional pension insurance in order to increase their social security especially after retirement. In addition, all Borzen's employees are covered by accident insurance at work as well as in their leisure time.

6.2 Social Responsibility towards Community

IN THE FIELD OF RELATIONS WITH STAKEHOLDERS

Borzen is aware of the importance of relations with all our stakeholders. We consciously cultivate relations at all levels and with all publics adjusting our communications to each individual public. Satisfied stakeholders give positive signals confirming our quality service.

Our communication in 2011 was mainly targeted at two key groups of stakeholders, namely the existing and potential Balance Scheme members and the existing and potential Support Scheme members. Wishing to provide quality and user friendly services we prepared numerous activities for them aiming to simplify certain procedures in the support acquisition process (e.g. Statement on the conclusion of a contract to be granted loans; a list of contact data of traders who purchase electricity from small producers) and the activities to ease the acquisition of support (e.g. standardised forms of invoices). In cooperation with SODO we prepared the second edition of the printed and electronic manual "Useful Tips for the Construction of Small Power Plants" and everybody can turn to our call centre for professional assistance from 8 a.m. to 4 p.m. every working day. Borzen has been striving for advanced power market that will be the greatest value added to the existing and potential Balance Scheme members. Among the activities in the field of communication in 2011 with these stakeholders that should be exposed is undoubtedly updated Rules for the operation of the organised electricity market, which means that all those interested could contribute their comments and proposals. In 2011, a new application was being established for recording closed contracts and operating forecasts and for the preparation of schedules; the application was designed by taking into consideration the users and will offer optimal services.

In autumn, a new website was completed that communicates our relatively fresh corporate design. In 2012, new modules are added to support interactive approach by the users, which is added value to our key publics.

The year of 2011 was marked by the 10th anniversary of our Company, which was also reflected in our communications. Together with the Energy Agency of the Republic of Slovenia we organized an event for our business partners and the experts of the electricity industry in Slovenia that were guided through the last decade of the life of Slovenian power market and the establishment of Borzen provided the foundations for its subsequent liberalisation. At the same time we prepared a publication that does not only mark a decade of our operations but also presents Borzen as it is today. There were numerous details that drew the attention of the public to our birthday celebration and the achievements we are all very proud of throughout the year.

IN THE FIELD OF TRANSPARENCY

The Company wishes to provide transparent business operations since we believe it is our commitment to all users of our services and also to all citizens of the Republic of Slovenia. Transparency is regarded as an important value, which is also realized with the publication of data and information on our operations on the Company's website. To this end, we publish a list of beneficiaries of support, a list of Balance Scheme members, reports on market operations, big- and small-value public procurement and similar. In January, in accordance with the recommendations by the Capital Assets Management Agency of the Republic of Slovenia we also started to publish concluded transactions, donations and sponsorship. Relevant information is regularly submitted to the interested public and we are open to media.

IN THE FIELD OF SOCIAL RESPONSIBILITY

In May 2011, Borzen joined a Network of socially responsible companies. The Network that promotes and raises awareness of the importance of social responsibility is a juncture of Slovene companies and organizations that exchange knowledge, information, ideas and good practice in the field of social responsibility. The activities of the Network for social responsibility are based on the information provision and awareness rising of the importance of socially responsible strategies in companies' operations and of positive effects of the participation as well as of good practices of socially responsible acting.

Dedicated and targeted sponsorship and donations are one of the ways to connect to the community and thus we contribute to positive functioning of the society as a whole. We support sports activities, working with the youth, culture, education and humanitarianism.

We endeavour to share good practice and transfer knowledge to a wider social environment and young people are provided with mandatory work placement and informal mentorship.

6.3 Responsibility towards natural environment

Environment protection is one of the basic rights, duties and responsibilities of all the employees and is considered an integral part of our corporate policy. We follow the trend of efficient use of energy, water and material.

Borzen is trying to follow the principles of sustainable development in the segment of environment protection that is also a part of our business operations. Borzen manages the national scheme of support to environmentally friendly production of electricity (from RES and CHP) and thus promotes the use of natural resources that has positive impact on the environment. Simultaneously, we promote efficient energy use and the knowledge transfer in this field.

Sustainability is a part of our daily activities today but sustainable acting and environment protection will be even strengthened tomorrow. In January 2012, the amended Energy Act granted Borzen new powers covering mainly the tasks related to information provision, awareness raising, training and the publication of information on efficient energy use and renewable energy sources.

All our employees are aware of the importance of environment protection, we separate waste, use recycled materials, save drinking water and electricity. However, we want to do more and make another step so we decided to introduce the so-called green office in 2012 where these issues will be placed even more attention.

6.4 Research and development

6.4.1 Cooperation in International Professional Associations and Working Groups

Borzen actively co-creates the trends of the Slovenian as well as the European energy sector. We are aware of the importance of cooperation between different actors on the energy podium.

Within Eurelectric section, established at the Chamber of Commerce and Industry of Slovenia, Borzen is a member of Eurelectric Union – European association of electricity producers, transmission and distribution operators, suppliers and trading companies. Borzen's employees have been active in numerous working groups such as the Legal affairs WG. Borzen is also a member of the Energy Industry Chamber of Slovenia.

Borzen has an active role also in the EuroPex Association which connects European electricity exchanges and electricity power market operators. Here, Borzen cooperates in working groups WG Environmental Markets, WG Power Markets, and WG Transparency and Integrity. EuroPEX is an important stakeholder in the preparation of the European regulatory framework of wholesale energy markets.

Our co-operation in the European Regulators' Group for Electricity and Gas, ERGEG is also important, where we actively participate within the Central/South European region as well as in the newly established forum, Central Eastern European Electricity Forum, which was formed to facilitate the development in Central and Eastern Europe to contribute to the European Union single market.

We co-operate in the National Committee of the International Council on large Electrical Systems – CIGRE (Conseil Internationale des Grands Reseaux Electriques) – CIRED (Slovene Association) especially in CIGRE ŠK C5 – Markets and Regulation.

We also participate in the "Feed in co-operation" group; this group was established by the competent ministries of Germany, Spain and Slovenia in order to ensure development in the field of support mechanisms for RES/CHP in the form of purchasing systems.

In the continuation, two especially important aspects of the integration of Slovenian market into the single European market are exposed, and the activities to improve information flow on Slovenian market.

SLOVENIAN ELECTRICITY MARKET AND ITS INTEGRATION INTO THE SINGLE EUROPEAN MARKET

Within the ERGEG, the European Regulators' Group for Electricity and Gas, and in co-operation with GME, the Italian electricity exchange and BSP SouthPool, the Slovenian electricity exchange, we presented an initiative in 2008 for the implicit allocation of transmission capacities on the Slovenian-Italian border. In 2009, a working group was formed which, in addition to Borzen, also included the Slovenian and Italian regulators, both competent ministries, Transmission System Operators (Terna and ELES) as well as BSP SouthPool and GME. The initiative for the implicit capacity allocation was defined and supported in a joint declaration by the Slovenian and Italian Foreign Ministries, which adds to the importance of the project. This method for capacity allocation will improve the liquidity and transparency of the Slovenian electricity market and its integration in the inner European market. Market coupling on the Slovenian – Italian border started on 1 January 2011. The activities are carried out to establish such a mechanism also on other Slovenian borders with interconnections. Borzen also co-operates in the Central Eastern

European Electricity Forum aimed at the electricity market integration which in 2010 established two working groups in the field of market coupling and network development where Borzen will also take part. The Forum was established by memorandum signed in December 2009. Founders were the governments from seven countries: Poland, Czech Republic, Germany, Austria, Hungary, Slovakia, and Slovenia.

ENERGY MARKET DATA EXCHANGE SECTION

With the foundation meeting on 2 December 2010 at the Energy Chamber of Commerce in Ljubljana Energy Market Data Exchange Section (IPET) began to operate. The goals of the IPET Section's operation are implementation, development and maintenance of a standardised model for electronic data exchange on Slovenian electricity market with regard to available standards which, based on an efficient model for data exchange, will enable a unification of approaches among all market participants. At first, the Section's operation will be focused on the electricity market. In order to achieve its set goals, the Section also joined an international organisation ebIX – European Forum for Energy Business Exchange. Namely, the objectives of ebIX membership are exchange of information and experiences among members, use of standardised process modelling of data exchange and methodologies, analysis of good practice examples, development, optimisation and standardisation of the use of electronic information exchange in energy industry. The cooperation in the Section is also important for the implementation of the electronic data exchange project for the purpose of imbalance settlement since the cooperation with the members and the ebIX organization will importantly contribute to quality development of data exchange. Simultaneously, there are discussions in the Section on the standardisation of data flows also for the needs of the Centre for Support and the Guarantees of Origin Registry.

6.4.2 Studies and cooperation with knowledge centres

ESTABLISHMENT OF THE APPLICATION FOR FORECASTING THE POWER PLANT PRODUCTION IN THE ECO GROUP WITHIN THE CENTRE FOR SUPPORT

In cooperation with the Faculty of Electrical Engineering of the University of Ljubljana, Borzen prepared an application for forecasting the production of power plants included in the Eco Group (i.e. power plants whose electricity is sold via the Centre for Support). The application that is mainly focused on the forecast of solar power stations in hydro power plants accounting for a considerable share of the Eco Group and whose production (at the hourly level) is difficult to predict uses the input data submitted by the Slovenian Environment Agency. The purpose of the application is better profile settlement on a daily basis.

UPGRADING THE GUARANTEES OF ORIGIN REGISTRY

In 2011, the Registry was aligned with the major provisions of the new EU Directive on renewable energy sources (Directive 2009/28/EC). At the same time a project of thorough upgrading of the Guarantees of Origin Registry was started that will ensure not only full compliance with the Directive but also with the international EECS standard and enable the transfer of certificates via the so-called AIB Hub Register, which will enable Slovene users to sell their certificates also abroad.

6.4.3 Relevant projects and activities of the Company

ESTABLISHMENT OF BALANCING MARKET PROJECT

Borzen conducted a number of activities in 2011 to establish the balancing market. It prepared a proposal of the Rules for implementing balancing electricity market and released it for public consideration. In addition, it prepared basic requirements concerning the software together with ELES in the same year.

At the beginning of 2012, Borzen, ELES and BSP Regional Energy Exchange agreed to join the Establishment of Balancing Market Project and the "Intra-day" Trading Project. Joint operational implementation of the balancing market and the intra-day trading in one place will generate numerous positive synergy effects in the field of satisfying technical requirements by ELES and commitments of Borzen posed by the Energy Act. This will lead to the utilisation of a 7-day trading regime, joint clearing and relationships with market participants. Final form of joint organization of both markets is expected to be known by the end of the first quarter in 2012.

PROJECT OF THE INTRODUCTION OF ELECTRONIC DATA EXCHANGE

Borzen is planning to design an information system within this project that will enable transition to electronic exchange of the data for imbalance settlement since due to increasing volume of information on the electricity production as well as consumption it wants to make sure that automated information system will support rapid, accurate and safe exchange of data concerning task implementation of a public service. The development of data exchange information system will be based on the models for data exchange already designed by the ENTSO-E and eBIX organizations and the data will be submitted in XML files.

PROJECT OF THE PRODUCTION OF AN APPLICATION FOR RECORDING CLOSED CONTRACTS AND OPERATING FORECASTS AND SCHEDULE PREPARATION

Within the project of the production of an application for recording closed contracts and operating forecasts as well as for schedule preparation we wish to improve, modernize and increase efficiency of the report of closed contracts and operational forecasts due to increased needs related to the report of closed contracts and operational forecasts and the wish for gradual changes. Simultaneously, we want to provide compliance of the process with published open ENTSO-E standards. The application that will generate added value to users was designed in 2011 and in spring 2012 all the users of the Power Market Operator Balance Scheme are expected to start using it.

OPTIMIZATION OF BUSINESS PROCESSES

Internal reorganisation of the Company within which new services and departments were formed took place at the beginning of 2011. Newly formed organisational units of the Company provide more flexible organisational structure and jobs and more efficient implementation of business processes.


In the fourth quarter, all business processes of the Company were entered into the inventory in line with the reorganization. The inventory of the processes served as the basis for the preparation of requirements concerning a uniform information system and it will also enable gradual business process optimization so that more work will be done with the same resources.

COMPREHENSIVE RISK MANAGEMENT PROJECT

In the second half of 2011 we started to renew the comprehensive risk management system, which required the assistance of our external consultants to prepare the inventory of processes and the initial risk systematization.

PLAN OF THE SUPPORT SCHEME IMPLEMENTATION IN 2012

The implementation plan of the Support Scheme for the production of electricity from RES and CHP (RES/CHP Scheme) in 2012 was prepared by Borzen and the Energy Agency of the RS, and was sent to the Ministry of the Economy. The document served as the basis for the determination of the amount of required funds for 2012.



At Borzen we wish to act as a junction of sustainability and social responsibility. As junction of people and nature. Junction of present and future. Ensuring transparent and efficient operation for all participants, striving towards a regulated and competitive Slovenian market and the promotion and increased use of green energy.

Creating chances for greener and friendlier future.

FINANCIAL
REPORT



1. AUDITOR'S REPORT



• REVIZIJA •

BM Veritas Revizija d.o.o., Dunajska cesta 106, 1000 Ljubljana
T: 01 568 43 80, 01 568 24 36, F: 01 568 40 75

INDEPENDENT AUDITOR'S OPINION

To the owner of the company

Borzen, d.o.o.
Dunajska 156
1000 Ljubljana

We have audited the accompanying financial statements of the company BORZEN, d.o.o. which comprise the balance sheet as at December 31st 2011, the income statement, the cash flow statement, the statement of changes in equity for the year then ended, and the summary of significant accounting policies and other explanatory notes. We also read the Management Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements prepared in accordance with Slovenian Accounting Standards 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company BORZEN, d.o.o. as at December 31st 2011, and its financial performance and its cash flows for the year ended in accordance with the Slovene Accounting Standards. The Management's Report is in conformity with the audited financial statements.

Report on Other Legal and Regulatory Requirements

The business report is consistent with the audited financial statements.

Ljubljana, April 12th 2012



Benjamin Fekonja, BSc. Econ.
Certified Auditor

2. FINANCIAL STATEMENTS

2.1 Balance sheet

in EUR

DESCRIPTION	31. 12. 2011	31. 12. 2010
ASSETS	58,059,206	58,981,682
A. LONG-TERM ASSETS	2,571,387	2,116,108
I. INTANGIBLE ASSETS AND LONG-TERM DEFERRED COSTS AND ACCRUED REVENUES	352,653	331,788
II. TANGIBLE FIXED ASSETS	1,672,888	1,238,280
1. Business premises	1,336,006	1,063,916
2. Equipment	336,882	174,364
III. LONG-TERM FINANCIAL INVESTMENTS	419,568	419,568
1. Shares in associated companies	419,568	419,568
IV. DEFERRED TAX ASSETS	126,278	126,472
B. SHORT-TERM ASSETS	55,478,093	56,857,831
I. SHORT-TERM FINANCIAL INVESTMENTS	24,800,000	0
II. SHORT-TERM OPERATING RECEIVABLES	12,450,149	11,620,685
1. Short-term accounts receivable	8,724,270	10,362,350
2. Short-term receivables from others	3,725,879	1,258,335
III. CASH AND CASH EQUIVALENTS	18,227,944	45,237,146
C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUES	9,726	7,744
Off-balance-sheet assets	5,396,386	4,715,742
LIABILITIES	58,059,206	58,981,682
A. EQUITY	4,250,223	3,092,594
I. CALLED-UP CAPITAL	1,963,279	1,963,279
1. Share capital	1,963,279	1,963,279
II. CAPITAL RESERVES	395	395
III. REVENUE RESERVES	711,801	497,225
1. Statutory reserves	142,087	59,206
1. Other revenue reserves	569,714	438,020
IV. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	1,574,748	631,695
1. Net profit for financial year	1,574,748	631,695
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	48,691	48,606
C. SHORT-TERM LIABILITIES	53,760,292	55,838,532
A. SHORT-TERM OPERATING LIABILITIES	53,760,292	55,838,532
1. Short-term trade liabilities	11,477,467	8,457,114
2. Other short-term operating liabilities	42,282,826	47,381,418
Č. SHORT-TERM PREPAYMENTS AND ACCRUED INCOME	0	1,951
Off-balance-sheet liabilities	5,396,386	4,715,742

Table 18: Balance Sheet as of 31 December 2011

2.2 Income statements

in EUR

DESCRIPTION	1.1. - 31.12.11	1.1. - 31.12.10
1. NET SALES REVENUES	3,423,744	3,186,847
a. Revenues from addition to network charges	1,639,288	1,552,357
b. Revenues – recorded contracts ^(cross-border transmission capacities)	1,133,787	963,174
c. Revenues from the Centre for RES/CHP Support	591,000	591,000
č. Revenues from BSP	57,335	62,783
d. Other revenues	2,334	17,533
2. OTHER OPERATING REVENUES	18,746	1,214
TOTAL OPERATING REVENUES	3,442,490	3,188,061
3. COSTS OF GOODS, MATERIAL, AND SERVICES	829,847	852,604
a. Material costs	80,751	79,171
b. Costs of services	749,096	773,433
4. LABOUR COSTS	1,195,210	1,194,757
a. Salary costs	894,901	852,931
b. Pension insurance costs	115,655	114,163
c. Costs of other social insurances	64,830	66,184
d. Other labour costs	119,824	161,479
5. WRITE DOWNS	261,990	207,275
a. Depreciation	261,699	207,275
b. Revalued operating expenses	291	0
6. OTHER OPERATING EXPENSES	16,836	27,620
OPERATING PROFIT OR LOSS	1,138,607	905,806
7. FINANCIAL REVENUES	927,151	443,379
a. Financial revenues from other investments	927,151	443,379
8. FINANCIAL EXPENSES	47	460,433
a. Financial expenses due to write-downs and impairment of investments	0	460,173
b. Financial expenses for operating liabilities	47	260
NET PROFIT OR LOSS FROM ORDINARY ACTIVITIES	2,065,710	888,751
9. OTHER REVENUES	0	0
10. OTHER EXPENSES	0	1
PROFIT OR LOSS FROM EXTRAORDINARY ACTIVITIES	0	-1
TOTAL REVENUES	4,369,641	3,631,440
TOTAL EXPENSES	2,303,931	2,742,690
TOTAL PROFIT	2,065,710	888,750
11. TAX ON PROFIT	407,887	272,969
12. DEFERRED TAX	194	-49,161
NET PROFIT OR LOSS FOR ACCOUNTING PERIOD	1,657,629	664,942

Table 19: Income Statement for the period between 1 January 2010 and 31 December 2011

2.3 Cash flow statements (version I)

in EUR

DESCRIPTION	2011	2010
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a. Income statement items		
Operating revenues (excluding revaluation) and financial revenues from operating receivables	3,423,744	3,186,847
Operating expenses without depreciation (excluding revaluation) and financial expenses from operating liabilities	-2,037,516	-2,068,148
Income taxes and other taxes not included in operating expenses	-407,887	-272,969
	978,342	845,730
b. Changes in net current assets in balance sheet items (including accruals and deferrals)		
Opening less closing operating receivables	-829,464	-5,373,734
Opening less closing deferred costs and accrued revenues	-1,982	42,191
Closing less opening operating liabilities	-2,078,239	35,796,660
Closing less opening accrued costs and deferred revenues and provisions	-1,951	-1,627
	-2,911,638	30,463,490
c. Net cash from operating activities	-1,933,296	31,309,220
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a. Cash receipts from investing activities		
Cash receipts from received interest related to investing activities	927,079	399,511
Cash receipts from disposal of intangible assets	20,577	1,657
Cash receipts from disposal of short-term financial investments	0	4,920,000
	947,656	5,321,168
b. Cash disbursements from investing activities		
Cash disbursements for acquisition of intangible assets	-157,522	-130,409
Cash disbursements for acquisition of tangible fixed assets	-566,040	-1,125,244
Cash disbursements for acquisition of long-term financial investments	0	0
Cash disbursements for acquisition of short-term financial investments	-24,800,000	-4,170,000
	-25,523,562	-5,425,653
c. Net cash from investments	-24,575,906	-104,485
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a. Outflows from financing activities		
Expenses for the payment of dividends and other shares of profit	-500,000	0
	-500,000	-
b. Net cash from investments	-500,000	0
D. CLOSING BALANCE OF CASH	18,227,944	45,237,146
Net cash flow for period	-27,009,202	31,204,735
Opening balance of cash	45,237,146	14,032,411

Table 20: Cash flow statement

2.4 Allocation of net profit of the financial year

in EUR

DESCRIPTION	31. 12. 2011
Net profit from previous financial years	0
Net profit for the financial year	1,657,629
Part of net profit for statutory reserves	82,881
Accumulated profit for financial year	1,574,748

Table 21: Allocation of net profit for financial year 2011

The accumulated profit for the 2011 financial year amounts to EUR 1,574,748 and is comprised of net profit from financial year minus the reserves created pursuant to Paragraph 4 of Article 64 of the Companies Act.

2.5 Statement of changes in equity

in EUR

	Share capital	Cap. reserves	Revenues reserves		Retained net profit	Net profit or loss of the finan. year	Total capital
		General reval. equity capital adjustment	Statutory reserves	Other reserves from profit			
Closing balance							
31. 12. 2009	1,963,279	395	25,958	0	385,009	53,011	2,427,652
Opening balance							
01. 01. 2010	1,963,279	395	25,958	0	438,020		2,427,652
Total comprehensive income							
Entry of net profit or loss for financial year						664,942	664,942
Changes in equity							
Transfer of profit to reserves				438,020	-438,020		0
Creating mandatory reserves			33,247			-33,247	0
Closing balance							
31. 12. 2010	1,963,279	395	59,205	438,020	0	631,695	3,092,594
Opening balance							
01. 01. 2011	1,963,279	395	59,205	438,020	631,695		3,092,594
Total comprehensive income							
Entry of net profit or loss for financial year						1,657,629	1,657,629
Changes in equity							
Transfer of profit to reserves				131,695	-131,695		0
Payment of profit to owner					-500,000		-500,000
Creating mandatory reserves			82,881			-82,881	0
Closing balance							
31. 12. 2011	1,963,279	395	142,086	569,715	0	1,574,748	4,250,223

Table 22: Statement of changes in equity for 2010 and 2011

3. NOTES TO FINANCIAL STATEMENTS

BASIS FOR FINANCIAL STATEMENTS

The financial statements were compiled in accordance with the Slovenian Accounting Standards and the Companies Act. The figures contained in the financial statements are based on accounting documents and ledgers administered in accordance with the Slovenian Accounting Standards. The basic accounting assumptions were applied in preparation of the financial statements: going concern basis, consistency, and the principle of matching (accrual basis). The basic accounting principles taken into account in the accounting guidelines were transparency, the precedence of content over form, and significance.

3.1 Notes on balance sheet items

INTANGIBLE ASSETS AND LONG-TERM DEFERRED COSTS AND ACCRUED REVENUES

In books of account, intangible fixed assets and long-term deferrals and accruals are disclosed separately as historical cost and value adjustments as cumulative write-down, which is the result of depreciation; in the balance sheet the assets are declared at the net book value, which is the difference between the historical cost and value adjustment.

in EUR

	Software	Software in production	Total
Purchase value			
01. 01. 2011	736,838	55,336	792,174
Direct increases – purchases		157,522	157,522
Transfer from assets being acquired	212,858	-212,858	0
Disposals	2,320	0	2,320
31. 12. 2011	947,376	0	947,376
Write-down value			
01. 01. 2011	460,385	0	460,385
Yearly depreciation	136,658	0	136,658
Disposals	2,320	0	2,320
31. 12. 2011	594,723	0	594,723
Current value			
01. 01. 2011	276,452	55,336	331,788
31. 12. 2011	352,653	0	352,653

Table 23: Intangible assets and long-term deferred costs and accrued revenues

In 2011, we invested a total of EUR 157,522 in new software. Some investments started already in 2010 and were completed in 2011. These investments are new ERP information system SAOP iCentre, upgrading web portal for the balance scheme members to be able to access the data on imbalance settlement, and upgrading the application for the sale of electricity of the Centre for Support. In addition, we invested into the application for recording closed contracts and operating forecasts and the preparation of schedules and into the application for public procurement management and the application for forecasting electricity production in the »Eco group«.

Disposals refer to old software that was no longer used and was also a write-off.

The depreciation rate for software ranges from 20% to 50% and reflects the projected useful life.

TANGIBLE FIXED ASSETS

For tangible fixed assets, the purchase value and value adjustments are declared separately in ledgers, whereby the value adjustment represents the cumulative write-down as a result of depreciation. In the balance sheet they are recorded at the net book value, which is the difference between the purchase value and the write-down value.

The actual purchase value of a tangible fixed asset includes its purchase price and all costs that can be directly ascribed to making it fit for its intended use. Costs related to tangible fixed asset that are subsequently incurred increase its purchase value if they increase future benefits compared to the previous estimates.

in EUR

	Real estate	Equipment Information system	Office equipment	Tools, instruments, devices and other inv.	Total
Purchase value					
01. 01. 2011	1,062,156	796,879	84,610	102,928	2,046,573
Purchases	304,979	123,346	121,229	16,486	566,040
Disposals	0	196,874	70,970	18,244	286,089
31. 12. 2011	1,367,135	723,351	134,868	101,170	2,326,524
Write-down value					
01. 01. 2011	0	664,786	74,364	70,903	810,053
Depreciation	31,129	75,012	7,329	11,571	125,042
Disposals	0	196,779	67,796	16,885	281,460
31. 12. 2011	31,129	543,020	13,898	65,589	653,635
Current value					
01. 01. 2011	1,062,156	132,093	10,246	32,025	1,236,520
31. 12. 2011	1,336,006	180,331	120,971	35,581	1,672,888

Table 24: Tangible fixed assets

Investments in tangible fixed assets amounted to EUR 566,040 and were primarily related to moving to new premises. They relate to the rearrangement of premises and the purchase of new furniture. The investments in the information system were made mainly in order to replace old and deteriorated equipment as well as to upgrade the information system.

Disposals refer to deteriorated equipment that was sold when moving to the new premises, and there were some write downs.

Depreciation was charged on equipment at the following rates:

- computer equipment 20.00 to 33.33%
- office furniture 11.00 to 12.00%
- other equipment 10.00 to 25.00%

LONG-TERM FINANCIAL INVESTMENTS

Long-term financial investments are valued at the purchase value that corresponds to the cash or other assets invested.

	in EUR	
	31. 12. 2011	31. 12. 2010
Long-term financial investment in stakes	419,568	419,568
Total	419,568	419,568

Table 25: Table of short-term financial investments

Borzen possesses a 50-percent equity stake in BSP Regional Energy Exchange. On the basis of an appraisal performed in April 2011, the value of a 50% equity share was estimated at EUR 419,568 on 31 December 2010. The BSP Company concluded 2011 with positive results.

DEFERRED TAX ASSETS

Deferred tax assets mainly refer to the deferred tax from the impairment of financial investment in BSP d.o.o. (EUR 115,455). The actual impairment of the financial investment is not a recognised tax expense in the year of the impairment but will become a recognised tax expense in the year of the actual disposal of investment (liquidation, sale etc.), which is why the company has disclosed this in its books of account. In addition, the company is also disclosing deferred tax receivable from provisions for severance pay and long service awards (EUR 4,869) and from depreciation charged at higher levels than those taxable (EUR 5,954) for business purposes.

SHORT-TERM FINANCIAL INVESTMENTS

Short-term financial investments are valued upon initial recognition at the historical cost, which corresponds to the cash or other assets invested.

	in EUR	
	31. 12. 2011	31. 12. 2010
Short-term deposits with banks	24,800,000	0
Total	24,800,000	0

Table 26: Short-term financial investments

Short-term deposits are bound with different banks for a period of 3 or 6 months. The amount of EUR 24 million refers to assets of the Centre for Support that are deposited with the following banks: Hypo Alpe-Adria-Bank d.d., Abanka Vipava d.d., Factor banka d.d., Banka Volksbank d.d., Banka Celje d.d. and Probanka d.d. The rest – EUR 800,000 are liquid assets of Borzen deposited with Factor banka d.d. and Hypo Alpe-Adria-Bank d.d. Other assets that are deposited for 3 months or are redeemable are disclosed among cash.

SHORT-TERM OPERATING RECEIVABLES

Receivables are initially recognised in the amounts recorded in the relevant documents under the assumption that they will be paid. Receivables from legal and natural persons abroad are converted into the domestic currency on the day of occurrence. Exchange differences that arise up to the day receivables are settled or up to the balance sheet date are deemed to be financial revenues or financial expenses. The amounts of individual receivables were verified prior to the financial statement compilation.

in EUR

	31. 12. 2011	31. 12. 2010
Short-term accounts receivables	8,724,270	10,362,350
a) short-term domestic accounts receivables	8,390,330	9,926,172
- of which receivables from associated companies	13,653	14,856
b) short-term foreign accounts receivables	333,940	436,178
Short-term advances and securities provided	564	7,248
Short-term interest receivables	262,128	140
Other short-term receivables	3,463,187	1,250,947
Total	12,450,149	11,620,685

Table 27: Short-term operating receivables

On 31 December 2011, the largest portion of the short-term domestic accounts receivables is accounted for by receivables from the Centre for RES/CHP Support (almost 65%), 32% from imbalance settlement and 3 % from services of recording bilateral contracts and closed contracts with the use of cross-border transmission capacities. Receivables from affiliated persons refer to receivables from BSP, d.o.o.

Almost all accounts receivables (99%) were not due yet on the last day of 2011. The receivables already due were not disputed as they were all paid when the report was being prepared. Of all the receivables only 0.07% remained unpaid when the report was being prepared. The risk of non-payment is in our opinion minimal.

Other short-term receivables refer to input VAT from invoices received in January 2012 and refer to December 2011 and the surplus of VAT after it was charged for November and December 2011.

CASH AND CASH EQUIVALENTS

In cash funds in addition to regular funds, the cash of the Centre for RES/CHP Support and imbalance settlement are disclosed separately and kept in a special account. Call deposits are also kept on special accounts with the following banks: Banka Volksbank d.d., Banka Sparkasse d.d., Probanka d.d., Factor banka d.d., Hypo Alpe-Adria-Bank d.d. and Zveza bank, the Ljubljana branch.

in EUR

	31. 12. 2011	31. 12. 2010
Cash in hand	0	58
Cash in banks	273,053	1,720,302
Cash on the business transaction account	12,121	14,807
Cash in special accounts – The Centre for RES/CHP Support	253,414	777,369
Cash in special accounts – Imbalance settlement	7,518	928,126
Call deposits – Total	17,954,891	43,516,786
Call deposit	800,865	745,568
Call deposit – The Centre for RES/CHP Support	14,300,291	40,566,466
Call deposit – Imbalance settlement	2,853,735	2,204,752
Total	18,227,944	45,237,146

Table 28: Cash funds

SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUES

Costs that were charged in 2011 but relate to the next financial year and will be met as costs in 2012 are declared as deferred costs and accrued revenues.

in EUR

	31. 12. 2011	31. 12. 2010
Short-term deferred cost or expenditures	9,726	7,744
Total	9,726	7,744

Table 29: Short-term deferred costs and accrued revenues

EQUITY

The company's total equity consists of the share capital, reserves, retained earnings or previous losses, net profit not yet distributed or net loss not yet settled.

	in EUR	
	31. 12. 2011	31. 12. 2010
Called-up capital	1,963,279	1,963,279
Share capital - capital role	1,963,279	1,963,279
Capital reserves – general revaluation equity capital adjustment	395	395
Revenues reserves	711,801	497,225
Statutory reserves	142,087	59,205
Other revenue reserves	569,714	438,020
Net profit from previous financial years	0	0
Net profit for the financial year	1,574,748	631,695
Total	4,250,223	3,092,594

Table 30: Equity

In 2011, the company generated a net profit of EUR 1,657,629. After creating mandatory reserves pursuant to Paragraph 4 of Article 64 of the Companies Act in the amount of EUR 82,881, a remaining net profit in the amount of EUR 1,574,748 was declared. The company's distributable profit thus amounts to EUR 1,574,748 and is identical to net profit in 2011. The accumulated profit for the 2010 amounting to EUR 631,695 was divided into two parts based on the decision of the partner, namely EUR 500,000 to the payment of dividends and EUR 131,695 to other revenue reserves.

An estimate of the operating result based on a revaluation in order to retain purchasing power on the basis of growth in the cost of living:

- Revaluing the equity capital based on the growth rate of the cost of living (2.0%) for 2011, the revaluation expenditures would amount to EUR 51,852 and the positive result to EUR 1,522,896 (without taking into account the corporate tax).

PROVISIONS

On the basis of an actuarial calculation the company created reservations for severance pay upon retirement and long-service awards. In 2011, a total of EUR 2,619 reservations were used; at the end of 2011 reservations for severance pay upon retirement amounted to EUR 19,907 and reservations for long-service awards to EUR 28,784.

	in EUR	
	31. 12. 2011	31. 12. 2010
Reservations for long-service awards and severance pay	48,691	48,606
Total	48,691	48,606

Table 31: Provisions

SHORT-TERM LIABILITIES

Short-term liabilities are declared separately as short-term financial liabilities and short-term operating liabilities. Short-term financial liabilities are loans that have been acquired, which Borzen did not declare. Short-term operating liabilities consist of advances acquired from customers, liabilities to suppliers in Slovenia and abroad, liabilities to employees, liabilities to state institutions and other liabilities. All liabilities are declared at fair value.

in EUR

	31. 12. 2011	31. 12. 2010
Short-term trade liabilities	11,477,467	8,457,114
Short-term trade liabilities – regular suppliers	193,976	316,887
Short-term trade liabilities for the Centre for RES/CHP Support	9,326,595	6,698,964
Short-term trade liabilities – Balance Scheme	1,956,896	1,441,263
Short-term accounts payable for the Centre for RES/CHP Support	38,069,764	43,613,239
Short-term trade liabilities for the Balance Scheme	3,772,007	3,173,209
Short-term liabilities to employees	92,111	95,040
Liabilities for net salaries and wage compensations	49,917	53,026
Liabilities for contributions from gross salaries and wage compensations	18,910	19,630
Liabilities for taxes from gross salaries and wage compensations	16,548	15,980
Liabilities for other benefits from employment	6,736	6,404
Liabilities to state and other institutions	345,503	497,103
Liabilities for charged VAT	171,020	371,248
Liabilities for corporate income tax	157,665	109,446
Other short-term liabilities to state and other institutions	16,818	16,409
Other short-term liabilities	3,440	2,827
Total	53,760,292	55,838,532

Table 32: Short-term operating liabilities

On 31 December 2011, accounts payable consist of open items to regular suppliers, open items to the beneficiaries of the Centre for RES/CHP Support, and open items for suppliers under the Balance Scheme. The amount of beneficiaries of the Centre for RES/CHP Support refers to invoices in December that were paid in January 2012. The company settles all liabilities toward suppliers in agreed/contractual deadlines.

Short-term accounts payable for the Centre for RES/CHP Support refer to funds not yet allocated to beneficiaries in 2011 that are transferred to 2012. These funds are also seen as cash funds and short-term financial investments.

Short-term liabilities to employees are open items to employees, namely December salaries and undisbursed bonuses to the General Manager.

SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES

in EUR

	31. 12. 2011	31. 12. 2010
Accrued costs or expenses	0	743
VAT from advances paid	0	1,208
Total	0	1,951

Table 33: Short-term accrued costs and deferred revenues

At the end of 2011, the Company declared no short-term accrued costs and deferred revenues.

OFF-BALANCE SHEET ITEMS

The company's off-balance sheet assets amounted to EUR 5,396,386. From this, EUR 1,515,023 represents Balance Scheme Members' cash in deposit sub-accounts opened in the Balance Scheme Members' names. Funds refer to submitted financial guarantees for the fulfilment of financial liabilities arising from imbalance settlement. Basic financial guarantee must be submitted by the Balance Responsible Party upon signing the Balancing Agreement with the Power Market Operator, in accordance with the Rules for the operation of the organised electricity market. The assets are not declared on the company's balance sheet as they have no direct impact on the size and composition of the assets or liabilities; they merely represent a guarantee for the fulfilment of Balance Scheme Members' liabilities.

In addition to cash guarantees, Balance Scheme Members may also submit financial guarantees in the form of bank guarantees payable upon first call. On 31 December 2011, the value of received bank guarantees of the Balance Scheme Members amounted to EUR 3,881,363.

3.2 Notes on items in the income statement (version I)

NET SALES REVENUES

Sales revenue consists of the selling price of services provided in the accounting period. Revenues are recognised on the basis of selling prices stated in invoices and other documents.

in EUR

	In 2011	Share in %	In 2010	Share in %
Net sales revenues				
Revenues from addition to network charges	1,639,288	47,6	1,552,357	48,7
Revenues from recorded contracts with the use of cross-border transmission capacities	1,133,787	32,9	963,174	30,2
Revenues from the Centre for RES/CHP Support	591,000	17,2	591,000	18,5
Revenues from BSP	57,335	1,7	62,783	2,0
Other revenues	2,334	0,1	17,533	0,6
Total sales revenues	3,423,744	99,5	3,186,847	100,0
Other operating revenues	18,746	0,5	1,214	0,0
Total	3,442,490	100,0	3,188,061	100,0

Table 34: Net sales revenues

The largest proportion of revenues refers to revenues from addition to network charges. The network charges in the amount of 0.13 EUR/MWh is stipulated in the Power Market Operator's Tariff which was defined in a Decision No. 36001-11/2010/4 on 23 September 2010 with effect from 1 January 2010. In accordance with provisions of the Rules on setting prices for the use of electricity networks and criteria for the justification of costs (Official Gazette of the RS, No. 134/03) and Article 90 of the Act determining methodologies for the calculation and settlement of network charges and the criteria for determining eligible costs for electricity networks (Official Gazette of the RS, No. 121/05), the Power Market Operator charges a fee to the Distribution System Operator (SODO) and Transmission System Operator (ELES).

The second largest share of revenues was accounted for by revenues from recording of contract with the use of cross-border transmission capacities. The commission for recording closed contracts with the use of cross-border transmission capacities is paid by the contracting party who recorded the closed contract with the use of cross-border transmission capacities to the Power Market Operator.

The activities of the Centre for RES/CHP Support are financed from the share of contributions from Article 64.s of the Energy Act intended for the operation of the Centre for RES/CHP Support.

Of total sales revenues, EUR 3,017,921 was charged to domestic buyers and EUR 405,823 to foreign buyers.

OPERATING EXPENSES

Operating expenses are all expenses arising in the financial year, and are recorded by type such as material costs, costs of services, labour costs, amortisation/depreciation, revaluation operating expenses and other operating expenses. Revaluation operating expenses arise upon the alienation of tangible fixed assets, and in connection with intangible fixed assets and current assets owing to their impairment, if the reduction in their value is not covered by the specific equity capital revaluation adjustment.

in EUR

	In 2011	Share in %	In 2010	Share in %
Material costs	80,751	3,5	79,171	3,5
Costs of services	749,096	32,5	773,433	33,9
Labour costs	1,195,210	51,9	1,194,757	52,3
Depreciation	261,699	11,4	207,275	9,1
Revalued operating expenses	291	0,0	0	0,0
Other operating expenses	16,836	0,7	27,620	1,2
Total	2,303,883	100,0	2,282,256	100,0

Table 35: Operating expenses

COSTS OF MATERIAL AND SERVICES

in EUR

	In 2011	Share in %	Share in %	Delež v %
Electricity	28,588	35,4	38,074	48,1
Office supplies	9,360	11,6	10,518	13,3
Professional literature	18,991	23,5	17,301	21,8
Other costs of goods and material	23,812	29,5	13,278	16,8
Total costs of material	80,751	100,0	79,171	100,0
Insurance premiums	9,695	1,3	8,595	1,1
Postal and telecommunication services and the Internet	46,238	6,2	43,192	5,6
Regular maintenance of fixed assets	83,325	11,1	66,030	8,5
Rents	87,676	11,7	159,011	20,5
Costs of missions	36,721	4,9	32,195	4,2
Membership fees	30,009	4,0	24,601	3,2
Education and training	52,381	7,0	51,856	6,7
Advisory services and professional studies	198,746	26,5	207,826	26,9
Catering services	29,418	3,9	34,491	4,5
Public Relations	66,202	8,9	52,236	6,7
Costs of premises	43,542	5,8	28,595	3,7
Other services	37,537	5,0	46,918	6,1
Supervisory Board costs	10,425	1,4	4,608	0,6
Student work service	17,181	2,3	13,279	1,7
Total costs of services	749,096	100,0	773,433	100,0

Table 36: Costs of material and services

Compared to the previous year, costs of material reduced due to decreased costs of electricity whereas other costs of material increased due to moving to the new location. The costs of rents most significantly dropped, which resulted from moving to our own premises.

Advisory services costs included the costs paid to auditors for auditing services in 2011 in the amount of EUR 4,824. Auditing costs include the costs of auditing annual reports.

LABOUR COSTS

Total labour costs amounted to EUR 1,195,210 in 2011. At the end of 2011, the company had 29 employees. The average number of employees based on work hours was 26.5. Labour costs are calculated in accordance with the Rules on the employment relationships and the Government Regulation on the reimbursement amounts for work-related expenses and other remuneration recognised as expenses in the determination of the tax basis.

WRITE DOWNS

Depreciation in 2011 amounted to EUR 261,699 and is lower than in the previous year since in 2011 quite a few fixed assets were already finally depreciated; new purchases were implemented at the end of the year and did not affect the level of depreciation. In the depreciation calculation the straight-line method is applied. Revalued operating expenses relate to fixed assets disposed during the year but not fully depreciated.

OTHER OPERATING EXPENSES

Other operating expenses, which primarily refer to construction land contribution, amounted to EUR 16,836 in 2011. Other operating revenues also cover provisions for long-service awards that were additionally made in 2011.

FINANCIAL REVENUES

in EUR

	In 2011	Share in %	In 2010	Share in %
Interest revenues	927,079	100,0	443,379	99,9
Other fin. revenues with revaluation fin. revenues	72	0,0	0	0,1
Total	927,151	100,0	443,379	100,0

Table 37: Financial revenues

Interest revenues relate to interest on deposits made with banks and interest on call deposits in accounts.

FINANCIAL EXPENSES

in EUR

	In 2011	Share in %	In 2010	Share in %
Financial expenses due to write-downs and impairment of investments	0	0	460,173	99,9
Financial expenses for operating liabilities	47	100,0	260	0,1
Total	47	100,0	460,433	100,0

Table 38: Financial expenses

In 2010, expenses from investment impairment refer to the impairment of the investment into BSP whereas in 2011 there was no impairment or write downs. The financial expenses for operating liabilities in both years refer to revaluation of liabilities for preservation of value. These values are minimal.

NET PROFIT OR LOSS AND TOTAL COMPREHENSIVE INCOME

in EUR

	In 2011	Share in %	In 2010	Share in %
Revenues	4,369,641	100,0	3,631,440	100,0
Net sales revenues	3,423,744	78,4	3,186,847	87,8
Other operating revenues	18,746	0,4	1,214	0,0
Financial revenues	927,151	21,2	443,379	12,2
Other revenues	0	0,0	0	0,0
Expenses	2,303,931	100,0	2,742,690	100,0
Costs of sale of services incl. write-downs	2,287,048	99,3	2,254,636	82,2
Other operating expenses	16,836	0,7	27,620	1,0
Financial expenses	47	0,0	460,433	16,8
Other expenses	0	0,0	1	0,0
Corporate income tax	407,887		272,969	
Deferred tax	194		-49,161	
Net profit or loss for accounting period	1,657,629		664,942	
Total comprehensive income for accounting period	1,657,629		664,942	

Table 39: Net profit or loss and total comprehensive income for the period

OTHER DISCLOSURES

The management of the company is a one-member body, General Manager, appointed by the Supervisory Board for a five-year period. General Manager, since 1 January 2010 the position has been taken by Karol Peter Peršolja M Sc, runs the Company and represents it.

General Manager is entitled to basic payment (salary), acceptable payment for the performance of the company (performance award) and annual holiday payment. In the 2011 financial year General Manager received:

in EUR

	Gross	Net
Salary 2011	95,091	47,934
Performance award for 2010	22,450	10,318
Annual holiday payment	748	477

Table 40: General Manager's receipts in 2011

In 2011, the Supervisory Board members were entitled to receipts for the performance of their function based on the applicable decision of the partner, as follows:

in EUR

	Gross	Travel	Net
Vekoslav Korošec, M. Sc.		0	3,205
Tomaž Fatur		0	1,912
Janko Kramžar		0	2,080
Kert Kos Mojca		100	426

Table 41: Receipts of the Supervisory Board members in 2011

The company has no receivables from members of the management or the Supervisory Board, and did not pay or approve any advances, loans or sureties for liabilities to these persons.

PERFORMANCE AND FINANCIAL SITUATION INDICATORS

	INDICATOR TYPE	2011	2010
	Financing indicators		
1.	Equity financing rate	0,073	0,052
2.	Long-term financing rate	0,074	0,053
	Investment indicators		
3.	Operating fixed assets rate	0,035	0,027
4.	Long-term assets rate	0,042	0,034
	Horizontal financial structure indicators		
5.	Equity to fixed operating assets ratio	2,098	1,970
6.	Immediate solvency ratio	0,339	0,810
7.	Quick ratio	0,571	1,018
8.	Current ratio	1,032	1,018
	Economic indicators		
9.	Operating efficiency ratio	1,494	1,397
	Profitability indicators		
10.	Return on equity - ROE	0,451	0,241
11.	Return on assets - ROA	0,028	0,016

Table 42: Performance and financial situation indicators

Financing indicators

The equity financing rate (equity / liabilities) or capitalisation level shows the owner's stake in financing sources. It reflects the rate of financial independence and thus the rate of financial security. The indicator is relatively low due to high liabilities that are increased by the funds of the Centre for Support.

Long-term financing rate (the sum of capital, long-term debt and long-term provisions and long-term accrued costs and deferred revenues / liabilities) amount to only 0.074 and is low due to a high level of short-term liabilities arising from the funds managed by the Centre for Support.

Investment indicators

Operating fixed assets rate (fixed assets at the net book value / assets) indicates the share of fixed assets at the net book value in total assets. The indicator is relatively low due to high level of assets that are increased by the funds of the Centre for Support.

Long-term assets rate (the sum of fixed assets and long-term deferred costs and accrued revenues, long-term financial investments, investment property and long-term operating receivables / assets) indicates a level of long-term assets in total assets. This indicator is also impacted by the funds managed by the Centre for Support.

Horizontal financial structure indicators

The equity to fixed operating assets ratio (equity / fixed assets at the net book value) shows the ratio between equity and fixed assets and implies financing of fixed operating assets by the owners.

The immediate solvency ratio (liquid assets / short-term liabilities) shows that the company could settle 34% of all its liabilities with the available funds on a given day. In 2010, this indicator accounted for 81% due to the fact that in 2011 Borzen possessed liquid assets as deposits with various banks with different maturity and are declared among cash in hand and short-term financial investments.

Quick ratio (the sum of liquid assets and short-term receivables / short-term liabilities) shows the ability to cover short-term liabilities with cash and short-term receivables.

Current ratio (short-term assets / short-term liabilities) shows the ability to settle short-term debts with cash and short-term assets.

Economic indicators

Operating efficiency indicator as the ratio between operating revenues and operating expenses shows the operating efficiency of the company since financial revenues and expenses as well as other revenues and expenses are excluded from the indicator. In 2011, the indicator equals 1.494 meaning that in 2011 the company generated 149 units of operating revenue per 100 units of operating expenses.

Profitability indicators

Basic profitability indicator return on equity (ROE) shows the net return on equity capital, and from the point of view of the company owners it is the most important and one of the most commonly used performance indicators. It tells us how much net profit was generated with average capital invested into the company. Compared to the previous year, the coefficient value is higher due to higher profit generated.

Profitability indicator return on assets (ROA) shows net profit of average assets. The indicator is low mainly due to the assets managed by the Centre for Support and are declared in balance sheet under assets but on the other hand these funds have no impact on profit. Due to surplus inflows of the Centre for Support these assets accumulate and consequently the values of assets are higher as well as liabilities but these do not reflect the actual situation and also result in distorted calculations of the indicator return on assets (ROA). Since the majority of surpluses of the Centre for Support will be reducing in the years to come due to the level of contributions for renewable energy sources, the Company is expected to reach the target value of the return on assets (4.1%) in 2015.

LABOUR COSTS INDICATORS

	INDICATOR TYPE	2011	2010
1.	Net sales revenue	3,423,744	3,186,847
2.	Costs of material and services:	829,847	852,604
3.	Labour costs	1,195,210	1,194,757
4.	Value added	2,593,897	2,334,243
5.	Average no. of employees	29,00	28,35
6.	Value added per employee	89,445	82,337
7.	Labour costs share in value added	0,4608	0,5118
8.	Revenues per employee	118,060	112,411

Table 43: Labour costs indicators

Value added per employee indicator measures the value generated in the period. This means that costs of material and services are deducted from net sales revenue and the value obtained is then divided by the average number of employees. The value added per employee thus includes depreciation, profit and labour costs. Indicator labour costs share in value added shows the level of labour costs in value added. Revenues per employee indicator shows the level of net sales revenue per employee.

3.3 Additional disclosures on the basis of SRS 35

Certain activities performed by Borzen are governed by Slovenian Accounting Standards (SRS 35).

In accordance with the Energy Act, the Decree on the method for implementation of public service obligation relating to the organisation of the electricity market, the Act on the formation of Borzen, organizator trga z električno energijo, d.o.o. and other applicable regulations Borzen performs the commercial public service relating to the organisation of the electricity market, which also includes the implementation of the Centre for RES/CHP Support's activities. In addition, it also performs a commercial activity (services for BSP d.o.o.).

The Energy Act defines the activities regarding the organisation of the electricity market and the activities of the Centre for RES/CHP Support as one public service; however, it also stipulates that separate accounts should be kept for the activity of the Centre for RES/CHP Support. For the purpose of keeping the market organisation (hereinafter "MO") and the Centre for RES/CHP Support (hereinafter "CS") accounts separate, they are regarded as two separate business entities where the funds used by both activities are divided according to predetermined keys.

The starting point for demonstrating successful operation of a particular activity is to include assets and liabilities as well as revenues and expenses directly by activities to the maximum extent possible. For items that cannot be assigned unambiguously to a particular activity, keys are used that are based mainly on assumptions regarding their distribution to each activity. The keys for the division of joint revenues and expenses are set in Borzen's Rules on separate accounts for revenues, expenses, assets and liabilities by individual activities.

The company has set certain cost centres to which revenues are allocated and direct and indirect costs are accorded. Cost centres belong indirectly to individual activities or are of general nature and are charged indirectly to each activity. The company has established keys for sharing indirect costs that are examined on a yearly basis and amended according to new facts.

Table of general keys specified and adopted for 2011:

	ACTIVITY		
	Market organisation	The Centre for Support	Commercial activity
Key K1	71 %	28 %	1 %
Key K3		wage costs allocation	
- FRS	60 %	30 %	10 %
- IT	75 %	18 %	7 %
- management, other	87 %	13 %	0 %

Table 44: General keys for 2011

“Key K1” takes into account a distribution of balance items of a specified activity as referred to in cost centres which directly or indirectly incur an activity according to individual cost centre’s burden which is measured by working time spent in hours needed for an individual activity.

The »K3 Key« gives consideration to the distribution of balance sheet items to activities as arising from cost centres that are directly or indirectly charged to activities based on the workload of individual jobs that is measured by hours expressed as a value based on labour costs that are charged to an individual job.

Borzen’s Income Statement is prepared separately for each commercial public service and separately for its commercial activity.

In 2011, the company as a whole generated a net profit of EUR 1,657,629. The public service obligation regarding the organisation of the electricity market generated a profit of EUR 1,088,471, the public service obligation regarding Centre for RES/CHP Support generated a profit of EUR 567,291 and the commercial activity generated a profit of EUR 1,868.

INCOME STATEMENT BY ACTIVITIES FOR THE PERIOD BETWEEN 01.01.2011 AND 31.12.2011

in EUR

DESCRIPTION	BORZEN Total	Market Organisation	Centre for RES/CHP Support	Market Activity
1. NET SALES REVENUES	3,423,744	2,774,943	591,303	57,498
a. - Revenues from addition to network charges	1,639,288	1,639,288		
b. - revenues from recorded contracts with the use of cross-border transmission capacities	1,133,787	1,133,787		
c. - Revenues from the Centre for RES/CHP Support	591,000		591,000	
č. - Revenues from BSP	57,335			57,335
d. - Other revenues	2,334	1,868	303	163
2. OTHER OPERATING REVENUES	18,746	13,432	5,131	183
TOTAL OPERATING REVENUES	3,442,490	2,788,375	596,434	57,681
3. COSTS OF GOODS, MATERIAL, AND SERVICES	829,847	513,567	307,979	8,302
a. - Material costs	80,751	55,111	24,871	769
b. - Costs of services	749,096	458,456	283,107	7,533
4. LABOUR COSTS	1,195,210	804,575	352,774	37,862
a. - Salary costs	894,901	602,414	264,054	28,433
b. - Pension insurance costs	115,655	77,489	34,206	3,960
c. - Costs of other social insurances	64,830	43,265	19,445	2,120
d. - Other labour costs	119,824	81,407	35,069	3,348
5. WRITE DOWNS	261,990	158,656	94,313	9,021
a. - Depreciation	261,699	158,449	94,232	9,018
b. - Revalued operating expenses	291	207	81	3
6. OTHER OPERATING EXPENSES	16,836	11,954	4,714	168
OPERATING PROFIT OR LOSS	1,138,607	1,299,624	-163,345	2,328
7. FINANCIAL REVENUES	927,151	56,857	870,294	0
a. - Financial revenues from other investments	927,151	56,857	870,294	0
8. FINANCIAL EXPENSES	47	47	0	0
a. - Financial expenses for operating liabilities	47	47	0	0
NET PROFIT OR LOSS FROM ORDINARY ACTIVITIES	2,065,710	1,356,434	706,948	2,328
TOTAL REVENUES	4,369,641	2,845,232	1,466,728	57,681
TOTAL EXPENSES	2,303,931	1,488,798	759,780	55,353
TOTAL PROFIT	2,065,710	1,356,434	706,948	2,328
9. TAX ON PROFIT	407,887	267,836	139,591	460
10. DEFERRED TAX	194	127	66	0
NET PROFIT FOR ACCOUNTING PERIOD	1,657,629	1,088,471	567,291	1,868

Table 45: Profit or loss by activities for the period between 01.01.2011 and 31.12.2011

STATEMENT BY THE MANAGEMENT

In accordance with Article 60a of the Companies Act, the management hereby ensures that the annual report of Borzen, organizator trga z električno energijo, d.o.o. was compiled and published in accordance with the Slovenian Accounting Standards and the Companies Act.

The management approves and confirms Borzen's financial statements for the year finishing 31 December 2011 and Notes on financial statements compiled on the assumption of the company's continued operation and in accordance with the applicable legislation and the Slovenian Accounting Standards.

The management confirms that appropriate accounting policies were used in the creation of the financial statements and that the accounting estimates were made according to the precautionary principle and the principle of good management, and that the financial statements reflect the true and fair picture of the company's assets and results of its business operations for 2011.

Ljubljana, March 26th 2012

Karol Peter Peršolja, M.Sc.
General Manager

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