Annual Report 2018

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Annual Report

of the HSE Group and the HSE Company

2018

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ACCOUNTING REPORT OF HSE COMPANY

1

Introduction

1.1 OPERATING HIGHLIGHTS OF THE HSE GROUP AND THE HSE COMPANY[1]

REVENUE FROM THE SALE IN EUR

	HSE GROUP	HSE COMPANY
2018	1,471,965,221	1,481,938,763
2017	1,587,759,985	1,610,687,897

EBITDA IN EUR

	HSE GROUP	HSE COMPANY
2018	128,129,727	55,340,294
2017	138,235,820	51,015,920

PRODUCED ELECTRICITY IN GWH

	HSE GROUP
2018	7,320
2017	7,034

ASSETS IN EUR

	HSE GROUP	HSE COMPANY
2018	2,134,733,707	1,381,683,132
2017	2,138,362,354	1,321,084,847

[1] CONSISTENCY IN PRESENTATION: In 2018, capitalised own products and services reduced operating expenses. In the previous period, they were recorded under operating income. A change had an impact on the income and operating efficiency ratio. In 2018, profits /losses of derivative financial instruments from trading in electricity and emission coupons were recorded in line with the net principle under operating income or expenses, but in the previous period they were recorded under finance income or finance expenses. The changes had an impact on: income, EBIT, EBITDA and ratios: added value, added value/employee, total financial liabilities/EBITDA, EBITDA/finance expenses for loans received and net financial liabilities/EBITDA. Due to the change in the accounting policy the presentation of items for 2018 differs from the presentation in the annual report for the year 2017 (more information about this in the accounting report of the HSE Group and the HSE Company).

	HSE GROUP	HSE COMPANY

TOTAL INDEBTEDNESS IN EUR

	HSE GROUP	HSE COMPANY
2018	784,137,313	219,574,520
2017	851,439,217	236,622,267

CASH IN EUR

	HSE GROUP	HSE COMPANY
2018	83,510,529	67,759,248
2017	61,693,442	26,727,874

INVESTMENTS IN EUR

	HSE GROUP	HSE COMPANY
2018	57,444,700	1,247,046
2017	49,208,528	1,746,764

EMPLOYEES

	HSE GROUP	HSE COMPANY
2018	3,074	176
2017	3,093	174

2018: STABLE AND CONTROLLED

The year 2018 was one of those years that the HSE Group will remember as one of the most demanding ones, but in spite of that or perhaps due to this fact it was a successful one. The majority of the objectives set were achieved, and this paved the way for the year 2019, in which our energy, knowledge and experience will be focused on the accelerated development of the largest Slovene energy group.

The most significant challenges that we faced in the year 2018 were definitely the extreme volatility of electricity prices and poor hydrology. In spite of that the HSE Group generated revenue from the sale of electricity in the amount of EUR 1.5 billion and EBITDA in the amount of EUR 128.1 million. It is important to note that, as in the previous year, the indebtedness of the HSE Group considerably reduced, i.e. by 8%. The efficient system of monitoring the exposure to key risks enabled us to take timely measures for the risk control at the level of the Company and the HSE Group throughout the year.

In 2018, the power plants of the HSE Group produced 7.3 TWh of electricity, which was an increase when compared to the budged production. The shares of hydro power plants - the majority of electricity was produced by Dravske elektrarne Maribor – and that of thermal power plants were practically equal in the total electricity production in the Group. It is also worth mentioning that the HSE Group remains the largest domestic producer of electricity holding a 65% share in the total electricity production. By holding the largest, an almost 85% share it is the producer of environmentally-friendly electricity from renewable sources. In Europe, HSE is present in nineteen countries, where 20 TWh electricity was sold in 2018. The share of sales in foreign markets decreased in 2018 and accounted for 63% of revenue from the sale.

Throughout the year 2018, the complete the HSE Group was restructured and the measures in the field of streamlining of costs were taken, the credit rating of the Moody's agency improved the rating outlook from stable to positive. The development and investment activities increased the reliability of production, which is one of the most important components of our mission. It should be also noted that our power plants celebrated several important milestones in 2018. After 46 years of operation the Šoštanj Thermal Power Plant was discontinued in July 2018 due to the expiry of the Unit 4 service life. After less than three years and the completed environmental rehabilitation Unit 5 was again synchronised with the grid in August. The Šoštanj Thermal Power Plant that uses the domestic coal from the Velenje Mine, nowadays operates with the ecologically refurbished and revitalised Unit 5, Unit 6 that also underwent the first regular overhaul and two gas units. The newly revitalised power plant contributes to the cleaner environment in the Šalek valley and thus to the quality of life of the local inhabitants. A six-month overhaul of the Avče pumped storage power plant started after seven years of operation, which will be completed in the second quarter of 2019. Besides that, three power plants operating under Dravske elektrarne Maribor celebrated important anniversaries in 2018 – the Mariborski otok HPP 70 years of operation, the Formin HPP 40 years, and the Fala HPP even 100 years.

The HSE expert groups invested considerable effort also in setting ambitious strategic objectives with the emphasis on the strengthening of production, development activities and investments and on the increase in competitiveness, growth and development in the HSE Group in the field of sales, as well as trading and development of new products and/or services. The Business Plan of the Group and the Company adopted in December 2018 for the year 2019 and looking ahead to the year 2021 is the document that indicates a courageous strategic orientation in all key areas pointing out the development of complete energy services for the needs of the market, decarbonisation of the Slovene energy industry and digitalisation of the companies. The long-term Development Plan of the HSE Group 2019-2023 with the projections to the year 2030 was prepared in a similarly ambitious manner and the HSE Supervisory Board gave its consent to it. The Development Plan contains a new definition of the mission, vision and values of the HSE Group, formulates concrete strategic orientation and sets measurable objectives for the key areas where the Group operates.

Which word could describe the operations of the HSE Group in the year 2018? We chose two words: stabile and controlled. The optimisation of operations, control of liquidity, ensuring the availability of production facilities and successful management in more or less favourable market conditions importantly paved the way to the year 2019. Our key strategic orientations remain the increase in competitiveness and flexibility of the existing production portfolio, decrease in dependence on the wholesale market, increase in the production volume, improvement in the financial position of the HSE Group and recruiting and development of the best employees. All these objectives can be met by an optimal organisation, top professionals and vigorous sales activities and profitable projects and those interesting for the market. We also expect the earliest possible adoption of the Energy Concept of Slovenia that will enable investing to the energy companies and adequate spatial placement of new production sources – of course, such sources that comply with the technical, ecological and financial criteria in line with the strategy of transition to a low carbon society and under consideration of objectives of self-sufficiency electricity supply.

The future period will be devoted to taking advantage of the opportunities and tackling challenges that will add value to our work and operations and at the same time contribute to the improvement in the public perception and reputation of HSE.

All the objectives mentioned can be achieved. Not easily, but in an achievable manner. Not only by maintaining and preserving, but mainly by upgrading the position of one of the largest and most successful Slovene groups. We wish that all those would accompany us on this way who have, in any way, contributed pieces to the mosaic of the Annual Report for the financial year 2018: employees, owners, Supervisory Board, companies, banks, business partners, local communities.

Ljubljana, 17 May 2019

Stojan Nikolić, M.Sc., Managing Director of HSE

Viktor Vračar, Ph.D., Business Director of HSE

1.3 REPORT OF THE SUPERVISOR BOARD

1.3.1 THE MANNER AND SCOPE OF VERIFICATION OF THE MANAGEMENT AND OPERATIONS OF THE HSE COMPANY DRURING THE FINANCIAL YEAR

The HSE Supervisory Board met for 12 sessions in 2018, whereof 9 were regular session and three were meetings by correspondence. During its 40th regular session held on 13 April 2018, the Supervisory Board reappointed Stojan Nikolić, M.Sc., as CFO of the HSE Company as of 1 October 2018 and for the period of four years, with the possibility of reappointment.

The HSE Supervisory Board was regularly informed about the operating results of the HSE Group and the Company and the implementation of resolutions of the Supervisory Board, discussed the legal transactions and the issues of subsidiaries, for which a prior consent of the Supervisory Board had to be obtained under the Articles of Association, the legal transactions between the companies HSE and PV that needed the approval of the Supervisory Board in accordance with the Slovenian Sovereign Holding Act (ZSDH-1) and other business and strategically important areas that have a significant impact on the medium-term and long-term interests of the HSE Group and the Company. On a regular basis the Management Board informed the HSE Supervisory Board about the operation of TEŠ Unit 6 and Unit 5, the development of the vertical integration project, the operations of the HSE Group and the Company and the reports on the implementation of the measures for optimisation and streamlining of operations, liquidity, borrowing, receivables, reports on risk management in the HSE Group, covenants of HSE or other companies within the HSE Group under bank agreements and the implementation of decisions of the only shareholder. The HSE Supervisory Board was informed about the Final report on the project's implementation: Set-up of the replacement Unit 6 with 600 MW in TEŠ (April 2018). As of 12 February 2018, the HSE Supervisory Board adopted the Diversity policy in the management and supervisory bodies of Holding Slovenske elektrarne d.o.o.

In 2018, the HSE Supervisory Board gave its consent to start proceedings for refinancing HSE Company's long-term borrowings granted by commercial banks, the consent for borrowings, approved for TEŠ by the HSE Company aimed at repaying financial liabilities under the loan contracts, which are concluded with EIB and EBRD, at ensuring funds for envisaged investments and balancing of the liquidity in TEŠ, and at providing of collaterals and guarantees to subsidiaries. The Supervisory Board gave its consent to the Business Plan of the HSE Company and the Group for 2019, with an additional plan for 2020 and 2021. It approved the 2017 Annual Report of the HSE Group and the Company. Based on the opinion of its Audit Committee, the HSE Supervisory Board proposed to the founder that KPMG Slovenija d.o.o. is to be appointed the auditor of the financial statements of the HSE Group and the Company for 2018. It confirmed the working plan of the Internal Audit Service (IA Service) for 2018, was regularly acquainted with the audits of this Service, with the Report on the work of the IA Service and with key activities of the Management Board in 2018. The Supervisory Board gave its consent to the reformed and amended Rules on working of the HSE Group's Internal Audit, to the Management Policy of the HSE Company and the Group, and was acquainted with the Rules on Protection of Personal Data.

In scope of the supervision function the HSE Supervisory Board collected answers to the additionally posed questions that supplemented the material for the Supervisory Board meetings. In 2018, the HSE Supervisory Board increasingly focused its activities on the supervision of the liquidity position and borrowings of the HSE Company and the Group, whereby it paid special attention to the monitoring of the situation in the PV companies and TEŠ.

The HSE Supervisory Board assesses that it acted to the benefit of the Company and the Group on the basis of the information and reports submitted by the Management Board, within the framework of its powers and competence that are laid down by law and the Articles of Association. Company's management regularly acquainted the Supervisory Board with the founder's decisions, significant projects, court/arbitration proceedings and fundamental events in the HSE Company and the Group. In January 2018, the Supervisory Board conducted a self-assessment and adopted proper measures. The Supervisory Board also regularly discussed the final reports of the Committee relating to anonymous posts under the Rules on whistleblowing system for detecting fraud. Whenever there is a conflict of interest in the decision-making process, members of the Supervisory Board exclude themselves from voting.

1.3.2 OPERATION OF THE HSE SUPERVISORY BOARD AUDIT COMMITTEE

In 2018, the Audit Committee of the Supervisory Board of HSE d.o.o. operated in the following composition: Barbara Gorjup, M.Sc., Chairperson (Master of science / ISCED 7/2), Boštjan Markoli, Ph.D. (Ph.D. / ISCED 8), Maja Zaman Groff, Ph.D. external member (Ph.D. / ISCED 8), Boštjan Jančar (M.Sc. / ISCED 7/1).

The HSE Supervisory Board's Audit Committee held seven regular meetings and one extraordinary session in 2017, where all the members of the Audit Committee were present. The Supervisory Board members who were not members of the Audit Committee were informed about the work of the Audit Committee in a manner that enabled an insight into the minutes of the meetings and the Chairperson of the audit committee regularly reported at the Supervisory Board meetings on the work and findings of the Audit Committee. The Audit Committee addressed the issues in accordance with the Companies Act, Recommendations for work of audit committees, Rules of Procedure concerning the work of the audit committee for 2017, the adopted working plan of the HSE Supervisory Board Audit Committee and the decisions of the Supervisory Board.

The Audit Committee was regularly acquainted with the interim and quarterly reports on business operations of the HSE Company and the Group and paid undivided attention to the financial and accounting data, liquidity, borrowings meeting covenants to banks, and regularly monitored the interim reports on risk management relating to the HSE Company and the Group, as well as quarterly reports of the IA Service.

In 2018, the Audit Committee was informed about the annual report of the IA Service for 2016, its plan of activities for 2017. Throughout the year it regularly took notice of the quarterly reports on the work of the IA Service and the reports on the implementation of its recommendations.

The Audit Committee held several meetings with the auditors of KPMG Slovenija d.o.o. in 2018 that took place at the pre-audit stage and during the audit of the financial statements. It was informed during the meetings about the course of the audit and the key findings of the pre-audit/audit of the financial statements of HSE Company and the Group. It reviewed the unaudited and audited 2017 Annual Report of the HSE Company and the Group including the opinion of the independent auditor. It prepared the report on its work in 2017 with the assessment of the annual report of the HSE Company and the Group for 2017. The Audit Committee was also kept up to date with the findings and recommendations stated in the management letter that the audit firm prepared and those of the response reports.

It actively participated in the process of proposing the auditor of the financial statements of the HSE Company and the Group for the year 2018 and submitted the proposal for the auditor to the Supervisory Board; the proposal remained unchanged over the previous year so that the Supervisory Board could propose it to the founder. The implemented procedure was based on the agreement on regulating mutual relations concerning the selection of the procedure for the selection of the audit firm for the audit of the financial statements for 2018 that was concluded with all the subsidiaries in the HSE Group and on the basis of which the demand was made. The audit firm KPMG Slovenija d.o.o., which was appointed during the Shareholders Meeting, signed an independence statement, which the Audit Committee monitored on a periodical basis and verified through the reporting system. In 2018, KPMG Slovenija d.o.o. performed also authorised non-audit services for the HSE Company and the Group in a very limited scope and did not perform any unauthorised ones. Its objectivity and independence were not jeopardised in the opinion of the Audit Committee. The Audit Committee discussed also the contract for the audit of the annual report of the HSE Company and the Group for 2018.

The Audit Committee was also informed about the starting points and the business plan of the HSE Group and the Company for 2019 and the planned risks of the HSE Group and the Company for the 2019 business plan. The Audit Committee adopted the action plan of the Audit Committee for 2019 and conducted a self-assessment of its work for the previous year and thus established the foundations for its work in the following year.

1.3.3 OPERATION OF THE HSE SUPERVISORY BOARD PERSONEL COMMITTEE

In 2018, the permanent HSE Supervisory Board Personnel Committee operated and held two regular sessions aimed at offering professional assistance to the Supervisory Board while managing the procedure for selecting and appointing the CFO with a full term of office that was completed in April 2018.

1.3.4 OPERATION OF THE HSE SUPERVISORY BOARD RESTRUCTURING COMMITTEE

In 2018, the permanent HSE Supervisory Board Restructuring Committee operated and met for four regular sessions. The Committee acted as the expert support to the Supervisory Board in the field of restructuring. It discussed the issues in accordance with the Rules of Procedure and the decisions of the HSE Supervisory Board. It was regularly informed about the restructuring action plan of the HSE Company and the Group. It discussed also the Financial and Operating Restructuring plan of the Premogovnik Velenje d.o.o. and the Development Plan of the Premogovnik Velenje for the 2017-2021 Period. The respective Committee was acquainted with the Business Plan of the HSE Company and the Group for 2019 with an additional plan for 2020 and 2021.

1.3.5 OPERATION OF THE HSE SUPERVISORY BOARD MARKTETING AND INVESTMENT COMMITTEE

In 2018, the permanent HSE Supervisory Board Marketing and Investment Committee operated and held three regular meetings and one meeting by correspondence. The Committee acted as the export support to the Supervisory Board in the field of marketing and investments, it discussed the issues in accordance with its Rules of procedure and the resolutions of the Supervisory Board. It issued a positive opinion to the investment programme »Renovation of the HSE and DEM communication system » and was acquainted with the Business Plan of the HSE Group and the Company for 2019 with an additional plan for 2020 and 2021, where the biggest emphasis was on investments, which are for the first time included into the said plan (i.e. such as new constructions and investments that are subject to a consent by the HSE's Supervisory Board. The Committee hereunder was informed about the market with cross-border transfer capacities and an analysis of the quarterly reports of the Sales and trade department, about the system rules Investments (600) and Planning and monitoring the maintenance works in the Group (320), about the marketing and investment presentation in the HSE Group's development plan for the 2019-2023 period, about the current situation and further activities within the sale of own production and electricity trading of the Sales and trade department. Moreover, the Committee was acquainted with the implementation of IA Service's recommendations by the Sales and trade department, with the transfer price formation system applied in the purchase/sale of electricity between HSE Group companies, with the Final report on the implementation of the project »Set-up of the replacement Unit 6 with 600 MW in TEŠ«, with the Report on the progress, status and the implementation of the public procurement »Technical security system equipment in the HSE Group companies«, and with the overall market risk management in the HSE Group companies.

1.3.6 OPINION ON THE WORK OF THE MANAGEMENT BOARD IN 2018

In compliance with the legislation and good practice, the HSE Supervisory Board closely supervised the management and operations of the HSE Group and the Company. The Management Board members participated in the meetings of the HSE Supervisory Board, extensively reported on each item in cooperation with the heads of other professional services of the HSE Company and answered the questions additionally posed by the Supervisory Board members. Regular communications between the Management Board and the Chairman of the Supervisory Board were maintained also outside the meetings of the Supervisory Board. The HSE professional services organised meetings, introduced current technical improvements and provided administrative and organisational support to the HSE Supervisory Board. The Supervisory Board regularly monitored and evaluated the work of the Management Board, when it discussed the periodic operating results, compared the operations of the HSE Group and the Company with the previous periods and the objectives of the plan and was informed about the reports of external experts on individual companies of the HSE Group. The Management Board carefully operated and strove for the best results of the HSE Company and the Group and cooperated with the Supervisory Board well.

1.3.7 OPINION ON THE OPERATIONS OF THE COMPANY IN 2018

The Group completed the fiscal year 2018 with a loss of EUR 11.8 million, which is attributable to the performed impairment of assets in the TEŠ company. If the latter would not be carried out, the HSE Group's result would be positive and recorded at EUR 6.7 million. Regardless the lower volume of electricity sale by 7% and lower net revenue from sales by 7%, the HSE Group generated a higher trading margin by EUR 1,823 per GWh that is primarily the result of successfully adjusted sales strategy to the new market conditions (i.e. more short-term trading and less long-term trading). The HSE Group's EBITDA was recorded at EUR 128.1 million and shows a decline over the previous year by EUR 10.1 million, mostly due to lower other operating income (mostly lower income from services and income from use of deferred income), higher costs of material as a result of bigger use of spare parts during the overhaul of the Unit 6 in TEŠ, higher labour costs in PV and TEŠ, and higher other operating expenses arising primarily on concession fees, building land compensations and donations.

The electricity production was in 2018 higher by 4% relative to the previous year. The hydroelectricity production was higher by 21% (favourable weather conditions in the first half-year of 2018 due to much snow), thermal electricity production declined by 5% (permanent shutdown of the Unit 4 in TEŠ, the first overhaul of the Unit 6 and the restoration of the Unit 5 in TEŠ), whereby Avče PSP produced 31% less electricity due to the start of the regular overhaul in the last quarter of 2018. The first regular overhaul of the Unit 6 in TEŠ was successfully and within deadlines completed in the second half-year of 2018. Also the ecological restoration of the Unit 5 in TEŠ was prematurely completed, which restarted the electricity supply in August 2018.

HSE Group assets were at the end of 2018 on the level recorded in the previous year. Long-term assets decreased by 2% as a result of impairment of TEŠ's assets, whereas short-term assets increased by 13% due to higher inventories due to transfer of spare parts relating to investments, and higher short-term trade receivables and higher balance of cash. Relative to 2017, equity shows an increase by 5% mostly due to the valuation of financial instruments but is reduced by the loss of 2018. As for the equity and liabilities' structure, the HSE Group's equity share still indicates increase. The total debt declined over 2017 by 8% as a result of repaying the borrowings, while the net debt is lower by 11%. The HSE Group continued with the implementation of the operational and financial restructuring measures. The debt-to-EBITDA ratio and the debt-to-equity ratio have improved. HSE Group's investments were recorded in the amount of EUR 57.4 million and most thereof referred to investments required to ensure the production units' operational safety.

The HSE Company completed 2018 with a net profit of EUR 9.5 million or 52% less relative to 2017, mostly due to the negative financial result in the amount of EUR 36.2 million. The latter is mostly attributable to the impairment of long-term investment in TEŠ and the lower pay-out of subsidiaries' profit shares. The HSE Company recorded lower revenue from sales by 8% taking into account the changed trend in sales and hence lower sales volume by 18%. Notwithstanding, the Company generated a higher EBITDA by 8% or a higher EBITDA margin by 0.5 p.p. mostly due to improved hydrology in the first six months of 2018.

As at 31 December 2018, HSE Company's assets show an increase of 5% if compared to the previous year. This is attributable to higher long-term assets (higher loans to the subsidiary TEŠ) and higher short-term assets (higher cash balance). Given the 2017, the item of equity increased by 8% as a result of the net profit of 2018 in the amount of EUR 9.5 million and the positive effect of the valuation of financial instruments recorded at EUR 64.8 million. The Company pursued its deleveraging process, thus the net debt declined by good 28%. The higher EBITDA and the lower net debt ha dan impact on the improved debt ratio. Investments in the HSE Company amounted to EUR 1.2 million and most thereof were earmarked for the business information system.

1.3.8 VERIFICATION AND CINFIRMATION OF THE ANNUAL REPORT OF THE HSE COMPANY AND THE HSE GROUP FOR THE YEAR 2018 INCLUDING THE OPINION ON THE INDEPENDENT AUDITOR'S REPORT AND THE AUDITOR'S MANAGEMENT LETTER

Pursuant to Article 272, Paragraph 3 of the Companies Act (ZGD-1), the HSE Management Board submitted the 2018 Annual Report of the HSE Group and the Company including the auditor's report immediately after the preparation and issue of the independent auditor's report for 2018, which the Supervisory Board of HSE d.o.o. discussed during its 54th (regular) session of 31 May 2019. The audit of the 2018 Annual Report of the HSE Group and the Company was conducted by the audit firm KPMG Slovenija d.o.o. that issued an unqualified opinion on the financial statements of the HSE Group and the Company. The Supervisory Board's Audit Committee of HSE d.o.o. discussed the audited Annual Report of the HSE Group and the Company for 2018 in its 43rd (regular) session held on 30 May 2019, and established that the annual report was prepared timely, compiled clearly, transparently and in accordance with the provisions of the Companies Act (ZGD-1), the applicable International Financial Reporting Standards as adopted by the European Union, the provisions of the Energy Act (EZ-1) and other relevant legislation. The Audit Committee was also acquainted with the findings and recommendations stated in the Management Report for HSE issued and compiled upon the performed audit for 2018 by the KPMG audit company. The Audit Committee made no comment on the 2018 Annual Report of the HSE Group and the Company. It proposed it to the Supervisory Board that should take a decision on the confirmation of the 2018 Annual Report of the HSE Group and the Company in accordance with Article 282 of the Companies Act.

On the basis of the independent auditor's opinion, the position of the HSE Supervisory Board's Audit Committee, the data and disclosures in the 2018 Annual Report of the HSE Group and the Company, the HSE Supervisory Board estimated that the auditor carried out the work independently and professionally and in compliance with the applicable legislation and business practice and that the Annual Report was in all material aspects prepared in line with the requirements of the Companies Act (ZGD-1) and that the financial statements in all material aspects give a true and fair view of the financial position of the HSE Group and the Company as at 31 December 2018 and their income statement and the statement of cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union. The Supervisory Board had no comment on the independent auditor's report. It had no other comments on the 2018 Annual Report of the HSE Group and the Company either that would keep anyone from taking a decision on its confirmation. Therefore the HSE Supervisory Board confirmed the 2018 Annual Report of the HSE Group and the Company in accordance with Article 282, Paragraph 3 of the Companies Act (ZGD-1). This Report was adopted early, i.e. before the expiry of one month from the date when the Company's Management Board submitted the 2018 Annual Report to the HSE Supervisory Board.

1.3.9 REPORT ON THE VERIFICATION OF THE PROPOSAL OF THE MANAGEMENT NOARD FOR THE USE OF THE ACCUMULATED PROFIT

In accordance with the audited data, HSE d.o.o. completed the financial year 2018 with a net profit in the amount of EUR 9,486,269.37. In accordance with Article 230, Paragraphs 1 and 2 of the Companies Act, the net profit shall be used for covering retained loss of 2015.

Ljubljana, 31 May 2019

Boštjan Markoli, Ph.D.

Chairman of the Supervisory Board of HSE d.o.o.

2

Management Report

2.1 CHRONOLOGY OF IMPORTANT EVENTS OF THE HSE GROUP IN THE YEAR 2018

01

TET – in liquidation. Since 1 January the company has not been in liquidation and its new name is HSE – Energetska družba Trbovlje.

As of 1 January, Miha Pečovnik became the managing director of HSE Invest. He was appointed for a four-year term of office.

On 8 January, Unit 6 of TEŠ was again connected to the grid after the decision on the planned stopping taken on 19 December 2017. Inspections of the equipment and guarantee repairs of the steam collector were carried out in the standstill period. When Unit 6 did not operate, Unit 4 of TEŠ provided electricity and thermal energy.

On 22 January, the Slovenian Sovereign Holding re-appointed Miloš Pantoš, Ph.D. and Boštjan Markoli, Ph.D. as members of the HSE Supervisory Board for a four-year term of office.

02

Due to the non-achievement of the prescribed admissible discharges of nitrogen oxides TEŠ started the revitalisation and ecological rehabilitation of Unit 5. The costs of renewal exceeded EUR 10 million, the largest portion was invested in the device for the decomposition of nitrogen oxides, the connection of the unit to the 220 kV line with the replacement of the unit transformer, the update of the unit management system and the replacement of collectors of repeated overheating.

03

On 8 March, the Government of the Republic of Slovenia took a decision on the preparation of the national spatial plan for the Ojstrica wind power plant (DEM). An erection of the wind power plant with three generators and the accompanying infrastructure has been planned.

On 15 March, Unit 6 of TEŠ was stopped due to carrying out the guarantee inspections and measurements on cold commissioning of the unit. On 19 March the unit was again synchronised with the grid.

On 26 March, the Strategic conference of the HSE Group was held.

04

On 3 April, HSE closed the representative office in the Romanian capital, Bucharest. This decision was taken on the basis of amended Romanian energy legislation.

On 4 April, we received an unqualified Report of the independent auditor on the audit of the financial statements of the HSE Group and the Company for the year 2017. The Annual Report of the HSE Group and the Company for 2017 was confirmed by the Supervisory Board of the HSE Company on 13 April 2018.

Premogovnik Velenje celebrated the 143rd anniversary of coal mining. On 11 April 1875 the main lignite layer was drilled through, which was a landmark event for the development of the mine and the Šalek Valley.

During its 40th ordinary meeting of 13 April 2018, the HSE Supervisory Board extended the term of office of the financial director Stojan Nikolić, M.Sc. by another 4 years.

05

On 7 May, the first overhaul of Unit 6 began.

The oldest power plant in Slovenia, the Fala hydro power plant, that ensures almost a tenth of the total production of Dravske elektrarne, celebrated 100 years of operation. A new postage stamp was designed and issued on this occasion.

06

On 8 June, the ownership transformation was carried out in the subsidiary RGP in such a manner that partners are exclusively companies that have a status of a contracting authority from the field of infrastructure (PV, SENG, TEŠ and DEM) and the company obtained the status of a joint undertaking.

On 28 June, the Slovenian Sovereign Holding as the founder was informed about the Annual Report of the HSE Group and the Company for the year 2017 and granted discharge to the HSE Management Board and the HSE Supervisory Board for the year 2017.

On 28 June, EIB granted TEŠ a permit for the operation of Unit 4 to the end of 2018.

07

The Management Board of PV and the Trade Union of SPESS-PV signed Annex No. 31 to the Collective Agreement that was put into force on 1 July. In the new version, the effective working time of employees working in the mine includes also the time of arrival at and departure from the site, preparation for work before and after the completion of work.

On 3 July, Unit 6 of TEŠ was synchronised with the grid after the successful overhaul. During the overhaul the main large-scope works and repairs in the guarantee period were performed on the unit. The next regular overhaul of Unit 6 has been planned for the year 2021.

On 6 July, Unit 4 of TEŠ stopped operating after 46 years.

08

On 16 August, the Moody's credit rating agency improved the rating outlook from stable to positive.

On 16 August, Unit 5 of TEŠ started producing electricity for the grid after less than three years and the completed ecological rehabilitation and thus the phase of testing and test operation began. The ecological rehabilitation of Unit 5 was completed earlier than planned.

09

On 21 September, the SAP4PM project for the unification of work processes and functionalities in the field of maintenance in the companies HSE, DEM, SENG, HSE EDT and TEŠ started.

On 27 September, the Planning conference of the HSE Group was organised.

10

On 1 October, the second term of office of Stojan Nikolić, M.Sc. as the financial director started.

On 1 October, a portion of activities of the IT business function was transferred from DEM to HSE and vice versa. Thus, the joint performance of IT services started in form of a matrix organisation for the entire HSE Group.

On 2 October, DEM festively celebrated two anniversaries – 70 years of operation of the Mariborski otok hydro power plant and 40 years of operation of the Formin hydro power plant.

11

On 5 November, the overhaul started in the Avče pumped storage power plant.

On 23 November, the business plan of the Group and the Company for 2019 and an additional plan for the years 2020 and 2021 were adopted in the 45th ordinary meeting of the HSE Supervisory Board.

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On 18 December, the PV company purchased a 74% share of the PLP company and became its 100% owner.

On 31 December, PV Invest merged with PV as the acquiring company in the framework of business restructuring of the PV Group.

2.2 IMPORTANT EVENT AFTER THE END OF THE FINANCIAL YEAR 2018

In the first months of the year 2019 guarantee measurements were carried out in Unit 5 of TEŠ.

On 1 January 2019, the four-year term of office of the new managing director of SENG, Radovan Jereb, M.Sc. started.

On 18 January 2019, a rock burst of medium intensity occurred in PV, which caused deformations on the delivery line of the excavation site and consequently a loss in production.

At its 47th ordinary meeting of 30 January 2019, the HSE Supervisory Board gave consent to the Development plan of the HSE Group for the period 2019 – 2023 with the projections to the year 2030. The HSE Management Board submitted the Development plan to the founder for its adoption.

On 30 January 2019, PV published the public invitation to tender for the purchase of the shareholding in PLP.

On 28 February 2019, Arman Koritnik was discharged from the position of the managing director of TEŠ based on his letter of resignation.

On 1 March 2019, a 6-month term of office of the temporary managing director Mitja Tašler started.

On 13 March 2019, the Chairman of the HSE Supervisory Board, Milan Perović, submitted a letter of resignation concerning the function of the Supervisory Board member.

During its 49th ordinary meeting of 25 March 2019, the HSE Supervisory Board unanimously nominated Stojan Nikolić, M.Sc. the new Managing Director of the company with the term of office beginning on 1 April 2019, and Viktor Vračar, Ph.D. the business director with the term of office beginning on 1 May 2019. Both directors were nominated for a four-year term of office.

On 25 March 2019, the new chairman of the HSE Supervisory Board Boštjan Markoli, Ph.D. and the new deputy chairperson Barbara Gorjup, M.Sc. were nominated by the HSE Supervisory Board.

On 28 March 2019, the Slovenian Sovereign Holding recalled the HSE Supervisory Board members Milan Perović and Viktor Vračar, Ph.D. from their functions due to the letters of resignation submitted. It appointed new HSE Supervisory Board members, namely Goran Brankovič and Tomaž Besk as of 29 March.

On 28 March 2019, the Slovenian Sovereign Holding adopted the new Articles of Association of HSE that were put into force on 9 April 2019.

Based on the letter of resignation submitted on 25 January, Matjaž Marovt was relieved of the duties of the Managing Director of HSE on 31 March 2019.

On 5 April 2019, the HSE Supervisory Board nominated the HSE Supervisory Board member Tomaž Besk as the temporary business director of HSE and Management Board member (until 30 April) due to the amended Articles of Association.

2.3 CORPORATE GOVERNANCE STATEMENT

Pursuant to Article 70, paragraph 5 of the Companies Act Holding Slovenske elektrarne d.o.o., Koprska ulica 92, 1000 Ljubljana (HSE) declares the following for the period from 1 January 2018 to 31 December 2018:

The HSE Management Board and Supervisory Board declare that the governance of the Company complied with the acts, other regulations, Articles of Association of the HSE limited liability company, recommendations stated in the Corporate Governance Code for Companies with State Capital Investments in 2018.

Pursuant to Article 60a of the Companies Act the Management Board and Supervisory Board declare that the annual report with all integral parts, including the corporate governance statement, is prepared and published in line with the Companies Act and International Financial Reporting Standards.

The Corporate Governance Statements is an integral part of the annual report and it is available on the website of the Company under htpp://www.hse.si.

1. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR COMPANIES WITH STATE CAPITAL INVESTMENTS (SSH CODE) AND RECOMMENDATIONS AND EXPECTATIONS OF THE SLOVENIAN SOVEREIGN HOLDING (SSH RECOMMENDATIONS)

Report on the implementation of the Corporate Governance Code for Companies with State Capital Investments (SSH Code)

HSE follows the Corporate Governance Code for Companies with the Capital Investment of the Slovenian Sovereign Holding as its reference code (the SSH Code, May 2017) and is available on the website of the Slovenian Sovereign Holding. To a great extent, the Company sensibly adhered to the Code in the operations, under consideration of the Company's activity and its other specificities. In accordance with the comply-and-explain-principle the Company fully observed the major part of recommendations contained in the Code (May 2017) in the year 2018 that referred to the companies 100% owned by the state. The deviations are explained in the sections below:

- Recommendation 6.1: The recommendation is applied partially. The succession plan was not developed and automated in such a manner that a transition or promotion on a managerial position would be automated, but a HR Process is conducted in each concrete case with the aim of selecting the most appropriate candidate.
- Recommendation 6.4.1:
The recommendation is followed reasonably. Based on the decision the Supervisory Board determined the competence profile for a concrete procedure, considering the direct legal basis – Article 21 of the Slovenian Sovereign Holding Act. It was not published on the Company's website.
- Recommendation 6.8: The recommendation is applied partially. The procedure of selecting candidates for the Supervisory Board members and formulation of the resolution of the Shareholders' Meeting on the appointment of the Supervisory Board members is transparent (decision-taking at a HSE Supervisory Board meeting), but not defined in advance.
- Recommendation 6.9.2:
The recommendation is applied partially. The existing decision of the founder from the year 2011 on payments to the Supervisory Board members follows the orientations of the decision in Annex 2 of the Code.
- Recommendation 6.9.3: HSE does not follow the recommendations in the section referring to the D&O insurance. Within the framework of the collective D&O insurance of the HSE Group the HSE Supervisory Board members are entitled to join this insurance scheme. In line with the tax rules a tax benefit is charged.
- Recommendation 6.15.1:
The recommendation is applied partially. The Chairman of the Supervisory Board is not a chairman of the Audit Committee, but of another committee in within the Supervisory Board.
- Recommendation 8.5: HSE does not follow the recommendation, as we believe that the publication of a financial calendar in a one-member limited liability company is pointless as financial calendars are intended for a public disclosure and/or publication of financial statements and disclosure of operations of the companies that are owned by several shareholders/partners. The company having a sole member who is regularly reported to also beyond disclosures, does not need to prepare and publish a

financial calendar in the opinion of the Slovenian Directors' Association.

- Recommendation 9.1.1:
  The recommendation is applied partially. An auditor was separately appointed for a period of one year.
- Recommendation 9.2.7:
  The recommendation is applied partially, as certain recommendations are implemented in an extended period due to their complexity.
- Recommendation 10.2: The recommendation is applied partly. At present the Company does not foresee a person authorised for corporate integrity. Some of its foreseen functions are dispersed and carried out in scope of professional services.

Report on the implementation of recommendations and expectations of the Slovenian Sovereign Holding (SSH recommendations)

During the operations in 2018 the Company reasonably and to a great extent followed the recommendations of the Slovenian Sovereign Holding under consideration of the Company's activity and its other specificities. The recommendations and expectations of the Slovenian Sovereign Holding were replaced by the new SSH Recommendations in March 2018. The Company fully followed the majority of recommendations under the comply-and-explain-principle in 2018. The deviations are explained in the sections below:

- Recommendation 3.6 is applied partially. The recommendation is not followed in the section referring to the field of trading in energy products and related products. The trading agreements that have the nature of ordering agreements, such as intermediary agreements relating to trading, are not reported on publicly, as they are considered confidential business information. The publication of the conducted transactions stated in the recommendation is carried out in line with the Public Information Access Act.
- Recommendations under Item 4: The recommendations for the year 2018 were fully or reasonably followed, with the exception of recommendation 4.4 that is partially implemented.
- Recommendations under Item 5 are not fully applied. The recommendations are applied partially in the implementation of the management systems and through the conduct of internal audits in line with the standards (ISO 9001, BS OHSAS 18001 and ISO 27001) that serve also as bases for self-evaluation under the EFQM model.

2. DATA ON THE WORK OF THE SHAREHOLDERS' MEETING, COMPOSITION AND WORK OF THE MANAGEMENT AND SUPERVISORY BODIES

In 2018, the Slovenian Sovereign Holding, managed the HSE Company acting as the sole member in accordance with the Articles of Association. The HSE management and supervisory bodies are the Management Board and the Supervisory Board.

On 12 February 2018 the HSE Company adopted the diversity policy in the management and supervisory bodies and published it on the website. The HSE Supervisory Board, the founder and the HSE Works Council implement it consistently.

In accordance with the recommendation of the SSH Code No. 10.2.1 we state that individual elements of the corporate integrity system are dispersed in the Company and carried out in scope of various professional services and committees.

Founder in the role of Shareholders' Meeting

The founder has the role and competence of the Shareholders' Meeting in line with the Articles of Association of the HSE Company, Companies Act and the applicable legislation. In accordance with Article 526 of the Companies Act the founder enters its resolutions in the book of resolutions. In 2018, the founder acted in line with the competence determined in the Articles of Association of the Company that are published (Agency of the RS for Public Legal Records and Related Services – AJPES). Key competence is:

- adoption of the business policy foundations and the Development plan of the HSE Company and the Group for a five year period, including the financial, business, HR and organisational restructuring on the proposal of the Management Board and by consent of the Supervisory Board,
- decision-making on the use of accumulated profit,
- decision-making on the repayment of subsequent payments,
- decision-making on the use, distribution and withdrawal of shares,

- appointment and recall of the Supervisory Board members, except those elected by the Works Council,
- decision-making on founding companies and acquisition of the majority shares in equity of other companies on the proposal of the Management Board and consent of the Supervisory Board,
- decision-making on disposing of the interests and shares in the companies that are defined as strategic or important investments in each decree on the strategy of capital investment management by the State,
- decision-making on the disposing and burdening of interests/shares in subsidiaries and associates on the proposal of the Management Board and consent of the Supervisory Board,
- granting discharge to the Management Board and the Supervisory Board,
- decision-making on concluding agreements and conducting other legal transactions by which the Company obliges to transfer at least 3% of the Company's assets against payment or free of charge to another person in one transaction or several related transactions, whereby the transfer under the Companies Act on status changes is not concerned,
- decision-making on changes in the share capital of the Company,
- decision-making on status changes and winding-up of the company and other competence that are further determined in the Articles of Association and the applicable legislation.

Work of the Supervisory Board

In 2018, the Supervisory Board acted in compliance with the competence determined in the Companies Act, Articles of Association of the HSE Company, Rules of Procedure on the work of the HSE Supervisory Board and the Corporate Governance Code of Companies with State Capital Investments as the reference code (in accordance with the comply-and-explain-principle). The Articles of Association of HSE determine the composition, a four-year term of office and competence of the Supervisory Board.

The Supervisory Board had nine members in 2018. Six members represented the interests of the founder and three members the interests of the employees (they are appointed and recalled in line with the Worker Participation in Management Act). At the beginning of the term of office i.e. on 2 July 2018 the HSE Works Council appointed the following Supervisory Board members: Boštjan Jančar, Jernej Otič and Petja Rijavec, M.Sc. As of 2 July 2018, the HSE Works Council dismissed Damjan Lipušček as the Supervisory Board member. The Supervisory Board members are appointed for a four year period and can be re-appointed after the expiry of the term of office.

The composition and work of the Supervisory Board are presented in the report of the Supervisory Board as well as the work of all Supervisory Board committees as the professional assistance in the work of the Supervisory Board (HSE Supervisory Board Audit Committee, HSE Supervisory Board Restructuring Committee, HSE Supervisory Board Marketing and Investment Committee, HSE Supervisory Board Personnel Committee).

COMPOSITION OF THE SUPERVISORY BOARD AND THE COMMITTEES IN THE FINANCIAL YEAR

FULL NAME	Milan Perović	Boštjan Markoli, Ph.D.	Miloš Pantoš, Ph.D.	Barbara Gorjup, M.Sc.	Vesna Cukrov
FUNCTION (Chairman, Vice-Chairman, Supevisory Board Member)	Chairman of the Supervisory Board	Vice-Chairman of the Supervisory Board	Supervisory Board Member	Supervisory Board Member	Supervisory Board Member
FIRST APPOINTMENT TO THE FUNCTION	5 April 2016 - member Chairman: 13 May 2016	21 January 2014 - member Vice-Chairman: 28 January 2014	21 January 2014	5 April 2016	1 September 2017
EXPIRY OF THE FUNCTION / TERM OF OFFICE	5 April 2020	22 January 2022	22 January 2022	5 April 2020	1 September 2021
REPRESENTATIVE OF EQUITY / EMPLOYEES	Representative of equity	Representative of equity	Representative of equity	Representative of equity	Representative of equity
THE SUPERVISORY BOARD RELATING TO THE TOTAL NUMBER OF SB MEETINGS	100%	11 of 12	11 of 12	100%	100%
GENDER	male	male	male	female	female
NATIONALITY	Slovene	Slovene	Slovene	Slovene	Slovene
YEAR OF BIRTH	1964	1968	1977	1973	1967
EDUCATION	BSc in Economics	Ph.D.	Ph.D.	M.Sc. in international economics	BA in Law, Barrister
PROFESSIONAL PROFILE	Busines finance	Mining Engineering	Electrotechnics	Business finance, valuation, valuation of economic eligibility of investments, controlling (plans, reporting system), accounting, corporate governance	Legal field, investments
INDEPENDECE ACCORDING TO ARTICLE 23 OF THE CODE (YES/NO)	yes	yes	yes	yes	yes
EXISTENCE OF CONFLICT OF INTEREST IN THE FINANCIAL YEAR (YES/NO)	no	no	no	no	no
MEMBERSHIP IN SUPERVISORY BODIES OF OTHER COMPANIES	Pošta Slovenije, until 8 November 2018	no	no	Telekom Slovenije	no
MEMBERSHIP IN COMMITTEES	KK	KK KTI RK	KTI KP	RK KK	KP
CHAIR PERSON/ MEMBER OF THE COMMITTEE	KK - Chairman	KK, KTI and RK - Member	KTI -Chairman KP - Member	RK - Chair person KK - Member	KP - Member
PARTICIPATION IN COMMITTEE MEETINGS RELATING TO THE TOTAL NUMBER OF COMMITTE MEETINGS	KK - 100%	KK - 100% KTI - 3 of 4 RK - 100%	KTI - 100% KP - 100%	RK - 100% KK- 100%	KP - 3 of 4

NS - Supervisory Board, RK - Audit Committee, KK - HR Committee, KTI - Marketing and Investment Committee, KP - Restructuring Committee

(continuing)

FULL NAME	Viktor Vračar, Ph.D.	Boštjan Jančar	Jernej Otič	Petja Rijavec	*Damjan Lipušček*
FUNCTION (Chairman, Vice-Chairman, Supevisory Board Member)	Supervisory Board Member	Supervisory Board Member	Supervisory Board Member	Supervisory Board Member	*Supervisory Board Member*
FIRST APPOINTMENT TO THE FUNCTION	5 April 2016	9 May 2013	30 June 2014	2 July 2018	*5 April 2016*
EXPIRY OF THE FUNCTION / TERM OF OFFICE	5 April 2020	2 July 2022	2 July 2022	2 July 2022	*2 July 2018*
REPRESENTATIVE OF EQUITY / EMPLOYEES	Representative of equity	Representative of employees	Representative of employees	Representative of employees	*Representative of employees*
THE SUPERVISORY BOARD RELATING TO THE TOTAL NUMBER OF SB MEETINGS	100%	100%	100%	100%	*100%*
GENDER	male	male	male	female	*male*
NATIONALITY	Slovene	Slovene	Slovene	Slovene	*Slovene*
YEAR OF BIRTH	1971	1971	1976	1971	*1968*
EDUCATION	Ph.D.	M.Sc. in Business	B.Sc. in Eelectrotechnics, M.Sc. in Economics and Business	M.Sc. in Communications	*B.Sc. in Electrotechnics*
PROFESSIONAL PROFILE	Management, organisation, restructuring	Finance	Electrotechnics, electricity production	Public relations	*Trading in energy, operation of HPP*
INDEPENDECE ACCORDING TO ARTICLE 23 OF THE CODE (YES/NO)	yes	yes	yes	yes	*yes*
EXISTENCE OF CONFLICT OF INTEREST IN THE FINANCIAL YEAR (YES/NO)	no	no	no	no	*no*
MEMBERSHIP IN SUPERVISORY BODIES OF OTHER COMPANIES	no	no	no	no	*no*
MEMBERSHIP IN COMMITTEES	KP KTI	RK, KTI since 2 July 2018	KK until 2 July 2018 KP - Member	KK since 2 July 2018	*KTI until 2 July 2018*
CHAIR PERSON/ MEMBER OF THE COMMITTEE	KP - Chairman KTI - Member	RK - Member, KTI - Member	KK - Member KP- Member	KK- Member	*KTI - Member*
PARTICIPATION IN COMMITTEE MEETINGS RELATING TO THE TOTAL NUMBER OF COMMITTE MEETINGS	KP - 100% KTI -100%	RK - 100% KTI - 100%	KK - 2 of 3 KP - 100%	KK - no meetings during the term of office	*KTI - 100%*

NS - Supervisory Board, RK - Audit Committee, KK - HR Committee, KTI - Marketing and Investment Committee, KP - Restructuring Committee

EXTERNAL MEMBERS IN THE COMMITTEES

FULL NAME	Maja Zaman Groff, Ph.D.
COMMITTEE	Audit
PARTICIPATION IN COMMITTEE MEETINGS RELATING TO THE TOTAL NUMBER OF COMMITTE MEETINGS	100%
GENDER	female
NATIONALITY	Slovene
EDUCATION	Ph.D.
YEAR OF BIRTH	1972
PROFESSIONAL PROFILE	Audit (external, internal), Financial accounting
MEMBERSHIP IN SUPERVISORY BODIES IN COMPANIES THAT ARE NOT RELATED TO THE COMPANY	not a member of supervisory bodies

Work of the Management Board

Pursuant to the provisions of the Articles of Association of the HSE Company and the decision of the Supervisory Board the Management Board manages and represents the Company on its own responsibility. In the period from 1 January 2018 to 31 December 2018 the Management Board had two members, namely Matjaž Marovt, Managing Director and Stojan Nikolić, M.Sc., Financial Director.

COMPOSITION OF THE MANAGEMENT BOARD IN THE FINANCIAL YEAR

FULL NAME	Matjaž Marovt	Stojan Nikolić, M.Sc.
FUNCTION (Chairman, member)	Director General	Financial Director
FIELD OF WORK IN THE MANAGEMENT BOARD	Director General	Financial Director
FIRST APPOINTMENT TO THE FUNCTION	19 April 2017	1 Ostober 2014
EXPIRY OF THE FUNCTION / TERM OF OFFICE	31 March 2019	1 October 2022
GENDER	male	male
NATIONALITY	Slovene	Slovene
YEAR OF BIRTH	1962	1975
EDUCATION	B.Sc. in Electrotechnics and M.Sc. in Quality Management	M.Sc. in Economics
PROFESSIONAL PROFILE	Production processes, investments, purchasing, development, quality	Financial management
MEMBERSHIP IN SUPERVISORY BODIES IN COMPANIES THAT ARE NOT RELATED TO THE COMPANY	/	/

3. DESCRIPTION OF THE MAIN CHARACTERISTICS OF INTERNAL CONTROLS SYSTEMS AND RISK MANAGEMENT IN THE COMPANY RELATING TO THE FINANCIAL REPORTING PROCEDURE

With the aim of ensuring increased transparency, efficiency and responsible operations the Company has an established, functioning internal controls system and a risk management system that are implemented through the organisational structure of the Company, ISO 9001 quality management standard, ISO 14001 environmental management standard, OHSAS 18001 occupational health and safety standard, ISO/IEC 27001 information security standard and internal acts of the Company with a precisely elaborated reporting system by individual organisational unit. The internal controls system is supported by the information technology controls system, which, among others, provides adequate limitations and control over the grid and accurate, up-to-date and full data processing.

In accordance with the plan and through the internal controls system the Company systematically uses the procedures and methods that ensure accuracy, reliability and completeness of data and information, true and fair preparation of the financial statements, prevent and detect errors in the system and ensure compliance with acts and other regulations, acts of the management bodies and systemic regulations of the Company in their operation.

The Management Board of the Company is responsible for keeping adequate books of account and for establishing and ensuring the functioning of internal controls and internal accounting controls, selection and use of accounting policies.

When setting-up an internal controls system the principle of three lines of defence is considered:

- environmental impact assessment, risk assessment (carried out by risk owners),
- determination of a controlling method – setting up an a control system (carried out by various professional services),
- control of system operation and introduction of improvements (carried out by the internal audit service).

Three main objectives are pursued when setting-up an internal controls system:

- accuracy, reliability and completeness of accounting records and truth and fairness in financial reporting,
- compliance with the legislation and other regulations,
- efficiency and effectiveness of operations.

An independent risk management department and a risk management committee have been established in the Company with the aim of achieving complete risk management in the Company and providing quality information to the Company Management Board and Supervisory Board about the management and supervision of the Company. The risk management department is responsible for the establishment and continuous operation of the risk management system. It carries out the operational and coordinating support to the risk management committee and its sub-committees that supervise the complete risk management system and propose adequate amendments.

An internal audit service is established in the Company in line with the adopted Rules on the HSE internal audit operation that was revised in 2018. Its mission in the HSE Group is carried out on the basis of a long -term and annual plan. The organisational independence has been implemented by the fact that the internal audit is organised as an independent organisational unit that reports to the HSE Management Board in terms of the organisation and to the audit committee and/or the HSE Supervisory Board in terms of its function. Internal auditing is conducted in the entire HSE Group in accordance with the hierarchy of internal auditing rules. It operates with the aim of adding value to the implementation of strategic and business objectives.

In 2018, the internal audit carried out the internal audit procedures and other activities in line with the approved annual plan of work. One internal audit procedure was carried out at the request of the HSE Management Board. In scope of the performed procedures the internal audit reviewed the existence, operation and efficiency of the internal controls system for the achievement of the objectives set in the audited units. It submitted the recommendations for their improvement. The internal audit carried out some informal consulting oriented towards the assistance in managing the HSE Group, risks management and developing the internal controls system. Special attention was paid to the monitoring of implementation of audit recommendations, training and education as well as the provision of quality and professional operation of the internal audit function within the HSE Group. The internal audit reported on its work to the Management Board, the Audit Committee and the HSE Supervisory Board.

The development of internal audit occurs by implementing the programme of ensuring and improving quality. Its purpose is to ensure to all the interested parties that the internal audit operates in line with the applicable rules of the profession and that its operation is effective and efficient.

Ljubljana, 17 May 2019

Stojan Nikolić, M.Sc., Managing Director of HSE

Viktor Vračar, Ph.D., Business Director of HSE

Boštjan Markoli, Ph.D., Chairman of the HSE Supervisory Board

2.4 PRESENTATION OF THE HSE GROUP

The HSE Group is one of the two largest groups operating in the field of energy in Slovenia and the major producer and seller of electricity in the wholesale market in Slovenia.

Its balanced production portfolio represents the key pillar of reliable electricity supply in Slovenia, ensures stability of operation of the electricity system and the achievement of objectives of Slovenia in the field of renewable energy sources.

The activity of the HSE Group includes the area of energy and environmental management as well as the control of related processes and risks. A wide range of activities includes the following core ones:

- production of electricity and thermal energy,
- extraction of lignite,
- sale and trading in electricity and thermal energy, futures contracts for electricity, emission coupons, gas, etc.,
- production optimisation in the HSE Group,
- provision of systemic services, required for the operation of the national grid system in Slovenia,
- management and implementation of the energy and environmental projects.

The core activities of the HSE Group are electricity production and trading in electricity. Therefore, the Group strives for the exploitation of synergies of a wide range of production capacities in order to be able to increase the efficiency in operations. The operational and cost characteristics of individual production units differ among each other and therefore it is possible to achieve a cost-effective offer of electricity by a suitable combination. It should be also taken into account that electricity prices change in the market from time to time and thus planning and optimisation of production units are of essential importance under consideration of the technical criteria and increasingly demanding circumstances in the electricity market.

100%

owned by Republic of Slovenia

13 hydro power plants
1 pumped storage power plant
29 small hydro power plants
2 thermal power plants
1 coal mine

3,074

employees

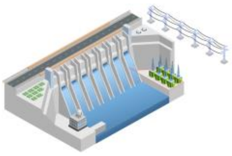
7.3 TWh

electricity produced

RELATED PARTIES OF THE HSE GROUP AS AT 31 DECEMBER 2018

HOLDING SLOVENSKE ELEKTRARNE D.O.O.

HPP PRODUCTION



DRAVSKE ELEKTRARNE MARIBOR D.O.O.
(HSE 100.0%)

MHE LOBNICA D.O.O.
(DEM 65.0%)

SOŠKE ELEKTRARNE NOVA GORICA D.O.O.
(HSE 100.0%)

ELPROM D.O.O.
(SENG 100.0%)

HIDROELEKTRARNE NA SPODNJI SAVI D.O.O.
(HSE 15.4%, DEM 30.8%, SENG 2.8%)

SREDNJESAVSKE ELEKTRARNE D.O.O.
(HSE 60.0%)

TPP PRODUCTION

TERMOELEKTRARNA ŠOŠTANJ D.O.O.
(HSE 100.0%)

HSE - ENERGETSKA DRUŽBA TRBOVLJE D.O.O.
(HSE 100.0%)

TET NOVI MATERIALI D.O.O.
(HSE EDT 93.8%)

PRIMARY SOURCES

PREMOGOVNIK VELENJE D.O.O.
(HSE 100.0%)

HTZ I. P. D.O.O.
(PV 100.0%)

SIPOTEH D.O.O.
(PV 100.0%)

PLP D.O.O.
(PV 100.0%)

BRANCH OFFICE IN MACEDONIA

RGP D.O.O.
(PV 60.9%, DEM 30.0%, SENG 4.0%, TEŠ 5.1%)

INTERNATIONAL NETWORK

HSE BE D.O.O.
(HSE 100.0%)

HSE ADRIA D.O.O. - IN LIQUIDATION
(HSE 100.0%)

HSE MAK ENERGY DOOEL
(HSE 100.0%)

HSE BH D.O.O.
(HSE 100.0%)

HSE PRAGUE BRANCH OFFICE

INVESTMENTS

SOENERGETIKA D.O.O.
(HSE 25.0%)

HSE INVEST D.O.O.
(HSE, DEM, SENG each 25.0%)

SALES OF ELECTRICITY

SALES OF ELECTRICITY IN DOMESTIC MARKET	2018	2017
Sales of electricity in GWh	10,860	9,923
Share of sales in domestic market	35%	26%

SALES OF ELECTRICITY IN FOREIGN MARKETS	2018	2017
Electricity sales in GWh	20,298	27,876
Share of sales in foreign market	65%	74%

HOLDING SLOVENSKE ELEKTRARNE D. O. O.

	2018	2017
Number of employees	176	174

PURCHASE OF ELECTRICITY

OWN PRODUCTION	2018	2017
Number of employees	1,919	1,949
Share of own production	23%	19%
Production of electricity in GWh	7,320	7,034
Capacity in MW	2,161	1,858

OTHER SOURCES	2018	2017
Purchase of electricity in GWh	23,838	30,765
Share of other sources	77%	81%

HESS

	2018	2017
Production of electricity in GWh (49% share)	289	223

HPP PRODUCTION

49% of sources	2018	2017
Number of employees	359	365
Production of electricity in GWh	3,566	3,066
Capacity in MW	927	929
Number of units	66 turbines	66 turbines

DEM	2018	2017
Number of employees	238	241
Production of electricity in GWh	2,929	2,333
Capacity in MW	592	592
Number of units	28 turbines	28 turbines

SENG	2018	2017
Number of employees	121	124
Production of electricity in GWh	637	733
Capacity in MW	335	337
Number of units	38 turbines	38 turbines

(continuing)

TPP PRODUCTION

51% of sources

	2018	2017
Number of employees	329	329
Production of electricity in GWh	3,753	3,968
Capacity in MW	1,234	929
Number of units	2 blocks 4 gas turbines	2 blocks 4 gas turbines

TEŠ

	2018	2017
Number of employees	312	311
Production of electricity in GWh	3,753	3,966
Capacity in MW	1,176	871
Number of units	2 blocks 2 gas turbines	2 blocks 2 gas turbines

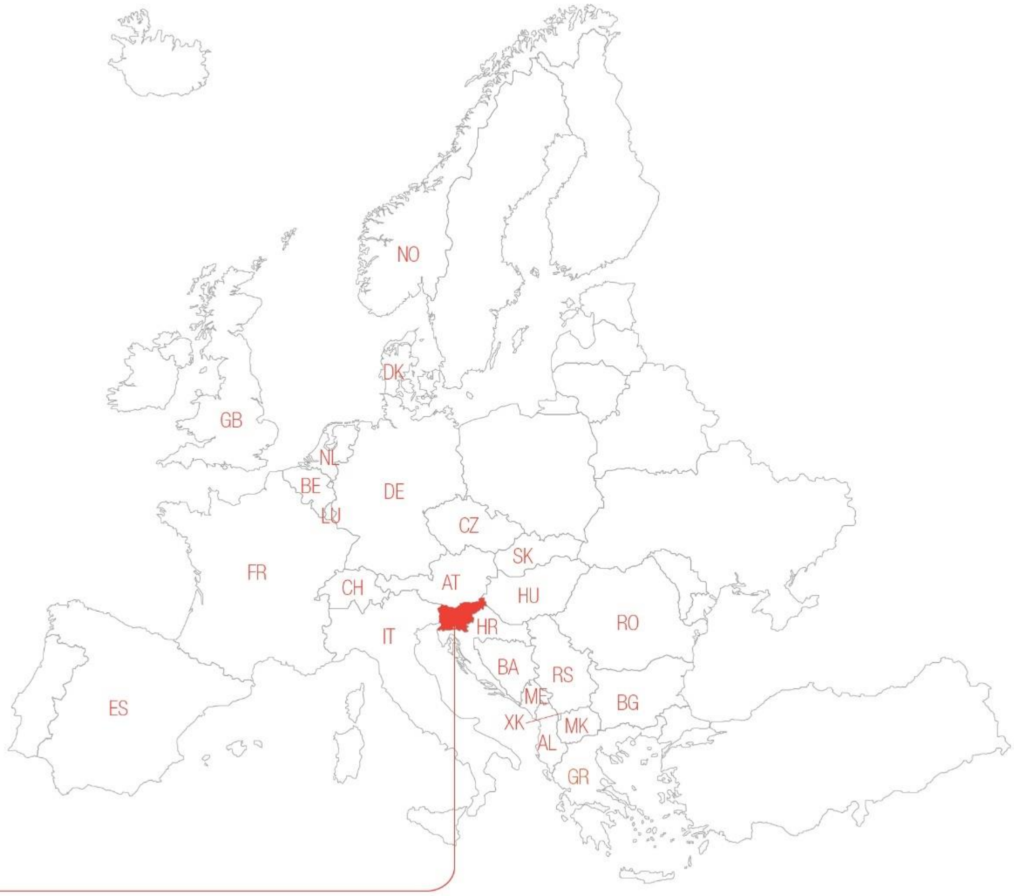
HSE EDT

	2018	2017
Number of employees	17	18
Production of electricity in GWh	0	2
Capacity in MW	58	58
Number of units	2 gas turbines	2 gas turbines

PV

	2018	2017
Number of employees	1,231	1,255
Production of coal in TJ	37,596	39,156

REVENUE FROM THE SALE OF ELECTRICITY OF THE CONTROLLING COMPANY OF THE HSE GROUP IN EUR MILLION IN 2018 AND A CHANGE OVER THE YEAR 2017 EXPRESSED IN PERCENTAGE



SLOVENIA
EUR 536.42 million
14.1%

SPAIN (ES)
EUR 0.07 million
-79.8%

FRANCE (FR)
EUR 0.03 million
-91.0%

LUXEMBOURG (LU)
EUR 72.55 million
-2.6%

BELGIUM (BE)
EUR 0.44 million
0.0%

NETHERLANDS (NL)
EUR 0.35 million
87.8%

GREAT BRITAIN (GB)
EUR 51.30 million
-43.6%

NORWAY (NO)
EUR 0.33 million
0.4%

DENMARK (DK)
EUR 22.25 million
65.9%

GERMANY (DE)
EUR 159.48 million
-26.7%

SWITZERLAND (CH)
EUR 151.29 million
-21.8%

ITALY (IT)
EUR 119.26 million
-46.6%

AUSTRIA (AT)
EUR 23.93 million
79.3%

CZECH REPUBLIC (CZ)
EUR 126.88 million
12.7%

SLOVAKIA (SK)
EUR 22.42 million
61.5%

HUNGARY (HU)
EUR 48.19 million
167.3%

CROATIA (HR)
EUR 41.22 million
376.0%

BOSNIA AND HERZEGOVINA (BA)
EUR 16.67 million
-74.7%

MONTENEGRO (ME)
EUR 0.46 million
-94.8%

SERBIA (RS)
EUR 13.28 million
-55.6%

ROMANIA (RO)
EUR 4.19 million
-47.7%

BULGARIA (BG)
EUR 0.99 million
-54.0%

MACEDONIA (MK)
EUR 9.67 million
-5.4%

ALBANIA (AL)
EUR 1.18 million
-72.8%

THE REPUBLIC OF KOSOVO (XK)
EUR 28.09 million
0.0%

GREECE (GR)
EUR 31.16 million
12.6%

2.5 MARKET ENVIRONMENT

ECONOMIC GROWTH IN EUROPE

2018 **1.8 %**

2017 2.4 %

In 2018, the continuation of economic growth was observed in Europe, but it was less impressive.

EURIBOR 12 M INTEREST RATE

2018 **-0.121 %**

2017 -0.186 %

Insisting of the ECB on record low interest rates additionally contributed to the recovery of the European economy.

EXCHANGE RATE

2018 **1.1440**

2017 1.1942

In 2018, the situation of the EUR/US$ currency pair reversed when compared to the previous year, EUR dropped against US$ (a decrease in the exchange rate exceeded 4%), which slightly accelerated the exceptional growth in prices of energy products, especially in the electricity market.

OIL PRICES

2018 **54 $/Bbl**

2017 67 $/Bbl

The Brent crude oil price dropped due to the increase in the production of Saudi Arabia, Russia (OPEC) and the USA. On the other hand, the demand for black gold reduced in China, which was a result of the trade war between the USA and China.

GAS PRICES

2018 **23 EUR/MWh**

2017 18 EUR/MWh

Historically, the gas market recorded new extreme levels in 2018. A positive trend created in the mid 2016 reached its peak in the third quarter of 2018, when the gas prices of monthly futures contracts came close to EUR 30/MWh. Globally, the growth in gas prices had an impact on the growth in crude oil prices and high prices of LNG gas, and in the European market on the movement of prices of CO_2 coupons, coal, electricity and loss in the value EUR against US$.

COAL PRICES

2018 **88 $/t**

2017 90 $/t

In 2018, the coal market was under a strong impact of the demand in Asia. At the beginning of the year the demand was enormous in China, where the import levels reached exceptionally high levels. During the year the import started decreasing due an increase in domestic production in China, cooling of economy and mild weather. In the coal market, Europe observed a decreasing impact.

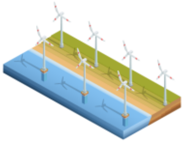
WATER ENERGY IN SE EUROPE

2018 **44.7 TWh**

2017 36.8 TWh

In 2018, the production from river power plants in the countries of SE Europe, including Slovenia, was slightly above the long-term average due to high snow. This was mainly typical of the first half of the year; in the second half the hydro production was below the long-term average in Slovenia.

RENEWABLE ENERGY SOURCES IN GERMANY



2018 **149 TWh**

2017 139 TWh

Germany is the main driving force in charge of an increase in capacities of renewable energy sources. German solar power plants with the total installed power of 42.9 GW produced 43.3 TWh of eelctricity, which was an inacrease of 20% over the previous year. Wind power plants with the total installed power of 56.3 GW produced 106 TWh of electricity, which was an increase of 3% in wind power plant production.

CO_2 PRICES

2018 **25.01 EUR/t**

2017 7.4 EUR/t

The main reason for the high growth in coupon prices was the adoption of the market stability reserve mechanism that will have a strong impact on the offer price and will thus reduce the excessively stocked market of emisson coupons. Consequently, new market participants - speculators entered the market in 2018 as they saw a good and stable business opportunity in this mechanism.

AVERAGE PRICES OF ELECTRICITY

SLOVENIA

2018 51 EUR/MWh ↑

2017 50 EUR/MWh

HUNGARY (HU)

2018 51 EUR/MWh ↑

2017 50 EUR/MWh

ITALY (IT)

2018 61 EUR/MWh ↑

2017 54 EUR/MWh

ROMANIA (RO)

2018 46 EUR/MWh ↓

2017 48 EUR/MWh

GERMANY (DE)

2018 44 EUR/MWh ↑

2017 34 EUR/MWh

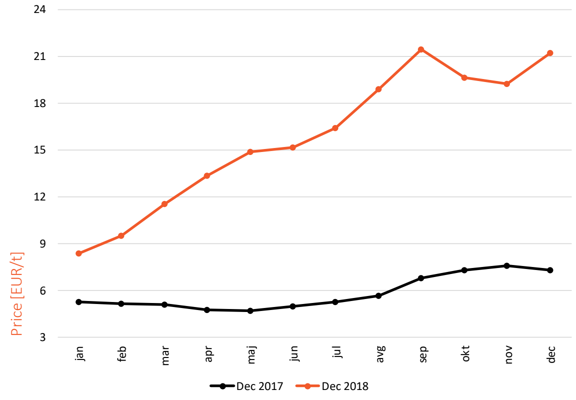
GREECE (GR)

2018 60 EUR/MWh ↑

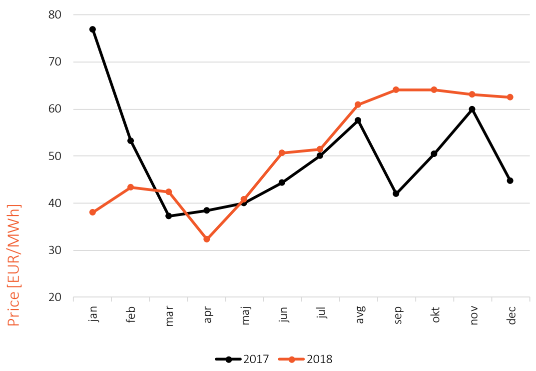
2017 55 EUR/MWh

Higher average prices of electricity in Central Europe are the result of the growth in prices of gas, coal in EUR and CO_2 coupons, time gaps in connecting nuclear power stations to the grid due to high temperatures of the rivers and consequently poor hydrology conditions also had an impact on the market in the second half of the year. The price in the Hungarian market is formed under consideration of the highest price in the Italian market in the West, the Greek market in the South and the lowest price in the Rumanian market in the East. The impact of the German market that dictates the prices exclusively in the period of good hydrology has become increasingly low. The price in Italy and Greece is higher due to a large share of electricity production from gas power plants than the price in the Hungarian market, but the Romanian price is lower than the Hungarian one due to a high share of renewable energy sources. In 2018, the monthly prices of our region were always higher than the German ones and at the same time lower than the Italian and Greek prices.

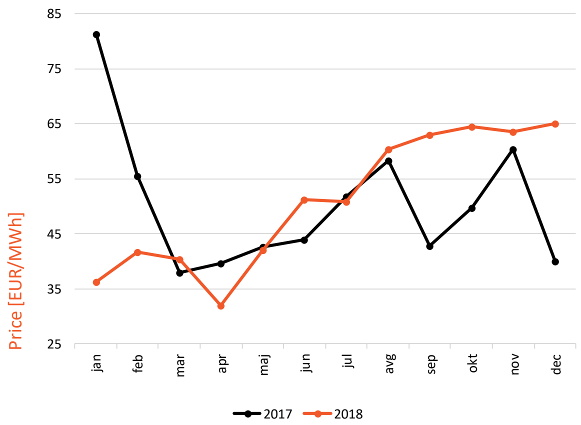
AVERAGE WEEKLY PRICES OF CO_2 COUPONS WITH THE DELIVERY IN DECEMBER WITHIN THE YEAR OF DELIVERY



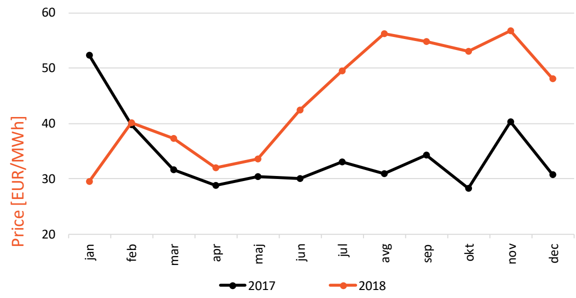
AVERAGE MONTHLY PRICE OF ELECTRICITY BSP – SOUTHPOOL (SLOVENIA)



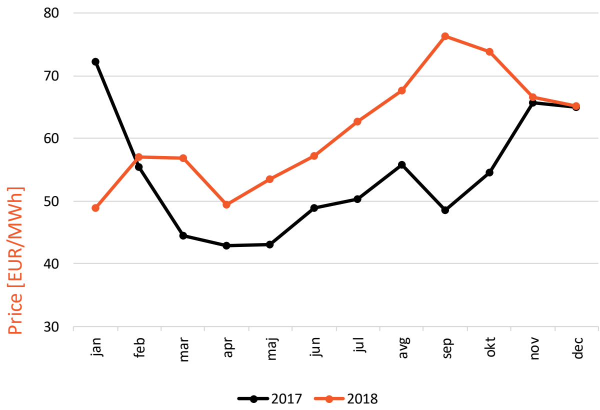
AVERAGE MONTHLY PRICE OF ELECTRICITY HUPX (HUNGARY)



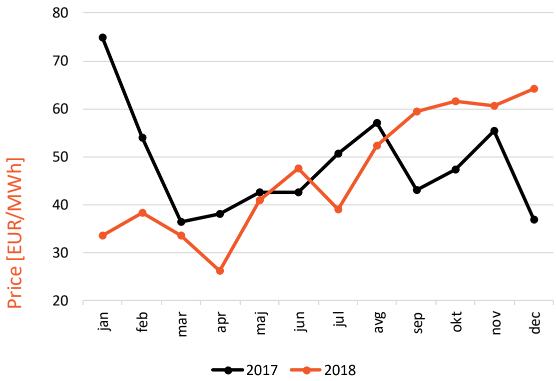
AVERAGE MONTHLY PRICE OF ELECTRICITY EPEX SPOT DE/AT (GERMANY)



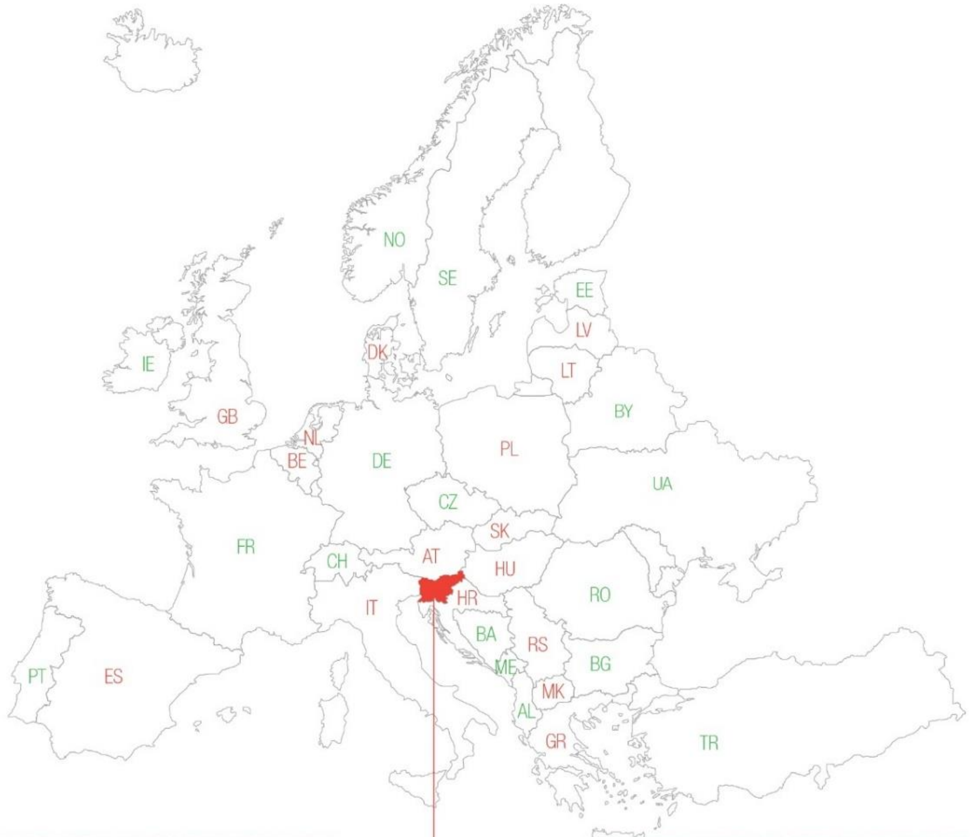
AVERAGE MONTHLY PRICE OF ELECTRICITY GME PUN (ITALY)



AVERAGE MONTHLY PRICE OF ELECTRICITY OPCOM (ROMANIA)



BALANCE SHEET OF THE EUROPEAN ELECTRICITY MARKETS IN 2018 AND
A CHANGE IN THE BALANCE SHEET OVER 2017 EXPRESSED AS A PERCENTAGE



MARKETS WITH NEGATIVE ENERGY BALANCE IN 2018

SLOVENIA
-2.35 TWh
11.1%

ITALY (IT)
-42.04 TWh
-8.5%

AUSTRIA (AT)
-14.00 TWh
-2.4%

CROATIA (HR)
-5.72 TWh
29.0%

SERBIA (RS)
-0.16 TWh
667.9%

MACEDONIA (MK)
-1.7 TWh
15.7%

GREECE (GR)
-5.87 TWh
6.1%

HUNGARY (HU)
-13.7 TWh
-6.3%

SLOVAKIA (SK)
-3.54 TWh
20.9%

POLAND (PL)
-5.61 TWh
-53.7%

BELGIUM (BE)
-13.96 TWh
-49.3%

SPAIN (ES)
-14.34 TWh
10.8%

NETHERLANDS (NL)
-9.93 TWh
-66.0%

GREAT BRITAIN (GB)
-18.67 TWh
-16.7%

DENMARK (DK)
-4.45 TWh
-12.9%

LITHUANIA (LT)
-5.37 TWh
15.3%

LATVIA (LV)
-0.89 TWh
-101.6%

MARKETS WITH POSITIVE ENERGY BANALCE IN 2018

PORTUGAL (PT)
2.56 TWh
-9.3%

FRANCE (FR)
58.64 TWh
33.2%

GERMANY (DE)
49.64 TWh
-21.2%

SWITZERLAND (CH)
0.28 TWh
2,752.0 %

CZECH REPUBLIC (CZ)
12.4 TWh
-6.2%

BOSNIA AND HERZEGOVINA (BA)
4.44 TWh
58.3%

MONTENEGRO (ME)
0.25 TWh
558.2%

ALBANIA (AL)
1.15 TWh
360.4%

BULGARIA (BG)
7.34 TWh
25.4%

TURKEY (TR)
0.69 TWh
-71.9%

ROMANIA (RO)
2.68 TWh
-25.4%

UKRAINE (UA)
4.86 TWh
0.6%

BELARUS (BY)
1.36 TWh
42.7%

ESTONIA (EE)
1.99 TWh
-33.4%

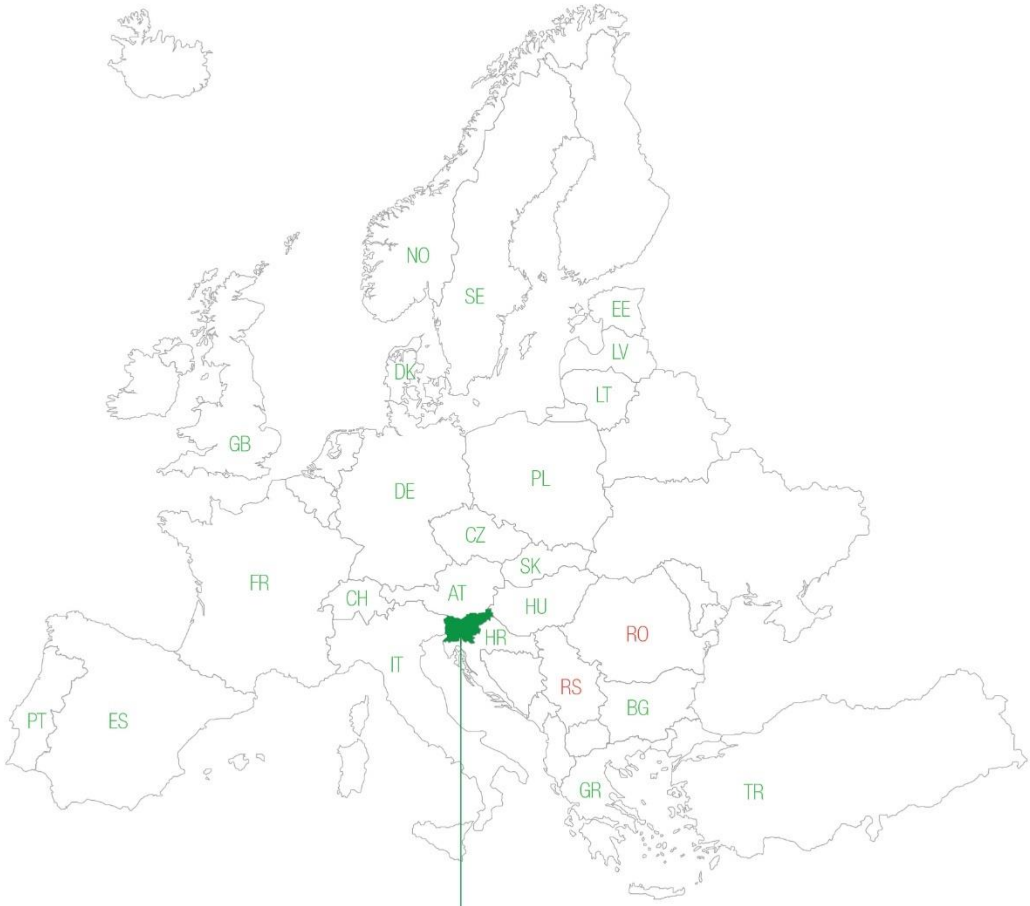
SWEDEN (SE)
16.48 TWh
-18.5%

NORWAY (NO)
11.24 TWh
-44.1%

REPUBLIC OF IRELAND (IE)
0.2 TWh
-242.6%

Source: ENTSOe
TWh - change in %

ACHIVED AVERAGE ANNUAL DAILY PRICE OF THE EUROPEAN ELECTRICITY MARKETS IN 2018 (EUR/MWH) AND A CHANGE OVER 2017 EXPRESSED AS A PERCENTAGE



FALL IN ELECTRICIY PRICE OVER 2017

SERBIA (RS)
50.15 EUR/MWh
-1.8%

ROMANIA (RO)
46.45 TWh
-3.6%

INCREASE IN ELECTRICITY PRICE OVER 2017

SLOVENIA
51.16 EUR/MWh
3.3%

AUSTRIA (AT)
46.30 EUR/MWh
34.4%

SWITZERLAND (CH)
52.22 EUR/MWh
13.5%

CZECH REPUBLIC (CZ)
46.02 EUR/MWh
26.2%

ITALY (IT)
61.31 EUR/MWh
13.6%

SPAIN (ES)
57.29 EUR/MWh
9.7%

PORTUGAL (PT)
57.45 EUR/MWh
9.5%

FRANCE (FR)
50.20 EUR/MWh
11.6%

GREAT BRITAIN (GB)
57.43 EUR/MWh
26.7%

GERMANY (DE)
44.47 EUR/MWh
30.1%

DENMARK (DK)
44.05 EUR/MWh
46.1%

NORWAY (NO)
43.99 EUR/MWh
49.5%

SWEDEN (SE)
44.23 EUR/MWh
43.3%

ESTONIA (EE)
47.07 TWh
41.7%

LATVIA (LV)
49.91 EUR/MWh
43.8%

LITHUANIA (LT)
50.01 EUR/MWh
42.2%

POLAND (PL)
54.76 EUR/MWh
46.3%

SLOVAKIA (SK)
48.47 EUR/MWh
18.4%

HUNGARY (HU)
51.00 EUR/MWh
1.3%

CROATIA (HR)
51.96 EUR/MWh
0.4%

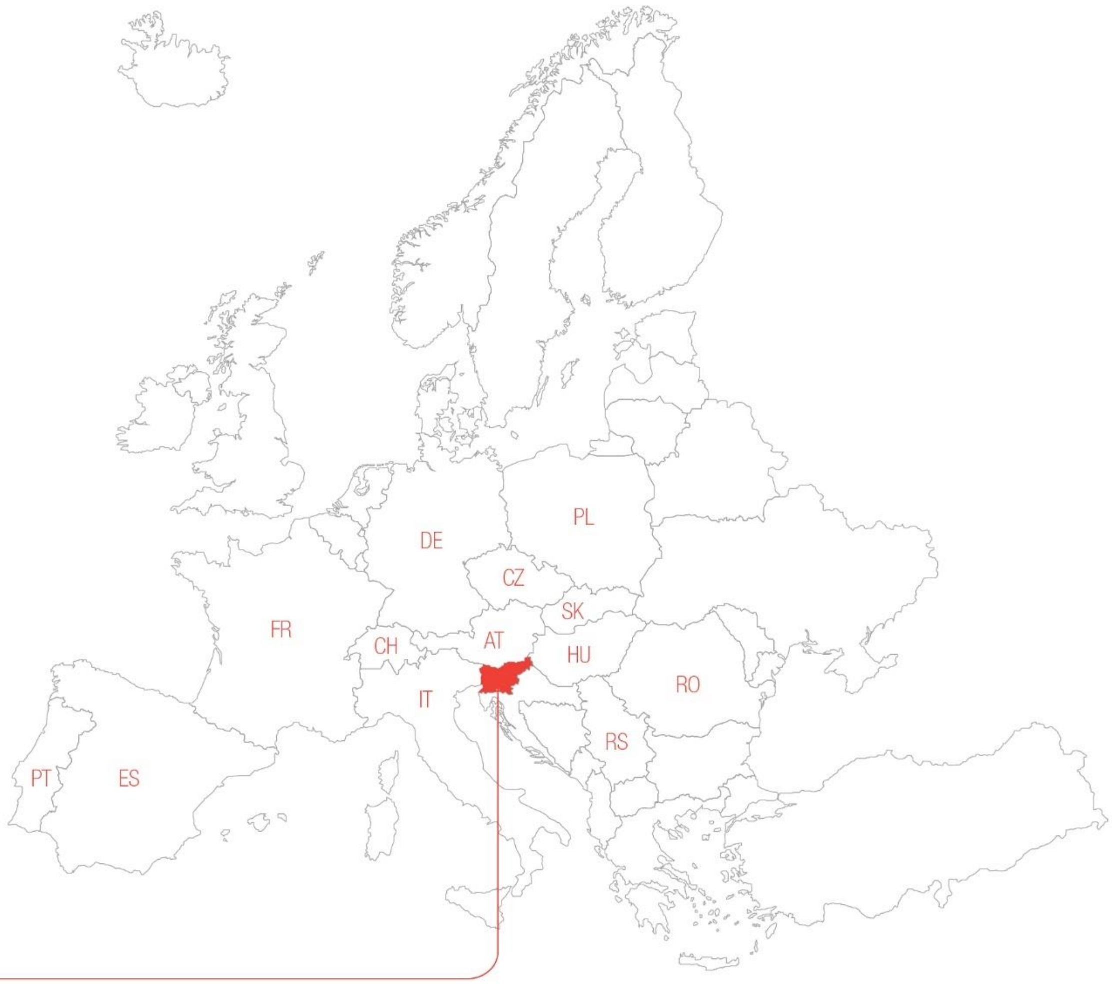
GREECE (GR)
60.4 EUR/MWh
10.5%

TURKEY (TR)
40.04 TWh
0.6%

BULGARIA (BG)
39.89 EUR/MWh
1.5%

Source: Power Exchanges
EUR / MWh - change in %

FUTURE PRICES OF BASELOAD ELECTRICITY FOR THE DELIVERY IN 2019 AT THE END OF 2018 (EUR/MWH)



SLOVENIA
62.50 EUR/MWh

SWITZERLAND (CH)
60.57 EUR/MWh

FRANCE (FR)
59.96 EUR/MWh

CZECH REPUBLIC (CZ)
56.68 EUR/MWh

ROMANIA (RO)
59.41 EUR/MWh

AUSTRIA (AT)
58.25 EUR/MWh

PORTUGAL (PT)
61.77 EUR/MWh

GERMANY (DE)
54.44 EUR/MWh

SLOVAKIA (SK)
58.84 EUR/MWh

SERBIA (RS)
63.65 EUR/MWh

ITALY (IT)
67.49 EUR/MWh

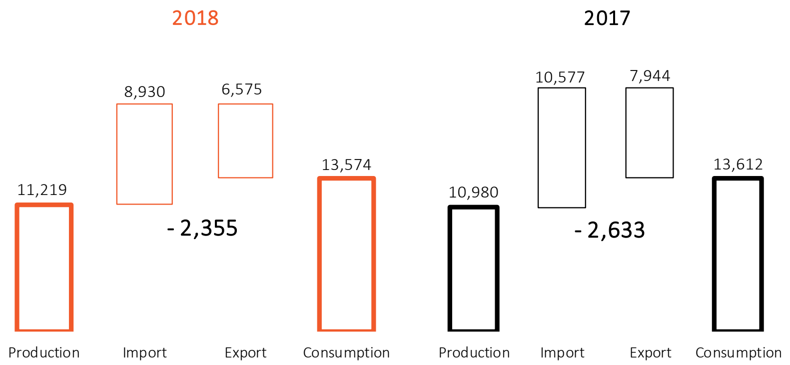
SPAIN (ES)
61.71 EUR/MWh

POLAND (PL)
66.70 EUR/MWh

HUNGARY (HU)
62.50 EUR/MWh

Source: Power Exchanges

SLOVENE ELECTRICITY MARKET IN GWH

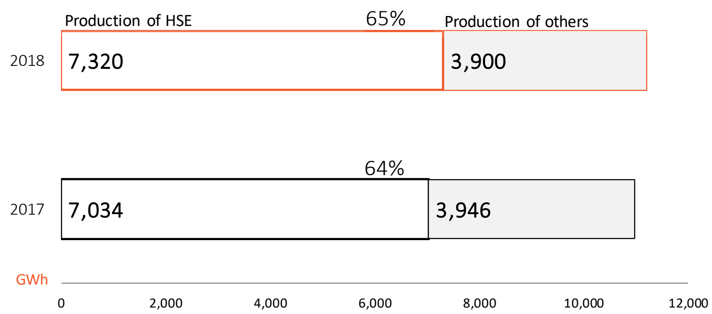


Note: The use considers also losses in the electricity transmission, 50% NEK in case of production and export
Source: ELES

The first half of the year 2018 was marked by the above-average hydrological conditions and higher temperature oscillations. A favourable economic growth additionally encouraged energy consumption. Due to a higher domestic production the requirement for import of electricity decreased and the export of energy dropped mainly due to a higher consumption in the domestic market. In the second half of the year the situation changed, the hydrological conditions were poor, the production from hydro power plants was below the plan, and therefore more electricity had to be imported.

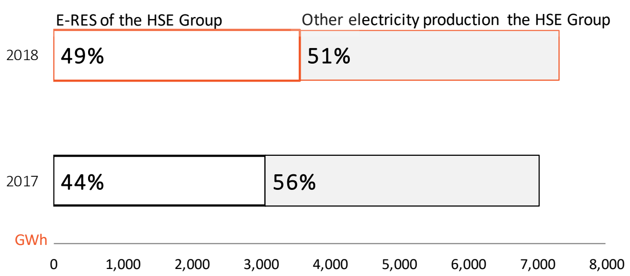
In total, the Slovene market was a net electricity importer in 2018.

SHARE OF THE HSE GROUP PRODUCTION IN TOTAL ELECTRICITY PRODUCTION IN SLOVENIA



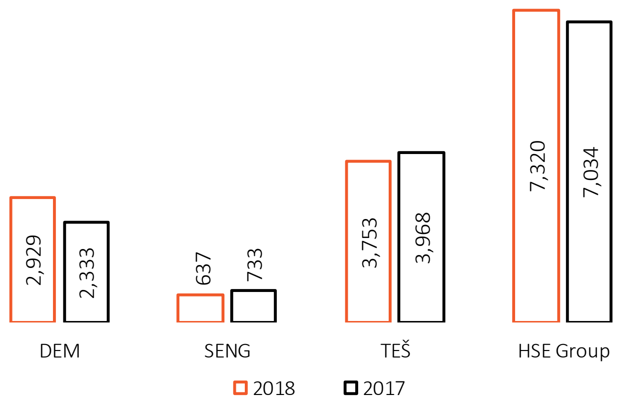
In 2018, the production of the HSE Group exceeded the plan, which was a result of very favourable hydrological conditions in the first half of the year. The market share of the HSE Group increased accordingly, i.e. an increase of 1% over the year 2017 was observed.

SHARE OF RENEWABLE ENERGY SOURCES IN THE HSE GROUP PRODUCTION



The share of electricity production from renewable energy sources in total production of the HSE Group increased in 2018 when compared to 2017, i.e. from 44% to 49%. On one hand, this was a result of good hydrology in the first half of the year and on the other one, a result of the lower thermal energy production due to overhauls and maintenance throughout the year 2018.

RATED POWER PRODUCED IN THE HSE GROUP IN GWH



The total quantity of the electricity produced in 2018 was higher over the year 2017. The increase in the production was mainly a result of the production of the DEM hydro power plants that exceeded the plan, whereas the production of thermal power plants slightly lagged behind the year 2017, which was mostly due to the overhaul of Unit 6 of TEŠ, revitalisation of Unit 5 of TEŠ and Unit 4, whose operation was discontinued.

2.6 BUSINESS PERFORMANCE ANALYSIS OF THE HSE GROUP AND THE COMPANY

BUSINESS PERFORMANCE ANALYSIS OF THE HSE GROUP AND THE COMPANY IN EUR

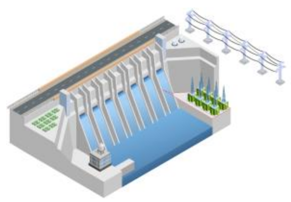
HSE GROUP

	2018	2017
Assets	2,134,733,707	2,138,362,354
Total equity	1,091,245,475	1,038,307,041
Net profit or loss	-11,802,603	8,213,664
EBITDA	128,129,727	138,235,820

HOLDING SLOVENSKE ELEKTRARNE D.O.O.

	2018	2017
Assets	1,381,683,134	1,321,084,847
Total equity	979,389,150	905,369,122
Net profit or loss	9,486,269	19,737,615
EBITDA	55,340,294	51,015,920

HPP PRODUCTION



DRAVSKE ELEKTRARNE MARIBOR D.O.O.

	2018	2017
Assets	460,054,050	478,991,438
Total equity	445,285,553	466,958,963
Net profit or loss	8,320,493	7,716,732
EBITDA	21,402,296	21,537,958

SOŠKE ELEKTRARNE NOVA GORICA D.O.O.

	2018	2017
Assets	226,705,599	231,778,264
Total equity	198,964,978	194,935,948
Net profit or loss	4,008,871	3,993,874
EBITDA	15,495,123	14,625,703

SREDNJESAVSKE ELEKTRARNE D.O.O.

	2018	2017
Assets	62,980	68,175
Total equity	62,968	68,164
Net profit or loss	-5,195	-395
EBITDA	-5,195	-396

(continuing)

HIDROELEKTRARNE NA SPODNJI SAVI D.O.O.
(49% of the HSE - not consolidated)

	2018	2017
Assets	344,419,943	343,830,975
Total equity	282,522,927	279,005,812
Net profit or loss	3,561,010	1,807,948
EBITDA	12,272,417	8,855,817

TPP PRODUCTION

TERMOELEKTRARNA ŠOŠTANJ D.O.O.

	2018	2017
Assets	1,027,242,961	1,076,292,041
Total equity	352,624,004	411,121,663
Net profit or loss	-58,529,301	-32,594,162
EBITDA	22,211,796	30,306,694

HSE - ENERGETSKA DRUŽBA TRBOVLJE D.O.O.

	2018	2017
Assets	3,630,414	4,248,415
Total equity	2,174,576	2,843,380
Net profit or loss	-541,450	-471,387
EBITDA	-104,819	2,366,609

PRIMARY SOURCES AND OTHER ACTIVITIES

PREMOGOVNIK VELENJE D.O.O.

	2018	2017
Assets	124,685,916	130,357,915
Total equity	42,839,088	44,219,801
Net profit or loss	-3,831,881	3,404,487
EBITDA	10,920,471	16,444,345

HTZ I. P. D.O.O.

	2018	2017
Assets	15,848,665	16,578,406
Total equity	1,398,204	1,324,004
Net profit or loss	238,031	109,108
EBITDA	1,260,389	1,807,129

SIPOTEH D.O.O.

	2018	2017
Assets	989,107	900,846
Total equity	456,655	295,145
Net profit or loss	161,511	28,651
EBITDA	236,816	115,667

RGP D.O.O.

	2018	2017
Assets	7,362,319	4,710,821
Total equity	2,241,985	513,955
Net profit or loss	809,890	-1,291,347
EBITDA	1,333,379	140,179

INTERNATIONAL NETWORK

HSE BE D.O.O.

	2018	2017
Assets	1,366,648	10,011,281
Total equity	881,105	860,714
Net profit or loss	18,701	86,612
EBITDA	99,331	102,818

HSE ADRIA D.O.O. - IN LIQUIDATION

	2018	2017
Assets	82,804	290,298
Total equity	81,339	276,138
Net profit or loss	-18,162	-93,063
EBITDA	-18,173	-95,104

(continuing)

HSE MAK ENERGY DOOEL

	2018	2017
Assets	2,489,571	1,905,460
Total equity	135,358	98,015
Net profit or loss	38,084	64,696
EBITDA	49,481	67,749

HSE BH D.O.O.

	2018	2017
Assets	2,139,603	11,554,265
Total equity	753,626	750,925
Net profit or loss	2,702	167,650
EBITDA	3,955	188,942

INVESTMENTS

SOENERGETIKA D. O. O.

(25% ot the HSE - not consolidated)

	2018	2017
Assets	2,700,116	3,135,261
Total equity	1,811,157	1,833,993
Net profit or loss	680,768	546,067
EBITDA	1,462,225	1,309,581

HSE INVEST D.O.O.

	2018	2017
Assets	1,535,375	2,510,084
Total equity	589,084	1,599,476
Net profit or loss	-1,039,125	-199,702
EBITDA	-970,937	-118,829

2.6.1 BUSINESS PERFORMANCE ANALYSIS OF THE HSE GROUP

2.6.1.1 KEY DATA ABOUT THE HSE GROUP

KEY DATA	UNIT OF MEASURE	2014	2015	2016	2017	2018
Net sales revenue	in EUR	1,258,391,110	1,224,011,025	1,179,841,222	1,587,759,985	**1,471,965,221**
Net profit or loss	in EUR	-35,690,435	-480,102,728	21,660,852	8,213,664	**-11,802,603**
*Revenue	in EUR	1,289,618,794	1,241,057,112	1,201,249,357	1,611,867,720	**1,491,669,217**
*EBIT = Operating profit or loss	in EUR	-8,113,035	-443,546,965	75,027,419	56,437,024	**30,442,789**
*EBITDA	in EUR	157,312,830	121,574,031	155,690,340	138,235,820	**128,129,727**
Assets	in EUR	2,728,888,082	2,233,923,431	2,156,756,540	2,138,362,354	**2,134,733,707**
Equity	in EUR	1,471,547,419	991,749,078	1,015,220,355	1,038,307,041	**1,091,245,475**
Indebtedness to banks	in EUR	933,162,506	1,014,505,756	896,097,180	851,175,060	**783,548,534**
Total indebtedness	in EUR	936,396,818	1,015,105,207	899,604,980	851,439,217	**784,137,313**
Investments	in EUR	235,550,221	97,952,979	33,510,462	49,208,528	**57,444,700**
Electricity produced	in GWh	8,294	6,763	7,778	7,034	**7,320**
Electricity sold	in GWh	25,566	27,194	28,344	36,987	**30,629**

NUMBER OF EMPLOYEES						
End of the year		3,671	3,390	3,110	3,093	**3,074**
Average number of employees		3,770	3,531	3,250	3,102	**3,078**

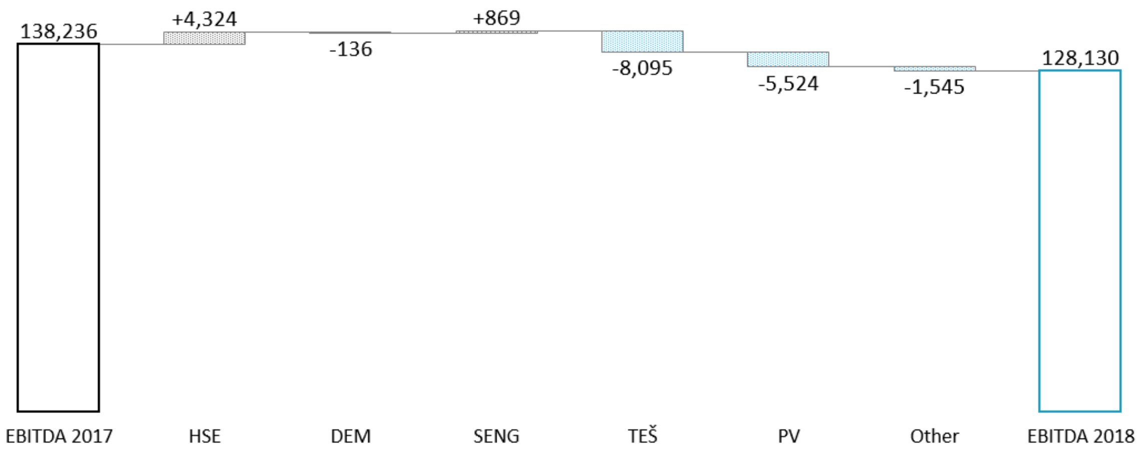
OTHER RATIOS						
Equity financing rate		53.92	44.39	47.07	48.56	**51.12**
Long-term financing rate		88.27	79.62	89.82	88.21	**86.91**
Operating fixed assets rate		82.96	80.09	80.73	79.57	**77.80**
Long-term investment rate		87.98	86.58	87.58	87.08	**85.36**
Equity to operating fixed assets		0.65	0.55	0.58	0.61	**0.66**
Immediate solvency ratio		0.29	0.22	0.39	0.30	**0.35**
Quick ratio		0.88	0.56	1.06	0.94	**0.99**
Current ratio		1.01	0.65	1.19	1.09	**1.12**
*Operating efficiency ratio		1.00	0.74	1.07	1.04	**1.02**
Net return on equity ratio (ROE)	%	-2.4%	-39.0%	2.2%	0.8%	**-1.1%**
Return on assets (ROA)	%	-1.3%	-19.3%	1.0%	0.4%	**-0.6%**
*Added value	in EUR	301,369,689	251,699,079	281,479,876	258,115,028	**251,427,464**
*Value added per employee	in EUR	79,939	71,293	86,609	83,223	**81,685**
Debt/Equity ratio		0.64	1.02	0.89	0.82	**0.72**
*Total financial debt / EBITDA		5.95	8.35	5.78	6.16	**6.12**
*EBITDA / Financial expenses for borrowings		22.23	6.05	4.59	4.96	**4.91**
Total financial liabilities / Assets		0.34	0.45	0.42	0.40	**0.37**
Net financial liabilities	in EUR	848,098,645	936,224,926	816,119,586	789,745,775	**700,626,784**
Net financial liabilities / EBITDA		5.39	7.70	5.24	5.71	**5.47**
Net financial liabilities / Equity		0.58	0.94	0.80	0.76	**0.64**
Trading margin in EUR/GWh		15,378	11,260	12,823	9,297	**11,120**

*** CONSISTENCY OF PRESENTATION:**

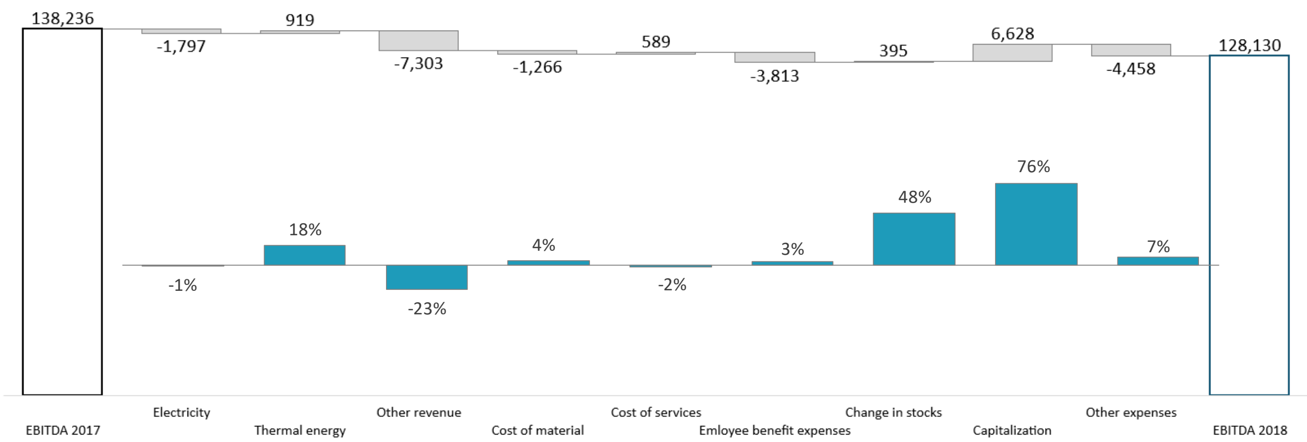
Capitalised own products and services reduce in 2018 operating costs, while they were disclosed among operating income in the last year. The relevant change has an impact on the revenue and the operating efficiency ratio. Gains/losses on derivatives in relation to electricity trading and emission coupons are disclosed in 2018 by the net principle among operating income or operating costs, while in the previous year they were recorded among finance income or finance costs. The changes affect: revenue, the EBIT, the EBITDA and the ratios such as the added value, added value/employee, total financial liabilities/EBITDA, EBITDA/finance costs for borrowings received and net financial liabilities/EBITDA.
As of 1 January 2018, the HSE Group changed the accounting policy for monitoring investment properties (the cost model was replaced by the fair value model). The aforesaid has an impact on the adjusted financial statements for 2017.

2.6.1.2 BUSINESS PERFORMANCE ANALYSIS OF THE HSE GROUP IN 2018 OVER 2017

CHANGE IN EBITDA OF 2018 OVER 2017 BY COMPANY IN THE HSE GROUP IN EUR THOUSAND

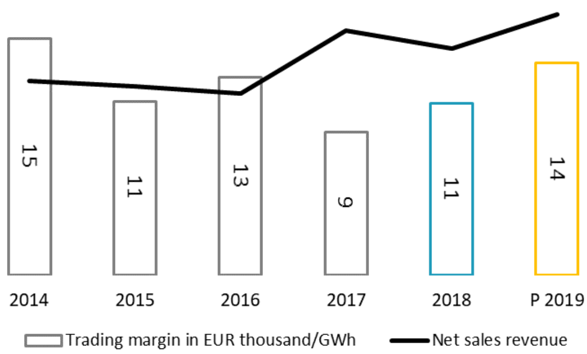


CHANGE IN EBITDA OF 2018 OVER 2017 IN EUR THOUSAND AND EXPRESSED AS A PERCENTAGE

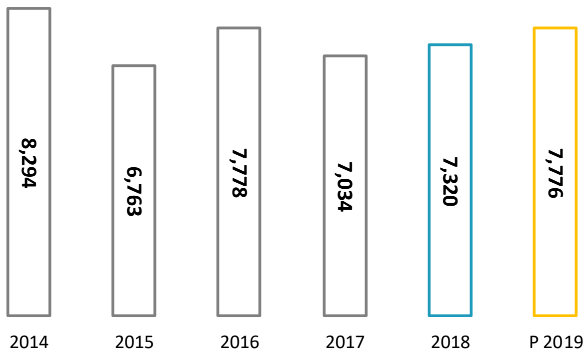


Higher trading margin: In 2018, the HSE Group pursued its mission and ensured safe and reliable supply of electricity to the customers. The production of the HSE Group was higher by 4% in 2018 when compared to the previous year. The production in hydro power plants improved by 21% (favourable weather conditions in the first half of the year 2018, when there was a lot of snow), while the production of thermal power plants dropped by 5% (discontinued operation of Unit 4 of TEŠ, the first overhaul of Unit 6 and refurbishment of Unit 5 of TEŠ in the year 2018), the electricity production in Avče pumped storage power plant was lower by 31% due to the beginning of the first regular overhaul. In the second half of 2018 the HSE Group successfully and timely completed the first regular overhaul of Unit 6. It accomplished the ecological rehabilitation of Unit 5 in TEŠ earlier than planned and in August 2018 the Unit started supplying electricity to the Slovene grid again. The ecological rehabilitation of Unit 5 was intended for the reduction in hazardous substances and their emission values in flue gases. When these values are compared to those of the discontinued operation of Unit 4, they are by 60% lower for nitrogen oxide (NOx), by 50% for sulphur dioxide (SO_2) and even by 80% for dust particles. The HSE Group offset the loss in production of hydro and thermal power plants that had been sold in advance. Due to the price hedging policy the loss was offset by additional purchases of electricity in foreign markets due to the price hedging policy. Due to an abrupt increase in average prices of electricity from May 2018 on the purchases were expensive, which had a negative impact on the result of the HSE Group relating to the electricity, which was by 1% lower than in the previous year. The strategy efficiently adjusted to the new market conditions (more short-term trading and less long-term trading) the HSE Group generated a trading margin higher by EUR 1,823 per GWh and sold 17% less electricity. Consequently, revenue from the sale fell by 7%.

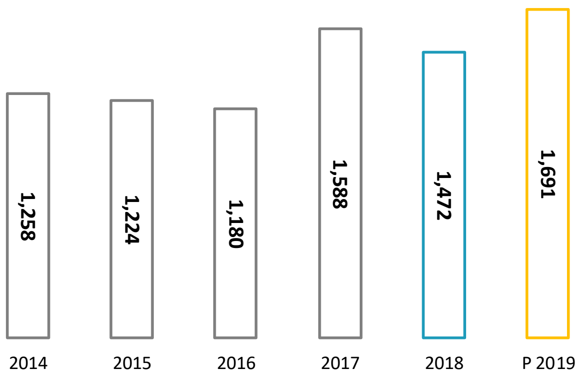
TRADING MARGIN IN EUR THOUSAND/GWH AND CHANGES IN REVENUE FROM THE SALE



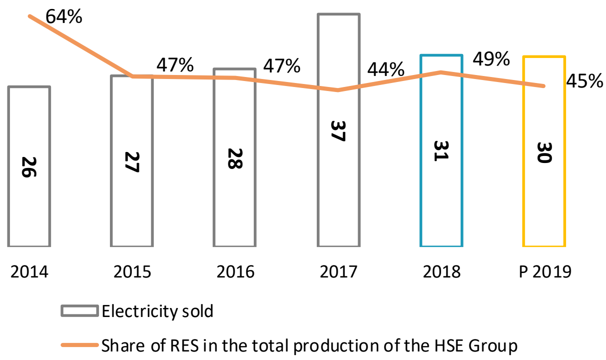
PRODUCED ELECTRICITY IN GWH



REVENUE FROM THE SALE IN EUR MILLION



ELECTRICITY SOLD IN TWH

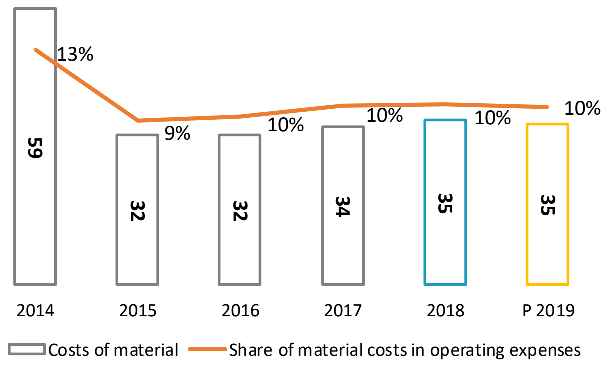


In 2018, the HSE Group earned revenue from the sale of thermal energy in the amount of EUR 5,985,749, which was an increase of 18% over the year 2017 due to higher prices as a result of the increase in prices of the CO_2 emission coupons.

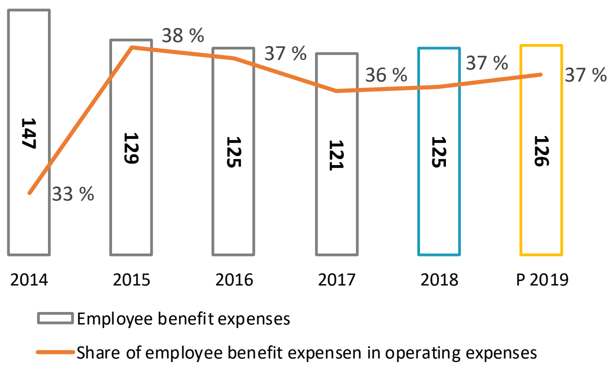
Revenue from the sale of services (35%) accounted for the largest share in other operating income as it amounted to EUR 18,398,865 and was by 8% lower than in 2017. The HSE Group generated revenue from the sale of other services by offering construction, mining, maintenance services and real estate leasing. **Income from utilising deferred income** (EUR 7,219,970) accounted for 30% and was lower by 3%. It was mostly earned by HTZ, which employs disabled persons, by income deriving from utilising the assigned funds for the payment of salaries of disabled persons and the income for covering the amortisation and depreciation expense. **Income from reversal of provisions** (EUR 2,928,333) accounted for 12% and was lower by 2% over the year 2017. The reversal of provisions for compensation of TEŠ represented the majority of income. In 2018, the HSE Group earned **profit from the sale of assets** in the amount of EUR 1,371,075 EUR (a 6% share), which was a decrease of 21% over the previous year, **revenue from the sale of merchandise and material** in the amount of EUR 1,197,149, which was an increase of 11% over 2017 (the sale of scrap iron accounted for the largest share), revenue from compensation and contractual penalties and revenue from the sale of products.

The diagrams below present shares of costs of material, employee benefit expenses and other operating expenses in operating expenses, whereby operating expenses are calculated as a sum of costs of material, services, employee benefit expenses, amortisation and depreciation expense and other operating expenses.

COSTS OF MATERIAL IN EUR MILLION

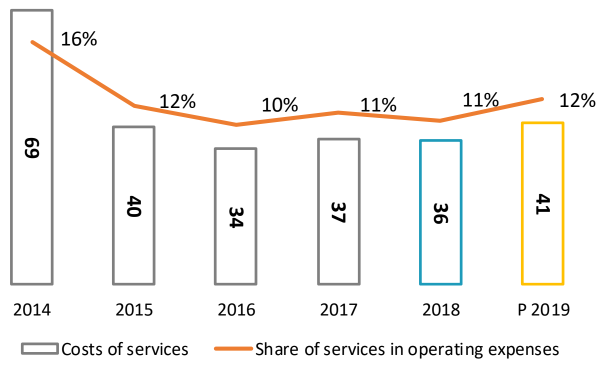


EMPLOYEE BENEFIT EXPENSES IN EUR MILLION



When compared to the year 2017 the costs of material (EUR 35,341,805) went up by 4%. Due to the overhaul of Unit 6 in TEŠ more spare parts were used for fixed assets that accounted for the largest share in the structure of costs of material (20%). Through capitalisation the costs of overhauls were transferred to the investment of Unit 6 in TEŠ. Costs of the steel supports (17%), costs of gas consumption (12%) and lime sand brick (12%) and other costs of material followed.

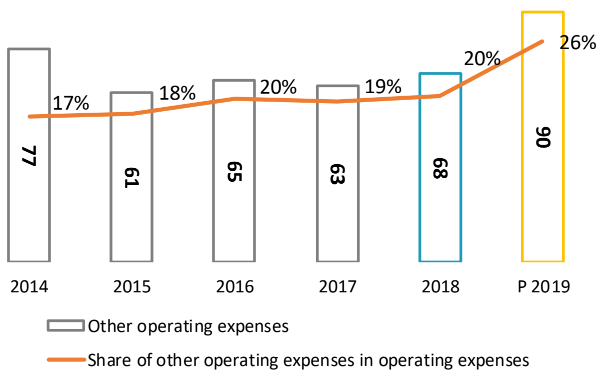
COST OF SERVICES IN EUR MILLION



Costs of services of the HSE Group amounted to EUR 36,087,086 in 2018. When compared to the year 2017 the costs decreased by 2%, mainly due to lower costs of lawyer fees and legal services. The costs of maintenance (26%) had the largest share in the costs of services and were follwed by costs of insurance and banking services (15%), costs of intellectual and personal services (14%), costs of services relating to the creation of products (13%) and other costs of services.

Employee benefit expenses (EUR 124,519,622) of the HSE Group were higher by 3% in 2018 when compared to the previous year mainly due to the higher emyploee benefit expenses in the TEŠ companies (business performance, work performance and formation of provisions for jubilee benefis and termination benefits upon retirement) and in PV (additional payment of the mentorship and instructor allowance for 2017, payment of allowance for work preparation to the emplyoees within the framewrok of the agreement on effective working time, increased volume of overtime work and salary escallation in line with the Collective Agreement).

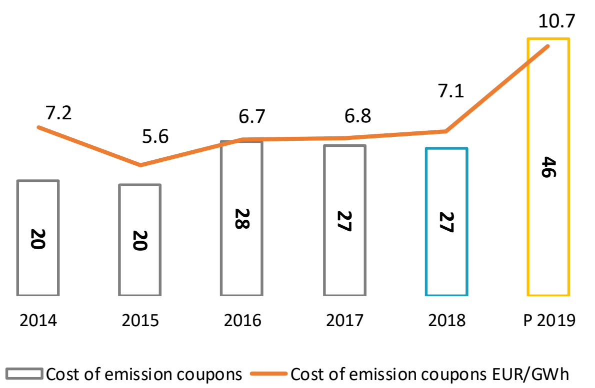
OTHER OPERATING EXPENSES IN EUR MILLION



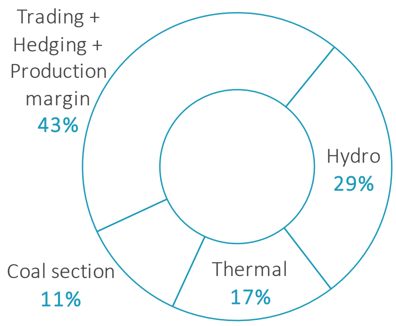
In 2018, the HSE Group generated capitalised products and services (EUR 15,395,195) by engineering services, work relating to the pit constructions, by construction services, works and use of material relating to overhauls of Unit 6 and refurbishment of Unit 5 in TEŠ. When compared to the previous year the capitalised costs increased by 76%.

In 2018, other operating expenses of the HSE Group were higher by 7% over the year 2017. The costs of emission coupons, accounting for 39% reduced by 1% due to lower production in thermal power plants. Duties for concessions (a 21% share) were higher by 30% due to higher production and higher prices of electricity, and the compensation fee for the building site use (a 17% share) was higher by 20%, water reimbursement (a 12% share) was at the level of the previous year, donations (a 3% share) were significantly higher as donations were made to the municipalities of Šoštanj and Šmartno ob Paki in the amount of EUR 1,680,000 (on the other hand, income from reversal of provisions was recognised in line with the compensation agreements in the amount of EUR 2,280,000), provisions (a 2% share) decreased by 57% over the previous year. The remaining items of other operating expenses were also: VAT for financial services, quotas for disabled persons, court and administrative charges and other expenses for environmental protection.

COST OF EMISSION COUPONS IN EUR MILLION



STRUCTURE OF EBITDA IN 2018



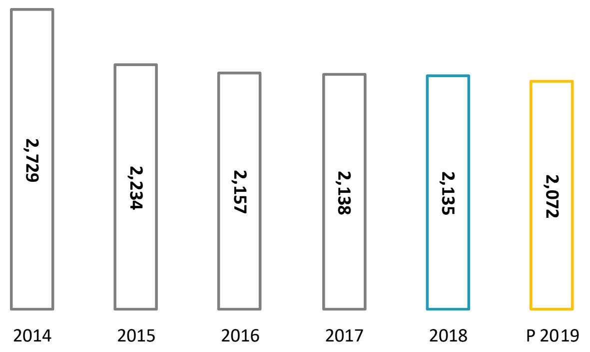
In 2018, the HSE Group generated operating profit that was lower by 46% (EUR 30,442,789) when compared to the year 2017. The reason was the impairment of assets of TEŠ (EUR 18,489,038).

Due to finance expenses for interest that were still high the HSE Group recorded in 2018 negative financial result that that included a share in operating profit or loss of associated companies (EUR 31,289,644) that was lower by 7% over the previous year due to deleveraging of the Group and rescheduling of the loans.

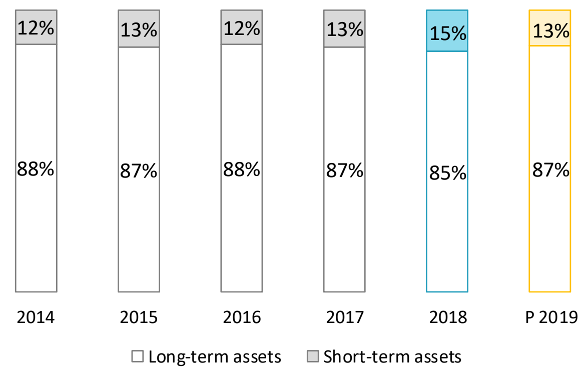
Net profit or loss: after the deduction of corporate income taxes the HSE Group made loss in the amount of EUR 11,802,603 in 2018. The impairment of assets in TEŠ had an impact on the loss. If there had been no impairment, the net profit or loss would have been at the level of 2017.

2.6.1.3 Analysis of financial position of the HSE Group

ASSETS IN EUR MILLION



STRUCTURE OF ASSETS IN THE HSE GROUP

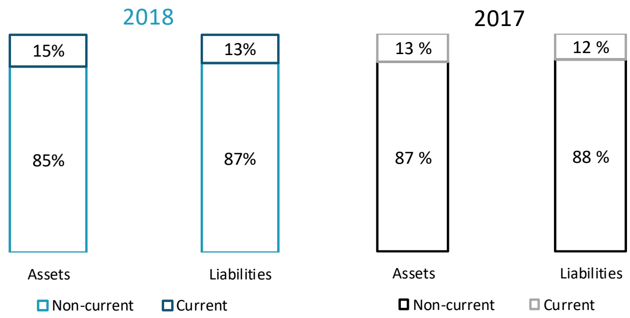


As at 31 December 2018, the assets of the HSE Group (EUR 2,134,733,707) were at the level of the previous year. In the structure of assets short-term assets went up due to higher cash. Long-term assets dropped due to the impairment.

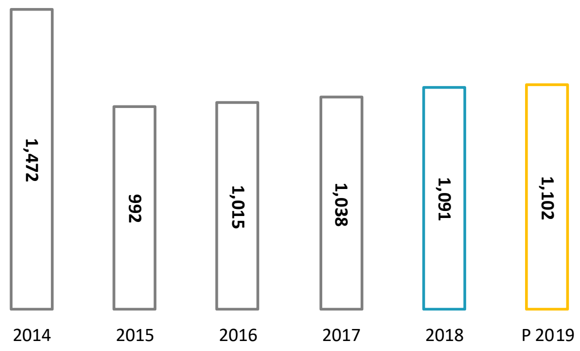
Intangible assets of the HSE Group were higher by 24% as at 31 December 2018 when compared to the previous year due to higher inventories of emission coupons (higher prices). Intangible assets of the HSE Group included: goodwill arising from the recoverable amount of a cash generating unit, mainly in SENG (EUR 12,823,254), inventories of emission coupons (EUR 7,375,403) and concessions, patents, licences, trademarks and similar rights and assets (EUR 3,581,428). As at 31 December 2018, the largest share (77%) in the structure of assets of the HSE Group was represented by property plant and equipment (EUR 1,636,937,210). When compared to the previous year 2017 the assets were lower by 3% due to the impairment in TEŠ (EUR 18,489,038) and the transfer of spare parts in TEŠ to inventories (EUR 3,578,855). In 2018, the investments of the HSE group did not follow the amortisation and/or depreciation of assets, which additionally contributed to the reduction in value of property, plant and equipment of the Group. Due to the sale the investment property (EUR 17,183,899) was lower by 5%. The value of long-term investments in the subsidiaries (EUR 510,445) represented the investment in the subsidiary PLP that is to be sold in the year 2019. Other long-term investments included a 49% share in HESS (EUR 138,823,264) that was higher by 1% due to the valuation at equity method. Long-term operating receivables (EUR 3,690,818) mainly included receivables for financial covers given for the purpose of electricity trading and long-term operating receivables due from customers that decreased by 8%.

Inventories of the HSE Group (EUR 30,435,378) were by 25% higher at the end of the year 2018 than in 2017, mostly because of the transfer of spare parts from investments. Short-term investments (EUR 13,013,546) included special-purpose deposits for the repayment of financial liabilities of TEŠ. Short-term operating receivables due from customers (EUR 135,127,685) increased by 9% due to a higher turnover of the parent company in December 2018 over December 2017. Other short-term assets (EUR 47,860,353) mainly included receivables for VAT, and contract assets (EUR 1,014,437) and accrued income. At the end of 2018 cash (EUR 83,510,529) increased by 35% when compared to the balance as at 31 December 2017. Changes in cash are presented in the Statement of cash flows.

STRUCTURE OF FINANCIAL POSITION OF THE HSE GROUP AS AT 31 DECEMBER



EQUITY IN EUR MILLION



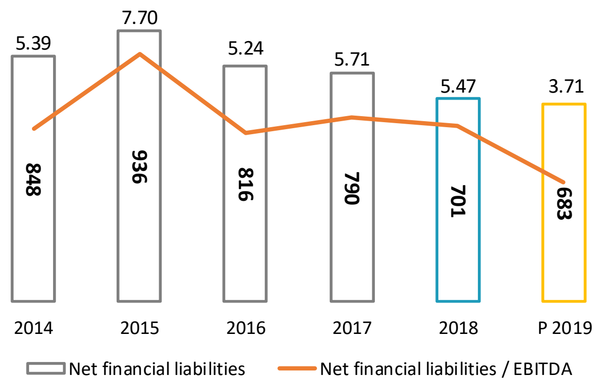
As at 31 December 2018, equity (EUR 1,091,245,475) accounted for 51% in equity and liabilities of the HSE Group. When compared to the balance at the end of the previous financial year the equity was higher by 5% due to the positive effects of valuation of financial instruments (EUR 65,175,353) but was decreased by the loss of 2018 (EUR 11,802,603). The share of equity in the structure of equity and liabilities continued to grow.

Monitoring and ensuring capital adequacy of the companies is a key task of the management boards of individual companies within the HSE Group and a permanent task to be reported on to the HSE Supervisory Board. By merging with PV Invest at the end of 2018 PV improved the equity structure. In 2018, the operations of HTZ were profitable and capital adequacy improved. In 2018, the operations of TEŠ were negative, as the sales price of electricity did not cover total finance expenses and the impairment of assets and the overhaul of Unit 6 also had a negative impact. The operations making loss worsened the capital adequacy of TEŠ. The conversion of financial liabilities to the HSE Company to capital surplus of TEŠ was foreseen for the improvement in equity structure. In 2018, the partner HSE EDT took a decision on the improvement of the capital adequacy; on its basis the capital surplus was reversed to cover the loss from previous years. HSE EDT operated with loss in 2018, which was mainly the result of the accounted for amortisation / depreciation and write-offs. In 2018, EBIDTA of HSE Adria in liquidation and HSE Invest was negative; HSE Invest was restructured at the beginning of 2019 and prepared a new job classification.

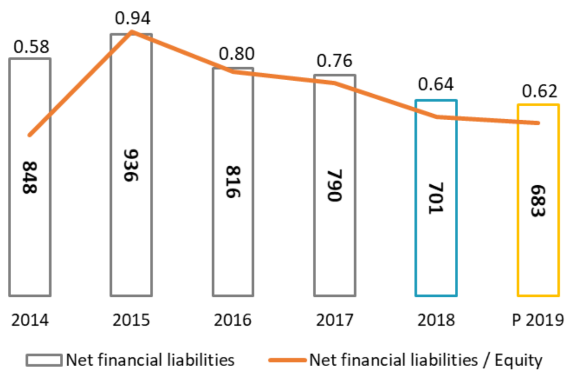
Provisions for termination benefits and jubilee benefits (EUR 14,621,657) were higher by 5% when compared to the previous year (based on actuarial calculations). Other provisions (EUR 46,282,925) were lower by 12% due to the reversal of provisions in line with the compensation agreements and a decrease in provisions for the access to the gas network. Other long-term liabilities (EUR 1,884,226) were higher by 9% due to the assets received for co-financing of the European OSMOSE project.

Lower net indebtedness and improvement in financing ratios: In 2018, financial liabilities accounted for 37% in the structure of equity and liabilities. Total indebtedness (EUR 784,137,313) was lower by 8% when compared to the previous year 2017 due to the repayment of loans, and net indebtedness (EUR 700,626,784) was lower by 11%. The HSE Group continued to implement the measures of financial and business restructuring. The ratios of net financial liabilities/EBITDA and net financial liabilities /equity improved.

NET FINANCIAL LIABILITIES IN EUR MILLION/EBITDA



NET FINANCIAL LIABILITIES IN EUR MILLION/EQUITY



Short-term trade payables (EUR 141,184,257) increased by 15% when compared to the end of 2017 due to higher liabilities to electricity suppliers (higher turnover at the end of 2018). Other short-term liabilities (EUR 53,184,013) fell by 7% due to lower short-term payables to the employees.

2.6.1.4 Strategic orientations of the HSE Group

The HSE Group devised the following strategic orientations:

- increase in cost efficiency and flexibility of the existing portfolio along with the safe and reliable supply and implementation of fair transition,
- increase in production volume and reduction in the average production price of the product portfolio and
- decrease in the dependence on wholesale market and increase in the added value of the portfolio and the total HSE Group with new energy products.

2.6.1.5 Key objectives

The following key objectives for 2019 derive from the adopted business plan for the year 2019 with the additional plan for the years 2020 and 2021:

- growth in revenue from the sale by 15%,
- net profit or loss in the amount of EUR 53 million,
- EBITDA in the amount of EUR 184 million,
- deleveraging – net debt /EBITDA < 4 %,
- refurbishment and increase in production capacities – higher production by 6%,
- increase in added value per employee by 23%,
- continuation of investments in hydro power plants on the Middle Sava River, refurbishment of spillways of the Dravograd HPP, reconstruction of the Markovci dam, overhaul of the Avče pumped storage power plant, reconstruction of the Doblar HPP, investments in the reliability of Units 5 and 6 of TEŠ, continuation of investments in excavation sites and preparation sites of the mine.

2.6.2 BUSINESS PERFORMACE ANALYSIS OF THE HSE COMPANY

2.6.2.1 KEY DATA ABOUT THE HSE COMPANY

KEY DATA	UNIT OF MEASURE	2014	2015	2016	2017	2018
Net sales revenue	in EUR	1,312,697,148	1,303,117,500	1,234,432,724	1,610,687,897	**1,481,938,763**
Net profit or loss	in EUR	140,823,164	-323,117,370	44,359,794	19,737,615	**9,486,269**
*Revenue	in EUR	1,378,197,581	1,324,718,804	1,293,642,769	1,657,588,300	**1,519,177,749**
*EBIT = Operating profit or loss	in EUR	98,222,095	50,266,532	64,207,895	50,171,197	**54,454,367**
*EBITDA	in EUR	99,634,086	53,434,736	64,973,556	51,015,920	**55,340,294**
Assets	in EUR	1,394,651,222	1,206,606,876	1,299,127,630	1,321,084,847	**1,381,683,132**
Equity	in EUR	1,152,425,385	829,661,563	876,576,884	905,369,122	**979,389,150**
Indebtedness to banks	in EUR	74,853,163	183,481,837	245,192,351	236,468,415	**219,469,012**
Total indebtedness	in EUR	76,372,457	214,568,280	246,409,568	236,622,267	**219,574,520**
Investments	in EUR	23,935,029	461,632	853,639	1,746,764	**1,247,046**
Electricity produced	in GWh	8,294	6,763	7,778	7,034	**7,320**
Electricity sold	in GWh	27,649	29,131	30,483	37,799	**31,158**

NUMBER OF EMPLOYEES	2014	2015	2016	2017	2018
End of the year	134	142	150	174	**176**
Average number of employees	132	138	147	162	**175**

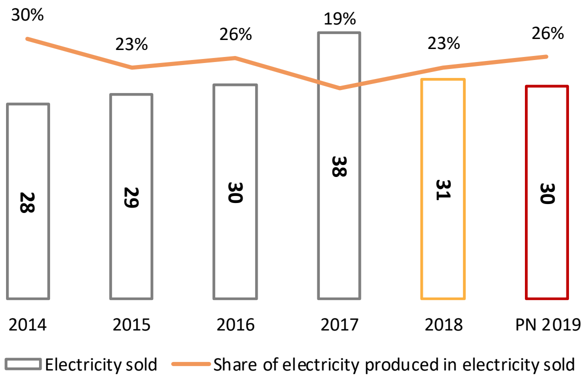
OTHER RATIOS		2014	2015	2016	2017	2018
Equity financing rate		82.63	68.76	67.47	68.53	**70.88**
Long-term financing rate		87.58	74.67	85.73	85.20	**84.94**
Operating fixed assets rate		4.26	2.74	3.02	2.97	**3.16**
Long-term investment rate		70.62	81.79	85.98	84.68	**81.93**
Equity to operating fixed assets		19.40	25.10	22.37	23.06	**22.44**
Immediate solvency ratio		1.28	0.21	0.17	0.15	**0.34**
Quick ratio		2.31	0.68	0.91	0.99	**1.17**
Current ratio		2.34	0.70	0.95	1.03	**1.20**
*Operating efficiency ratio		1.08	1.04	1.05	1.03	**1.04**
Net return on equity ratio (ROE)	%	13.0%	-32.6%	5.2%	2.2%	**1.0%**
Return on assets (ROA)	%	10.4%	-24.8%	3.5%	1.5%	**0.7%**
*Added value	in EUR	108,069,683	60,861,977	73,116,212	60,913,790	**65,840,152**
*Value added per employee	in EUR	821,823	441,029	497,389	376,011	**376,229**
Debt/Equity ratio		0.07	0.26	0.28	0.26	**0.22**
*Total financial debt / EBITDA		0.77	4.02	3.79	4.64	**3.97**
*EBITDA / Financial expenses for borrowings		25.12	9.66	5.83	6.38	**7.08**
Total financial liabilities / Assets		0.05	0.18	0.19	0.18	**0.16**
Net financial liabilities	in EUR	48,011,835	157,411,348	217,458,121	209,894,393	**151,815,272**
Net financial liabilities / EBITDA		0.48	2.95	3.35	4.11	**2.74**
Net financial liabilities / Equity		0.04	0.19	0.25	0.23	**0.16**
EBITDA margin		7.6%	4.1%	5.2%	3.2%	**3.7%**

*** CONSISTENCY OF PRESENTATION:**

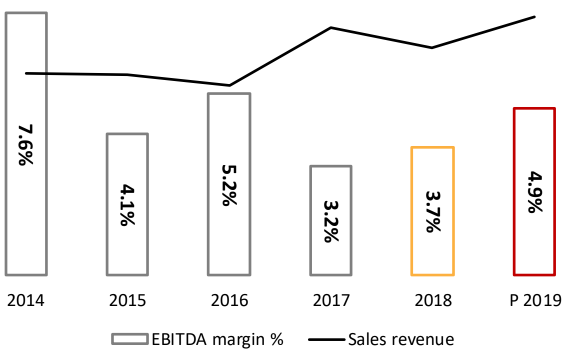
Gains/losses on derivatives in relation to electricity trading and emission coupons are disclosed in 2018 by the net principle among operating income or operating costs, while in the previous year they were recorded among finance income or finance costs. The changes affect: revenue, the EBIT, the EBITDA and the ratios such as the operating efficiency ratio, added value, added value/employee, total financial liabilities/EBITDA, EBITDA/finance costs for borrowings received and net financial liabilities/EBITDA.

The improved EBITDA and higher EBITDA margin: the sales trend of HSE Company changed in 2018 (more short-term trading and less long-term trading) and the generated revenue from the sale was lower by 8% (EUR 1,481,938.763), while the sales quantities were lower by 18% (31,158 GWh) and the achieved EBIDTA margin was higher by 0.5 percentage point and the added value was higher by 8% over 2017. Revenue from the sale of electricity accounted for 99% in the structure of revenue from the sale.

ELECTRICITY SOLD IN V TWH

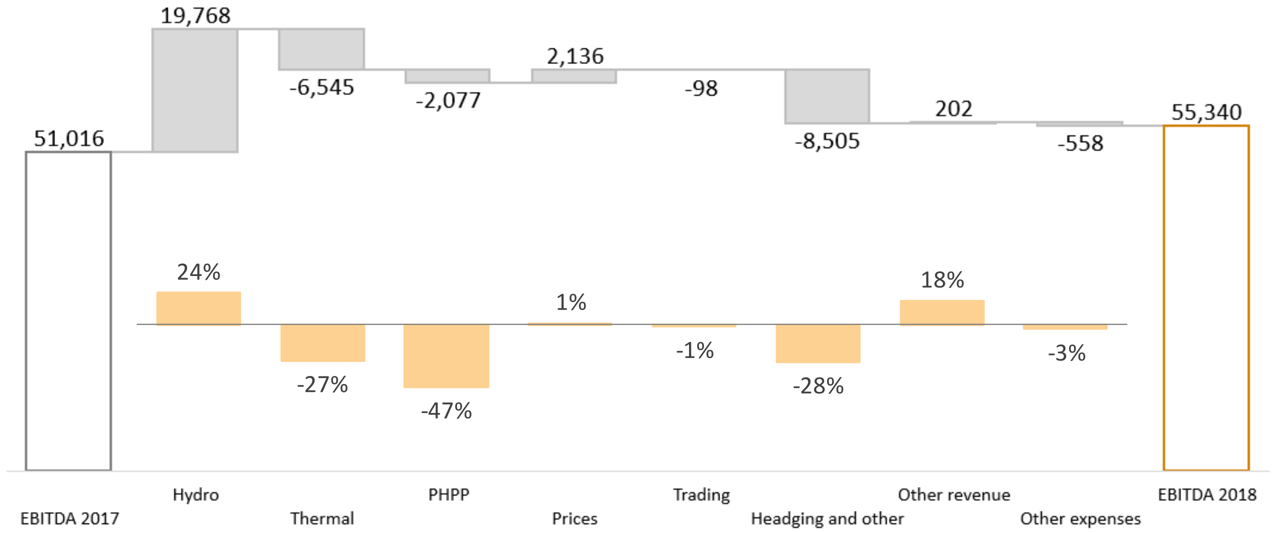


EBITDA MARGIN AND CHANGES IN REVENUE FROM THE SALE

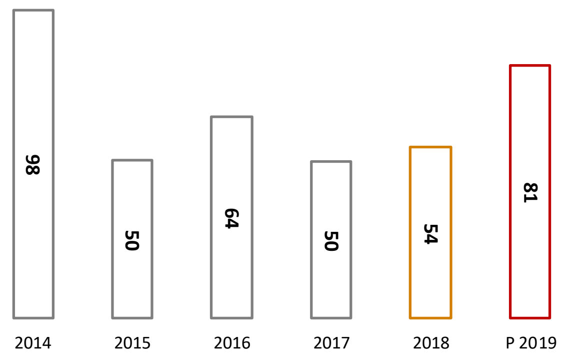


When compared to the previous year 2017 EBITDA (EUR 55,340,294) was higher by 8%. Positive impacts on EBITDA were due to: the hydrology that improved by 584 GWh because of high snow in the first half of 2018, increase in electricity prices, other revenue higher by 18% (mainly revenue from offering IT services to the subsidiaries) and lower costs of services (mostly due to lower costs of lawyer fees and legal services). Negative impacts on EBITDA were due to: lower production of thermal power plants by 214 GWh, mostly due to the discontinued operation of Unit 4 in TEŠ, the first planned overhaul of Unit 6 in TEŠ and the ecological rehabilitation of Unit 5 in TEŠ, non-availability of the Avče pumped storage power plant (the first planned overhaul) and higher employee benefit expenses. The lower electricity production in thermal power plants and the loss of production in hydro power plants in the last quarter of 2018 was offset by purchases of electricity in foreign markets. As the majority of electricity production is sold in advance, it was necessary to offset the missing quantities of electricity, in line with the price hedging policy, by more expensive purchases in the foreign market, which had a negative impact on EBITDA. The HSE Company takes all market risks, relating to the fluctuations in prices of electricity and CO_2 emission coupons as well as all production risks of the HSE Group. Since May 2018 we have witnessed an abrupt increase in average electricity prices and also CO_2 emission coupons, as the price of CO_2 emission coupons at the end of 2018 was by 17.6 EUR/t higher over 31 December 2017. By early futures of CO_2 emission coupons, the HSE Company managed to keep the costs of emission coupons of the HSE Group at the level of 2017 in spite of the drastic growth in their prices. The share in electricity produced in the electricity sold accounted for 23% in 2018, which was an increase of 4% over the previous year (higher production and lower sales quantities).

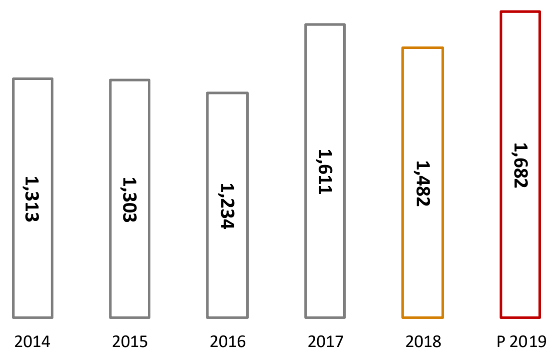
CHANGE IN EBITDA OF THE HSE COMPANY IN 2018 OVER 2017 IN EUR THOUSAND AND EXPRESSED AS A PERCENTAGE



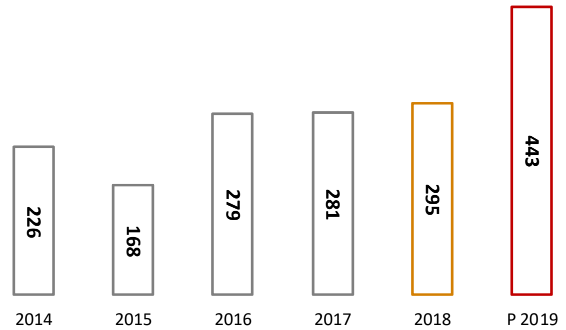
EBIT = OPERATING PROFIT OR LOSS FROM OPERATIONS IN EUR MILLION



REVENUE FROM THE SALE IN EUR MILLION

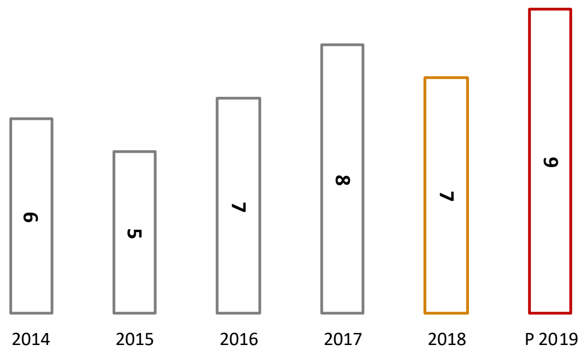


COSTS OF MATERIAL IN EUR THOUSAND



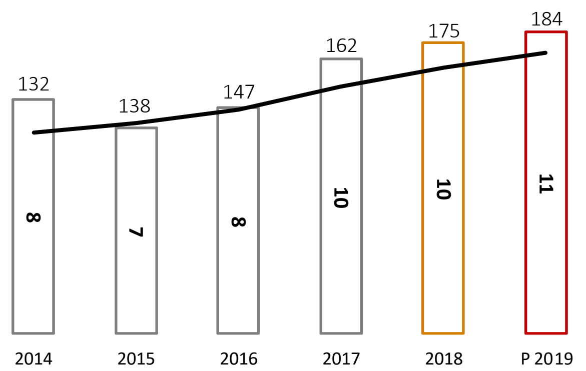
The costs of material (EUR 294,890) incurred in 2018 were higher by 5% over the year 2017 due to higher costs of technical literature - e access that accounted for the major 79% share in the structure of costs of material.

COST OF SERVICES IN EUR MILLION



In 2018, the costs of services incurred in the HSE Company amounted to EUR 7,240,065. When compared to the year 2017 the costs of services were lower by 12%, mainly due to lower costs of legal services and lawyer fees. The largest share of costs of services represented the costs of maintenance (20%) and were followed by the costs of lawyer fees (17%), costs of banking services and bank guarantees (14%) and costs of leasing (13%). Since 2015 the costs of services have increased due to pooling of supporting processes in the parent company and higher costs of lawyer fees.

EMPLOYEE BENEFIT EXPENSES IN EUR MILLION AND AVERAGE NUMBER OF EMPLOYEES



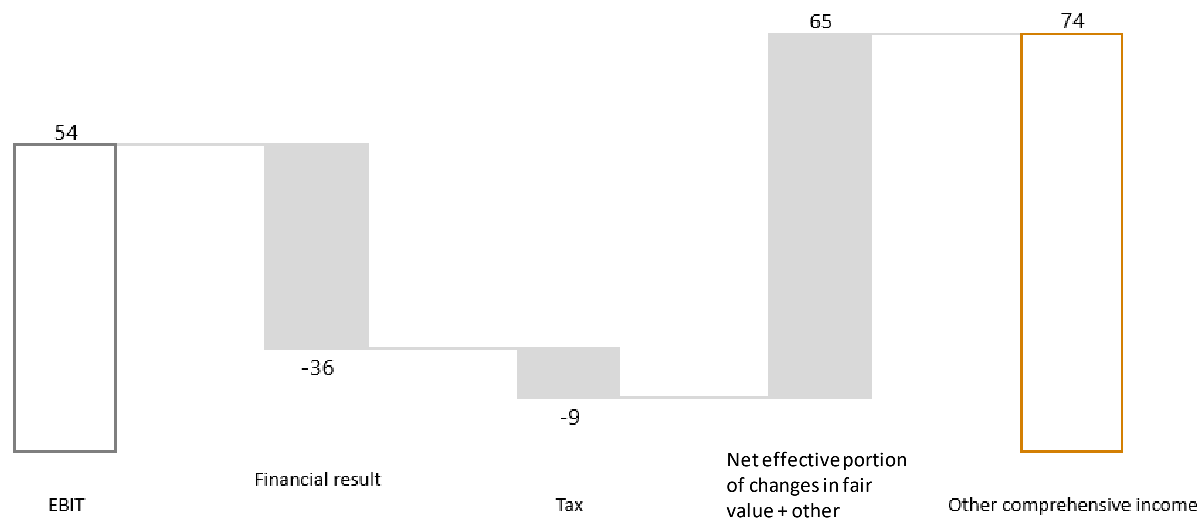
Employee benefit expenses of the year 2018 (EUR 10,499,858) were by 6% higher when compared to the previous year 2017 due to a higher average number of employees by 13. The average employee benefit expenses per employee reduced by 2% in 2018 over 2017. Since 2015 the employee benefit expenses in the HSE Company have gone up, which is a result of pooling the supporting processes in the parent company. The latter fact had a negative impact on EBITDA of the HSE Company.

Other operating expenses (EUR 667,172) decreased by 23% over 2017, mainly due to lower court fees.

In 2018, the HSE Company had a negative financial result (EUR 36,174,832) due to the impairment of a long-term investment in TEŠ (EUR 56,721,354). The financial result was poorer when compared to the previous year 2017 due to the impairment of a long-term investment and lower payment of profit-sharing in the subsidiaries (EUR 30,353,648) that was lower by 26%. Finance expenses for interest and costs relating to financing (EUR 12,736,980) were lower by 1%.

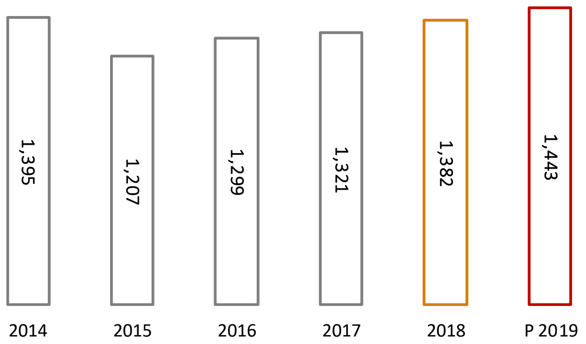
In spite of the impairment of the long-term investment in TEŠ and lower payments of profit-sharing in the subsidiaries the operations of the HSE Company were profitable in 2018 and net profit (EUR 9,486,269) was by 52% lower than the profit earned in the year 2017, mostly due to the poorer financial result. When compared to the year 2017 other comprehensive income (EUR 74,260,077) was higher by 158% due to a positive change in the fair value of cash flow hedging instruments.

OTHER COMPREHENSIVE INCOME IN 2018 IN EUR MILLION

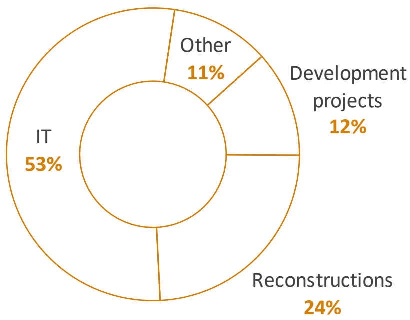


2.6.2.2 ANALYSIS OF FINANCIAL POSITION OF THE HSE COMPANY

ASSETS IN EUR MILLION



INVESTMENTS

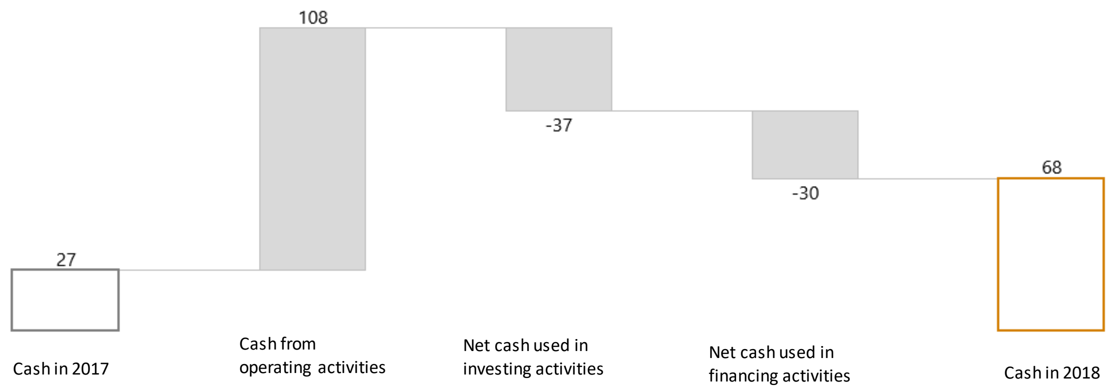


As at 31 December 2018, the assets of the HSE Company (EUR 1,381,683,132) were higher by 5% over the year 2017 due to higher long-term assets by 1% (higher long-term loans granted to the subsidiary TEŠ), as well as short-term assets higher by 23% (higher cash). The investments of the HSE Company amounted to EUR 1,247,046 and were mainly made in the business-information system, which exceeded the amortisation expense that amounted to EUR 868,917.

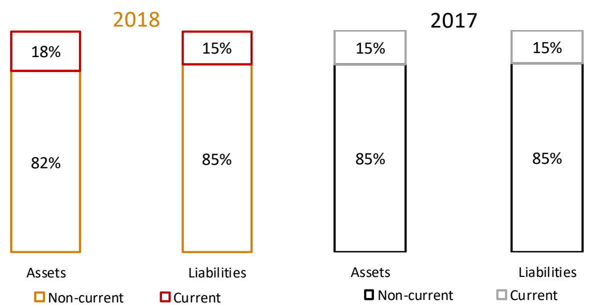
At the end of 2018 the intangible assets (EUR 31,725,965) were higher by 18% over the previous year due to higher inventories of emission coupons (a quantity higher by 7% and higher price by 11%). Property, plant and equipment reduced by 4% (EUR 11,917,946) due to the transfer of system infrastructure to DEM. At the end of 2018 the largest share in the structure of assets (69%9 represented long-term investments in the subsidiaries (EUR 953,851,547) that were lower by 6% due to the impairment of long-term investments. As at 31 December 2018, the HSE Company recorded under other long-term investments a 15.4% share in HESS (EUR 40,513,942), a 25% share in Soenergetika (EUR 255,000) and a 12.13% share in Stelkom (EUR 111,000), which was at the level of the previous year, and long-term loans granted to TEŠ (EUR 86,678,807, which was an increase of EUR 66,645,240 over the end of the previous year) and to PV (EUR 3,850,000 which was a decrease of 21% due to the transfer to a short-term portion). Long-term operating receivables due from financial covers (EUR 3,050,905) were lower by 2%.

As at 31 December 2018, short-term investments and loans (EUR 1,956,229) reduced by 24% due to lower receivables for parent company guarantees. At the end of 2018 short-term trade receivables (EUR 135,490,797) accounted for the largest share in the structure of short-term assets (54%) and were at the level of the previous year. As at 31 December 2018, accrued income (EUR 3,016,725) was recorded as contract assets in line with IFRS 15 in the statement of financial position. At the end of 2017, accrued income (EUR 1,904,537) was recorded in the statement of financial position under other short-term assets (the amendment to IFRS 15 was put into force on 1 January 2018). Other short-term assets (EUR 41,234,040) went up by 15% due to higher receivables for the "initial margin" – receivables for operations with derivative financial instruments. At the end of 2018, cash (EUR 67,759,248) was higher by EUR 41,031,374. A change in cash is evident from the statement of cash flows.

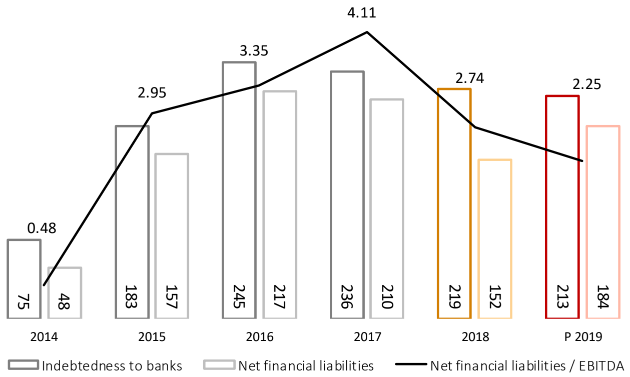
CHANGE IN CASH IN 2018 IN EUR MILLION



STRUCTURE OF FINANCIAL POSITION OF THE HSE COMPANY AS AT 31 DECEMBER



BANK INDEBTEDNESS AND NET INDEBTEDNESS IN EUR MILLION



The structure of financial position remained favourable. The share of short-term assets increased due to higher cash. In the structure of equity and liabilities equity accounted for 71%. When compared to the previous year 2017 it was higher by 8%. The following factors had an impact on the change in equity: net profit of the year 2018 (EUR 9,486,269) and a positive effect of valuation of financial instruments (EUR 64,760,975).

At the end of 2018 the provisions for termination benefits and jubilee benefits (EUR 949,464) increased by 16% over the previous year due to a higher average number of employees. In 2018, the HSE Company created provisions for a legal action including default interest that amounted to EUR 311,675 as at 31 December 2018 and were recorded under other provisions. Other long-term liabilities (EUR 485,750) included assets received for co-financing of the European OSMOSE project.

As at 31 December 2018, long-term financial liabilities (EUR 192,434,059) reduced by 12% over the balance at the end of 2017. The Company continued deleveraging, net indebtedness (EUR 151,815,272) was lower by 28%. The higher EBITDA and lower net indebtedness had an impact on the improvement in indebtedness ratios. As at 31 December 2018, a short-term portion of long-term financial liabilities due to be paid within 12 months, was recorded under short-term financial liabilities. In 2019, long-term loans in the amount of EUR 27,034,953 will be due to be paid and this was an increase of 59% over the previous year.

In the structure of short-term liabilities short-term trade payables (EUR 132,676,890) accounted for the largest share (64%) at the end of the year 2018. These payables remained at the same level when compared to the year 2017. Other short-term liabilities (EUR 46,792,743) were higher by 3% due to higher accrued costs of electricity.

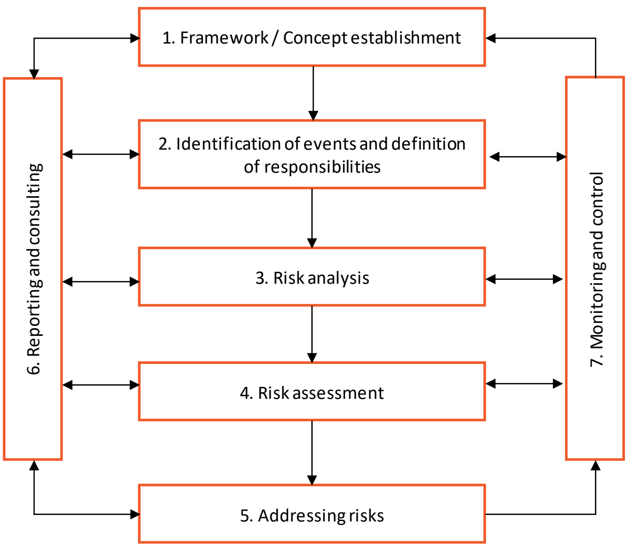
2.7 RISK MANAGEMENT OF THE HSE GROUP

Risk management of the HSE Group has been based on the centralised risk management at the level of the entire Group. It determines the standardised processes and tools for identification, valuation and taking of measures and monitoring and reporting on risks and/or opportunities. We are aware of the fact that taking risks is of crucial importance for the creation of value of the HSE Group. It is a challenge to identify those risks that affect the performance of an individual company and the HSE Group, to transform their management in order to protect the assets of each company in the Group as much as possible, to improve their business efficiency and to create added value.

The key objective of risk management of the HSE Group is a proactive risk control that has an impact on the achievement of the objectives, determined in the strategic and business plans of individual companies and/or the HSE Group as a unit. Among others it includes also the ability to:

- influence the frequency of appearance and positive and negative consequences of individual events;
- understand /utilise the connections between various kinds of risks;
- monitor the risk profile of the Group in time;
- perform activities harmonizing further development of events with the expectations;
- create culture ensuring the performance of the process activities and leading to the complete risk management.

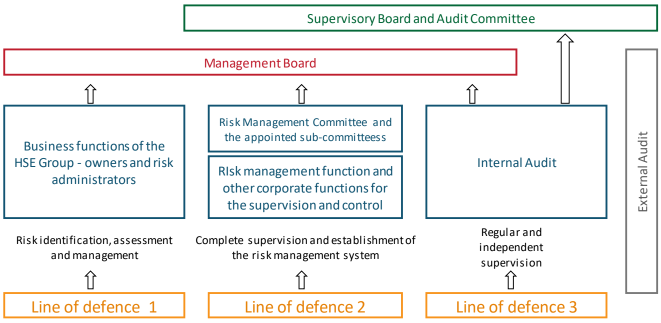
RISK MANAGEMENT PROCESS OF THE HSE GROUP



The risk management system has been based on "three lines of defence":

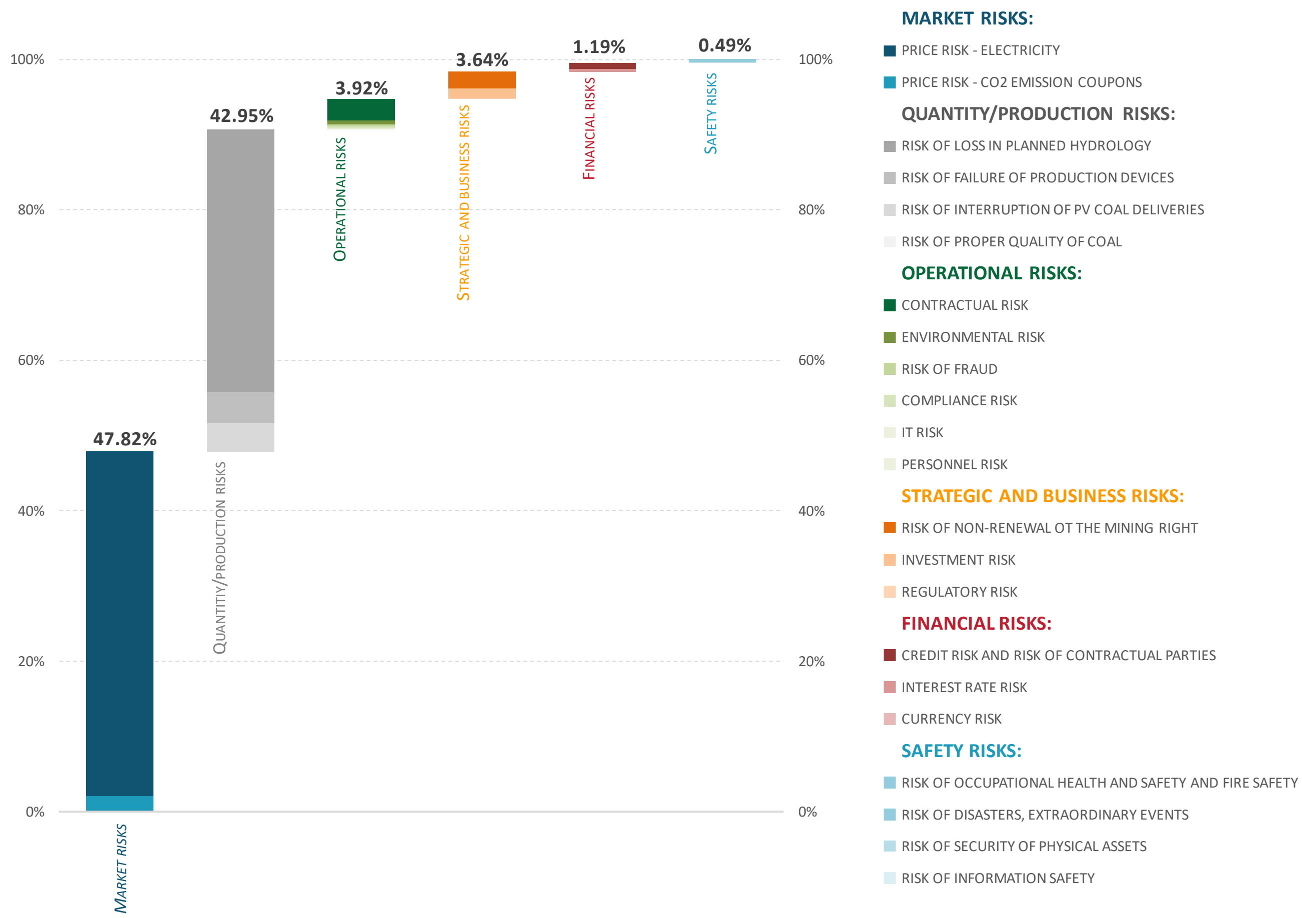
- the first line of defence is responsible for the identification and taking of risks and the establishment of adequate measures and internal controls for the efficient risk management;
- the second line of defence is in charge of the control over the compliance of operations and of the setting-up the management risk system;
- the third line of defence carries out regular overviews of suitability and efficiency of the internal environment and the entire risk management system.

ORGANISATION OF RISK MANAGEMENT IN THE HSE GROUP



The set-up system of monitoring the exposure to key risks enables the identification and recognition of negative trends and timely taking of adequate measures for risk control at the level of an individual company and the HSE Group as a unit. The HSE Group aims at constant upgrading of the risk management system and strengthening of its use in the process of strategic planning and taking regular business decisions of an individual company and/or the HSE Group as a unit.

ANNUAL RISK PROFILE OF THE HSE GROUP



A risk profile of individual companies and the HSE Group is evaluated on the basis of the assessment of key risks in the set-up information system for risk management of the HSE Group. In this context, the connection among the risks is considered, which means that all risk factors are not completely independent from one another. The risk profile can be seen a contribution of an individual key risk to the complete risk profile of the company and/or the group and is calculated by using the Monte-Carlo method of repeated simulations of all evaluated risk effects at a time.

2.7.1 MARKET RISKS

In 2018, electricity prices were often high and volatile in daily markets, mostly this was a result of weather conditions, availability of production and economic situation in the region. A similar picture was observed also in the market of long-term electricity products, where the key factor was the volatile market of emission coupons. High volatility resulted in a higher level of price risks. The HSE Group controlled them effectively in 2018.

The risk that the HSE Group is most exposed to in its operations is the exposure to price risks that arise from fluctuations in market prices of electricity market prices of other energy products and raw materials (coal, gas, CO_2 emission coupons, oil, etc.) that have a direct impact on electricity prices or the operations of the HSE Company and the Group. The price risks are controlled by the HSE controlling company. The exposure to these risks mostly depends on the size of open positions (when quantities of purchase and sales transactions do not match by point of delivery or maturity), volatility pf prices in individual markets and price correlations among individual markets at a certain moment of delivery.

Market risks in the field of sale of own production that represents the largest and most important segment of operations of the HSE Group the market risks were controlled in line with the formulated strategy of the sale of own production and the purchase of emission coupons for the needs of own production. On the basis of the dynamics of internal analysis of the markets the speed of implementing the strategy was adequately adjusted and thus the relatively high price fluctuations of 2018 were efficiently controlled in the field of sale of production of thermal power plants. In 2018, fluctuations occurred in the electricity market as well as in the market of emission coupons. In the field of sale of production from hydro power plants an emphasis was placed mostly on the control of great market price dynamics during the year 2018 and the simultaneous intensive dynamics of the sale of quantities produced by hydro power plants at monthly levels when compared to the budgeted values. In this field a gap between the monthly turnover and long-term historic averages considerably increased in the last years. Such frequently occurring climatic extremes consequently reflected in the operation of hydro power plants.

In the field of net trading, market risks were controlled on the basis of the revised management concepts. Besides that, the classical VaR parameter (5-day VaR with a 95% confidence interval – "Value at Risk") the risk capital parameters were also monitored. Moreover, the already achieved added value of the portfolio was hedged on the basis of the parameter of a sliding scale of profit loss. The risk management mechanism included monitoring and limiting of open positions. Futures contracts and various financial instruments of stock exchange trading are used for electricity price hedging and position trading.

The needs for the management of market risks change similarly as the market environment. From the aspect of upgrading processes and systems in the field of market risk management the year 2018 was mainly marked by monitoring and analysing the efficiency of the measures implemented in 2017. The results of monitoring and analysis of measure efficiency in the year 2018 included process and information fields, and the corrective measures will be implemented in 2019 that will represent a period of upgrading the existing systems in their life cycle. An emphasis will be especially placed on ensuring better mitigation of market risks the Group is exposed to due to very short delivery times, i.e. the exact hour of delivery time only a week in advance. The term of deliveries is extremely exposed to the essential factors of the market, which consequently means that statistical analyses of the historical movements of prices do not give the whole picture of the Group's exposure to price risks.

Additional information relating to the price risk management is stated in the accounting section of the report (Financial instruments and risk control).

2.7.2 QUANTITY / PRODUCTION RISK

In 2018, risks of major defects were effectively controlled by a timely performance of inspections and repairs and remedy of failure of Unit 6 in TEŠ by the start-up and operation of Unit 4, Unit 5 and gas units of TEŠ. When controlling the risk of loss in the production of planned quantities of coal from PV we monitored and kept an adequate strategic stock on the coal storage site throughout the period relating to the size of risks we are exposed to in the production of electricity and coal.

Quantity/production risks are risks that occur due to the differences between the forecast and the actually produced or purchased electricity quantity. The risks are associated with the technological and logistic limitations in the production and timely delivery of energy product and weather conditions.

Quantity/production risks are controlled at the level of individual subsidiaries of the HSE Group and the HSE controlling company at the level of the Group. The risks of production facilities are controlled on the basis of long experience, knowledge and regular training of the employees and the established methods of production facility operation. Separate departments in the HSE Group are responsible for the continuous operation of production units and other electric power devices and they carry out regular maintenance and periodic controls of devices (measurements, diagnostics of devices). The risks are controlled by long-term and short-term forecasting of the consumption profile, sale of electricity and daily monitoring of quantity deviations of the majority of consumption and sales points. In this context, the control centre plays the main role. Quantity risks in the HSE Group occur also in the delivery of energy products and they are controlled by holding a suitable stock.

2.7.3 STRATEGIC AND BUSINESS RISKS

In 2018, we actively responded to the amendments in sector legislation in the public discussions held (the winter legislation set of proposals for the new Energy concept of Slovenia, Act determining the methodology for charging for the network charge, Rules for the participation in the balancing market of ELES, etc.) at the level of acts, implementing regulations and strategies with the aim of cocreating the appropriate regulatory environment for the operations of the HSE Group.

Strategic and business risks are the risk that appear due to inadequate strategic and business decisions and unresponsiveness to the changes in the business environment.

Key strategic and business risks mainly include the exposure to the solvency risk, and risk of capital adequacy, regulatory risks and investment risks.

When controlling solvency and capital adequacy all risk factors are taken into account that have a long-term impact on the operations of the HSE Group (risks having a permanent impact) and therefore these risks are controlled at the same time as other risks. At the level of the HSE Group solvency indicators are regularly monitored in accordance with the Financial Operations, Insolvency Proceedings and Compulsory Winding-up Act and suitable corrective measures are implemented in individual companies of the HSE Group. From the aspect of long-term solvency, we tend to provide such a volume of long-term sources of finance that is sufficient for the size and kind of transactions conducted under consideration of the risks we are exposed to.

Regulatory risks are controlled by regular monitoring of legislative amendments and analysing of their impacts on the operations of the HSE Group before the introduction of the amendment to the applicable legal order and regular information submitted of the employees in the Group on the relevant legislative changes that have an impact on the operations of the HSE Group.

The renewal of the PV mining right is also of vital importance among the regulatory risks for the HSE Group; PV concluded a concession agreement on the exploitation of mineral resources No. 354-14-73/01 with the Republic of Slovenia on 21 January 2002. The activities for the extension of the concession agreement are run by PV. In 2018, the HSE Group started the activities for the adoption of the decarbonisation strategy and the complete national energy and climate plan that will foresee the extension of the concession agreement on the exploitation of mineral resources to the year 2054 and that will include also the "closing works" and obligations of the grantor in this case.

Investments risks of the HSE Group were efficiently controlled in 2018 by the established control of investments of the HSE Group by the preliminary assessment of risks of individual projects, revised methodology of investment valuation, preparation of the sensitivity analysis, regular monitoring of key investment projects in progress, provision of independent and impartial investment evaluation, and efficient supervision over the professional committee in charge of investments.

2.7.4 FINANCIAL RISKS

A sufficient amount of credit lines in form of long-term revolving loans was made available by the commercial banks for the adequate control of liquidity risk in the HSE Group. The Group was in a position to pay all its due liabilities at any time.

Key financial risks of the HSE Group are liquidity risk, credit risk, interest rate risk and foreign-exchange risk.

Liquidity risk is defined as a risk of non-compliance between the matured assets and equity and liabilities or a possibility of lack in financial assets for the payment of due liabilities. The Financial Operations, Insolvency Proceedings and Compulsory Winding-up Act defines the liquidity risk as the risk of loss occurrence due to short-term insolvency (Article 30). As the liquidity risk is a common denominator to other risks, the control of this risk is a complex task that is carried out in association with the control of other risks. A key factor for the successful management of the liquidity risk is mainly the supervision over cash flows. Liquidity is controlled by accurate monitoring and planning of a daily, monthly and annual cash flows at the level of the Company and the HSE Group by effective allocation of surpluses within the Group, provision of adequate available credit lines with commercial banks and careful and safe placement of free cash.

Credit risks are controlled by a detailed verification of the credit rating of operations of the existing and potential business partners and a clearly defined procedure of debt recovery, reminder system and conclusion of contracts with suitable security (bank and corporate guarantees, advances and other adequate insurance). The level of assessed risk depends mainly on the business results of a partner, especially the indebtedness level, short-term liquidity, and solvency and profitability indicators. Great emphasis has been placed on obtaining topical information from the market, as a status of an individual partner can change quickly due to various market and regulatory changes.

From the aspect of controlling the credit risk to banks and other financial institutions we regularly monitor the data on operations of financial institutions we cooperate with. The risk is additionally controlled by the diversification of depositing funds with individual banks, by short-term investing of financial assets for current operations and conclusion of security deals against currency and interest rate risks based on standardised ISDA agreements.

Various financial instruments are available for the control of the interest rate risk (e.g. interest rate swaps), whose purpose is reducing negative effects while market interest rates change. As a rule, the scope of exposure to the interest rate risk depends on the size of the share in financial liabilities and investments in the company – the larger share means also a greater exposure. The strategy for the control of the interest rate risk is regularly verified in scope of the interest risk control and market forecasts relating to the movement of interest rates are considered. In 2018, the interest rate increase was not hedged, as the loans having a variable interest rate were concluded with the Erabor interest rate that could not be negative – i.e. "zero floor".

Detailed information on the exposure to an individual financial risk and disclosures relating to financial instruments is stated in the accounting section of the report (Financial instruments and risk control).

2.7.5 SECURITY RISKS

Security risks are the risks that occur due to inadequate or unsuccessful security of information, property, health and safety at work and unforeseeable external events that may have an exceptional impact on the operations of the companies.

Among security risks HSE is greatly exposed to the risk of natural disasters and extraordinary events, risks of health and safety at work and fire safety, risks of information safety and risks of securing physical assets. These risks are successfully controlled by establishing and regular upgrading adequate preventive measures and systems for timely identification of changes in the operating environment.

Risks in the field of health and safety at work and fire safety are effectively controlled by planning, implementation, supervision, acting and preventing and/or minimising the number of accidents at work and other extraordinary events. A safe working environment is ensured to the employees and external contractors. The risk of accidents and health problems are monitored for all jobs and technologies. The risks are periodically assessed, compared to security measures and maintained at an acceptable level and in the long run we can have an impact on the continuous improvement in working conditions. Various preventive measures reduce the possibility of disability or health restrictions. Emergency preparedness is increased by conducting various training courses and exercises. In 2018, the HSE Group organised and conducted over 90 exercises/training courses from the field of health and safety at work and fire safety (evacuation and rescue exercises for the employees in the facilities, fire extinguishing, spilling of hazardous substances, administering first aid, etc.).

Information security risks are controlled at several levels by using different technological solutions, carrying out procedures in scope of standard ISO 27001 and training and raising the awareness of users of IT solutions. Technologically, the security is ensured by means of the most-advanced fire walls, use of modern and reliable information security systems on servers and work stations, limiting user permissions for the access to the data and assets, encrypting and remote control of portable devices.

Risks of asset protection are controlled by establishing and maintaining security systems and/or security architecture that includes the organisational and functional measures for establishing and/or providing business and internal security, security sub-systems (video supervision, physical and technical security, etc.)

and security culture of the employees. The objective of implementing security measures is mainly providing security of the employees, efficient security of the assets of the HSE Group and safe and undisturbed operations in all companies of the HSE Group.

2.7.6 OPERATIONAL RISKS

In 2018, the field of infrastructure and connectivity (ICT) was transferred to the property and management of the subsidiary DEM and the HSE Company took over the implementation of all business solutions and the support centre for the companies HSE, DEM, SENG (without the support centre), HSE EDT, TEŠ and HSE Invest. The transfer was carried out due to the consolidation of the ICT field and consolidation of business solutions and the support centre (2 database centres in the HSE Group, unification of business solutions and joint support to users) with the aim of improving the economic effects in these fields, reducing operational risks. In line with the transfer the operational risks of ICT management of assets and services were transferred to DEM and operational risks of business solution management to the HSE Company. Strategic risk management and risk control are carried out mutually in all the fields and in line with the orientations of the HSE specialised services.

Operational risks are the risk occurring due to inadequate or unsuccessful operation in the field of operations of the HSE Group or implementation of internal processes, personnel recruitment and control of external events and impacts of individual companies of the HSE Group.

The key element of controlling these risks is establishing an efficient internal controls system whereby we focus mostly on the correctness and reliability of financial reporting, provision of compliance of operations with external and internal acts and efficiency and reliability of implementation of business processes. The aim of controlling operational risks is an effective prevention of potential loss events, efficient elimination of consequences in case of occurrence of an individual event, optimisation of business processes and professional and ethical work of the employees in the HSE Group.

In 2018, some standard contract clauses were reviewed and amended, some samples of agreements were prepared, the table of some Group's commitments was renewed in order to minimise the contractual risk that represents the risk of some inadequate contractual provisions and inappropriate control of contractual commitments of the companies in the HSE Group; the risk is controlled also by the consistent involvement of the legal department in review processes and confirmation of individual legal transactions.

In the scope of risks associated with the information system of the HSE Group (IS HSE) we stabilised and optimised the operation of the systems and increased the automation level and internal controls operation after the completed implementation of unified SAP solutions (SAP ERP and SAP BW/BI) in 2017 and unification of the eDMS system in the companies HSE, DEM, SENG, TEŠ and HSE Invest. In this way, the risk associated with the control of business processes and information support to them was minimised. When the diligent review had been conducted in the entire IS HSE environment, the projects for establishing "high availability" of the infrastructure environment in line with the strategy of the consolidation of the entire IS of the HSE Group and the highest standards in the field of information security were implemented in 2018. By doing so, the operational risks from the field of ensuring the operation of the information communication technology and business solutions were minimised and at the same time the reliability and safety of operation of the IS HSE were increased and thus enabled an even more significant achievement of the objectives set in the field of information technology that are related to the level of achievement the availability and reliability of the IS HSE operation determined by the levels of operation of individual services and the entire IS HSE that are measured on a monthly basis and certain measures for improvements and minimising the risks are taken in case of any deviations.

In 2018, a slightly increased exposure to the personnel risk was observed in the HSE Group as some of the key persons left the company and the implementation of restructuring process in some of the HSE companies, but the risk was adequately controlled and had no impact on the operations of the HSE Group. Based on the results of measuring the organisational climate at the end of 2017, the measures for the improvement in organisational climate and satisfaction of employees were implemented in 2018. The effects will be measured by re-measuring the climate at the end of 2019. The personnel risk is controlled also by other measures, such as regular annual appraisals, target management, work performance monitoring, and constant investments in employees with the aim of upgrading the existing knowledge and acquiring new knowledge and competence, by team work, exceptional flexibility, proactivity, self-initiative and excellent mutual relations and communications.

Risk of frauds derives from the frauds of employees, illegal acts, disposals, abuses of employees and third parties. In order to prevent and identify such acts a system of anonymous reporting is established and an independent service that actively deals with the disclosure of such act at the level of the Group. The Code of Ethics of the HSE Group was also adopted at the level of the Group, which clearly defines the expectations and actions in the business environment of the HSE Group.

Compliance risk arises from the possible non-compliance of operations, internal rules and provisions with the applicable regulations. Within the HSE Group and the Company the compliance function is dispersed over several professional services. The risk is controlled through the internal controls system and supervision, monitoring and valuation of regulatory changes. In some fields internal tools were prepared for this purpose. The principles and expectations of acting are determined also in the Code of Ethics of the HSE Group.

Environmental risks are risks relating to the recognised environmental aspects or impacts that include the areas of consumption of raw materials and energy, environmental degradation, emissions into the air, discharges into watercourses, waste and other. The environmental risks include risks relating to inefficiently regulated business processes, and risks relating to environmental penalties. The HSE Group strictly follows the established environmental policy that defines also the key guidelines of implementing measures for the environmental management control (a detailed description is given in the section of Sustainable development of the HSE Group).

2.8 DEVELOPMENT STRATEGY OF THE HSE GROUP

The efficiently conducted financial restructuring and optimisation of the operations of the HSE Group enable us to set ambitious objectives for the future period that will be achieved by new solutions. They will be used as an answer to the challenges of the rapidly changing business environment and at the same time increase our competitiveness, strengthen the growth and promote the development of the HSE Group.

The HSE Group will become an innovative hub of the best ideas through which it will, as a key factor in the Slovene electricity market, firstly, importantly contribute to the achievement of the nationally climate - energy objectives of the state, secondly, remain a pillar of the safe and reliable electricity supply in Slovenia and thirdly, offer such services to an end-customer who has taken over an increasingly important role in the electricity system that they will encourage its active role and flexibility.

The balanced, flexible and over proportionally reliable production portfolio will still be subject to the continuous process of improvements toward further improvement in efficiency and flexibility. In this way, we will increase the competitiveness of the Group and become the leading supplier of all forms of system solutions that are necessary for the stability and reliability of the transmission network.

New investment opportunities in Slovenia and abroad and the implementation of the best ones will be actively searched and analysed as an answer to the ambitious objectives of decarbonisation, accelerated use of renewable energy sources and electrification in the development process.

By controlling the entire chain from production to a customer a direct relation to end-customers and the development of new energy services and products tailored for an active consumer in the field of adjusting the sale, digitalisation, smart homes and electric vehicle charging stations and efficient energy use will play an increasingly important role.

The measurable objectives set will be pursued in achieving the strategic objectives in each individual field. In order to be able to achieve these objectives to the greatest extent possible, we will optimally use the recognised advantages and potentials of the HSE Group arising mainly from the optimal structure of our production resources that are flexible and over-proportionally available and from the extensive knowledge and experience of the employees in the field of production, operation and trading in electricity.

MISSION

The HSE Group is the largest Slovene producer and seller of electricity from its own, Slovene sources.
We strive for safe, reliable, competitive and profitable electricity production that is efficiently carried out by experienced and committed employees, in a manner responsible to the environment in which we operate.

VISION

We will remain the leading national producer and seller of electricity, a key pillar of self-sufficiency and sustainable energy transition in Slovenia.
Our efforts will be focused on the increase in electricity production from renewable energy sources and expansion of the content, volume and profitability of operations.
By monitoring trends in the business, market and technological environment we will search for the best business answers to the coming challenges and actively participate in formulating the energy guidelines of the state.

VALUES

EFFICIENCY
We have a thorough knowledge of the business.
We optimise processes and simplify procedures.
We do the rights things.

INNOVATION AND CREATIVITY
We search for the best solutions. We have the courage to be original and have constant wishes for improvement.
Business challenges are considered from various points of views. We are free spirits and show creativity in our work.

RESPONSIBILITY
We actively participate in setting business objectives.
We are responsible for the achievement of objectives, our own development, the employees, business partners, owners and the environment.

FAIRNESS AND CREDIBILITY
We adhere to the agreements and keep promises.
We are trustworthy, sincere and act in an ethical and transparent manner.

RESPECT AND COOPERATION
We maintain mutual relations.
We are respectful.
We believe in mutual success.
We recognise the best qualities in the employees, business partners.
We understand and respect diversity.
We are open and trustworthyi.

POSITIVE ORIENTATION
We perform tasks optimistically and with positive energy.
We are committed.
We believe in our knowledge and abilities.

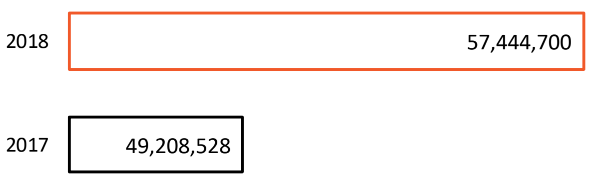
INVESTMENT POLICY OF THE HSE GROUP

The investment policy of the HSE Group is an integral part of the development strategy of the HSE Group. The HSE Group implements investment plans in accordance with the adopted strategic orientation and with the aim of achieving sustainable growth. In 2018, the investments continued that were of key importance for the sustainable competitiveness of the HSE Group in the field of production and operation as well as the environment. The investments prevailed that were needed in order to be able to ensure the security of operation. A large share of investments and overhauls belongs to investment maintenance or investments in the reliability of production. Thereby, synergies within the HSE Group are exploited by internal ordering and combining human resource potentials.

In the future, the preparation of required documentation for investments in renewable energy sources (HPP, small HPP, solar power plants, wind power plants) on the Middle Sava River, the Mura River and tributaries of the Drave River and the Soča River and other watercourses is planned. The investments will be continued only in case of a positive indicative valuation.

In case a concession agreement on the use of water potential on the Middle Sava River is signed the procedures of spatial placement of the low three HPP on the Middle Sava River (the Renke HPP, the Trbovlje HPP, the Suhadole HPP) will be accelerated. Investments in the development projects of the renewable energy sources in the region will continue in line with the free investment potential, where HSE will act as the strategic project partner.

INVESTMENTS IN THE HSE GROUP IN EUR



HSE

HPPs on the Middle Sava River: in 2018, the negotiations for harmonising the concession agreement continued. The activities relating to the placement of hydro power plants in the national spatial plan (the Suhadole HPP, the Trbovlje HPP and the Renke HPP) will continue when the concession agreement has been signed.

Merchant lines: in 2018 the activities for obtaining the construction permit for the merchant line Vrtojba and Dekani continued. The construction permit was obtained for RTP Vrtojba and a part of the Vrtojba cable route.

HSE CV equipment upgrade: the investment documentation was prepared, a tenderer selected and an agreement with the contractor signed. The initial meeting was organised, the project began, and the technical specifications of the upgrade was prepared.

SAP4 Section B – Production and planning: the SAP PM software solution was selected. The public procurement for the purchase of licences and implementation was carried out, initial meeting was organised, the project began, and the operating plan was prepared.

System infrastructure and communications equipment (ICT): the ICT field was restructured in line with the findings of the due diligence review, reduction in costs of ICT by 30 – 40 % (upgrade of disc fields of HSE and DEM, upgrade of the telecommunications network, consolidation of services in two database centres, etc.).

DEM

Small HPP: construction of the Rogoznica small HPP, the investment and project documentation has been elaborated for the Josipdol small HPP, the Pesnica small HPP, Lovrenc small HPP that obtained the water permits and the operation support of the Energy Agency (the Pesnica small HPP, the Josipdol small HPP, the Rogoznica small HPP).

HPP on the Mura River: HPP Hrastja Mota – a study of possibilities and design concepts was elaborated, and it complies with the orientation of the regional planning institution. The environmental report was supplemented in line with the comments of regional planning institutions and resubmitted at the Ministry of the Environment and Spatial Planning, which issued the opinion that the environmental report was adequately prepared, but a decision on the continuation of the project is needed.

Kozjak pumped storage power plant: since 2011 the PSPP has been included in the spatial planning acts of the municipalities and the national spatial plan. The project was prepared for the TYNDP tender (Ten Year Network Development Project) 2018 as the PCI programme (Project of common interest EU).

Wind power plant: the Government of the Republic of Slovenia took a decision on the preparation of the national spatial plan for the Ojstrica wind power plant. The measurements of the wind potential on the location Paški Kozjak have been carried out. A conceptual design for the locations Paški Kozjak and Rogatec was elaborated.

Refurbishment of spillways of the Dravograd HPP, the Mariborski otok HPP and the Fala HPP: the operating capacity of locks for water transmission is of essential importance for the safety of HPP facilities and of the flood area. Investments in the refurbishment and overhauls of locks and power units have been continuously made for many years.

Maintenance of the energy potential of water storage basins of the HPP chain on the Drava River: this is a continuous process in scope of which a useful volume and water surface has been maintained in the water storage basins of the HPP chain on the Drava River and thus the safety of the flood area along the Drava.

Refurbishment of bridges over supply and discharge channels of the Zlatoličje HPP and the Formin HPP: by the construction of the HPPs several bridges for the establishment of passage over the channels were constructed. In line with the commitments arising from the concession agreement the refurbishment of bridges is carried out by con-financing of individual municipalities.

SENG

Kneža small HPP: the construction of the facility has been completed. The operation support of the Energy Agency was obtained for this project.

Overhaul in the Avče pumped storage power plant: the first regular overhaul started in November 2018 and was completed in April 2019.

Reconstruction of the hydro-mechanical equipment of the Podselo dam: the works were completed, a specialist technical examination was carried out, the water storage basin filled. The devices were commissioned for regular operation, the certificate of completion was obtained.

Reconstruction of phase 2 of the Plave I HPP: is at the stage of completion. Two-month factory test operation was carried out on both generating units. The hydro power plant operates normally in line with the planning and implemented production. The technical inspection of an administrative authority was conducted. Obtaining of the certificate of completion follows.

Reconstruction of the Plave distribution transformer station: SENG acted as the co-investor in the investment in two 110 kV stations (the Plave I HPP and Plave II HPP). The investment has been at the final phase, factory test operation and preparations of the technical inspection are in progress.

TEŠ

Unit 6 – the first regular overhaul of equipment: the overhaul was carried out in line with the time schedule and financial plan without any deviations. TEŠ carried out the works relating to the assembly of DeNOx packages and works on the flue gas flap. The Unit was successfully synchronised on 3 July 2018.

Revitalisation of Unit 5: conclusion of the agreements, works on the environmental revitalisation of the boiler, overhaul of the Unit equipment. The works were completed on 30 July 2018. The Unit was synchronised with the grid on 16 August 2018 when all the tests of cool and partially hot start-up were conducted. After the completed revitalisation the emissions of NOx and CO are below the limit emission values.

PV Group

Construction of the mine stable facilities: a spare water route was made; it will be used for the needs of drainage of the northern pit part and re-carpentering of stable roadways.

Construction of the new ventilation shaft and access roadways: the shaft has been constructed and connected to the pit roadways. The construction of the access pit roadways is in progress, the public tender for the construction and delivery of equipment for the ventilation station needed to unburden the Šoštanj ventilation station has been prepared; it will enable the ventilation of the covered pit section of the Pesje pit after the year 2021.

Refurbishment of hydraulic supports: the heaviest investments were made for the purpose of renewal of the excavation equipment. The group purchased the components of the new hydraulic support produced by the company and the needed electric machine spare parts for the needs of maintenance of chain transporters and acquiring machine.

All companies within the HSE Group perform activities for the sale of unnecessary property and elimination of activities that are not related to the core activity or are not in line with the strategy of the HSE Group.

2.9 SUSTAINABLE DEVELOPMENT OF THE HSE GROUP

The operations of the HSE Group have been intertwined with the efforts for sustainable development. The Group demonstrates its commitment to sustainability by the operation in the following fields:

- ethical behaviour,
- social justice,
- occupational health and safety and
- environmental protection.

The activities have been performed in accordance with the international guidelines and the examples of the most efficient European energy companies. The commitment to sustainable development is a conscious decision of the HSE Group and has been followed from the very beginning. The operation of the Group has been based on the responsibilities to fellow human beings and natural and economic environments. The attitude to the balanced development is one of the essential components of the corporate culture and the mission of the HSE Group. We proactively take opportunities for the development of environmentally friendly methods of electricity production, reduce emissions, carefully manage waste, efficiently use natural resources and develop new, original environmental solutions. The sustainable development has long-term positive effects on the nature, people and operations; it has thus become increasingly important also from the aspect of cost control, increase in margins and trademark value.

The sustainable development has been reached by continuous improvements in the integrated management system based on the requirements of ISO 9001 standard. It is upgraded and extended by other requirements of standards ISO 14001, BS OHSAS 18001 and ISO/IEC 27001, which was confirmed during successful internal and external audits. The provisions of the ISO 26000 social responsibility standard were also reasonably followed in our work. The Code of Ethics of the HSE Group and the socially responsible behaviour to the company as a whole and all the stakeholders represented an upgrade of the management system.

THE MANNER OF ACHIEVING SUSTAINABLE DEVELOPMENT OF THE INTEGRATED MANAGEMENT SYSTEM

CONTINUOUS IMPROVEMENT

↑

(INTEGRATED) MANAGEMENT SYSTEM

RESPONSIBLE CONDUCT			COMPREHENSIVE CONTROL	
SAFETY	HEALTH	ENVIRONMENT	QUALITY	PROTECTION OF INFORMATION
BS OHSAS 18001		ISO 14001	ISO 9001	ISO 27001

COMPLETE SUSTAINABLE CHALLENGE OF THE HSE GROUP

01 ENVIRONMENTAL POLICY

02 SOCIAL POLICY

03 PERSONNEL POLICY

04 HUMAN RIGHTS

01 ENVIRONMENTAL POLICY

The mission of the HSE Group is reliable, efficient, sociably and environmentally responsible production of electricity and other energy products in a cost-efficient and profitable manner that enables the development of renewable energy sources and consideration of related facts in a socially responsible way.

The HSE Group follows the fundamental and strategic guidelines of the State and the EU that presuppose the sustainable development. The activities of the Group are oriented towards the implantation of the economically justifiable investments in new production facilities that enable the use of renewable resources, significantly reduce the CO_2 emissions per unit of electricity produced and increase the added value of the HSE Group.

In the field of sustainable development of energy in the HSE Group we have pursued the outlined environmental policy from the very beginning. This policy can be summarised in some basic points:

- respect of the legislation and all recommendations,
- reduction in the impact of production and use of energy on the environment,
- increase in the share of production from renewable energy sources,
- introduction of the most advanced technologies that are available so that impacts on the environment are as minimal as possible,
- energy saving and its efficient consumption as well as cost control of effective ways of energy storing,
- maintenance and upgrade of optimal structure of production sources,
- taking into account the optimal use of national energy sources,
- sustainable embedding of large power generation facilities in the space under consideration of NATURE 2000,
- reliability of supply,
- achievement of partnerships with local communities, joint solving of environmental problems and planning of sustainable development of electricity production,
- achievement of sustainable operation and development of energy capacities,
- regular monitoring of environmental parameters,
- regular maintenance of water storage basins (removal of deposits),
- environmentally sustainable regulation of water infrastructure and
- a protection and rescue plan in the event of high water (concern for minimising the impacts of electricity production on the environment and protection of civilians living along rivers against floods).

ENVIRONMENTAL DATA

HSE Group	2018	2017
Water consumption (in m^3)	10,490,957	11,252,560
Waste water (cooling/prrocess in m^3)	4,520,750	4,126,904
Consumtion of electricity from network (in MWh)	63,346	61,423
Non-hazardous waste (in t)	793,158	907,350
Hazardous waste (in t)	542	228
Processed waste (in t)	732,453	769,463
Emissions into the air (in t)	3,936,227	4,081,352
Fines and non-monetary santions due to non-observance of the environmental regulations (4-EN29) in EUR thousand	0	0
Costrs of environmental protection in EUR thousand	45,031	43,781

All the companies within the HSE Group that produce electricity as well as the controlling company hold the ISO 9001 international quality certificate and the ISO 14001 international environmental certificate. Safe and environmentally friendly electricity production is ensured in all hydro power plants in full compliance with these two certificates. By the environmental rehabilitation, renewal the state-of-the-art Unit 6 TEŠ achieved a more environmentally friendly level and PV was among the first mines in the world that proved the complete and responsible environmental management in accordance with the requirements of ISO14001 standard. In accordance with the obtained umbrella documents on the basis of which the right to the energy use of natural resources was given to us, we have successfully preserved the rights obtained and the confidence of the state in our production activity. We act in line with the applicable legislation and implement all the measures required for minimising the impacts of the production on the environment.

CERTIFICATES OF THE COMPANIES IN THE HSE GROUP

	ISO 9001 Quality management	ISO 14001 Environmental management	OHSAS 18001 Occupational helth and safety	ISO 27001 Information security management	ISO/IEC 17025:2005 General requirements fot the competent of testing and calibration laboratories	EE TÜV Certification of the generation of electricity from renewable sources (electricity generation)	EEnew Generation of electricity with the requirements from new HPP	PoI Certificate of origin	DPP Familiy Friendly Company
HSE	✓	☒	✓	✓		✓	✓	✓	✓
DEM	✓	✓	✓	✓		✓	✓	✓	✓
SENG	✓	✓	✓	☒		✓		✓	
TEŠ	✓	✓	✓	☒	✓				
PV	✓	✓	✓	☒					
HTZ	✓	✓	✓	☒					
RGP	✓	✓	✓	☒					
HSE Invest	✓	✓	✓	☒					

✓ certification

☒ observance of obligatory controls

The companies HSE EDT and Sipoteh hold no certificates.

In the light of accepted European commitments of the Republic Slovenia relating to the reduction in greenhouse emissions along with the implementation of measures for efficient energy use and the increase in share of renewable sources the HSE Group pays a lot of attention to the development of environmental projects that are carried out in accordance with the applicable legislation and reduce the impact on the environment of the existing power plants:

- Construction of passages for aquatic organisms and restoration of fish: on the basis of the Water Framework Directive and NUV 2 (Plan of water management) it is necessary to construct passages for aquatic organisms on hydro power plants and dams of the Drava River. In the framework of the activity, such a passage to the Mariborski otok HPP (DEM) was constructed in 2017. The elaboration of project documentation for other facilities is in progress. On the basis of the Water Framework Directive and NUV 2 SENG takes care for a partial restoration of fish on the Soča River and constructs passages for aquatic organisms on the tributaries of the Soča in the framework of the construction of new small HPPs.
- Removal of sludge and preservation of the energy potential of water storage basins: preservation of the energy potential of the water storage basins of the HPP chain on the Drava and the Soča has been a continuous process in scope of which a useful volume and the water surface in the water storage basins of HPP chain on the Drave and the chain of HPPs on the Soča have been maintained and thus the protection against flood of the Drava and the Soča has been provided. In the framework of these activities the obligations of the concession agreements on the use of the Drava and the Soča for electricity production, such as regular removal of deposits, regular maintenance of water and coastal areas and others, are fulfilled.
- Rehabilitation of depressions: depressions occur as a result of coal extraction in PV and their consequences are visible also on the surface. The PV Group rehabilitates the consequences of depressions in line with the needs, the mining legislation and ecological requirements. The rehabilitation is carried out by back-filling the by-products of electricity production in TE Šoštanj and additional quantities of material, if necessary. A great emphasis has been placed on the rehabilitation of the barrier between the Velenje Lake and the Šoštanj Lake, where all the activities are focused on ensuring the adequate stability of the dam, as intensive coal excavations were carried out in this area in 2018. Besides the material, additional quantities of soil were also backfilled in TEŠ in 2018.

Activities in the field of studies and research:

- Decrease in impacts of emissions on the environment from ventilator stations Pesje and Šoštanj: the objective of the study is to search for any possible technical solutions that would minimize the impact of odours in the vicinity of Šoštanj and to perform the measurements of the air and/or exhaust gases from the Šoštanj ventilation station and to establish the actual concentration values of gases, intensity and frequency of odour appearance.

- Transition of mining regions to a low-carbon society: the proposal of the Energy concept foresees mining of the Velenje lignite for electricity production to the year 2054. For this purpose a strategy of the transition of PV and the region to a low carbon society is to be formulated. If possible, it has to be searched for potential synergies with similar problems in other mining areas of the European Union.

In the field of mitigation of climate changes and for the achievement of the ambitious objectives set in the Prague agreement Slovenia will have to strengthen its efforts in the future. In this context, the energy sector and as a result the HSE Group will play an important role. Over a decade ago the Group contributed a significant share to reducing CO_2 emissions and replacing fossil sources by renewable energy sources in electricity production in Slovenia.

For the HSE Group decarbonisation of the energy sector represents one of the key objectives in the following decades. The introduction of new technologies and new business models will be of vital importance for the achievement of this goal as we have already started preparing new development projects. We are very well aware of the fact that the transition to the low-carbon economy and the implementation of circular economy enable the sustainable development of Slovenia and at the same time offer new opportunities for the economic development of companies.

Activities in the field of research and development projects financed by the European Union where we participate in various fields:

- Use of excess heat - DEM: the CE-HEAT project has been co-financed by the European Union; the HSE Group patriciates in it with other partners from the Central European region (7 countries, duration 2016 - 2019). The project deals with the technological and economic aspect of the use of excess heat that appears in processes in hydro power stations (waste heat of generators, turbine bearings). The project foresees the exploitation of excess heat of generators on the Fala HPP, where the excess heat is used for museum building. The project of the system-set up on the Fala HPP has been in progress (completion in April 2019).
- Implementation of the Development of a small wind power plant project that was co-financed by the Ministry of Education, Science and Sport. The project is completed.
- Capturing methane from the pit air by means of nanomembranes and/or catalytic converters (METHENERGY PLUS). The project deals with methane emissions from coal mines as the potential source for the production of energy and chemicals. Various strategies will be verified in the framework of development of processes, advanced reactors and combustion devices. Duration: 2017 –2020.
- Coal dust – preventive and curative (ROCD): the foreseen activities will include a review of the situation and an analysis of coal dust danger in the European Union, sampling, development of an optical measuring real-time instrument for dust concentrations (in-situ tests, analysis), analysis and simulations / modelling of coal dust deposition by protective measures, automation of dedusting relating to the phase of the work process, analyses and testing of protective equipment and creating of an e-application for training. Duration: 2017 – 2020.
- Mine rescue – development of technologies and provision of information (INDIRES): among others, the project includes the development of sensors, robots and drones for inspections, mechanical rescue machines, system automation and communication through rock. Duration: 2017–2020.
- Development of a NOR expert system and logistic optimisation system (INESI): a multi-layer project on the topic of safety in transport and logistic processes – development of the NOR expert system and testing of detection, development of optimal logistic system for timely /optimal (JIT) transport of equipment and material to a pit, through the pit and from the pit and to the surface. Duration: 2017–2020.
- Reduction in risk of the working environment on excavation sites in coal mines (PICTO): the project includes monitoring of ventilation parameters on excavation sites and modelling of the situation, degassing, monitoring of parameters and development of model solutions for optimisation of a gas phase during excavations. Duration: 2018–2021.

Activities in the field of public relations concerning the contents referring to the relation to the environment in the HSE Group and operation in the spirit of sustainable development:

- The Blue Jan project emphasises the environmental orientation, concern for renewable energy sources and efficient use of energy among the youngest and consequently their nursery teachers, school teachers and parents. The subscribers to the magazine are mostly children aged 4 to 12 years, kindergartens, schools and libraries. The Blue Jan magazine is issued four times a year and its circulation ranges from 15,000 to 18,000 copies.

- The Blue energy project is intended to contribute to build the reputation of the HSE Group, as it emphasises the environmental orientation, promotes the use of renewable energy sources and efficient use of energy.
- All Blue energy customers contribute funds to the Blue Fund by their purchases. It is intended to stimulate the acquiring of energy from renewable sources, research in the field of accelerating the acquisition of such energy and renewal and construction of units that produce such energy. The funds collected were used for the implementation of several large-scale education projects, research projects and last but not least they co-financed the implementation of numerous summer camps in the field of electricity from renewable energy sources and efficient use of electricity. A solar power plant was constructed on the roof of the Velenje Grammar School that serves as a promotional and educational instrument. In the years to come, we would like to implement similar high-quality projects in this field by the Blue fund.

Activities related to the obligations of HSE raising from the Decree on energy savings requirements:

- In 2018, we were required to provide 0.75% of savings from the total electricity sold to end customers, which amounted to 4,700 MWh. Due to the insufficient savings potential within the HSE Group the activities were implemented also with end customers and all the obligations for 2018 were met.

The HSE Group timely started the renewal of production facilities and the introduction of new technologies comparable to the leading European and global technological trends. We managed to avoid the dangers brought about by the last economic and financial crisis by successful restructuring of business processes and operations in the HSE Group. In this way, the possibilities for further development of the entire Group and the Slovene energy were created.

The HSE Group actively co-operates with all important national and European professional associations, regulators and other legislative bodies in the energy field. Due to this fact we can adequately represent the interests of the HSE Group at the national and European levels.

We are aware that in the light of the energy transition and refraining from the coal use the decarbonisation strategy and the restructuring programme of coal industry would be timely prepared in Slovenia considering the fair transition principle that would be a component of the national energy – climate policy. Besides the concern for the employees, the concern for the environment, sustainable development and successful cooperation with local communities is the most important guidance in pursuing the performance ratios of individual companies and the entire HSE Group.

The activities of the HSE Group are focused on joining the Platform for Coal Region Transition as soon as possible. This will enable the implementation of the restructuring measures in the coal regions in line with the principle of fair transition at the level of the European Union and the participation of Slovenia and the HSE Group within the framework of support mechanisms that the European Commission will trigger in scope of the accompanying policies and structural funds.

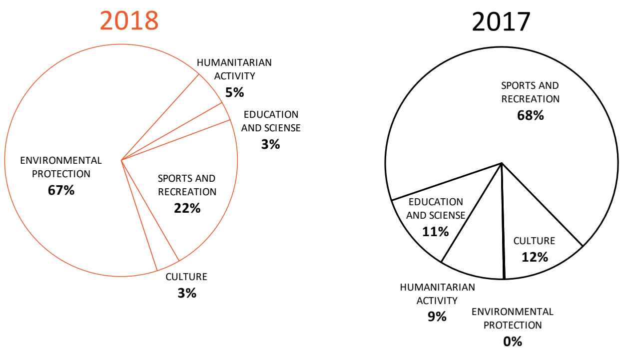
02 SOCIAL POLICY

Social responsibility of HSE Group is important in the context of sustainable development and its social work. Social responsibility is not understood only as acting in favour of the company, internal and external stakeholders, these are voluntary policies proving our responsible and ethical relationship to other persons, partners, local community, the state, their bodies and especially the environment.

The HSE Group has been committed to social responsibility from the beginning of our existence. Sponsorships, donations and humanitarian projects that we occasionally devise and implement on our own are an integral part of our mission and the basis for co-existence in and with the environment, where our production facilities operate. Within the framework of the principles of social responsibility and humanity we offer assistance to promising individuals, clubs and organisations, support good projects and help those who are weak, endangered and helpless.

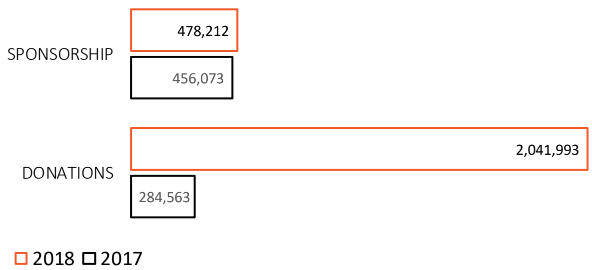
In 2018, the HSE Group allocated over 80% sponsorship assets to the support of sport. Our most important sponsors in the field of sport at the national level and whose representatives achieve top results in Slovenia and abroad is the Olympic Committee of Slovenia. We are also glad to be able to cooperate with small, local clubs, whose sportsmen have only started building their important careers. We are also sponsor of some Slovene cultural events with the local character, such as for example the Lent Festival and the Borštnik meeting. We regularly provide assistance to various societies operating with the companies or in the vicinity of the companies, fire brigades and organisations taking care of the well-being of socially endangered families and children. And finally, the support to professional events relating to our activity is also of essential importance. We actively participate in these events and always support the ones that are most important for us.

SPONSORSHIPS AND DONATIONS BY PURPOSE



In 2018, the companies in the HSE Group granted over EUR 400 thousand to the local environment in form of sponsorships and EUR 2 million in form of donations.

SPONSORSHIP AND DONATIONS IN EUR



In accordance with the Public Information Access Act all recipients of sponsorships and donations are published by the companies on their websites.

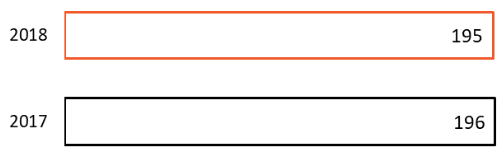
Trade Union and Works Council are a link between the employees and the management board. Through the Trade Union Chairman or the Works Council Chairman the employees can submit their questions and initiatives for discussion. An important source of information is regular meetings of the social partners with the management board and the annual Works Council meeting where the employees are informed about the operating results, plans for the future and the strategy of HSE Group development and other topical information.

The employees are regularly informed via e-mails, bulletin boards, intranet, Internet, information points (displays) and internal newsletters of the companies within the HSE Group. Since 1975 an internal radio has been broadcasting and the employees can listen to it on a daily basis.

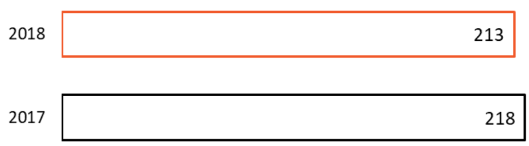
The HSE Group has an organised a Joint Works Council of the HSE Group, where Works Councils of the companies in the HSE Group participate, except the Works Council of the HSE Company. The latter cooperates with the HSE management board in a way specified in the Worker Participation in Management Act and the Participation agreement and together with trade union it represents the interests of the employees.

An important key to the satisfaction of employees is certainly efficient harmonisation of professional and personal life and therefore HSE and DEM decided to obtain the certificate of a Family Friendly Company (FFC). On the basis of the results of research conducted among the employees the FFC team of a separate company upgrades the system of measures by new measures every three years. Other companies in the HSE Group have also followed the conduct and the example of HSE and DEM in the field of balancing work and family life.

NUMBER OF SOLIDARITY AIDS PAID



EMPLOYEES ON PARENTAL LEAVE



03 PERSONNEL POLICY

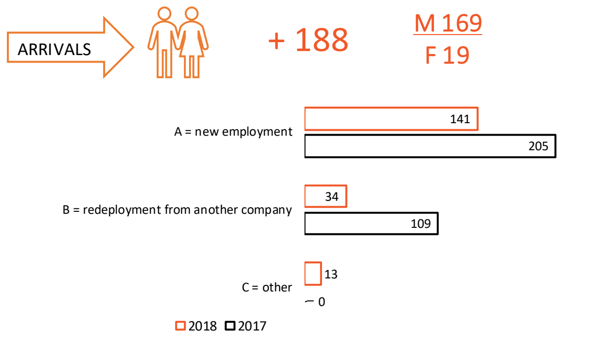
The recruitment policy, concern for the development and training of employees, monitoring of satisfaction and commitment of employees are only some of the main activities of the human resource management in the HSE Group.

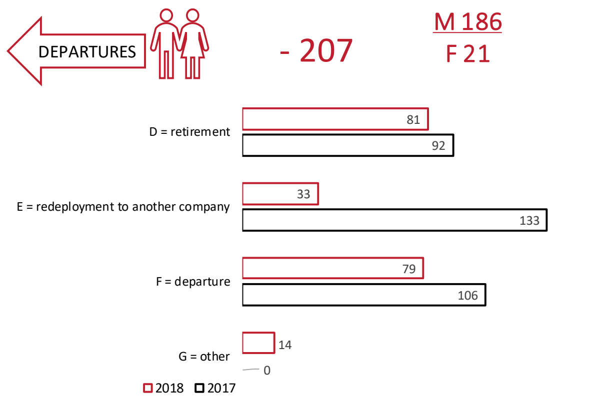
A dynamic working environment offers many challenges and opportunities for the growth and development. Special attention is paid to attracting, recognising and development of talents. In this way we ensure that the HSE Group will be successful also in the future. Our operation is based on equal opportunities for all and on following the legislation and respecting the ethical attitude to fellow human beings and the wide social environment. The Code of Ethics obliges us to follow the ethical and professional standards of work and conduct. We ensure the employees equal possibilities regardless of gender, race, religion, nationality or other cultural differences.

BALANCE OF EMPLOYEES IN THE HSE GROUP

COMPANY	2018	2017
HSE	176	174
HSE EDT	17	18
DEM	238	241
SENG	121	124
TEŠ	312	311
PV	1,231	1,255
HTZ	783	780
RGP	107	102
PV Invest	0	7
Sipoteh	35	25
HSE Invest	51	53
HSE BH	1	1
HSE BE	2	2
Σ	3,074	3,093

EMPLOYEE TURNOVER IN THE HSE GROUP

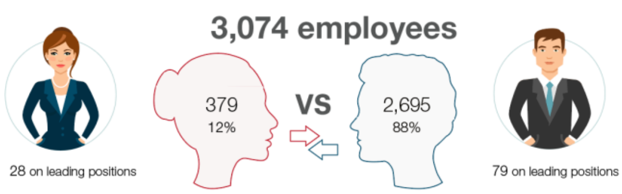




EMPLOYEES BY AGE IN 2018

Age class	Number of employees	%	Men	Women
up to 30 years	348	11	344	4
from 31 to 40 years	798	26	716	82
from 41 to 50 years	1,104	36	974	130
from 51 to 60 years	780	25	623	157
over 61 years	44	1	38	6
Σ	3,074	100	2,695	379

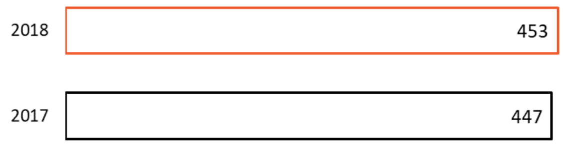
EMPLOYEES BY GENDER IN THE HSE GROUP



Part of the HSE Group is also HTZ employing disabled persons. It is the largest company for disabled people in Slovenia as it employs almost 800 persons and it the largest subsidiary in the PV Group. HTZ is of vital importance for the operation of PV from the aspect of providing complete support services that are needed for the performance of the core activity of coal extraction.

HTZ employs disabled persons from PV who became unable to perform the heavy work in the pit in the basic production process.

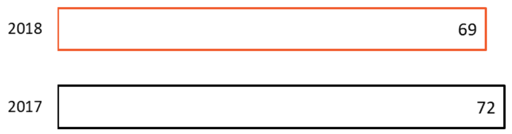
NUMBER OF DISABLED PERSONS AS AT 31 DECEMBER



Voluntary supplementary pension insurance of the employees is an integral part of the salary policy in the HSE Group. It includes the employees of all subsidiaries in the HSE Group.

In order to be able to ensure adequately qualified young potentials and with respect to the deficit professions in our companies, HSE awards grants in the fields where it is estimated that certain expertise will be most needed.

NUMBER OF GRANT RECIPIENTS



TRAINING AND DEVELOPMENT

Annual appraisals are used for the efficient management, motivation, monitoring of employee work performance, feedback and guiding the development of the employees in the majority of the companies in the HSE Group. A computer-aided system of annual appraisals enables a current insight into individual stages of annual appraisal performance, a quick analysis of training needs, overview of individual development plans, wishes for career changes and plans for competence development. Annual appraisals enable a more optimal implementation of the training plan and therefore homogenous groups were formed for the implementation of the language and computer training courses adjusted to the contents and demanding level as well as training in the field of management, skills and professional knowledge. A system of leader development has been established and within its framework leadership skills are strengthened by systematic training and coaching.

64,721 training hours

175 internal training courses

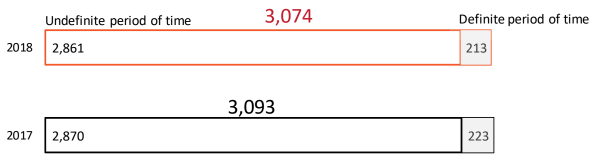
26 joint workshops at the Group level

21 training hours per employee

BALANCE OF EMPLOYEES AS AT 31 DECEMBER 2018 AND AVERAGE NUMBER OF EMPLOYEES IN 2018 BY EDUCATION STRUCTURE

EDUCATION CLASS	NUMBER OF EMPLOYEES AS AT 31 DECEMBER 2018		AVERAGE NUMBER OF EMPLOYESS IN 2018	
	HSE	HSE GROUP	HSE	HSE GROUP
8/2	2	12	2	12
8/1	26	70	26	72
7	75	268	76	269
6/2	42	205	41	200
6/1	20	338	19	336
5	11	813	12	811
4		1,070		1,076
3		56		57
2		94		97
1		148		151
TOTAL	**176**	**3,074**	**175**	**3,078**

EMPLOYEES EMPLOYED FOR A DEFINITE / INDEFINITE PERIOD OF TIME



Mentoring enables the exchange of experience and the development of employee potentials. It is used for the newly employed persons who are being introduced to work and the employees who take over new, more responsible tasks.

The well performed work and the efficiency of the employees are recognised. Therefore the employees are motivated for further work through various forms of remuneration. In this way, we would like to encourage commitment and loyalty and to award proactivity and excellence.

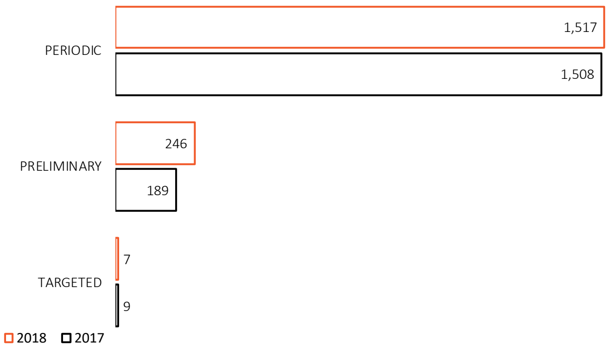
Within the framework of the continuous improvement system a system of innovations and improvements in work has been established. The employees are encouraged to constantly search for ways leading to better and high-quality performance of work in their daily performance of tasks.

Our goal to be successful can be achieved only by motivated and committed employees, which reflects in the results of measuring the organisational climate. These results are a good tool for making improvements that contribute to the creation of an efficient and creative working environment and commitment of employees and last but not least also to the business results of the HSE Group.

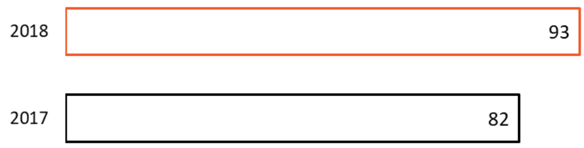
HEALTH AND SAFETY AT WORK

The fundamental objective of the occupational health and safety and fire safety policy is sustainable development, which can be achieved through planning, implementation, supervision and taking measures, prevention of accidents at work and other extraordinary events and by sharing responsibilities and integrating policy in individual business processes. We provide safe working environment to the employees and external providers. The risks of accidents and health problems are monitored for all jobs and technologies. The risks are evaluated periodically, maintained at an acceptable level by adequate protective measures and in the long run we can influence the continuous improvement in working conditions. Various preventive measures reduce the possibility of disability or health restrictions. The occupational health and safety management system complies with the BS OHSAS 18001:2007 standard and is integrated in the management system. The concern for the employee health is a shared responsibility of all the employees, their heads, professional services and specialists in the field occupational medicine. Works Councils are also involved in these activities.

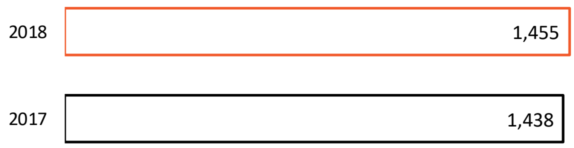
PREVENTIVE MEDICAL EXAMINATIONS



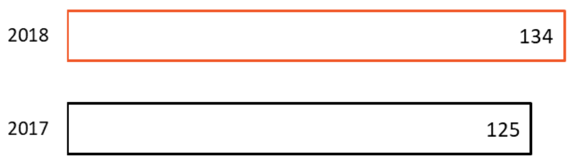
NUMBER OF EXERCISES FOR THE INCREASE IN EMERGENCY PREPAREDNESS



NUMBER OF EMPLYOEES TAKING PART IN ACTIVITIES INVOLVING HIGH RISK OF SPECIAL ACCIDENTS OR ILLNESSES



NUMBER OF ACCIDENTS AT WORK



In 2018, the number of accidents at work increased by 9% over 2017 due to the increased number of work accidents in the PV Group.

SICK-LEAVE ABSENTEEISM

YEAR/WORKING HOURS	2018	2017
Sickness benefits charged to the Company	229,520	237,671
Sickness benerfits charget to ZZZS	310,240	382,118
Total	539,760	619,789

Working hours in the amount 539,760 were lost due to sick-leave absenteeism, which accounted for 8% of total regular working hours. When compared to the year 2017 the number of working hours lost decreased by 1% due to sick-leave absenteeism.

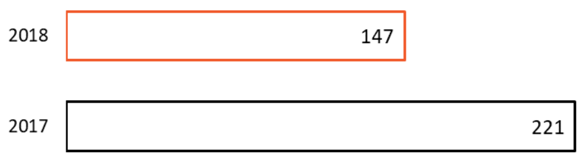
ABSENTEEISM

ABSENTEEISM	2018	2017
Number of days lost in a certain period	65,694	69,313
Average number of employees	3,078	3,102
Number of total working days (per employee)	261	260
Absenteeism (due to health reason) in %	8%	9%

SPENDING OF HIGH-QUALITY FREE TIME

The HSE Groups enables the employees to spend their high-quality leisure time in various sports, cultural and other societies. The employees can also spend their annual leave in holiday facilities at various locations in Slovenia and Croatia. Every year, a New Year celebration is organised for the employees and Father Christmas visits the youngest in December.

MEDICAL PREVENTIVE ACTIVE HOLIDAYS



04 HUMAN RIGHTS

The HSE Group respects human rights. Primarily, the respect for human rights is provided in line with the compliance of operations with the legislation, internationally recognised principles and guidelines, including the United Nations declaration of human rights and other regulations.

Each company in the HSE Group defines the procedures and takes measures for ensuring corporate compliance with internal acts, decisions of the Management Board, decisions of the Supervisory Boards and in the event of one-tier management the decision of a single member. The companies in the HSE Group have the established adequate internal codes of conduct and procedures, within which mechanisms operate and ensure compliance with the legislation and other regulations.

Code of Ethics of the HSE Group obliges us to follow the ethical and professional standards of work and conduct. We ensure the employees equal possibilities regardless of gender, race, religion, nationality or other cultural differences. Discrimination as one of the elements of unequal treatment of individuals is strictly sanctioned. For this purpose the companies in the HSE Group appointed internal bodies whose primary tasks are the evaluation and judgement of reported cases of mobbing, including also reports on discriminatory conduct. The established internal bodies in 2018 did not receive any report on a discriminatory conduct, countermeasures, sexual harassment and other harassment or ill-treatment at work.

Personal data protection is one of the key priorities of the HSE Group. Technical and organisational security measures have been established for this purpose and they are intended for the protection of rights and freedoms of individuals, who are subject to personal data. The companies in the HSE Group follow the ISO 27001 standard that refers to the protection of information, including the protection of personal data, although only some of them maintain the ISO 27001 certificate. In 2018, no case of violating the right to protection of individual’s personal data was detected.

The business premises of the companies in the HSE Group are adapted to disabled persons, with the exception of some production facilities, which, due to their purpose, do not permit the removal of architectural barriers. The business premises are adapted to disabled persons and equipped with lifts which enable disabled persons to have an easy access to their workplace. The place of work used by a disabled person is adapted to enable such a person to work smoothly and in an undisturbed manner.

The HSE Group is committed to reducing the use of precarian forms of work, as mainly uncertainty, flexibility, low payment and short-term are characteristic of these forms of work.

The companies in the HSE Group apply the zero-tolerance as regards the infringement of human rights, abusive practices at work, non-payment of work and unsafe working conditions.

The HSE Management Board adopted the Rules on the whistleblowing detection. The introductory provisions of the Rules express the interest of the HSE Group to report any forms of irregularities and unlawful acts in the operations of the companies within the Group with the goal of enforcing a regulated and fair management and efficiency of the HSE Group's supervision. A possibility of submitting anonymous comments and communications is established by these rules. A three-member committee for the discussion of complaints was appointed for this purpose. During its operation from 2016 to 2018 the committee held 29 meetings, discussed 18 reports, issued 10 final reports by which it informed the HSE Management Board and Supervisory Board, and proposed measures in line with Rules. On the basis of the decision of the Management Board the three last reports received in 2018 were submitted for discussion to the Service for fraud prevention and detection.

The Service for fraud prevention and detection was organised within HSE in line with the revised Corporate Governance Code for companies with state capital investments (May 2017) that lays down that large and medium-sized companies should establish an internal warning system concerning irregularities in the company and the mechanism for the protection of reporting persons (whistleblowing). The Service assumed the competence of a committee that formally stopped operating on 19 October2018, when the Rules for the implementation of tasks of prevention, detection and investigation of frauds in the HSE Group were put into force.

3

Accounting Report of the HSE Group

3.1 INDEPENDENT AUDITOR'S REPORT FOR THE HSE GROUP

KPMG Slovenija, podjetje za revidiranje, d.o.o.
Železna cesta 8a
SI-1000 Ljubljana

Telefon: +386 (0) 1 420 11 60
Internet: http://www.kpmg.si

Independent Auditors' Report

To the owners of the Holding Slovenske elektrarne, d.o.o., Ljubljana

Opinion

We have audited the consolidated financial statements of the Holding Slovenske elektrarne, d.o.o. and its subsidiaries ("the Group") which comprise the consolidated balance sheet as of 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the* consolidated *Audit of Financial Statements* section of our report. We are independent of the Group in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other Information

Management is responsible for the other information. The other information comprises the Introduction including Report of the Supervisory board and the Business Report included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. We obtained other information before the date of issuance of the auditor's report, except for the Report of the Supervisory Board, which is to become available at a later date.

Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the consolidated financial statements are prepared, is in all material respects consistent with the consolidated financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report. We have nothing to report in this respect.

Responsibility of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using of the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the Audit of Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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KPMG

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

On behalf of the auditing company

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Boštjan Mertelj	Danilo Bukovec
Certified Auditor	*Certified Auditor*
	Director

Ljubljana, 17 May 2019

KPMG Slovenija, d.o.o.
5

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

3.2 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management is responsible for the preparation of the consolidated financial statements for each financial year in accordance with the International Financial Reporting Standards, as adopted by the European Union, and the applicable legislation, i.e. in a manner that they represent the true and honest presentation of the operations of the HSE Group.

The management rightfully expects the HSE Group to have available appropriate resources to continue operations in the near future, so the consolidated financial statements are prepared based on the assumption of unlimited duration operations of the HSE Group.

The responsibility of the management for the preparation of consolidated financial statements comprises the following:

- the accounting policies are correctly chosen and consistently applied,
- the assessments and evaluations are reasonable and prudent.

The management is responsible for managing appropriate records, which at any time clearly and accurately represent the financial position of the HSE Group and that the consolidated financial statements are in accordance with the International Financial Reporting Standards. The management is also responsible for protecting the assets of the HSE Group, as well as for protecting against and discovering fraud and other irregularities.

The management confirms that the consolidated financial statements for 2018 have been prepared in accordance with the provisions of the International Financial Reporting Standards, as adopted by the European Union.

On 15 May 2019, the management adopted the consolidated financial statements of the HSE Group for the business year which ended on 31 December 2018.

Ljubljana, 17 May 2019

Stojan Nikolić, M.Sc., Managing Director of HSE

Viktor Vračar, Ph.D., Business Director of HSE

3.3 INTRODUCTORY NOTES TO THE PREPRATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accounting part of the consolidated financial statements represents the consolidated financial statements with explanations from the HSE Group.

Based on the decision of the Capital Assets Management Agency of the Republic of Slovenia acting in the role of the representative of the founder of 29 November 2010, the HSE Group has been preparing consolidated financial statements and explanations since 1 January 2011, in accordance with the International Financial Reporting Standards, as adopted by the European Union.

The audit company KPMG Slovenija d.o.o. audited the consolidated financial statements with explanations and prepared a report from an independent auditor which is included at the end of the chapter.

3.4 CONSOLIDATED FINANCIAL STATEMENTS

3.4.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ITEM (in EUR)	NOTE	31 DEC 2018	ADJUSTED 31 DEC 2017
ASSETS		2,134,733,707	2,138,362,354
A. LONG-TERM ASSETS		**1,822,951,151**	**1,862,945,105**
I. Intangible assets	1	23,780,085	19,107,307
II. Property, plant and equipment	2	1,636,937,210	1,682,288,011
III. Investment property	3	17,183,899	18,028,478
IV. Long-term investments in subsidiaries	4	510,445	0
V. Other long-term investments and loans	5	139,480,575	137,922,434
VI. Long-term operating receivables		3,690,818	4,007,906
VII. Other long-term assets		650,703	753,346
VIII. Deferred tax assets	6	717,416	837,623
B. SHORT-TERM ASSETS		**311,782,556**	**275,417,249**
I. Assets included in the disposal group		793,856	492,931
II. Inventories	8	30,435,378	24,422,856
III. Short-term investments and loans	9	13,013,546	13,536,598
IV. Short-term trade receivables	10	135,127,685	123,926,907
V. Contract assets	11	1,014,437	0
VI. Current tax assets		26,772	4,285,191
VII. Other short-term assets	12	47,860,353	47,059,324
VIII. Cash and cash equivalents	13	83,510,529	61,693,442
EQUITY AND LIABILITIES		2,134,733,707	2,138,362,354
A. EQUITY	14	**1,091,245,475**	**1,038,307,041**
I. Called-up capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Revenue reserves		413,856,350	413,856,350
IV. Hedging reserve		75,592,356	10,753,380
V. Fair value reserve		-958,415	-1,294,792
VI. Retained earnings or losses		12,620,281	24,646,652
VII. Translation reserve		-1,055,098	-1,072,381
VIII. Equity of the non-controlling interest		388,027	615,858
B. LONG-TERM LIABILITIES		**764,028,047**	**847,901,819**
I. Provisions for termination benefits and jubilee premiums	15	14,621,657	13,918,855
II. Other provisions	16	46,282,925	52,495,760
III. Other long-term liabilities	17	1,884,226	1,734,789
IV. Long-term financial liabilities	18	701,130,810	779,542,921
V. Long-term operatng liabilities		89,640	203,918
VI. Deferred tax assets	7	18,789	5,576
C. SHORT-TERM LIABILITIES		**279,460,185**	**252,153,494**
II. Short-term financial liabilities	19	83,006,503	71,896,296
III. Short-term operating liabilities	20	141,184,257	123,003,487
IV. Contract liabilities	21	13,200	0
V. Current tax liabilities		2,072,212	47,733
VI. Other short-term liabilities	22	53,184,013	57,205,978

* Notes to the financial statements are a constituent part thereof and must be rad in conjunction therewith.

3.4.2 CONSOLIDATED INCOME STATEMENT

ITEM (in EUR)	NOTE	2018	ADJUSTED 2017
OPERATING INCOME		**1,489,591,259**	**1,610,051,565**
1 Net sales revenue	24	1,471,965,221	1,587,759,985
2. Other operating income	25	17,626,038	22,291,580
OPERATING EXPENSES		**1,459,148,470**	**1,553,614,541**
3. Costs of goods, material and services	26	1,185,855,448	1,297,306,062
4. Employee benefits expense	27	124,519,622	120,706,314
5. Write-downs in value	28	97,686,938	81,798,796
6. Change in value of inventories and work in progress		-1,221,885	-827,106
7. Capitalised own products and services	29	-15,395,195	-8,767,132
8. Other operating expenses	30	67,703,542	63,397,607
OPERATING PROFIT OR LOSS		**30,442,789**	**56,437,024**
9. Finance income		**162,871**	**918,371**
10. Finance costs		**33,367,602**	**35,470,988**
FINANCIAL RESULT	31	**-33,204,731**	**-34,552,617**
11. Profit shares in associates and jointly controlled entities		1,915,087	1,063,898
PROFIT OR LOSS BEFORE TAX		**-846,855**	**22,948,305**
TAX	32	**10,955,748**	**14,734,641**
12. Income tax expense		10,847,119	9,615,333
13. Deferred tax		108,629	5,119,308
NET PROFIT OR LOSS FOR THE PERIOD	33	**-11,802,603**	**8,213,664**
Majority owner		-11,567,589	8,268,978
Non-controlling interest		-235,014	-55,314

* Notes to the financial statements are a constituent part thereof and must be rad in conjunction therewith.

3.4.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

ITEM (in EUR)	NOTE	2018	ADJUSTED 2017
Net profit or loss for the period	**33**	**-11,802,603**	**8,213,664**
Actuarial gains and losses of employee defined benefit plans	15	-172,529	-280,811
Gains and losses on foreign currency translation of the financial statements of foreign operations		17,283	322,560
Items that will not be transferred to profit or loss		**-155,246**	**41,749**
Net effecitive portion of changes in fair value of cash flow hedges	14	64,734,631	9,019,098
Net effective portion of changes in fair value of cash flow hedges reclassified to profit or loss	14	104,346	-6,342
Change in the fair value reserve of the available-for-sale financial assets	14	1,342	5,014
Items that may be transferred to profit or loss		**64,840,319**	**9,017,770**
Total comprehensive income for the period		**52,882,470**	**17,273,183**
Majority owner		53,110,301	17,326,771
Non-controlling interest		-227,831	-53,588

* Notes to the financial statements are a constituent part thereof and must be rad in conjunction therewith.

3.4.4 CONSOLIDATED STATEMENT OF CASH FLOWS

ITEM (in EUR)	2018	ADJUSTED 2017
CASH FLOWS FROM OPRATING ACTIVITIES		
Profit or loss for the period	-11,802,603	8,213,664
Adjustment for:		
Amortisation of intangible assets	797,781	1,075,398
Depreciation on property, plant and equipment	76,148,173	75,295,909
Revaluation of investment property	0	-166,114
Impairment of intangible assets, property, plant and equipment and investment property	18,705,593	2,894,467
Impairment - other	0	64,000
Write-off of intangible assets, property, plant and equipment and investment property	1,373,600	875,996
Write-off of operating receivables	65,638	811,249
Write-off of inventories	222,833	525,529
Loss on sale of property, plant and equipment, intangible assets and investment property	373,320	256,248
Finance income	-162,871	-918,371
Finance costs	33,367,602	35,470,988
Profit shares in associates and jointly controlled entities	-1,915,087	-1,063,898
Gain on sale of property, plant and equipment	-1,371,075	-1,726,655
Reversal of write-off of operating receivables	-407,866	-891,194
Reversal of impairment of property, plant and equipment	0	-3,228,758
Income tax paid	10,955,748	14,734,641
Cash generated from operating activities before change in net current assets and taxses	***126,350,786***	***132,223,099***
Change in net current assets and provisions		
Change in:		
Inventories	-6,235,355	-5,015,940
Trade receivables, deferred costs and accrued income	-12,593,116	-20,834,283
Assets held for sale	318,961	765,743
Trade payables, accrued costs and deferred income	105,103,927	54,021,199
Provisions	-2,529,498	-3,258,697
Income tax paid	-4,564,221	-17,311,111
Cash from operating activities	***205,851,484***	***140,590,010***
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,006	7,926
Income from other financing activities	52,865	397,156
Dividends received	107,000	107,232
Proceeds from sale of intangible assets	1,835,506	3,945,472
Proceeds from sale of investment property	1,816,582	603,645
Proceeds from decrease in short-term investments	13,469,817	2,585,708
Proceeds from decrease in long-term investments	0	1,333,204
Acquisitions of property, plant and equipment	-56,633,163	-44,819,577
Acquisitions of intangible assets	-31,253,025	-31,157,627
Acquisition of investment property	-108,092	-1,389,461
Acquisition of subsidiaries	-350,001	0
Costs for increasing other short-term investments	-12,887,971	-13,250,292
Net cash used in investing activities	***-83,947,476***	***-81,636,614***

(continuing)

ITEM (in EUR)	2018	ADJUSTED 2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	4,606,183	14,566,816
Proceeds from short-term borrowings	22,441,793	8,345,000
Proceeds from other long-term financial liabilities	508,421	95,610
Payment of interest on borrowings	-26,097,136	-27,924,823
Costs for other financial liabilities	-6,262,882	-7,778,717
Repayment of long-term borrowings	-72,570,275	-48,871,733
Repayment of short-term borrowings	-22,596,955	-19,177,501
Repayment of other short-term liabilities	-116,070	0
Net cash used in financing activities	***-100,086,921***	***-80,745,348***
OPPENING BALANCE OF CASH AND CASH EQUIVALENTS	***61,693,442***	***83,485,394***
Financial result	21,817,087	-21,791,952
CLOSING BALANCE OF CASH AND CASH EQUVALENTS	***83,510,529***	***61,693,442***

* Notes to the financial statements are a constituent part thereof and must be rad in conjunction therewith.

3.4.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ITEM (in EUR)	CALLED-UP CAPITAL		REVENUE RESERVES		
ADJUSTED 2017	**SHARE CAPITAL**	**CAPITAL SURPLUS**	**OTHER REVENUE RESERVES**	**HEDGING RESERVE**	**FAIR VALUE RESERVE**
Balance at 31 Dec 2016	29,558,789	561,243,185	413,856,350	1,740,624	-1,028,678
Effect of the valuation change-investment property 1 Jan 2017					
Balance at 1 Jan 2017	29,558,789	561,243,185	413,856,350	1,740,624	-1,028,678
B.2. Changes in total comprehensive income	0	0	0	9,025,440	-260,841
Profit or loss for the period					
Items that will not be transferred to profit or loss	0	0	0	0	-265,855
Actuarial gains and losses of employee defined benefit plan					*-265,855*
Gains and losses from foreign currency translation of the financial statements of foreign operations					
Items that may be transferred to profit or loss	0	0	0	9,025,440	5,014
Net effective portion of change in fair value of instrument for cash flow hedging				*9,019,098*	
Net effective portion of change in fair value of instrument for cash flow hedging, transferred to profit or loss				*-6,342*	
Change in the fair value reserve of the available-for-sale financial assets					*5,014*
B.3. Changes within equity	0	0	0	0	-5,273
Allocation of the remaining portion of net profit of the comparable period to other equity components			*0*		
Other changes within equity	*0*	*0*	*0*		*-5,273*
Balance at 31 Dec 2017	29,558,789	561,243,185	413,856,350	10,766,064	-1,294,792
Change due to the implementation of IFRS 9					
Balance at 1 Jan 2018	**29,558,789**	**561,243,185**	**413,856,350**	**10,753,380**	**-1,294,792**
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**64,838,976**	**-91,603**
Profit or loss for the period					
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**0**	**-92,946**
Actuarial gains and losses of employee defined benefit plan					*-92,946*
Gains and losses from foreign currency translation of the financial statements of foreign operations					
Items that may be transferred to profit or loss	**0**	**0**	**0**	**64,838,976**	**1,343**
Net effective portion of change in fair value of instrument for cash flow hedging				*64,734,630*	
Net effective portion of change in fair value of instrument for cash flow hedging, transferred to profit or loss				*104,346*	
Change in the fair value reserve of the available-for-sale financial assets					*1,343*
B.3. Changes within equity	**0**	**0**	**0**	**0**	**427,980**
Allocation of the remaining portion of net profit of the comparable period to other equity components					
Other changes within equity	*0*	*0*			*-2,467*
Effect of the changed valuation model applied at transfer from property, plant and equipment to investment property					*430,447*
Balance at 31 Dec 2018	**29,558,789**	**561,243,185**	**413,856,350**	**75,592,356**	**-958,415**

* Notes to the financial statements are a constituent part thereof and must be rad in conjunction therewith.

(continuing)

ITEM
(in EUR)

ADJUSTED 2017	RETAINED EARNINGS OR LOSSES				
	RETAINED EARNINGS OR LOSSES	NET PROFIT OR LOSS FOR THE PERIOD	TRANSLATION RESERVE	EQUITY OF THE NON-CONTROLLING INTEREST	TOTAL
Balance at 31 Dec 2016	**-10,847,649**	**21,679,041**	**-1,394,939**	**413,631**	**1,015,220,352**
Effect of the valuation change-investment property 1 Jan 2017	*5,376,500*				*5,376,500*
Balance at 1 Jan 2017	**-5,471,149**	**21,679,041**	**-1,394,939**	**413,631**	**1,020,596,852**
B.2. Changes in total comprehensive income	**-16,683**	**8,268,978**	**322,560**	**-53,588**	**17,273,183**
Profit or loss for the period		**8,268,978**		**-55,315**	**8,213,664**
Items that will not be transferred to profit or loss	**-16,683**	**0**	**322,560**	**1,727**	**41,749**
Actuarial gains and losses of employee defined benefit plan	*-16,683*			*1,727*	*-280,811*
Gains and losses from foreign currency translation of the financial statements of foreign operations			*322,560*		*322,560*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**0**	**9,017,770**
Net effective portion of change in fair value of instrument for cash flow hedging					*9,019,098*
Net effective portion of change in fair value of instrument for cash flow hedging, transferred to profit or loss					*-6,342*
Change in the fair value reserve of the available-for-sale financial assets					*5,014*
B.3. Changes within equity	**21,865,506**	**-21,679,041**	**0**	**255,814**	**437,006**
Allocation of the remaining portion of net profit of the comparable period to other equity components	*21,679,038*	*-21,679,041*			*-3*
Other changes within equity	*186,468*		*0*	*255,814*	*437,009*
Balance at 31 Dec 2017	**16,377,674**	**8,268,978**	**-1,072,381**	**615,858**	**1,038,307,041**
Change due to the implementation of IFRS 9	*-338,831*				*-338,831*
Balance at 1 Jan 2018	**16,038,843**	**8,268,978**	**-1,072,379**	**615,857**	**1,037,968,210**
B.2. Changes in total comprehensive income	**-86,767**	**-11,567,589**	**17,283**	**-227,831**	**52,882,469**
Profit or loss for the period	**0**	**-11,567,589**		**-235,015**	**-11,802,604**
Items that will not be transferred to profit or loss	**-86,767**	**0**	**17,283**	**7,184**	**-155,246**
Actuarial gains and losses of employee defined benefit plan	*-86,767*			*7,184*	*-172,529*
Gains and losses from foreign currency translation of the financial statements of foreign operations			*17,283*		*17,283*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**0**	**64,840,319**
Net effective portion of change in fair value of instrument for cash flow hedging					*64,734,630*
Net effective portion of change in fair value of instrument for cash flow hedging, transferred to profit or loss					*104,346*
Change in the fair value reserve of the available-for-sale financial assets					*1,343*
B.3. Changes within equity	**8,235,792**	**-8,268,978**	**0**	**0**	**-35,653**
Allocation of the remaining portion of net profit of the comparable period to other equity components	*8,268,978*	*-8,268,978*			
Other changes within equity	*-33,186*				*-35,653*
Effect of the changed valuation model applied at transfer from property, plant and equipment to investment property					*430,447*
Balance at 31 Dec 2018	**24,187,868**	**-11,567,589**	**-1,055,096**	**388,026**	**1,091,245,473**

* Notes to the financial statements are a constituent part thereof and must be rad in conjunction therewith.

3.5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.5.1 REPORTING ENTITY

The consolidated financial statements for the HSE Group (hereinafter referred also as "Group") are prepared by the controlling company Holding Slovenske elektrarne d.o.o. (hereinafter referred also as "controlling company"). The registered address of the Controlling Company is Koprska ulica 92, 1000 Ljubljana, Slovenia. At this address, the consolidated financial statements as part of the annual report of the company and the Group are available.

The consolidated financial statements as of 31 December 2018 presents the operations of the Group and includes the Controlling Company and its dependent companies, as well as the shares in the jointly-controlled companies and the shares in the affiliated companies.

The Group is the largest producer of electricity (hydro and thermal production) and retailer with electricity on the wholesale market in Slovenia and in Europe. The Group as a whole also covers the production of primary energy products for the needs of producing electricity in the thermal power plant, which uses coal. All of the production capacities of the Group are located in Slovenia.

The business year of the Group equals the calendar year. Here are the consolidated financial statements for the business year which ended on 31 December 2018.

HSE GROUP AS AT 31 DECEMBER 2018

COMPANY	% OWNERSHIP 31 DEC 2018	% OWNERSHIP 31 DEC 2017	COUNTRY OF THE COMPANY'S SEAT
HSE	100.0%	100.0%	Slovenia
DEM	100.0%	100.0%	Slovenia
SENG	100.0%	100.0%	Slovenia
TEŠ	100.0%	100.0%	Slovenia
PV	100.0%	100.0%	Slovenia
*HTZ I.P.	100.0%	100.0%	Slovenia
*PV Invest	0.0%	100.0%	Slovenia
*RGP	100.0%	100.0%	Slovenia
*SIPOTEH	100.0%	100.0%	Slovenia
*PLP	100.0%	26.0%	Slovenia
HSE EDT	100.0%	100.0%	Slovenia
HSE Invest	75.0%	75.0%	Slovenia
SRESA	60.0%	60.0%	Slovenia
mHE LOBNICA	65.0%	65.0%	Slovenia
ELPROM	100.0%	100.0%	Slovenia
HSE MAK Energy	100.0%	100.0%	Macedonia
HSE Adria - in liquidation	100.0%	100.0%	Hrvaška
HSE BH	100.0%	100.0%	Bosnia and Herzegovina
HSE Balkan Energy	100.0%	100.0%	Serbia

* Company PV Invest was merged with the company PV as at 31 December 2018.

SIGNIFICANT AMOUNTS FROM THE SUBSIDIARIES' FINANCIAL STATEMENTS (in EUR)	ASSETS	LIABILITIES (EXCLUSIVE OF EQUITY)	REVENUTE	NET PROFIT OR LOSS FOR THE PERIOD	TOTAL EQUITY
TEŠ	1,027,242,961	674,618,956	200,568,853	-58,529,301	352,624,005
DEM	460,054,050	14,768,497	64,734,960	8,320,493	445,285,553
SENG	226,705,599	27,740,621	35,464,200	4,008,871	198,964,978
PV	124,685,916	81,846,828	109,226,557	-3,831,881	42,839,088
HTZ I.P.	15,848,665	14,450,461	31,563,888	238,031	1,398,204
RGP	7,362,319	5,120,334	13,154,312	809,890	2,241,985
HSE EDT	3,630,414	1,455,838	1,288,333	-541,450	2,174,576
HSE MAK Energy	2,489,571	2,354,213	12,042,033	38,084	135,358
HSE BH	2,139,603	1,385,977	16,198,370	2,702	753,626
HSE Invest	1,535,375	946,291	2,979,319	-1,039,125	589,084
HSE Balkan Energy	1,366,648	485,543	13,316,847	18,701	881,105
SIPOTEH	989,107	532,451	2,443,904	161,511	456,656
mHE Lobnica	617,102	1,199	25,359	-3,924	615,903
HSE Adria - in liquidation	82,804	1,465	10	-18,162	81,339
SRESA	62,980	12	1	-5,195	62,968
ELPROM	51,698	18		-219	51,680
PV Invest			962,209	176,267	0
TOTAL	**1,874,864,812**	**825,708,704**	**503,969,155**	**-50,194,707**	**1,049,156,108**

In 2018, the associate PLP changed into a subsidiary, whose sole (100%) owner is the company PV. The company was in 2018 not included in the consolidation procedure due to its planned sale in early 2019.

The subsidiary TET Novi materiali d.o.o. is currently not operating; due to its insignificance, it has not been included into the consolidation on the level of its controlling company or on the level of the Group. The non-inclusion of this company is not important for the true and fair presentation of Group's business operations.

ASSOCIATED ENTITIES

COMPANY	COMPANY CO-OWNER	COUNTRY OF THE COMPANY'S SEAT	% OWNERSHIP	% OWNERSHIP OF HSE GROUP
	TEŠ	Slovenia	8.0%	
	PV	Slovenia	11.0%	
	HTZ IP	Slovenia	1.0%	
RCE - in bankruptcy	PV Invest	Slovenia	4.5%	24.5%
	DEM	Slovenia	30.8%	
	HSE	Slovenia	15.4%	
HESS	SENG	Slovenia	2.8%	49.0%

JOINTLY CONTROLLED ENTITIES

DATA ON JOINTLY CONTROLLED ENTITY AS AT 31 DEC 2018	ADDRESS	ACTIVITY	% OWNERSHIP	% VOTING RIGHTS
SOENERGETIKA	Stara cesta 3 4000 Kranj	electricity and thermal heat	25%	25%

BRANCHES

The Group has a branch in the Czech Republic and Macedonia. No business operations were conducted through the Czech branch, while through the Macedonian branch the scope of operations was minimal. The operations of the branches are included in the consolidated financial statements of the Group.

3.5.2 BASIS FOR PREPRATION

A) STATEMENT OF COMPLIANCE

When preparing the consolidated financial statements as of 31 December 2018, the Group took into consideration the following:

- the International Financial Reporting Standards (IFRS), which include the International Accounting Standards (IAS), Interpretations from the Standing Interpretations Committee (SIC), the International Financial Reporting Standards, and Interpretations from the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union,
- the Companies Act,
- the Energy Act,
- the Corporate Income Tax Act,
- the Rules on the implementation of the Corporation Tax Act and its executive acts,
- the Accounting Manual of the HSE Group, and,
- other applicable legislation.

B) ACCOUNTING ASSUMPTIONS AND QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

The financial statements of the Group were prepared by taking into consideration the basic accounting assumptions:

- the accrual principal (i.e. the occurrence of a business event), and
- the going concern principal (i.e. unlimited duration of operations).

The effects of transactions and other business events are recognised when they occur and not when they are paid; they are recorded and then reported for the periods to which they refer. Therefore, the consolidated financial statements also include information on liabilities regarding monetary payments in the future, as well as assets which will generate cash in the future.

The financial statements of the Group were prepared by taking into consideration the assumption that the Group would not significantly decrease the scope of its operations, or even cease its operations, and that it shall continue with its operations in the foreseeable future.

The following qualitative characteristics of consolidated financial statements have been taken into account:

- FAIR PRESENTATION IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS: the consolidated financial statements present fairly the financial position, financial performance and cash flows of the Group.
- CONSISTENT PRESENTATION: the presentation and classification of items in the financial statements equals the form applied in the previous year. Certain items are in terms of recognition more appropriately presented in the 2018 accounting report relative to the previous year.

The changed presentations include following:

- profits/losses from derivatives arising on electricity trading and emission coupons are in 2018 disclosed by the net principle among other operating income or other operating costs, while they were in 2017 disclosed among finance income or costs.

  The changes impact the disclosure of items in the consolidated income statement and the consolidated statement of cash flows.

- MATERIALITY AND AGGREGATION: each material group which comprises similar items is presented separately in the consolidated financial statements. Items of dissimilar nature or function are presented separately, unless they are immaterial.
- OFFSETTING: the assets and obligations to the sources of assets, mother revenues and expenditures are offset, unless the standard or the explanation of offsetting requires or allows this.
- COMPARATIVE INFOMRATION: unless the standard or the explanation permit or require otherwise, for

all of the presented amounts in the consolidated financial statements comparative information is disclosed in respect of the previous period. Comparative information is included in the narrative and descriptive information when it is relevant for the understanding of consolidated financial statements for the relevant period.

- CHANGES TO SIGNIFICANT ACCOUNTING POLICIES: the same accounting bases, policies and recognition-related policies were observed while compiling the consolidated financial statements as for the fiscal year 2017, except for the changes stated below.

As of 1 January 2018, the Company started to apply two new standards i.e. IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Customer Contracts.

IFRS 9 – FINANCIAL INSTRUMENTS

The standard defines rules and requirements for recognising and measuring financial instruments and replaces IAS 39 – Financial Instruments: Recognition and Measurement.

The standard introduces new requirement regarding the classification and measurement of financial assets and liabilities, the recognition of their impairment and accounting hedging.

The changed designation of financial instruments based on the introduced IFRS 9:

CHANGED DESIGNATION	CATEGORY UNDER IAS 39	CATEGORY UNDER IFRS 9
Other investments measured at fair value	available-for-sale financial assets	financial assets at fair value through other comprehensive income
Loans granted	loans and receivables	financial assets at amortised cost
Trade receivables	loans and receivables	financial assets at amortised value
Other current assets (except deferred cost and accrued income)	loans and receivables	financial assets at amortised value
Cash and cash equivalents	loans and receivables	financial assets at amortised value
Derivatives	derivatives at fair value through profit or loss	derivatives at fair value through profit or loss
Borrowings received	financial liabilities at amortised value	financial liabilities at amortised value
Other financial liabilities	financial liabilities at amortised value	financial liabilities at amortised value
Trade payables	financial liabilities at amortised value	financial liabilities at amortised value
Other short-term liabilities (except accrued cost and deferred income)	financial liabilities at amortised value	financial liabilities at amortised value

On the basis of the new standard, the Group formed a new impairment model for trade receivables, which no longer basis solely on realised credit losses as applicable under IAS 39, but on expected credit losses. On each reporting date, the reporting entity measures the value of the impairment loss of the financial as the amount, which equals the expected credit losses in the entire period of duration.

Accordingly, the Group formed a new impairment model that, in addition to forming allowances for due trade receivables, is based also on forming allowances for trade receivables not yet due. On the basis of the internal credit rating and risk assessment, the Group defined the risk classes by country of the customer.

IMPACT OF THE ADOPTED IFRS 9 AS AT 1 JANUARY 2018 (in EUR)	31 DEC 2017	CHANGE IFRS 9	1 JAN 2018
ASSETS			
Available-for-sale financial assets	152,409	-152,409	0
Financial assets at fair value through other comprehensive income	0	152,409	152,409
Other	1,856,912,504	0	1,856,912,504
Long-term assets	**1,857,064,913**	**0**	**1,857,064,913**
Operating receivables	123,926,907	-338,831	123,588,076
Other	151,490,342		151,490,342
Short-term assets	**275,417,249**	**-338,831**	**275,078,418**
TOTAL ASSETS	**2,132,482,162**	**-338,831**	**2,132,143,331**
EQUITY AND LIABILITIES			
Other	1,013,660,387		1,013,660,387
Retained earnings or losses	18,766,460	-338,831	18,427,629
Equity	**1,032,426,847**	**-338,831**	**1,032,088,016**
Long-term liabilities	**847,901,819**		**847,901,819**
Short-term liabilities	**252,153,496**		**252,153,496**
TOTAL EQUITY AND LIABILITIES	**2,132,482,162**	**-338,831**	**2,132,143,331**

The adoption of the IFRS 9 - Financial Instruments has changed the Group's consolidated financial statements in the part of short-term trade receivables, where additional allowances were formed for trade receivables in the amount of EUR -338,831 and in the same amount the retained earnings or losses as at 1 January 2018 decreased.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The purpose of the revised standard is to provide a robust framework for recognizing revenue from customer contracts, with clear principles and in-depth disclosures, which should lead to improved comparability of revenue between companies, industries and capital markets. The basic principle of the framework is that recognition of revenue reflects the transfer of goods and services to the customer in an amount reflecting the compensation that the company expects to be entitled to, in return for those goods and services. In order to achieve the latter, the IFRS 15 defines the use of following five steps:

- step 1 – identification of the contract with customer,
- step 2 – identification of separate performance obligations,
- step 3 – determining the transaction price,
- step 4 – allocating the transaction price to each performance obligation,
- step 5 – recognising revenue when a performance obligation is satisfied.

According to the contracts with customers, the Group meets the new standard's criteria regarding revenue recognition and that the performance obligations in the contracts are appropriately defined, which enables their classification and measurement, and defining the timing of their fulfilment. Contracts with customers include the sale of goods and services, which the Group discloses separately in the consolidated financial statements.

Short-term accrued revenue from the sale of goods to buyers were in accordance with IFRS 15 reclassified in the statement of financial position i.e. under contract asset. The effects of adopting IFRS 15 as at 1 January 2018 are presented in the table below.

IMPACT OF THE ADOPTED IFRS 15 (in EUR)	31 DEC 2018	CHANGE IFRS 15	31 DEC 2018
ASSETS			
Long-term assets	**1,862,972,497**	**0**	**1,862,972,497**
Contract assets	0	1,747,261	1,747,261
Other short-term assets	47,059,324	-1,747,261	45,312,063
Other	228,357,925	0	228,357,925
Short-term assets	**275,417,249**	**0**	**275,417,249**
TOTAL ASSETS	**2,138,389,746**	**0**	**2,138,389,746**
EQUITY AND LIABILITIES			
Equity	**1,038,334,433**	**0**	**1,038,334,433**
Long-term liabilities	**847,901,819**	**0**	**847,901,819**
Contract liabilities	0	1,404	1,404
Other short-term liabilities	57,205,978	-1,404	57,204,574
Other	194,947,516		194,947,516
Short-term liabilities	**252,153,494**	**0**	**252,153,494**
TOTAL EQUITY AND LIABILITIES	**2,138,389,746**	**0**	**2,138,389,746**

The adoption of the new IFRS 15 – Revenue from Contracts with Customers had an impact on the Group's consolidated financial statements (consolidated statement of the financial position) but had no impact on retained earnings or losses.

As at 1 January 2018, the Group changed the accounting policy of monitoring or valuating investment properties:

Pursuant to IAS 40, the Group may choose the valuation model for investment property i.e. the cost or fair value model. So far, the Group companies used the cost model. Based on the proposal of the PV Group, which shows investment property among its long-term assets, the HSE Group's accounting policy changes and refers to the valuation of investment property at fair value. The reason behind the changed accounting policy for investment property lies in the fact that the fair value will more realistically reflect the value of this part of Group's assets.

ITEM (in EUR)

STETEMENT OF FINANCIAL POSITION	31 DEC 2016	ADJASTMENT ON 1 DEC 2017	ADJUSTED 1 DEC 2017	ADJUSTED 31 DEC 2017
ASSETS	2,156,756,540	5,376,500	2,162,133,040	2,138,362,354
A. LONG-TERM ASSETS	**1,894,777,546**	**5,376,500**	**1,900,154,046**	**1,862,945,105**
I. Intangible assets	17,939,235	0	17,939,235	19,107,307
II. Property, plant and equipment	1,723,165,059	0	1,723,165,059	1,682,288,011
III. Investment property	7,270,070	5,376,500	12,646,570	18,028,478
EQUITY AND LIABILITIES	2,156,756,540	5,376,500	2,162,133,040	2,138,362,354
A. EQUITY	**1,015,220,354**	**5,376,500**	**1,020,596,854**	**1,038,307,041**
I. Called-up capital	29,558,789	0	29,558,789	29,558,789
II. Capital surplus	561,243,185	0	561,243,185	561,243,185
III. Revenue reserves	413,856,350	0	413,856,350	413,856,350
IV. Hedging reserve	1,740,624	0	1,740,624	10,753,380
V. Fair value reserve	-1,028,678	0	-1,028,678	-1,294,792
VI. Retained earnings or losses	10,831,392	5,376,500	16,207,892	24,646,652

The effects of the changed accounting policy are in the income statement disclosed as follows:

- Investment properties increase due to the changed accounting policy, non-calculated depreciation and adjustments to the new fair value of investment property,
- Retained earnings are increased due to the changed valuation method, on the account of the non-calculated depreciation and effect of adjusting other investment properties to the fair value as at 1 January 2018.

ITEM (in EUR)

INCOME STATEMENT	2017 BEFORE ADJUSTMENT	ADJUSTMENT FOR 2017	ADJUSTED 2017
OPERATING INCOME	**1,609,885,451**	**166,114**	**1,610,051,565**
2. Other operating income	22,125,466	166,114	22,291,580
OPERATING EXPENSES	**1,553,952,119**	**-337,578**	**1,553,614,541**
5. Write-downs in value	82,136,374	-337,578	81,798,796
OPERATING PROFIT OR LOSS	**55,933,332**	**503,692**	**56,437,024**
FINANCIAL RESULT	**-34,552,617**	**0**	**-34,552,617**
PROFIT OR LOSS BEFORE TAX	**22,444,613**	**503,692**	**22,948,305**
TAX	**14,734,641**	**0**	**14,734,641**
NET PROFIT OR LOSS FOR THE PERIOD	**7,709,972**	**503,692**	**8,213,664**

The effects of the changed accounting policy in the income statement are disclosed as non-calculating the depreciation due to the amended valuation method.

ITEM (in EUR) STATEMENT OF OTHER COMPREHENSIVE INCOME	2017 BEFORE ADJUSTMENT	ADJUSTMENT FOR 2017	AFTER ADJUSTMENT 2017
Net profit or loss fot the period	7,709,971	503,692	8,213,664
Total comprehensive income for the period	16,769,490	503,692	17,273,183

ITEM (in EUR) STATEMENT OF CASH FLOWS	2017 BEFORE ADJUSTMENT	ADJUSTMENT FOR 2017	AFTER ADJUSTMENT 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit or loss for the period	7,709,972	503,692	8,213,664
Adjustment for:			
Depreciation of investment property	343,970	-343,970	0
Revaluation of investment property		-166,114	-166,114
Write-off of intangible assets, property, plant and equipment and investment property	869,604	6,392	875,996
Cash from operating activities	***140,590,010***	***0***	***140,590,010***
Net cash used in investing activities	***-81,636,614***	***0***	***-81,636,614***
Net cash used in financing activities	***-80,745,348***	***0***	***-80,745,348***
OPPENING BALANCE OF CASH AND CASH EQUIVALENTS	***83,485,394***	***0***	***83,485,394***
Financial result	-21,791,952	0	-21,791,952
CLOSING BALANCE OF CASH AND CASH EQUVALENTS	***61,693,442***	***0***	***61,693,442***

C) BASIS FOR MEASUREMENT

Group's consolidated financial statements are prepared on the basis of historical values, except for derivatives, assets available for sale and investment properties, which are disclosed at fair value and financial assets that are carried at fair value.

D) FUNCTIONAL AND PRESENTATION CURRENCY

In this report, the consolidated financial statements are presented in euro (excluding cents), which represents the functional and representational currency of the Group. Due to rounding up of the value data, insignificant deviations may occur in the sums provided in the tables.

E) USE OF ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires the management to form certain estimates and assumptions which affect the disclosed amounts of assets and liabilities, revenue and expenses and disclosures of contingent assets and liabilities in the reporting period. The formation of estimates and of accompanying assumptions and uncertainties are disclosed in notes to individual items.

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

Estimates and assumptions are present at the following judgements:

- assessment of useful life of amortisable assets (Note 1, 2, 3 of the consolidated income statement),
- impairment testing of long-term assets (Note 1, 2 and 3 of the consolidated income statement),
- the assessment of collectability of receivables (disclosure Credit Risk),
- the assessment of net realisable value of inventories (Note 7 of the consolidated statement of financial position),
- assessment of provisions for post-employment and other long-term employees benefits (Note 15 of the statement of financial position),
- the assessment of other provisions (Note 16 of the consolidated statement of financial position); and
- the assessment of contingent liabilities and assets (Note 23 of the consolidated statement of financial position).

Additional estimates and judgements of the management when preparing the consolidated financial statements on 31 December 2018 include the following:

1. The controlling company has the right to repurchase the entire participating interest in HESS sold in 2014 (35.6% and not less), i.e. any time up to 31 December 2019. However, the controlling company does not plan to purchase of the participating interest in HESS by the year-end of 2019.

   Based on the resolution of the Management Board of Slovenski državni holding d.d. (SDH) of 6 March 2019, the latter requires from the controlling company to reach an agreement with the management of GEN energija d.o.o. and Savske elektrarne Ljubljana d.o.o. so that the validity of the purchase option is extended by 31 December 2023, while the enforcement of the purchase option is not possible prior to 1 June 2023. The same method and valuation approach are applied during the repurchase as during the sale of the equity interest.

   In the given market conditions, the current indebtedness of the Group, as well as the realised and planned free cash flow, the Controlling Company does not have available free cash for purchasing the participating interest in HESS; moreover, it is limited in obtaining additional financial resources in the form of increasing indebtedness of the company or the Group.

   By selling the 35.6% participating interest in HESS, the Controlling Company lost the majority control in managing HESS (the Group has 49% voting rights and a minority of members in the Supervisory Board of HESS).

2. The obligation to disassemble the power stations refers only to the replacement TEŠ Unit 6, as it arises from the energy permit for this facility. The obligation to disassemble does not arise from the environmental permits for other production facilities.

   In the case of hydropower stations, regular maintenance is required during the period of the concession right. For the concession holder, the costs of this assembly are not envisaged after the expiry of the concession period.

3. The obligation to form provisions for closing works of the remaining excavation in Velenje is formed on the basis of the cost estimate for the closing works as laid down in the study Evaluations of activities relating to closing the caves of the PV upon abandoning the exploitation of the Velenje's part of the site, compiled by a group of Company's experts. In December 2017, PV received also an external valuation assessment on the closing works, prepared by the Institute for Mining, Geotechnics and the Environment. The calculation takes into account the current market values for implementing defined activities based on offers obtained in relation to monitoring and ecological rehabilitation and the estimated cost of material and work for individual liquidation work.

4. The Controlling Company concludes the sales and purchasing transactions (except for transactions with derivative financial instruments) in order to trade with electricity, i.e. physical supply. According to the IFRS 9, those transactions are not included with the transactions within the scope of financial instruments.

5. In case of impairment testing of assets with infinite useful life (hydro power plants and goodwill), yearly business projections are used for such money-generating units (until 2030), but for the money-generating unit with assets with limited useful life (thermal power plants, coal mine), the business projections for the entire useful life (i.e. up until 2054) are used. With the former, the used price projections for price fluctuations of electricity and emission allowances prepared by an external independent institution are limited to a period of 10 years (2021-2030 period), and with the latter to a period of 20 years (2012-2040 period). The reasons for using long-term projections for realising the testing of impairment include: the nature of activity itself which demands long-term investment cycles, adopting investment decisions based on taking into consideration long-term market projections, the existence of long-term projections for price fluctuations of the most important entry data for the realisation of tests of impairment, equal distribution of investments into preserving capacities through the periods of the envisaged operations of energy facilities, as well as adapting the scope of production to the availability of the energy product.

3.5.3 SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements are prepared on the basis of accounting policies presented below. The respective accounting policies are used for both years presented, unless otherwise indicated. When necessary, the comparative data was adjusted so that it is in accordance with the presentation of data in the current year.

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated to the respective functional currency at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Exchange rate differences are recognised in the consolidated income statement by applying the net principle.

When translating the financial statements of the dependent companies abroad whose functional value does not equal the representational value of the Group, the following exchange rates are used:

- assets and liabilities (excluding capital), recalculated with the exchange rate on the date of reporting,
- equity according to the original exchange rate, and
- income and expenses according to the average exchange rate in the reporting year.

BASIS FOR CONSOLIDATION

The consolidated financial statements include the financial statements of the controlling company and of subsidiaries. Subsidiaries are entities controlled by the Group. The latter signifies that the controlling company has the ability to decide on the financial and business orientations of an individual company in order to obtain benefits from its operations. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions with owners of the non-controlling interest are treated the same way as transactions with external partners. Profits and losses of owners of the non-controlling interest are presented in the consolidated income statement. The capital of owners of the non-controlling interest in the consolidated statement of financial position is shown separately from other items of capital.

Financial statements of Group companies are included in the consolidated financial statements by applying full consolidation. Financial statements are combined from one item to another, by summing similar items of assets, debts, capital, income and expenses.

When preparing the consolidated financial statements, the balances of intra-Group receivables and liabilities, income and expenses, as well as unrealised profits and losses arising from intra-Group transactions are eliminated.

Exchange differences, which arise on translation of financial statements of subsidiaries, whose functional currency differs from the Group's presentation currency, are recognised in the translation reserve within equity in the statement of other comprehensive income.

INTANGIBLE ASSETS

Intangible assets are long-term assets enabling performance of the Group's registered activities, whereas physically they do not exist. An item of intangible assets comprises long-term property rights emission coupons for the purposes of electricity production in the HSE Group, goodwill and other intangible assets.

Upon initial recognition, an intangible asset is measured at cost. The cost also includes import and non-refundable purchase taxes after the commercial and other discounts have been deducted and all costs directly attributable to preparation of an asset for the intended use. Borrowing costs that are directly allocated to the purchase of an intangible asset under construction (i.e. until the capitalisation of the asset), are recognised as a part of cost of such an asset.

Intangible assets are subsequently measured using the cost model.

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

Goodwill occurs during consolidation and represents an excess of cost over the recipient's share in the fair value of acquired recognised assets, liabilities and contingent liabilities of the subsidiary as at the date of acquisition. Goodwill is recognised as an asset and is subject to impairment testing at least once a year. Each impairment is immediately recognised in the consolidated income statement and subsequently eliminated. Upon the disposal of the subsidiary, the relevant amount of goodwill is included in establishing profit or loss during the sale and has an impact on the Group's operating result.

Amortisation is accounted for on a straight-line basis, taking into account the useful life of each individual (integral) part of an intangible asset. The amortisation begins to be calculated from the cost when an asset is available for use. Emission coupons are not amortised as they are purchased for individual years and also utilised accordingly.

THE ESTIMATED USEFULL LIFE FOR INTANGIBLE ASSETS	2018	2017
Software	2-20 years	2-20 years
Licences	4-10 years	4-10 years
Other long-term property rights	4-10 years	4-10 years
Other intangible assets	4-10 years	4-10 years

The useful lives of groups of intangible assets are checked at the end of each business year and adjusted if necessary. In the event of extending the useful life, the costs of the accounted amortisation in the business year are reduced, while in case the shortening the useful life the respective costs are increased. The adjustment of the useful life must be recalculated in a manner which allows the intangible asset to be finally amortised in the new envisaged useful life. The change of the useful life is treated as a change of the accounting assessment and affects only the period in which the accounting assessment was changed and for each subsequent period in the remaining useful life.

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

An intangible asset is eliminated from the books of account upon its disposal and the difference between the net sale value and the book value of the disposed intangible asset is transferred among other operating income or write-downs in value.

PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated losses from impairments. Cost includes costs that can be directly attributed to the acquisition of an item of property, plant and equipment. Cost includes also borrowing costs relating to the acquisition of an item of property, plant and equipment until the asset is made ready for tis intended use, depending on the type of an item of property, plant and equipment and cost of dismantling.

The parts of items of property, plant and equipment with different useful lives are accounted for as individual assets. Spare parts of major values are recorded among property, plant and equipment and depreciated during the asset's useful life for which they were acquired.

The anticipated cost of regular inspections and repairs of property, plant and equipment are treated as parts of fixed assets. These are repairs that are usually carried out every three years (in a cyclical manner) and are important in terms of value

The cost of the property, plant and equipment which were constructed or produced in the Group include the costs incurred by their construction or production and indirect costs of their construction production which can be attributed thereto.

Subsequent measurement of property, plant and equipment used the cost model.

The residual value of property, plant and equipment is the assessed amount which the Group would receive during the disposal of the asset, upon reducing it for the expected cost of disposal if the age and the condition of the fixed asset would indicate an end of its useful life. The Group has no properties, plant and equipment for which the residual value would be determined.

Depreciation is calculated on a straight-line basis, taking into account the useful life of individual (integral) part of property, plant and equipment. Depreciation begins when an asset is available for use. Land, quarries and assets under construction are not depreciated.

Assets obtained free of charge are depreciation; concurrently, a portion of long-term deferred income, which equals the value of accounted depreciation, is transferred among other operating income.

THE ESTIMATED USEFULL LIFE FOR PROPERTY, PLANT AND EQUIPMENT	2018	2017
Buildings	10-70 years	10-70 years
Parts of buildings	5-70 years	5-70 years
Production plants	4-50 years	4-50 years
Parts of production plants	5-25 years	5-25 years
Computer equipment	2-10 years	2-10 years
Furniture	4-10 years	4-10 years
Small tools	3-10 years	3-10 years
Personal vehicles	5-10 years	5-10 years
Other vehicles	4-10 years	4-10 years
Other plant and equipment	2-16 years	2-16 years

The useful lives of groups of property, plant and equipment are checked at the end of each business year and adjusted if necessary. In the event of extending the useful life, the costs of the accounted depreciation in the business year are reduced, while in case the shortening the useful life the respective costs are increased. The adjustment of the useful life must be recalculated in a manner which allows the property, plant and equipment to be finally depreciated in the new envisaged useful life. The change of the useful life is treated as a change of the accounting assessment and affects only the period in which the accounting assessment was changed and for each subsequent period in the remaining useful life.

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

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

The Group verifies on a yearly basis whether there is indication of impairment relating to property, plant and equipment being acquired. Significant indication of impairment includes following circumstances:

- adopting the decision on suspending a certain investment
- material deterioration of circumstances relating to the economic efficiency of an individual investment.

INVESTMENT PROPERTY

Investment property includes property owned by the Group with the purpose to result in rents or increase the value of the long-term investment or both.

Investment properties include also properties in course of construction or completion.

If part of the property is used for performing the activity and the other part as investment property, a separation or calculation of shares is necessary. Should this not be possible, the entity assesses which part is more significant and discloses it as such in its books of account.

Investment properties are valued at fair value, which is defined by using the market-based approach and the yield-based method.

LEASED ASSETS

Leases in terms of which the Group assumes substantially all major risks and benefits of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in line with the accounting policies applying to such assets owned by the Group.

Other leases are treated as operating leases, where the rent is disclosed as cost in the income statement on a straight-line basis.

LONG-TERM INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

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

Investments in jointly controlled entities are investments in which the Group controls the operations of such entity together with other owners, namely on the basis of contractually agreed division of control.

Investments in associates and in jointly controlled entities are at acquisition carried at cost in consolidated financial statements, whereas later on their carrying amount changes due to write-ups as the result of using the equity method.

FINANCIAL ASSETS

Upon initial recognition, the Group's financial instruments are classified as follows:

- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income, and
- financial assets measured at fair value through profit or loss.

The classification depends on the business model selected for asset management and whether the company acquires contractual cash flows from financial instruments exclusively from the principal payments and interest on the outstanding principal amount. Apart from operating receivables that do not contain significant components of financing, the Group measures the financial asset during its initial recognition at fair value, which is increased by the cost of transaction. Operating receivables that do not contain significant components of financing are measured at the transaction price.

A) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss and financial assets that must be measured at fair value.

Financial assets are classified as held for trading if they are acquired for selling or repurchasing in the near future. Derivatives are classified as held for trading, except in the case of effective hedging instruments.

Financial assets that generate cash flows and are not solely principal and interest payments, are classified and measured at fair value through profit or loss regardless of the business model chosen.

Financial assets at fair value through profit or loss are in the statement of financial position disclosed at their fair value, including the net change in the fair value recognized in the income statement.

B) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (DEBT INSTRUMENTS)

Financial assets recognised at fair value through other comprehensive income, which have the nature of an equity instrument, are those financial assets that the Group owns within the business model for obtaining contractual cash flows, which comprise solely payments of the capital amounts and related interest, and for sale.

As for debt instruments that are recognised at fair value through other comprehensive income, the interest income, foreign exchange gains or losses arising on impairment or reversal are recognised in the income statement and accounted by applying the same method as for financial assets at amortised cost. Other changes in the fair value are recognised in the statement of other comprehensive income. Upon derecognition, the cumulative change in the fair value, recognised in other comprehensive income, is reclassified to the income statement.

C) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (EQUITY INSTRRUMENTS)

Financial assets recognised at fair value through other comprehensive income, which have the nature of an equity instrument, are those financial assets that meet the equity-related definition in accordance with IAS 32 - Financial Instruments, and for which the company irrevocably chooses to be classified as equity instruments at fair value through other comprehensive income and that are not held for trading. The classification is stipulated by individual financial instrument.

Gains and losses on these financial assets are never reallocated to the income statement.

D) FINANCIAL ASSETS AT AMORTISED COST

Financial assets at amortized cost include financial assets held by the company within the business model for obtaining contractual cash flows and if cash flows represent exclusively principal payments and interest on outstanding principal amounts. Financial assets at amortized cost include also loans and receivables. Given their maturity, they are classified as short-term financial assets (maturity of up to 12 months after the date of the statement of financial position) or long-term financial assets (maturity over 12 months after the date of the statement of financial position).

Financial assets at amortized cost are initially recognized at fair value increased by direct transaction costs. Upon initial recognition, they are measured at amortized cost using the effective interest rate method, less any impairment losses. Gains and losses are recognized in profit or loss upon reversal, changes or impairments.

FINANCIAL LIABILITIES

Group's financial liabilities include loans received and liabilities to suppliers. They are upon initial recognition classified as financial liabilities at fair value through profit or loss, loans received or operating liabilities. All other financial liabilities are initially recognized on the date of trading or when the Group becomes a contracting party in connection with the instrument. Apart from the loans received, all financial liabilities are initially measured at fair value. Loans received are measured at amortized cost using the applicable interest rate. In terms of maturity, loans are classified as short-term financial liabilities (maturity of up to 12 months after the date of statement of financial position) or long-term financial liabilities (maturity over 12 months after the date of the statement of financial position). Profits and losses are recognised in the income statement upon derecognising the financial liability within the amortisation of the applicable interest rate.

The Group derecognises a financial liability when the obligations defined in the relevant contract are met, cancelled or expire.

DERIVATIVES

Derivatives are used for the hedging of Group's cash flow exposure against price and currency risks, as well as trading risk. Within the hedging framework, the Group concluded currency swaps as well as standardized futures contracts for the purchase of electricity and emission coupons in the following years.

These are financial instruments that do not require initial financial investment, while their value is changing due to change in goods prices or foreign exchange rates.

Derivatives are initially recognised at fair value, namely according to net principle, which means that the sole value of transaction concluded is not disclosed in financial statements.

After the initial recognition, derivatives are measured at fair value, while the corresponding changes are considered differently with respect to whether the derivatives meet the terms of hedge accounting or not.

When a derivative is defined as hedging in case of exposure to changeability of cash flows that may be attributed to an individual risk related to recognised asset, liability or very probable envisaged transactions, which can affect the profit or loss, the successful portion of changes in fair value of derivative is recognised in period's other comprehensive income and disclosed in risk hedging reserve. Unsuccessful portion of changes in the fair value of financial instrument is directly recognised in the income statement. The Group shall discontinue prospectively the hedge accounting if the hedge no longer meets the criteria for hedge accounting, if the hedging instrument is sold, terminated or exercised. The accumulated profit or loss recognised in the period's comprehensive income remains recorded in the hedging reserve until the envisaged transaction impacts the profit or loss. If the envisaged transactions can no longer be expected, the amount in other comprehensive income must be directly recognised in profit or loss. In other cases, the amount recognised as comprehensive income is transferred to profit or loss in the same period in which the protected item affects the profit or loss.

Effects of other derivatives, which are not defined as risk hedges in case of exposure to cash flow changeability or cannot be attributed to individual risk related to recognised asset or liability, are recognised in profit or loss i.e. among other operating income to other operating costs by applying the net principle.

If forward purchases and sales for physical supply of electricity are treated as contracts concluded within the Group's own use, they are not subject to criteria under IFRS 9. The latter enters into force when following criteria is met:

- physical supply is part of all such contract,
- volume of purchased or sold energy within the framework of contracts corresponds to the operative requirements of the Group,
- the contract cannot be treated as an option defined in the standard. Contracts on the sale of energy equal the fixed-term sale or can be deemed as sale of capacitie.

The Group is of the opinion that transactions subject to negotiations on balancing the commitments on purchasing and selling electricity are to be considered as part of their operations and not within the scope of IFRS 9.

INVENTORIES

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

The value of finished products and work in progress includes total production costs in the narrow sense, which comprise direct costs of materials, direct costs of services, direct labour costs, direct depreciation / amortisation costs and general production costs. General production costs are costs of materials, services, salaries and amortisation/depreciation, which are charged in the framework of production process, but cannot be directly connected to developing business effects. A part of production costs in total costs (materials, services, labour costs and depreciation) is established once per year on the basis of data from the previous year.

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

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

IMPAIRMENT OF ASSETS

I. FINANCIAL ASSETS

Pursuant to IFRS 9, the Company started to apply the expected loss model, according to which not only incurred losses are recognised but also losses that are expected to occur in the future.

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

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

IMPAIRMENT OF RECEIVALBES AND LOANS GRANTED

If it is assessed that the carrying amount of receivable has exceeded its fair value (realisable value), the receivable is impaired.

Appropriate supporting documents are required for the final write-off of receivables such as: final decisions on compulsory settlement, bankruptcy proceeding, court decision or other relevant documents.

The impairment assessment is based on the expected credit losses associated with the probability of defaults on loans and receivables in the next 12 months, unless the credit risk significantly increased since the initial recognition. In these cases, the impairment assessment is based on the probability of default over the entire duration of the financial asset (CECL). Expected credit losses represent the difference between contractual cash flows that are due under the contract and all cash flows for which the Group expects to receive them. Expected cash flows will include the cash flows from the sale of security.

Impairments for expected credit losses are assessed in two stages. As for credit exposures where no significant increase in credit risk was established after initial recognition, impairments for expected credit losses are recognised for credit losses arising from defaults that are possible within the next 12 months. For those credit exposures for which a significant increase in credit risk has occurred since the initial recognition, the Group recognises an allowance from losses expected in the remaining useful life of the exposure, regardless of the default period.

The item of doubtful receivables due from others refers to receivables that are not settled within 180 days from the due date.

Disputed receivables are those which comply with one of the following conditions:

- the legal collection procedure began at the court,
- the decision on beginning of compulsory settlement, liquidation or bankruptcy is published.

The impairment of receivables that as such are insignificant is assessed collectively so that receivables with similar risk characteristics are grouped together. The Group forms groups of receivables based on their maturity. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

In case all actions were performed with the carefulness of a good manager, with intention to repay certain unsettled receivable and in case that due to the amount of receivable, it would not be economic for the Group to enter the collection procedure through court, receivables are finally written down in full based on the management's decision.

The Group assesses evidence on loan impairment for each significant loan.

Loss due to impairment related to financial asset carried at amortised cost is calculated as difference between the carrying amount of an asset and expected cash flows discounted at historical interest rate. Loss is recognised in the consolidated income statement among operating costs.

NON-FINANCIAL ASSETS

On each reporting date, the Group companies verify the carrying amount of significant non-financial assets with the purpose to establish whether there are any signs of impairment. If such signs exist, the recoverable amount of the asset is estimated based on impairment testing. Goodwill and indefinite-lived intangible assets that are not ready for use are tested annually for impairment prior to compilation of annual financial statements. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of the two: value in use or fair value less costs of sale. When determining the value of an asset in use, the expected future cash flows are discounted to their current value by using the discount rate before tax that reflects regular market assessments of the time value of money and risks that typically occur in relation to the asset. For the purpose of impairment test, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from further use and are mostly independent from receipts of other assets and groups of assets (cash-generating unit). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

At the end of the reporting period, the Group companies evaluate losses due to impairment in previous periods and determine whether the loss has decreased or even disappeared. Loss due to impairment is reversed in case there has been a change in assessments, on the basis of which a company defines the recoverable amount of an asset. The impairment loss is reversed to the amount up to which the asset's increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation had no impairment loss been recognised for the asset in prior periods. Loss on impairment of goodwill is not derecognised.

EQUITY

Share capital and capital surplus represent cash and non-cash contributions made by the owner of the controlling company.

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

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

Hedging reserve includes the effect of changed fair value of derivatives, which were classified as successful hedges in case of exposure to cash flow fluctuations.

Fair value reserve represents the revaluation amounts of financial assets at fair value through other comprehensive income and revaluation amounts of investment properties upon their transfer from property, plant and equipment to investment property, and the cumulative value of written-up actuarial gains or losses arising on provisions for post-employment and other long-term payables to employees (termination benefits upon retirement).

The retained earnings include profits or loss of the Group companies in the current and previous years.

The consolidated equity adjustment includes exchange rate differences from translations of items in financial statements of the Group companies operating abroad.

Minority interest represents the share of minority owners in the total equity of subsidiaries.

PROVISIONS FOR POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

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

Employee benefits expense and interest costs are recognised in the income statement, while the restatement of post-employment benefits or of unrealised actuarial gains or losses arising on termination benefits upon retirement are recognised in other comprehensive income.

EMPLOYEE BENEFITS

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

OTHER PROVISIONS

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

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

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

The Group has created provisions for the closing works of the remaining excavation in the Velenje coalmine on the basis of the discounted assessment of values of closing works from the document which is annually prepared or updated by an internal working group. When evaluating the costs, the costs connected with the technical and technological aspect of closing (hydrogeological and geomechanical monitoring, the costs of liquidating the coalmine facilities and the costs of ecological restructuring of the surface) with regard to the currently applicable starting points of the excavation are taken into consideration. With the calculation, the current market values for carrying out the defined activities on the basis of the obtained offers for monitoring and ecological restructuring, as well as the assessed cost of the material and work for individual liquidation works are taken into consideration. The starting points are related to the legislative basis, human personnel and financial forecasts, as well as the operational regime of Termoelektrarna Šoštanj.

The provisions are reduced directly by costs or expenses for settling of items for which they were created. The aforesaid means that these costs or expenses no longer appear in the fiscal year in the consolidated income statement; the discount-related effects are recognised within finance costs.

In the event the anticipated liabilities do not occur, or if the period of drawing the provisions is extended, the amount of the created provisions is reversed to the credit of operating costs. Additional creation of provisions is disclosed as part of investments into the coalmine facilities; similar applies to all of the effects on the value of the disclosed provisions which arise from the change of the amount of the used discount rate during the discounting of the envisaged amounts of future expenditures for closing the coalmine.

Based on the energy permit from the Ministry of the Economy and the assessment of costs of decommissioning, the Group prepared the costs of decommissioning for removing Unit 6 after the end of its use. The key elements based on which Termoelektrarna Šoštanj has prepared the assessment of the necessary decommissioning and the assessment of possible income arising from the sale of decommissioned materials/equipment are as follows:

- the costs of decommissioning are assessed on the basis of inventory of the built-in quantities and materials. For the decommissioning of each of the materials a specific price is determined by unit,
- for all facilities which have a period of use that is longer than 20 years, the assessed value of the commission and the time of activation is adjusted every 5 years,
- it is planned that the process of decommissioning will take 2 to 4 years,
- according to some expert sources, the total costs of decommissioning are between 10% and 15% of the investment value of the constructions.

When planning and managing the decommissioning, it will be necessary to take into consideration the current and future standards, as well as the terms and conditions for these kinds of work e.g. (environmental terms, health safety terms, handling of certain materials that might be labelled as dangerous in the future, etc.). Most of these conditions will be determined in the consents and the building permit at the beginning of decommissioning.

The assessment of the costs of decommissioning is prepared on the basis of the quantity of the built-in materials and the expert assessment of their removal. As support, studies of assessments of the costs for decommissioning certain similar facilities around Europe have been used.

GOVERNMENT GRANTS

All types of government grants are initially recognised as deferred income within long-term liabilities when there is reasonable assurance that they will be received and that the Group will comply with terms and conditions associated with the grant. Subsequently they are recognised in the income statement among other operating income in the useful life of each individual asset. Government grants received for covering costs and expenses are recognised as income in periods in which the relevant costs arise that are to be replaced by the government grants.

OTHER ASSETS AND LIABILITIES

Other assets include advances given, receivables due from state and other institutions, and short-term deferred costs and accrued income, which are not related to sales contracts. Deferred costs represent the amounts incurred but not yet charged against the Group's profit or loss.

By introducing IFRS 15, accrued income is no longer part of other assets. Instead, accrued income from sales contracts with customers is disclosed under the item 'contract assets'.

Other liabilities include advances received, payables to employees, payables to state and other institutions, and long-term and short-term accrued costs and deferred income, which are not related to liabilities arising on sales contracts. Accrued costs are amounts that have not occurred yet but will in the future and have already an impact on the Group's profit or loss.

By introducing IFRS 15, deferred income Is no longer part of other assets. Instead, deferred income arising on sales contracts with customers are disclosed in the item 'contract liabilities'.

CONTINGENT LIABILITIES

Contingent liability is:

- a possible liability arising from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events that the Group does not fully control; or

- a present obligation arising from past events, which is not recognised, since it is not probable that the outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be reliably measured.

Contingent liabilities are not yet recognised in the consolidated statement of financial position.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognized when control over goods or services is transferred to the buyer in an amount that reflects the consideration, which the Group believes to be entitled to receive in return for these goods or services. Revenue from contracts with customers are recognised at fair value of received repayment or receivable arising thereunder.

The revenue is disclosed when the buyer assumes all significant types of risks and benefits related to the ownership of the asset, when there is a certainty in relation to recoverability of a fee and related costs or possibility of repayment of products and when the Group stops deciding on products sold.

SALE OF GOODS

When selling goods, the performance obligation occurs upon the supply of goods. Goods are invoiced within 14 days or on a monthly basis. The sale of electricity accounts for the largest share within the sale of goods structure, which is followed by the sale of secondary and tertiary energy, deviations from the sale of electricity, sale of thermal energy and sale of other products. This part includes also the sale of emission coupons arising on trading, and sale of other merchandise and material.

If the Group records more foreign exchange gains than foreign exchange losses arising on operations, then these are disclosed among revenue from sale of goods by applying the net principal.

SALE OF SERVICES

When selling services, the performance obligation arises while rendering the services, while invoicing is performed on a monthly basis. The largest share within the structure of sales services relates to electricity and construction, mining and maintenance services.

Accrued income includes revenue that is considered in the income statement although not invoiced yet. In compliance with IFRS 15, they are recognized in the statement of financial position as contract assets and represent the right to compensation in return for goods or services, which is transferred to the buyer.

Deferred income is presented in accordance with IFRS 15 as a contract liability and is recognized as revenue when the company meets its performance obligation under the contract.

OTHER OPERATING AND FINANCE INCOME

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

Other operating income related to operating effects are composed of revenue from the reversal of provisions, revenue from utilisation of deferred income, gains arising from sales of property, plant and equipment, income on revaluation of investment property, reversal of impairment of receivables, received compensations and contractual penalties, and similar revenue (ex. government grants).

Finance income comprises revenue from shares in investments, interest on loans and deposits given and revenue of associates. Interest revenue is recognised upon its occurrence, in the amount of agreed-upon interest rate.

OPERATING AND FINANCE COSTS

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

The cost of goods sold includes expenses related to the sales of electricity and contingent costs of electricity. In case the Group has more negative than positive operating foreign exchange differences, they are recorded as costs of goods sold.

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

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

Write-downs in value include amortisation/depreciation costs related to consistent transfer of value of amortisable intangible assets and depreciable property, plant and equipment to the Group's profit or loss. Write-downs in value also include impairments, write-offs and losses from the sales of intangible assets and property, plant and equipment, costs arising on revaluation of investment property, as well as impairments or write-off of receivables and inventories.

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

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

Finance costs comprise borrowing costs and impairment of financial assets. Interest expenses are recognised upon their occurrence, in the amount of agreed-upon interest rate.

TAXATION

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

Current tax liabilities are based on the taxable tax basis for the period. The taxable tax basis differs from the reported in the income statement, since it excludes items of income or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. The Group's current tax liabilities are calculated using the tax rate that is applicable on the reporting date. Current tax liabilities are reduced in the event of advance payments of corporate income tax during the year.

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

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

Deferred tax liability represents the amount of accounted income tax from taxable temporary differences, which indicates that the amount of taxes to be paid will increase in the future.

CONSOLIDATED STATEMENT OF CASH FLOW

The consolidated statement of cash flows comprises changes in the balance of cash and cash equivalents for the period for which it was compiled. The consolidated cash flow statement is prepared by using the indirect method and data from the consolidated statement of financial position, the consolidated income statement pursuant to International Financial Reporting Standards (IFRS).

The item of Group's cash comprises cash in hand, bank balances, call deposits and 3-month deposits.

SEGMENT REPORTING

The Group does not disclose operations by segments in the annual report. Segment reporting must be disclosed by the companies whose treasury or debt securities are traded in the market and companies which are issuing treasury or debt securities in public security markets.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY THE IASB AND ADOPTED BY THE EUROPEAN UNION, WHICH ARE NOT YET EFFECTIVE

New standards, interpretations and amendments to the existing standards as adopted by the European Union and stated below are not yet applicable and were not taken into account during the compilation of the annual financial statements for the fiscal year that started as of 1 January 2018. No standard was adopted prematurely by the Group.

➢ IFRS 16 - LEASES

(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires the Group to bring most leases on-balance sheet under a single model, thus eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated, and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and;
- leases where the underlying asset has a low value (‘small-ticket’ leases).

Regardless the stated accounting, no major changes apply to the lessor as the difference between the operating and finance lease remains.

The Group does not expect that the new standard, when initially applied, will have material impact on the consolidated financial statements as the assets and liabilities arising under the finance lease, where the Group acts as the lessee, will have to be disclosed in the consolidated statement of financial position.

The Group will recognise new assets and liabilities for its operating leases (rent relating to business premises in Ljubljana, Šoštanj, Maribor and Nova Gorica, car rentals). The nature and costs relating to these leases will consequently change, as the Group will recognise depreciation rights to the use of assets and interest costs for liabilities arising under the lease. In previous years, the Group recognised costs from the operating lease on the basis of straight-line depreciation over the lease period, and recognised the assets and liabilities in a scope, in which there was a time difference between the actual payments of lease and the recognised expenses. In addition, the Group will no longer recognise provisions for operating leases that are deemed by the Group as onerous. The Group will instead include payments of liabilities, which fall due under the lease. A larger impact on Group's finance leases is not expected. Given the currently available information, the Group assesses that additional lease liabilities will be recognised as at 1 January 2019 in the amount of EUR 2,270,599. The Group does not expect that the adoption of IFRS 16 will have an impact on its ability to meet the maximum leverage threshold in connection with loans received and does not expect that it will have a significant impact on the value of rations from the contracts concluded with lessors.

The Group will apply IFRS 16 for the first time on 1 January 2019 based on a changed retrospective approach. Consequently, the cumulative effect of adopting IFRS 16 will be recognised as a restatement of the opening balance of retained earnings as at 1 January 2019, without adjusting the comparative data.

➢ IFRIC 23 - UNCERTAINTY OVER INCOME TAX TREATMENT

(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.)

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity’s chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment, then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and had full knowledge of all the relevant information.

The Group does not expect that the interpretation, when initially applied, will have material impact on the financial statements as it does not operate in a complex multinational tax environment.

➢ AMENDMENTS TO IFRS 9 - PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.

The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

The Group does not expect that the amendments will have a material impact on its financial statements.

NEW STANDARDS AND INTERPRETATIONS THAT WERE NOT YET ADOPTED BY THE EUROPEAN UNION

➢ AMENDMENTS TO IFRS 10 AND IAS 28 - SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

(The European Commission decided to defer the endorsement indefinitely.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group expects that the amendments, when initially applied, will not have a material impact on its financial statements.

➢ IFRS 17 – INSURANCE CONTRACTS

(Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.)

This pronouncement is not yet endorsed by the European Union.

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of its financial statements as it does not operate in the insurance industry.

➢ AMENDMENTS TO IAS 28 - LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (ISSUED ON 12 OCTOBER 2017)

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

The amendment clarifies that the Group accounts the investments in associates or joint ventures, which are not subject to the equity method, pursuant to provisions of IFRS 9 – Financial Instruments.

The Group expects that the amendments, when initially applied, will not have a material impact on ITS financial statements but will take them into account when they become applicable.

➢ (ANNUAL IMPROVEMENTS TO IFRS 2015–2017 CYCLE (ISSUED ON 12 DECEMBER 2017)

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

The Improvements to IFRSs (2015-2017) contains 4 amendments to standards. The main changes were to:

- clarify that the Group remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations;
- clarify that the Group does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements;
- clarify that the Group should always accounts for income tax consequences of dividend payments in profit or loss in the consolidated income statement, consolidated other comprehensive income or in equity according to where the Group originally recognized past transactions or events that generated distributable profits; and
- clarify that the Group should exclude from the funds that the Group borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

None of these changes are expected to have a material impact on the Group's financial statements.

➢ AMENDMENTS TO IAS 19 - EMPLOYEE BENEFITS

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

The amendments require that an entity applies current and upgraded assumptions in the event of the changed programme and/or the change, curtailment or limitation of the programme with the purpose to determine current service cost and net interest in the reporting period upon the programme's change.

The Group expects that the amendments, when initially applied, will not have a material impact on its financial statements.

➢ AMENDMENTS TO IFRS 3 – BUSINESS COMBINATIONS

(Effective for annual periods beginning on or after 1 January 2020.)

These amendments are not yet endorsed by the European Union.

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Group expects that the amendments, when initially applied, will not have a material impact on ITS financial statements.

➢ AMENDMENTS TO IAS 1 - PRESENTATION OF FINANCIAL STATEMENTS AND IAS 8 - ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

(Effective for annual periods beginning on or after 1 January 2020.)

These amendments are not yet endorsed by the European Union.

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Group expects that the amendments, when initially applied, will not have a material impact on its financial statements.

3.5.4 DETERMINATION OF FAIR VALUE

With reference to disclosing fair values of non-financial and financial assets and liabilities, the determination of fair value is required either for measuring individual assets or due to additional fair value disclosures. Fair value is the amount by which an asset can be sold, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

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

Quoted prices are used as a basis for determining fair value of financial instruments. In case a financial instrument is not quoted on the regulated market or the market is assessed as inactive, the second and third level input data is used to assess the fair value of the financial instrument.

In order to determine the fair value of interest and currency swaps we use information submitted to the Group by the bank where an individual swap was concluded. Values are verified in the Group's financial department.

In order to determine the fair values for derivatives that related to electricity and emission coupons, the known stock prices are used as at the balance sheet date.

3.5.5 FINANCIAL RISK MANAGEMENT

Detection and management of financial risks is defined in the business report.

In notes to consolidated financial statements, the risks are presented in connection with items in consolidated financial statements (note 'Financial instruments and risks'), namely:

- credit risk,
- liquidity risk,
- currency risk,
- interest rate risk, and
- price risk.

3.5.6 GROUP'S CHANGES IN THE FINANCIAL YEAR 2018

COMPANY'S INCLUSION INTO THE GROUP

The PV company acquired in 2018 equity interests from all shareholders in the PLP company and is accordingly the sole (100%) owner of the stated company. The PLP company was not included in the consolidation procedure in 2018 due to its planned sale at the beginning of 2019. Thus, the investment in PLP company is disclosed among long-term investments in subsidiaries in the amount of EUR 510,445.

3.5.7 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.5.7.1 CONSOLIDATED INCOME STATEMENT

As at 31 December 2018, Group's assets totalled to EUR 2,134,733,707.

Goodwill represents more than a half of all intangible assets, other components of the value are emission allowances and other long-term property rights (mostly software).

INTANGIBLE ASSETS (1)

INTANGIBLE ASSETS (in EUR)	31 DEC 2018	31 DEC 2017
Emission coupons	7,375,403	3,089,569
Other long-term property rights	3,581,428	3,194,484
Goodwill	12,823,254	12,823,254
TOTAL	**23,780,085**	**19,107,307**

MOVEMENT OF INTANGIBLE ASSETS (in EUR)	EMMISSION COUPONS	OTHER LONG-TERM PROPERTY RIGHTS	GOODWILL	OTHER INTANGIBLE ASSETS	TOTAL
Cost at 1 Jan 2018	**3,089,569**	**16,003,634**	**12,823,254**	**4,980**	**31,921,437**
Acquisitions	30,617,038	765,220			31,253,025
Transfers from investments	-26,331,204	-340,476			-26,542,447
Transfer from PPE to IA		666,860			666,860
Write-offs		-96,269			-96,269
Cost at 31 Dec 2018	**7,375,403**	**16,998,969**	**12,823,254**	**4,980**	**37,202,606**
Write-downs at 1 Jan 2018		**12,809,150**		**4,980**	**12,814,130**
Disposals - write-offs, sales		-230,661			-230,661
Transfers from investments		137,539			137,539
Amortisation		797,782			797,782
Write-offs		-96,269			-96,269
Write-downs at 31 Dec 2018		**13,417,541**	**0**	**4,980**	**13,422,521**
Carrying amount at 1 Jan 2018	**3,089,569**	**3,194,484**	**12,823,254**	**0**	**19,107,307**
Carrying amount at 31 Dec 2018	**7,375,403**	**3,581,428**	**12,823,254**	**0**	**23,780,085**
Cost at 1 Jan 2017	**2,158,664**	**15,590,903**	**12,387,056**	**4,980**	**30,141,603**
Acquisitions	30,299,379	814,975	436,198		31,550,552
Transfers from investments	-29,368,474	43,273			-29,325,201
Transfer - restatements		24,629			24,629
Write-offs		-470,146			-470,146
Cost at 31 Dec 2017	**3,089,569**	**16,003,634**	**12,823,254**	**4,980**	**31,921,437**
Write-downs at 1 Jan 2017		**12,197,388**		**4,980**	**12,202,368**
Disposals - write-offs, sales		-21,516			-21,516
Transfer - restatements		23,279			23,279
Amortisation		1,075,423			1,075,423
Write-offs		-465,424			-465,424
Write-downs at 31 Dec 2017		**12,809,150**	**0**	**4,980**	**12,814,130**
Carrying amount at 1 Jan 2017	**2,158,664**	**3,393,515**	**12,387,056**	**0**	**17,939,235**
Carrying amount at 31 Dec 2017	**3,089,569**	**3,194,484**	**12,823,254**	**0**	**19,107,307**

The Group purchases emission coupons for the purpose of electricity production within the Group. In line with the changed legislation, all TPPs have to purchase emission coupons on the market since 2013. The opening balance of the Group's emission coupons amounted to 3,985,609 coupons, 4,276,186 coupons were purchased in 2018 in the value of EUR 30,617,038, and 4,071,374 of emission coupons were used or sold in the amount of EUR 26,331,204. Accordingly, the Group recorded 4,190,421 emission coupons at the year-end of 2018.

The largest amount among other long-term property rights refers to the licenced software, which the Group uses for information support. In 2018, additions hereunder amounted to EUR 635,987, sales and write-offs were recorded at EUR 307,512, and restatements and transfers were recorded in the amount of EUR 666,860 and mostly refer to the transfer of items from property, plant and equipment to intangible assets.

Amortisation of long-term property rights amounted in 2018 to EUR 797,782. The useful lives of significant software were checked in 2018 and according to findings made the useful lives remain unchanged as they were properly assessed in view of currently anticipated use of these assets.

No impairments of Group's long-term property rights were performed in 2018.

In 2018, the Group companies did not write up interest to the cost of intangible assets arising from the purchase prior to bring the assets to its use, as the relevant setting up for the use of assets acquired in 2018 was of no long-term.

The Group has no intangible assets under finance lease and its intangible assets are not pledged as collateral.

As at 31 December 2018, the Group recorded EUR 1,298,101 of concluded contracts for the purchase of intangible assets in the coming years.

The goodwill represents the companies SENG and Sipoteh and totalled to EUR 12,823,254. Impairment testing showed that there is no need to impair the goodwill in the stated companies.

As at 30 September 2018, impairment testing of the cash generating unit SENG was carried out from which goodwill arises.

Assumptions considered in the impairment testing of the goodwill and relevant results are outlined below:

GOODWILL - SENG

2018	2017
METHOD OF DEFINING THE RECOVERABLE VALUE DURING IMPAIRMENT TESTING	
Value in use (present value of the expected free cash flows)	Value in use (present value of the expected free cash flows)
DATE OF IMPAIRMENT TESTING	
30 September 2018	30 September 2017
SIGNIFICANT ASSUMPTIONS USED DURING IMPAIRMENT TESTING	
Company's business operations until 2030.	Company's business operations until 2030.
Discount rate in the nominal rate of 7.43%, adjusted to the real level: 5.27% in the October-December 2018 period, 5.27% in 2018 and 5.30% from 2019 onwards.	Discount rate in the nominal rate of 7.21%, adjusted to the real level: 5.52% in the October-December 2017 period, 5.30% in 2018 and 5.10% from 2019 onwards.
Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2019-2021, with the starting price of EUR 40.39/MWh, the price change in the period is 26.32%.	Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2018-2020, with the starting price of EUR 40.72/MWh, the price change in the period is 8.7%.
Long-term forecasts of electricity market price fluctuations (Poyry Management Consulting) for the 2022-2030 period, with the starting price of EUR 55.85/MWh, the price change in the period is 23.31%.	Long-term forecasts of electricity market price fluctuations (Poyry Management Consulting) for the 2021-2030 period, with the starting price of EUR 48.04/MWh, the price change in the period is 46.7%.
Average annual growth rate of normalised free cash flow is 0%.	Average annual growth rate of normalised free cash flow is 0%.
Average production is taken into account at 786 GWh/year. Average production of HPP on Soča is defined on the basis of statistical data on the average hydrology on the Soča river. In 2019 (lower by 90 GWh) and 2025 (lower by 90 GWh), lower electricity production is anticipated due to the overhaul of the PSP Avče in the 2028-2030 period and the anticipated overhaul of the PSP Solkan (lower by 8 GWh).	Average production is taken into account at 787 GWh/year. Average production of HPP on Soča is defined on the basis of statistical data on the average hydrology on the Soča river. In 2018 (lower by 162 GWh) and 2025 (lower by 278 GWh), lower electricity production is anticipated due to the overhaul of the PP Avče in the 2028-2030 period and the anticipated overhaul of the HPP Solkan (lower by 9 GWh)..
CAPEX in the period of projections is recorded in the amount of EUR 56,584,000.	CAPEX in the period of projections is recorded in the amount of EUR 57,822,000.
IMPAIRMENT TESTING RESULTS	
Carrying amount of goodwill prior to impairment testing was recorded at EUR 221,782,000.	Carrying amount of goodwill prior to impairment testing was recorded at EUR 224,767,000.
Recoverable value is stated at EUR 369,013,000.	Recoverable value is stated at EUR 382,544.000.
Revaluation expenses for impairment are recorded at EUR 0.	Revaluation expenses for impairment are recorded at EUR 0.

SENSITIVITY ANALYSIS – IMPAIRMENT TESTING OF GOODWILL

GOODWILL	RECOVERABLE AMOUNT IN EUR	SENSITIVITY (CHANGE) OF THE RECOVERABLE VALUE IN EUR: CHANGE IN THE DISCOUNT RATE (WACC) IN % (0,5)	0.5	CHANGE NOPLAT (EBIT-TAX) IN % (5)	5	CHANGE OF CAPEX IN % (5)	5
in SENG	369,013,000	2,576,000	-2,542,000	-16,161,000	16,162,000	3,954,000	-4,157,000

PROPERTY, PLANT AND EQUIPMENT (2)

Most of the Group companies are engaged in the production of electricity or extraction of raw materials used for electricity production. This requires specialised equipment and buildings and due to the said activity also the values of buildings are significant. Therefore, property, plant and equipment account for the largest part of the Group's assets.

PROPERTY, PLANT AND EQUIPMENT (in EUR)	2018	2017
Land	24,868,027	25,120,616
Buildings	387,762,512	398,966,321
Production equipment	1,165,711,053	1,191,030,607
Other equipment	6,336,466	29,107,116
Property, plant and equipment being acquired	52,259,152	38,063,351
TOTAL	**1,636,937,210**	**1,682,288,011**

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT (in EUR)	LAND	BUILDINGS	PRODUCTION EQUIPMENT	OTHER EQUIPMENT	PROPERTY, PLANT AND EQUIPMENT BEING ACQUIRED	TOTAL
Cost at 1 Jan 2018	**31,011,325**	**1,162,673,695**	**3,186,294,617**	**70,300,174**	**46,132,958**	**4,496,412,769**
Acquisition					55,877,682	55,877,682
Disposals	(253,774)	-588,358	-1,354,382	-15,887,085		-18,083,599
Transfers from investments	296,209	5,701,966	58,522,275	1,327,318	-65,879,966	-32,198
Transfer - restatements	(159,999)	101,615	-5,224,694	-121,226	203,709	-5,200,595
Transfers – reclassification from PPE to IP	(481,461)	-2,409,859				-2,891,320
Transfers – restatements and inclusion of HSE EDT	116,626	74,408,069	22,138,425	52,775,808		149,438,928
Transfers – reclassification of categories			-2,480,764	-21,513,612	23,994,376	0
Change in discount – assets for dismantling		-2,318,000	-755,481			-3,073,481
Write-offs	(1,556)	-141,738	-29,684,512	-1,174,903	-52,318	-31,055,027
Cost at 31 Dec 2018	**30,527,370**	**1,237,427,390**	**3,227,455,484**	**85,706,474**	**60,276,441**	**4,641,393,159**
Write-downs at 1 Jan 2018	**5,890,709**	**763,707,374**	**1,995,264,010**	**41,193,058**	**8,069,607**	**2,814,124,758**
Disposals	(199,568)	-585,457	-1,124,584	-14,964,282		-16,873,891
Transfer - restatements	(101,760)	151,583	-4,659,058	-62,021		-4,671,256
Transfers – reclassification from PPE to IP	(269,167)	-2,322,899				-2,592,066
Transfers – restatements and inclusion of HSE EDT	116,626	74,408,069	22,136,563	52,780,074		149,441,332
Depreciation	5,948	14,443,845	60,195,464	1,502,969		76,148,226
Impairment	216,555		18,489,038			18,705,593
Write-offs		-137,637	-28,557,002	-1,079,790	-52,318	-29,826,747
Write-downs at 31 Dec 2018	**5,659,343**	**849,664,878**	**2,061,744,431**	**79,370,008**	**8,017,289**	**3,004,455,949**
Carrying amount at 1 Jan 2018	**25,120,616**	**398,966,321**	**1,191,030,607**	**29,107,116**	**38,063,351**	**1,682,288,011**
Carrying amount at 31 Dec 2018	**24,868,027**	**387,762,512**	**1,165,711,053**	**6,336,466**	**52,259,152**	**1,636,937,210**
Cost at 1 Jan 2017	**34,182,673**	**1,171,823,004**	**3,185,534,156**	**71,205,476**	**30,506,897**	**4,493,252,206**
Acquisition				1,378	44,066,220	44,067,598
Disposals	(1,424,667)	-10,500,521	-6,268,690	-3,324,041	-35,795	-21,553,714
Transfers from investments	154,662	2,940,886	21,979,543	1,620,440	-26,695,531	0
Transfer - restatements	(1,879,185)	-1,399,017	-6,264,192	1,814,759	-1,233,719	-8,961,354
Write-offs	(22,158)	-190,657	-8,686,200	-1,017,838	-475,114	-10,391,967
Cost at 31 Dec 2017	**31,011,325**	**1,162,673,695**	**3,186,294,617**	**70,300,174**	**46,132,958**	**4,496,412,769**
Write-downs at 1 Jan 2017	**8,436,752**	**762,994,699**	**1,947,314,673**	**43,271,416**	**8,069,607**	**2,770,087,147**
Acquisition	(1,749,886)	-2,593,237				-4,343,123
Disposals	(802,105)	-7,752,973	-3,930,814	-2,782,472		-15,268,364
Transfers from investments		87,813	668,305	5,551		761,669
Transfer - restatements		-10,407	-389,416	387,135		-12,688
Depreciation	5,948	14,285,061	59,661,120	1,344,642		75,296,771
Impairment		-3,112,925	580,000	-17,134		-2,550,059
Write-offs		-190,657	-8,639,858	-1,016,080		-9,846,595
Write-downs 31 Dec 2017	**5,890,709**	**763,707,374**	**1,995,264,010**	**41,193,058**	**8,069,607**	**2,814,124,758**
Carrying amount at 1 Jan 2017	**25,745,921**	**408,828,305**	**1,238,219,483**	**27,934,060**	**22,437,290**	**1,723,165,059**
Carrying amount at 31 Dec 2017	**25,120,616**	**398,966,321**	**1,191,030,607**	**29,107,116**	**38,063,351**	**1,682,288,011**

The most significant among investments in property, plant and equipment of Group companies in 2018 are the investments made in the reconstruction of production facilities and purchasing equipment for conducting the core activity in the total amount of EUR 55,877,682.

Group's property, plant and equipment being acquired primarily comprises investments in the middle Sava HPP, PHP Kozjak and the Mura HPP. Investments being acquired refer to the compilation of the pre-investment, investment and other documentation, required within procedure of setting up the hydro-power plants into the environment.

Due to the demanding terms and conditions on the electricity market as well as within the HSE Group, activities are in progress to provide for unhindered long-term procedures of plants' setting up into the environment. The documentation and expert groundworks are prepared so that they cannot become obsolete and can be used as basis for further activities. The aforesaid confirms that the investment is not compromised regardless its delayed development due to current circumstances. There was no indication of impairment in 2018 in connection with the investment.

The item 'transfers – reclassifications' includes mostly transfers of assets to assets held for sale.

The item 'transfers – reclassifications from property, plant and equipment to investment property, refers to the transfer of these assets over to the PV company.

The item 'transfers – inclusion of HSE EDT' relates to the purchase cost of property, plant and equipment and their value adjustment due to the company's change from 'company in liquidation' to 'operating company' in 2018.

Major part of write-offs refers to production equipment due to overhauls performed.

In 2018, the useful lives of major property, plant and equipment were reviewed and according to findings made the useful lives of certain production equipment were extended, which resulted in reduced depreciation. Consequently, depreciation for such equipment amounted in 2018 to EUR 663,665, which is EUR 446,342 less than the depreciation accounted in view of the initially defined useful lives.

The Group holds other equipment under finance lease in the amount of EUR 38,876, production plant in the amount of EUR 445,795, buildings, land and properties are not held under a finance lease.

Mortgages are entered on Group's real properties and equipment as collaterals for borrowings in the carrying amount of EUR 90.192.060 (2017: EUR 94,848,829), thereof EUR 1,014,116 referring to land, EUR 50,494,114 to buildings and EUR 38,683,830 to production plant.

At the year-end of 2018, the Company recorded EUR 9,810,667 worth of contracts for purchasing property, plant and equipment in the coming years.

As at 30 September 2018, the Group performed impairment testing of property, plant and equipment in cash generating units (CGUs), which recorded losses. The most significant among them is the CGU which includes electricity production in TEŠ and obtaining the energy product from the PV company (excavation of coal) for this production. Certified appraisals have valued the recoverable value of these assets.

The tables below show the assumptions applied in the impairment testing and the relevant result for property, plant and equipment of the cash generating units TEŠ, PV, HTZ and RGP.

ASSETS IN TEŠ

2018	2017
METHOD OF DEFINING THE RECOVERABLE VALUE DURING IMPAIRMENT TESTING	
Value in use (present value of the expected free cash flows)	Value in use (present value of the expected free cash flows)
DATE OF IMPAIRMENT TESTING	
30 September 2018	30 September 2017
SIGNIFICANT ASSUMPTIONS USED DURING IMPAIRMENT TESTING	
Company's business operations until 2054.	Company's business operations until 2054.
Discount rate in the nominal rate of 7.71%, adjusted to the real level: 5.54% in the October-December 2018 period, and 5.57% from including 2019 onwards.	Discount rate in the nominal rate of 7.50%, adjusted to the real level: 5.81 in the October-December 2017 period, and 5.59% in 2018, and 5.39% from including 2019 onwards.
Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2019-2021, with the starting price of EUR 40.39/MWh, the price change in the period is 26.32%.	Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2018-2020, with the starting price of EUR 40.72/MWh, the price change in the period is 8.7 %.
Exchange prices for standardized futures contracts for CO_2 emission coupons at the EEX stock exchange for 2019-2021, with the starting price of EUR 6.45/t, the price change in the period is 230.95%.	Exchange prices for standardized futures contracts for CO_2 emission coupons at the EEX stock exchange for 2018-2020, with the starting price of EUR 6.48/t, the price change in the period is 14.8%.
Long-term forecasts for electricity prices fluctuations (Poyry Management Consulting) for the 2022-2040 period, with the starting price of EUR 55.85/MWh, the price change in the period is 21.14%.	Long-term forecasts for electricity prices fluctuations (Poyry Management Consulting) for the 2021-2040 period, with the starting price of EUR 48.04/MWh, the price change in the period is 58.7%.
Long-term forecasts for market price fluctuations for CO_2 emissions coupons (Poyry Management Consulting) for the 2022-2030 period, with the starting price at EUR 15.09/t, and the price change in the period is 50.10%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is kept on the level at 33%.	Long-term forecasts for market price fluctuations for CO_2 emissions coupons (Poyry Management Consulting) for the 2021-2030 period, with the starting price at EUR 12.32/t, and the price change in the period is 107%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is kept on the level at 34%.
The 2041-2054 takes account of the prices for electricity and CO_2 emission coupons from 2040	The 2041-2054 takes account of the prices for electricity and CO_2 emission coupons from 2040.
Average annual production of electricity from coal power plant is recorded at 3.7 TWh in the 2019-2030 period, 2.5 TWh in the 2031-2040 period and 2.0 TWh in the 2041-2054 period.	Average annual production of electricity from coal power plant is recorded at 3.6 TWh in the 2018-2030 period, 2.5 TWh in the 2031-2040 period and 2.0 TWh in the 2041-2054 period.
Value of other income (income on provision of system services, thermal energy, income on sale of ash and gypsum) is recorded at EUR 27,926,000 in 2018 and at EUR 18,475,000 until 2054 .	Value of other income (income on provision of system services, thermal energy, income on sale of ash and gypsum) is recorded at EUR 20,030,000 thousand in 2018 and at EUR 19,169,000 until 20544.
CAPEX in the period of projections is recorded at EUR 151,221,000.	CAPEX in the period of projections is recorded at EUR 179,730,000.
IMPAIRMENT TESTING RESULTS	
Carrying amount of assets prior to impairment testing was recorded at EUR 981,900,000.	Carrying amount of assets prior to impairment testing was recorded at EUR 998,640,000.
Recoverable value is stated at EUR 963,411,000.	Recoverable value is stated at EUR 1,005,550,000.
Revaluation expenses for impairment are recorded at EUR 18,489,000.	Revaluation expenses for impairment are recorded at EUR 0.

ASSETS IN PV

2018	2017
METHOD OF DEFINING THE RECOVERABLE VALUE DURING IMPAIRMENT TESTING	
Value in use (present value of the expected free cash flows)	Value in use (present value of the expected free cash flows)
DATE OF IMPAIRMENT TESTING	
30 September 2018	30 September 2017
SIGNIFICANT ASSUMPTIONS USED DURING IMPAIRMENT TESTING	
Company's business operations until 2054.	Company's business operations until 2054.
Discount rate in the nominal value of 9.18%, adjusted to the real level at 7.04%, which was taken into account until 2054 .	Discount rate in the nominal value of 7.85%, adjusted to the real value: 6.15% in the October-December 2017 period, 5.93% in 2018 and 5.73% from 2019 onwards.
Coal's sales price is recorded at EUR 2.75/GJ in the overall period until 2054.	Coal's sales price is recorded at EUR 2.75/GJ in the overall period until 2054.
Costs for closing the coal mine after its operations are estimated at EUR 43,299,000.	Costs for closing the coal mine after its operations are estimated at EUR 53,980,000.
Average annual coal production is recorded at 35.367 TJ/year in the 2019-2030 period, decline in the volume of operations in the 2030-2040 period due to the anticipated closure of the coal mine; a constant production and sale of coal at 19,168 TJ/year is anticipated after 2040.	Average annual coal production is recorded at 35.292 TJ/year in the 2018-2030 period, decline in the volume of operations in the 2030-2040 period due to the anticipated closure of the coal mine; a constant production and sale of coal at 19,168 TJ/year is anticipated after 2040.
CAPEX in the period of projections is recorded at EUR 328,047,445.	CAPEX CAPEX in the period of projections is recorded at EUR 371,539,000.
The recoverable value of investments in subsidiaries and other companies is recorded at EUR 21,248,000.	The recoverable value of investments in subsidiaries and other companies is recorded at EUR 27,480,000.
The recoverable value of non-performing assets is recorded at EUR 2,658,000.	The recoverable value of non-performing assets is recorded at EUR 4,288,000.
»We advocate the assumptions that the Company shall not be liable to meet the covenants, which are not explicitly stated in the currently applicable concession contract.«	
IMPAIRMENT TESTING RESULTS	
Carrying amount of assets prior to impairment testing was recorded at EUR 79,769,000.	Carrying amount of assets prior to impairment testing was recorded at EUR 70,852,000.
Recoverable value is stated at EUR 82,719,000.	Recoverable value is stated at EUR 70,736,000.
Revaluation expenses for impairment are recorded at EUR 0.	Revaluation expenses for impairment are recorded at EUR 116,000.

ASSETS IN HTZ

2018	2017
METHOD OF DEFINING THE RECOVERABLE VALUE DURING IMPAIRMENT TESTING	
Value in use (present value of the expected free cash flows)	Value in use (present value of the expected free cash flows)
DATE OF IMPAIRMENT TESTING	
30 September 2018	30 September 2017
SIGNIFICANT ASSUMPTIONS USED DURING IMPAIRMENT TESTING	
Company's business operations until 2054.	Company's business operations until 2054.
Discount rate in the nominal rate of 7.96%, adjusted to the real level: 5.79% in the October-December 2018 period, and 5.82% from including 2019 onwards 5.45%.	Discount rate in the nominal rate of 7.56%, adjusted to the real level: 7.56% in the October-December 2017 period, 5.65% in 2018 and 5.45% from 2019 onwards.
Average annual net revenue in the 2019-2030 period is recorded at EUR 21,026,908, in the 2031-2040 period at EUR 14,722,389, and from 2041 onwards at EUR 12,019,557.	Average annual net revenue in the 2018-2030 period is recorded at EUR 21,779,000, in the 2030-2040 period at EUR 16,001,000, and from 2040 onwards at EUR 12,763,000.
Average annual other income in the 2019-2030 period is recorded at EUR 6,203,156, in the 2031-2040 period at EUR 4,283,010, and from 2041 onwards at EUR 3,496,707.	Average annual other income in the 2018-2030 period is recorded at EUR 6,560,000, in the 2030-2040 period at EUR 4,655,000, and from 2040 onwards at EUR 3,713,000.
Average annual employee benefits expense in the 2019-2030 period is recorded at EUR 20,681,849, in the2031-2040 period at EUR 14,251,905, and from 2041 onwards at EUR 11,635,447.	Average annual employee benefits expense in the 2018-2030 period is recorded at EUR 20,992,000, in the2030-2040 period at EUR 14,960,000, and from 2040 onwards at EUR 11,993,000.
Average annual costs of services in the 2019-2030 period are recorded at EUR 2,820,638, in the 2031-2040 period at EUR 1,966,696, and from 2041 onwards at EUR 1,605,637.	Average annual employee benefits expense in the 2018-2030 period is recorded at EUR 2,845,000, in the 2030-2040 period at EUR 2,148,000, and from 2040 onwards at EUR 1,713,000.
Average annual costs of materials in the 2019-2030 period are recorded at EUR 1,999,091, in the 2031-2040 period at EUR 1,420,837, and from 2041 onwards at EUR 1,159,991.	Average annual costs of materials in the 2018-2030 period are recorded at EUR 2,064,000, in the 2030-2040 period at EUR 1,609,000, and from 2040 onwards at EUR 1,283,000.
Recoverable value of surplus assets is recorded at EUR 1,788,500.	Recoverable value of surplus assets is recorded at EUR 2,071,000.
CAPEX in the period of projections is recorded at EUR 21,446,647.	CAPEX in the period of projections is recorded at EUR 28,715,000.
Costs of closing the company in 2054 are recorded at EUR 11,958,436.	Costs of closing the company in 2054 are recorded at EUR 11,560,000.
IMPAIRMENT TESTING RESULTS	
Carrying amount of assets prior to impairment testing was recorded at EUR 10,925,451.	Carrying amount of assets prior to impairment testing was recorded at EUR 9,222,000.
Recoverable value is stated at EUR 12,171,120.	Recoverable value is stated at EUR 15,870,000.
Revaluation expenses for impairment are recorded at EUR 0.	Revaluation expenses for impairment are recorded at EUR 0.

ASSETS IN RGP

ASSETS OR A CASH GENERATING UNIT (CGU)	FAIR VALUE DECREASED BY SELLING EXPENSES OR VALUE IN USE	KEY ASSUMPTIONS
CGU owned by RGP	Defined value in use at CGU's fixed assets is recorded at EUR 3,954,000; carrying amount of assets as at 30 September 2018 amounted to EUR 2,457,000.	Long-term projections of company's operations for the 2019-2023 period. The required nominal capital yield rate at 10.85%. Higher investments or restructuring activities, to which the company is not subject at the date ov valuation, were not taken into account.

SENSITIVITY ANALYSIS – IMPAIRMENT TESTING OF THE LONG-TERM INVESTMENT IN TEŠ, PV AND HTZ

		SENSITIVITY (CHANGE) OF THE RECOVERABLE VALUE IN EUR					
		CHANGE IN THE DISCOUNT RATE (WACC) IN %		CHANGE NOPLAT (EBIT-TAX) IN %		CHANGE OF CAPEX IN %	
LONG-TERM FIXED ASSETS	RECOVERABLE AMOUNT IN EUR	(0,5)	0.5	(5)	5	(5)	5
in TEŠ	963,411,000	3,636,500	-3,260,750	-24,407,500	24,407,500	4,096,500	-4,096,500
in PV	82,719,000	2,650,500	-2,650,500	-60,370,000	60,370,000	8,132,000	-8,132,000
in HTZ	12,171,120	132,570	-137,133	-262,672	262,673	541,822	-541,820

Based on impairment testing, which was carried out by certified appraiser, the Group impaired in the fiscal year assets in the cash generating unit TEŠ (EUR 18,489,038).

Given the valuation of property, plant and equipment as at 31 December 2018 and the fact that the impairment tests were carried out as at the balance of 30 September 2018, the Group assessed the changed circumstances of CGU's business operations in the last month of the fiscal year 2018. It was established that relevant circumstances of business operations have not significantly changed in the last month of 2018, showing that the valuation of property, plant and equipment as at 31 December 2018 remains unchanged in view of the balance as at 30 September 2018.

INVESTMENT PROPERTY (3)

INVESTMENT PROPERTY (in EUR)	31 DEC 2018	ADJUSTED 31 DEC 2017
Land	2,263,524	1,644,836
Buildings	14,920,375	16,383,642
TOTAL	**17,183,899**	**18,028,478**

The Group changed in 2018 the accounting policy for valuating investment property by applying the fair value method. The total effect of changing the valuation method for investment properties is as at 1 January 2017 disclosed through retained earnings or losses and amounted to EUR 5,376,500. Apartments account for most of investment properties. Upon the valuation performed by a certified appraiser, the fair value of apartments exceeded their carrying amount. By renting out the investment properties in 2018, the Group generated income in the amount of EUR 967,337 and costs at EUR 77,649.

Investment property under mortgage are recorded at EUR 10,561,793.

Within the valuation of the PV Group's equity, which was performed by a certified appraiser, the market value of PV Group's investment property was determined as at 30 September 2018 for the purpose of an impairment testing. The market value of valued properties was established based on the market-based approach and the yield-based method or the discounted cash flow method, depending on the type of property.

MOVEMENT OF INVESTMENT PROPERTY

(in EUR)	LAND	BUILDINGS	TOTAL
Cost at 31 Dec 2016	**125,562**	**7,144,508**	**7,270,070**
Adjustment at 1 Dec 2017	**224,295**	**5,152,205**	**5,376,500**
Fair value at 1 Jan 2017	**349,857**	**12,296,713**	**12,646,570**
Acquisition		1,389,461	1,389,461
Transfers ,restatements from PPE	1,499,809	2,936,561	4,436,370
Disposals	-204,830	-405,207	-610,037
Adjustment to new fair value		166,114	166,114
Fair value at 31 Dec 2017	**1,644,836**	**16,383,642**	**18,028,478**
Fair value at 1 Jan 2018	**1,644,836**	**16,383,642**	**18,028,478**
Acquisition		108,092	108,092
Transfers – reclassification from PPE to IP	266,294	185,482	451,776
Disposals	-57,852	-1,777,042	-1,834,894
Effect of the changed valuation – reclassification of PPE to IP at fair value	410,246	20,201	430,447
Fair value at 31 Dec 2018	**2,263,524**	**14,920,375**	**17,183,899**

LONG-TERM INVESTMENTS IN SUBSIDIARIES (4)

LONG-TERM FINANCIAL INVESTMENTS IN SUBSIDIARIES

(in EUR)	31 DEC 2018	31 DEC 2017
Long-term financial investments in associates	510,445	0
TOTAL	**510,445**	**0**

In 2018, the associate PLP changed into a subsidiary, whose sole (100%) owner is the company PV. The company was in 2018 not included in the consolidation procedure due to its planned sale in early 2019. The relevant company is thereby disclosed among long-term investments in subsidiaries.

OTHER LONG-TERM INVESTMENTS AND LOANS (5)

OTHER LONG-TERM INVESTMENTS AND LOANS

(in EUR)	31 DEC 2018	31 DEC 2017
Long-term investments in associates	138,823,264	137,272,000
Long-term investments in jointly controlled entities	437,659	443,368
Long-term financial assets available for sale	160,406	145,218
Other long-term investments	14,690	7,191
Long-term financial receivables and loans	44,556	54,657
TOTAL	**139,480,575**	**137,922,434**

No essential changes were recorded with other long-term investments and loans in 2018, while long-term investments in associates increased due to the write-up under the equity method.

A) INVESTMENTS IN ASSOCIATES

INVESTMENTS IN ASSOCIATES

(in EUR)	31 DEC 2018	31 DEC 2017
PLP	0	193,631
HESS	138,823,264	137,078,369
TOTAL	**138,823,264**	**137,272,000**

Group's most significant investments in associates relates to the 49 percent equity interest in the company HESS.

MOVEMENT OF LONG-TERM INVESTMENTS IN ASSOCIATES

(in EUR)	2018	2017
Balance 1 Jan	**137,272,000**	**136,946,982**
Disposal of ERICO	0	-449,281
Attributable profits under equity method	1,744,895	927,381
Transfers, restatements	0	-153,082
Transfer of PLP to subsidiary	-193,631	0
Balance 31 Dec	**138,823,264**	**137,272,000**

Increase in the value of investments in associates refers to the write-up of profits based on the equity method, whereas the decrease to the company's transfer from associate to subsidiary.

DATA ON ASSOCIATES AS AT 31 DEC 2018	ADDRESS	ACTIVITY
HESS	Cesta bratov Cerjakov 33a 8250 Brežice	electricity production in HPP
RCE - in bankruptcy	Preloška cesta 1 3320 Velenje	R&D in natuarl science and technology

SIGNIFICANT AMOUNTS FROM THE FINANCIAL STATEMENTS OF ASSCIATES FOR 2018

(in EUR)	ASSTS	LIABILITIES (WITHOUT EQUITY)	REVENUE	NET PROFIT OR LOSS FOR THE PERIOD	TOTAL EQUITY
HESS	344,419,943	61,897,016	19,380,860	3,561,010	282,522,927

B) INVESTMENTS IN JOINTLY CONTROLLED ENTITY

JOINTLY CONTROLLED ENTITY

(in EUR)	31 DEC 2018	31 DEC 2017
SOENERGETIKA	437,659	443,368

Investments in jointly controlled entities includes the 25 percent equity interest in the company Soenergetika.

MOVEMENT OF LONG-TERM INVESTMENTS IN THE JOINTLY CONTROLLED ENTITY

(in EUR)	2018	2017
Balance at 1 Jan	**443,368**	**456,851**
Profit pay-out	-175,901	-150,000
Equity method	170,192	136,517
Balance at 31 Dec	**437,659**	**443,368**

SIGNIFICANT AMOUNTS FROM THE FINANCIAL STATEMENTS OF THE JOINTLY CONTROLLED ENTITY FOR 2018 (in EUR)	ASSETS	LIABILITIES (WITHOUT EQUITY)	REVENUE	NET PROFIT OR LOSS FOR THE PERIOD	TOTAL EQUITY
SOENERGETIKA	2,700,116	888,959	3,490,992	680,768	1,811,157

DEFERRED TAX ASSETS (6)

DEFERRED TAX ASSETS (in EUR)	31 DEC 2018	31 DEC 2017
Provisions	481,283	482,339
Impairment	236,062	233,932
Depreciation and amortisation expense	71	201
Other	0	121,151
TOTAL	**717,416**	**837,623**

Change in deferred tax assets is in 2018 recorded at EUR -120.207 and is included in the consolidated income statement in the amount of EUR 108,629 and in equity at EUR 11,578. The disclosed amount, which is recognised in the consolidated income statement, relates largely to the reversal of deferred tax assets where the subsidiary was merged with the controlling company and disclosed deferred tax assets arising on unused tax losses.

MOVEMENT OF DEFERRED TAX (in EUR)	PROVISIONS	IMPAIRMENT	DEPRECIATION AND AMORTISATION EXPENSE	OTHER	TOTAL
Balance at 1 Jan 2018	**482,339**	**233,932**	**201**	**121,151**	**837,623**
To debit/credit of profit or loss	-1,056	2,130	-130	-109,573	-108,629
To debit/credit of other comprehensive income				-11,578	-11,578
Balance at 31 Dec 2018	**481,283**	**236,062**	**71**	**0**	**717,416**
Balance at 1 Jan 2017	**459,620**	**5,472,447**	**1,095**	**22,280**	**5,955,442**
To debit/credit of profit or loss	22,719	-5,238,515	-894	97,383	-5,119,307
To debit/credit of other comprehensive income				1,488	1,488
Balance at 31 Dec 2017	**482,339**	**233,932**	**201**	**121,151**	**837,623**

Change in deferred tax assets arising from provisions refer to jubilee premiums and termination benefits, and changes in other provisions.

Changes in deferred tax assets relating to amortisation and depreciation arise from differences established between the operating and tax depreciation in 2018.

Other changes in deferred tax assets primarily refer to changes in fair values of interest and currency swaps and to impairment of receivables.

LIABILITIES FOR DEFERRED TAXES (7)

LIABILITIES FOR DEFERRED TAXES (in EUR)	31 DEC 2018	31 DEC 2017
Financial assets	5,891	5,576
Financial liabilities	12,898	0
TOTAL	**18,789**	**5,576**

INVENTORIES (8)

INVENTORIES (in EUR)	31 DEC 2018	31 DEC 2017
Material	26,454,484	21,077,689
Work in progress	5,838	5,060
Products and merchandise	3,975,056	3,340,107
TOTAL	**30,435,378**	**24,422,856**

The largest amount in the inventories of spare parts and materials is represented by inventories of spare parts and materials for maintenance, which are necessary for fast repair of defects of production equipment and thus ensuring reliable production.

The highest amount among inventories of products and merchandise refers to inventory of coal.

No inventories have been pledged as collateral.

INVENTORY SURPLUS AND DEFICITS (in EUR)	31 DEC 2018	31 DEC 2017
Value adjustments for inventory	-114,190	-204,633
Surpluses in year-end inventory	14,672	7,101
Deficits in year-end inventory	-16,759	-17,968
Write-off of inventory due to change of their quality	84,812	-85,612

SHORT-TERM INVESTMENTS AND LOANS (9)

SHORT-TERM INVESTMENTS AND LOANS (in EUR)	31 DEC 2018	31 DEC 2017
Short-term investments in financial instruments at fair value through equity	67,885	0
Short-term deposits to others	12,945,661	13,515,568
Other short-term deposits	0	21,030
TOTAL	**13,013,546**	**13,536,598**

Most of deposits granted to others refers to the deposit, which the subsidiary TEŠ disclosed in connection with the obligations under the loan contract with EBRD; the deposit is earmarked for repaying the loan instalments.

SHORT-TERM TRADE RECEIVABLES (10)

SHORT-TERM TRADE RECEIVABLES (in EUR)	31 DEC 2018	31 DEC 2017
Short-term operating receivables to associates	175,056	224,344
Short-term operating receivables due from jointly controlled entities	0	234
Short-term trade receivables	134,952,629	123,702,329
TOTAL	**135,127,685**	**123,926,907**

Due to production of electricity by subsidiaries and purchase of electricity by the controlling company, the majority of short-term trade receivables are related to the sale of electricity by the controlling company.

Disclosures in relation to maturity of receivables, allowances for receivables and insuring short-term operating receivables are represented in the section on financial risk management hereunder.

CONTRACT ASSETS (11)

CONTRACT ASSETS (in EUR)	31 DEC 2018	31 DEC 2017
Accrued income	1,014,437	0
TOTAL	**1,014,437**	**0**

Contract assets include income not yet charged but taken into account in the operating result. In compliance with IFRS 15, these assets are disclosed as contract assets in the income statement and include the right to compensation in return for goods or services, which is transferred to the buyer.

OTHER SHORT-TERM ASSETS (12)

OTHER SHORT-TERM ASSETS (in EUR)	31 DEC 2018	31 DEC 2017
Short-term advances	1,551,533	2,592,214
Short-term operating receivables to state and other institutions	25,818,824	28,240,503
Short-term operating receivables due from others	16,620,623	7,669,791
Accrued income	0	1,747,261
Short-term deferred costs and expenses	3,869,373	6,809,555
TOTAL	**47,860,353**	**47,059,324**

Most of receivables among short-term assets comprise receivables due from the state and other institutions, whereof these mostly refer to input VAT.

Most of short-term operating receivables due form others refers to exceeding the overdraft, which was authorised for operations in connection with derivatives by the controlling company.

Short-term deferred costs primarily relate to transactions arising in connection with electricity trading.

CASH AND CASH EQUIVALENTS (13)

CASH AND CASH EQUIVALENTS (in EUR)	31 DEC 2018	31 DEC 2017
Money in transit		751,315
Cash in hand and cheques received	3,342	4,067
Bank balance	56,132,612	32,363,074
Call deposits	23,354,237	28,034,581
Deposits tied up to 3 months	4,020,338	540,405
TOTAL	**83,510,529**	**61,693,442**

For the purposes of carrying out its activities, the Group holds bank accounts in Slovenia and abroad (controlling company in particular). Call deposits include mostly overnight deposit.

EQUITY (14)

EQUITY (in EUR)	31 DEC 2018	ADJUSTED 31 DEC 2017
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Other revenue reserves	413,856,350	413,856,350
Hedging reserve	75,592,356	10,753,380
Fair value reserve	(958,415)	(1,294,792)
Reatined earnings	12,620,281	24,646,652
Translation reserve	(1,055,101)	(1,072,383)
Non-controlling interest	388,027	615,858
TOTAL	**1,091,245,472**	**1,038,307,039**

CAPITAL SURPLUS (in EUR)	31 DEC 2018	31 DEC 2017
Paid-in capital surplus	561,243,070	561,243,070
Amounts arising from reversal of general capital revaluation adjustment	113	113
TOTAL	**561,243,185**	**561,243,185**

The value of share capital, capital surplus and other revenue reserves remained unchanged in 2018.

Other revenue reserves refer to the portion of controlling company's profits brought forward and generated up until 31 December 2013. Since that date, possible profits of the controlling company, which are allocated to other revenue reserves, are not transferred in the consolidated financial statements and are recorded under retained earnings or losses.

As at 31 December 2018, the Group discloses under the fair value reserve in total amount of EUR 75,592,356:

- results of standardized futures for electricity (forward contracts) in the amount of EUR 77,215,610,
- results for standardized futures for emission coupons (forward contracts) in the amount of EUR 1,678,240,
- fair value of currency swaps EUR 54,986.

MOVEMENT OF THE HEDGING RESERVE (in EUR)	STANDARDIZED FUTURES FOR ELECTRICITY	STANDARDIZED FUTURES FOR EMISSION COUPONS	CURRENCY SWAPS	TOTAL
Balance at 1 Jan 2018	**1,177,938**	**9,624,800**	**-49,358**	**10,753,380**
Formation, increase	4,736,726	133,875,140	104,344	138,716,210
Decrease	-783,950	-9,799,020		-10,582,970
Transfer	-6,808,954	-56,485,310		-63,294,264
Balance at 31 Dec 2018	**-1,678,240**	**77,215,610**	**54,986**	**75,592,356**
Balance at 1 Jan 2017	**94,140**	**1,689,500**	**-43,016**	**1,740,624**
Formation, increase	2,029,190	13,179,850	-49,358	15,159,682
Decrease	-505,833	-5,244,550	43,016	-5,707,367
Transfer	-439,559			-439,559
Balance at 31 Dec 2017	**1,177,938**	**9,624,800**	**-49,358**	**10,753,380**

The hedging reserve increased in 2018 by EUR 64,838,976, which is mostly attributable to higher trading with standard futures on the electricity markets and to the emission coupon. The relevant increase is primarily the result of emission coupons' high price at the year-end of 2018.

Electricity futures contracts refer to concluding deals on purchase of electricity on foreign electricity stock exchanges for the period from 2019 to 2021, thus securing the already concluded deals for the sale of electricity in the same period. Standard futures contracts for emission coupons represent contracts of purchase and sale of emission coupons on foreign exchanges for the period from 2018 to 2020. On the basis of electricity fluctuations and emission coupon prices on the stock exchange, a cumulative positive financial effect in the amount of EUR 64,734,632 was realised in forwards concluded in 2018. No deferred taxes were accounted in this relation, as the Group will pay an agreed-upon price during the deal's realisation.

In 2018, the Group closed the currency swaps, whose negative fair value amounted as at 31 December 2017 (inclusive of deferred taxes) to EUR 49,359. The Group entered in 2017 into new deals and partly already also closed them. The overall change in the fair value is positive and amounts to EUR 104,344. The positive fair value of open currency swaps amounted at the end of 2018 to EUR 67,885, whereof EUR 12,898 were accounted for deferred tax assets. Thus, the closing balance, inclusive of deferred taxes, is recorded at EUR 54,987.

MOVEMENT OF FAIR VALUE RESERVE (in EUR)	REVALUATION OF INVESTMENT PROPERTY	AVAILABE-FOR-SALE ASSETS	ACTUARIAL GAINS OR LOSSES ON TERMINATION BENEFITS UPON RETIREMENT	OTHER	TOTAL
Balance at 1 Jan 2018	**0**	**37,534**	**-1,343,891**	**11,565**	**-1,294,792**
Formation, increase	430,447	1,342	-113,765		318,024
Decrease			-68,416		-68,416
Transfer to retained earnings or losses			86,769		86,769
Balance at 31 Dec 2018	**430,447**	**38,876**	**-1,439,303**	**11,565**	**-958,415**
Balance at 1 Jan 2017	**0**	**32,519**	**-1,072,759**	**11,565**	**-1,028,675**
Formation, increase		6,749	-314,193		-307,444
Decrease		(1,734)	-41,899		-43,633
Transfer to retained earnings or losses			84,960		84,960
Balance at 31 Dec 2017	**0**	**37,534**	**-1,343,891**	**11,565**	**-1,294,792**

Group’s fair value reserve discloses at the year-end of 2018:

- effects of the opening revaluation of investment property at fair value during their transfer from 'property, plant and equipment' to 'investment property',
- change in the value of financial assets available for sale,
- actuarial losses on retirement benefits, and
- revaluation of land.

RETAINED ERNINGS OR LOSSES (in EUR)	2018	ADJUSTED 2017
Net profit or loss for the period	-11,567,589	8,268,979
Retained earnings or losses	24,187,870	16,377,673
TOTAL	**12,620,281**	**24,646,652**

The Group at the year-end of 2018 discloses loss in the amount of EUR 11,567,589. Based on the effect of the changed accounting policy on the valuation method applied with investment property (from cost to fair value method), the retained earnings or losses have as at 1 January 2017 increased in the amount of EUR 5,376,500; it grew due to the effect of additional revaluation of investment property in the amount of 503,692, decreased in the amount of EUR 338,831 due to the calculation of allowances for receivables by applying the expected loss model pursuant to IFRS 9, and declined in the amount of EUR 86,767 due to the effects of the actuarial calculations of long-term employees benefits.

Translation reserve amounted to EUR 1,055,098 and includes exchange differences arising on the translation of financial statements of subsidiaries abroad into the Group's presentation currency.

Equity of the non-controlling interest represents the value of owners holding non-controlling interests in subsidiaries and is disclosed at EUR 388,027.

	31 DEC 2018	2018	31 DEC 2017	2017
NON-CONTROLLING INTERESTS (in EUR)	NON-CONTROLLING INTERESTS	PROFIT SHARES	NON-CONTROLLING INTERESTS	PROFIT SHARES
HSE Invest	147,272	-231,563	399,869	-49,926
SRESA	25,188	-2,078	27,266	-158
mHE LOBNICA	215,566	-1,373	216,940	-5,230
TOTAL	**388,026**	**-235,014**	**615,858**	**-55,314**

Accumulated profit or loss is not established on the Group level.

PROVISIONS FOR RETIREMENT BENEFITS AND JUBILEE PREMIUMS (15)

PROVISIONS FOR TERMINATION BENEFITS AND JUBILEE PREMIUMS (in EUR)	31 DEC 2018	31 DEC 2017
Provisions for termination benefits upon retirement	11,223,161	10,619,802
Provisions for jubilee premiums	3,398,496	3,299,053
TOTAL	**14,621,657**	**13,918,855**

The Group discloses provisions for termination benefits and jubilee premiums created on the basis of an actuarial calculation prepared as at 31 December 2018.

The actuarial calculation was based on:

- the number of employees in the Group as at 31 October 2018 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period August-October 2018),
- method for calculating termination and jubilee premiums in Group companies,
- average salary growth in accord with the Decree of the Republic of Slovenia that anticipated a 2.0% growth from 2021 onwards,
- nominal long-term interest rate of 1.2%, and
- employee turnover by age category.

PROVISIONS FOR TERMINATION BENEFITS AND JUBILEE PREMIUMS (in EUR)	PROVISIONS FOR TERMINATION BENEFITS UPON RETIREMENT	PROVISIONS FOR JUBILEE PREMIUMS	TOTAL
Balance at 1 Jan 2018	**10,619,802**	**3,299,053**	**13,918,855**
Formation - increase	2,242,816	640,673	2,883,489
Decrease - utilisation	-1,001,409	-360,352	-1,361,761
Decrease - reversal	-638,048	-180,878	-818,926
Balance at 31 Dec 2018	**11,223,161**	**3,398,496**	**14,621,657**
Balance at 1 Jan 2017	**10,292,327**	**3,261,443**	**13,553,770**
Formation - increase	1,419,009	517,729	1,936,738
Decrease - utilisation	-660,846	-313,017	-973,863
Decrease - reversal	-430,687	-167,103	-597,790
Balance at 31 Dec 2017	**10,619,802**	**3,299,053**	**13,918,855**

SENSITIVITY ANALYSIS FOR PROVISIONS FOR TERMINATION BENEFITS UPON RETIREMENT (in EUR)	DISCOUNT RATE		GROWTH OF WAGES	
	DECREASE BY 0.5%	INCREASE BY 0.5%	DECREASE BY 0.5%	INCREASE BY 0.5%
Provisions for termination benefits upon retirement	231,809	-213,964	-215,963	234,121
Provisions for jubilee premiums	87,381	-81,069	-85,481	90,426
TOTAL 2018	**319,190**	-295,033	-301,444	**324,547**
Provisions for termination benefits upon retirement	199,107	-184,071	-183,621	203,342
Provisions for jubilee premiums	81,367	-75,419	-78,776	83,469
TOTAL 2017	**280,474**	**-259,490**	**-262,397**	**286,811**

OTHER PROVISIONS (16)

OTHER PROVISIONS (in EUR)	31 DEC 2018	31 DEC 2017
For lawsuits	1,361,675	4,363,077
For closing works on mining caves	29,205,052	31,224,052
For decommissioning	10,729,721	11,375,992
For compensations	1,920,748	1,647,362
Other provisions	3,065,728	3,885,277
TOTAL	**46,282,924**	**52,495,760**

The decrease in other provisions relative to the year-end of 2017 largely relates to the reversal of the provisions referring to lawsuits, and lower provisions on the account of closing works in the coal mines and for dismantling, which is the result of the changed discount rate if compared to the previous year.

MOVEMENT OF OTHER PROVISIONS (in EUR)	FOR LAWSUITS	FOR CLOSING WORKS ON MINING VAVES	FOR DECOMMISIONING	FOR COMPENSATIONS	FOR OTHER PROVISOINS	TOTAL
Balance at 1 Jan 2018	**4,363,077**	**31,224,052**	**11,375,992**	**1,647,362**	**3,885,277**	**52,495,760**
Formation - increase	361,675			422,875	269,931	1,054,481
Decrease - utilisation	-930,000			-149,489	-594,540	-1,674,029
Decrease - reversal	-2,433,077	-2,019,000	-646,271		-494,940	-5,593,288
Balance at 31 Dec 2018	**1,361,675**	**29,205,052**	**10,729,721**	**1,920,748**	**3,065,728**	**46,282,924**
Balance at 1 Jan 2017	**4,622,163**	**30,539,052**	**2,171,139**	**20,493**	**18,485,883**	**55,838,730**
Formation - increase	702,235	685,000	234,667	1,626,869	184,138	3,432,909
Decrease - utilisation					-1,694,059	-1,694,059
Decrease - reversal	-961,321		8,970,186		-13,090,685	-5,081,820
Balance at 31 Dec 2017	**4,363,077**	**31,224,052**	**11,375,992**	**1,647,362**	**3,885,277**	**52,495,760**

Provisions for legal actions are created on the basis of assessed liabilities from legal actions, in which the Group acts as the defendant. Formation of these provisions refers also to the increase due to new lawsuits and charged default interest on the part of damage amounts claimed. Thus, reversal and utilisation refer to the provisions formed for the completed legal actions.

When determining the discounted value of provisions for closing works of the coal mines, the average 2-year discount rate of the German bonds was applied as at the balance sheet date.

Based on the Energy licence and assessment of costs for dismantling the Unit 6 upon the expiry of the useful period, the company TEŠ additionally formed provisions in the amount of EUR 646,271. The increase of provisions for dismantling the Unit 6 includes takes account EUR 109,210 of finance costs (discounting due to expiry), while EUR 755,481 refers to the effect of the changed discount rate, which is disclosed through the changed value of investments in construction works.

As for the PV, the effect of adjusting the discounting of the disclosed balance of provisions in 2018 is reflected in higher provisions by EUR 299,000 (this part is disclosed in finance costs). In addition, the PV company decreased in 2018 the provisions through lower values of construction buildings due to the expected closing works in the amount of EUR 2,318,000, which is the result of the changed discount rate applied with respect to the previous year and in the change of the assessed value of the closing works. Hence, the total effect of provisions for closing works amounts in 2018 to EUR 2,019,000.

Decrease in other provisions largely relates to the payment of unpaid liabilities arising under Christmas and holiday bonuses in the company TEŠ up until 2016.

OTHER LONG-TERM LIABILITIES (17)

OTHER LONG-TERM LIABILITIES (in EUR)	31 DEC 2018	31 DEC 2017
Emission coupons	148,159	199,371
Government grants	1,250,317	1,535,418
Other long-term liabilities	485,750	0
TOTAL	**1,884,226**	**1,734,789**

The largest portion of other long-term liabilities include government grants, which refer to assigned contributions for the disabled, in accordance with the Vocational Rehabilitation and Employment of Disabled Persons Act. They are used to settle costs indicated in the aforementioned Act. Group's other long-term liabilities include also co-financing assets received in connection with a European project.

MOVEMENT OF OTHER LONG-TERM LIABILITIES (in EUR)	EMISSION COUPONS	OTHER GOVERNMENT GRANTS RECEIVED	OTHER	TOTAL
Balance at 1 Jan 2018	**115,343**	**1,619,446**	**0**	**1,734,789**
Additions		6,915,970	485,750	7,401,720
Disposal	-45,335	-7,206,948		-7,252,283
Balance at 31 Dec 2018	**70,008**	**1,328,468**	**485,750**	**1,884,226**
Balance at 1 Jan 2017	**173,446**	**3,684,228**	**0**	**3,857,674**
Additions		6,989,480		6,989,480
Disposal	-58,103	-7,362,626		-7,420,729
Disposal - business combinations		-1,691,636		-1,691,636
Balance at 31 Dec 2017	**115,343**	**1,619,446**	**0**	**1,734,789**

LONG-TERM FINANCIAL LIABILITIES (18)

LONG-TERM FINANCIAL LIABILITIES (in EUR)	31 DEC 2018	31 DEC 2017
Long-term financial liabilities to banks	700,788,733	779,479,756
Other long-term financial liabilities	342,077	63,165
TOTAL	**701,130,810**	**779,542,921**

Long-term financial liabilities to banks include long-term borrowings that were granted by Slovenian and foreign banks. The interest rates are fixed and variable, whereby the variable rates are based on the 3 or 6 month Euribor. As at 31 December 2018, interest rates for borrowings raised ranged between 1.15% and 5.46%.

The value of borrowings' principal amounts that mature in 2019 are disclosed among short-term liabilities to banks in the amount of EUR 82,784,706. In 2018, EUR 72,570,275 of long-term borrowings were repaid.

MOVEMENT OF LONG-TERM FINANCIAL LIABILITIES (in EUR)	LONG-TERM FINANCIAL LIABILITIES TO BANKS	OTHER LONG-TERM FINANCIAL LIABILITIES	TOTAL
Balance at 1 Jan 2018	**779,479,756**	**63,165**	**779,542,921**
Additions	4,606,183	508,421	5,114,604
Transfers to short-term liabilities	-82,784,706	-229,509	-83,014,215
Repayments of long-term financial liabilities	-512,500		-512,500
Balance at 31 Dec 2018	**700,788,733**	**342,077**	**701,130,810**
Balance at 1 Jan 2017	**845,065,756**	**3,151,787**	**848,217,543**
Additions	14,566,816	95,610	14,662,426
Transfers to short-term liabilities	-71,616,466	-41,027	-71,657,493
Repayments of long-term financial liabilities	-8,536,350	-250	-8,536,600
Other		-3,142,955	-3,142,955
Balance at 31 Dec 2017	**779,479,756**	**63,165**	**779,542,921**

All Group's long-term borrowings are collateralised with mortgages on real properties, assignment of receivables, pledge of accounts, cash and equity interests, and a guarantee of the controlling company, a guarantee of a subsidiary, and a guarantee of the Republic of Slovenia, except for the borrowings in the amount of EUR 8.7 million, which are insured with bills of exchange.

The Group's contracts on long-term borrowings include bank covenants, which were fully met as at 31 December 2018. Maturities of long-term liabilities by period are disclosed within the section on liquidity risk.

SHORT-TERM FINANCIAL LIABILITIES (19)

SHORT-TERM FINANCIAL LIABILITIES (in EUR)	31 DEC 2018	31 DEC 2017
Short-term financial liabilities to Group companies without interest	82,626,356	71,556,466
Short-term financial liabilities to Group companies for interest	133,445	138,838
Short-term derivatives		60,937
Other short-term financial liabilities	246,702	140,055
TOTAL	**83,006,503**	**71,896,296**

Most of short-term financial liabilities refer to borrowings from banks.

Short-term financial liabilities to bank include a portion of Group's long-term borrowings that mature after one year upon the date of the consolidated statement of financial position, and short-term loans. Interest rate of the short-term borrowing was 2.8%.

Increase in short-term financial liabilities relative to the year-end balance of 2017 is attributable to the fact that TEŠ started to repay the principal amounts of the long-term borrowing from EIB. A portion of liabilities under the EIB loan, maturing within one year, was transferred among short-term financial liabilities.

MOVEMENT OF SHORT-TERM FINANCIAL LIABILITIES (in EUR)	SHORT-TEM FINANCIAL LIABILITIES TO GROUP COMPANIES WITHOUT INTEREST	SHORT-TERM FINANCIAL LIABILITIES TO GROUP COMPANIES FOR INTEREST	SHORT-TERM DERIVATES	OTHER SHORT-TERM FINANCIAL LIABILITIES	TOTAL
Balance at 1 Jan 2018	**71,556,466**	**138,838**	**60,937**	**140,055**	**71,896,296**
Acquisitions	22,441,793	26,581,923		2,033,165	51,056,881
Transfers from long-term liabilities	82,784,706			229,509	83,014,215
Repayments of short-term liabilities	-22,596,955	-26,587,316		-2,039,957	-51,224,228
Repayments of long-term liabilities	-72,057,775			-116,070	-72,173,845
Other	498,121	0	-60,937		437,184
Balance at 31 Dec 2018	**82,626,356**	**133,445**	**0**	**246,702**	**83,006,503**
Balance at 1 Jan 2017	**50,822,883**	**208,541**	**53,106**	**302,907**	**51,387,437**
Acquisitions	8,345,000	9,043,251		1,492,731	18,880,982
Transfers from long-term liabilities	71,616,466			41,027	71,657,493
Repayments of short-term liabilities	-19,177,501	-9,037,680		-1,655,004	-29,870,185
Repayments of long-term liabilities	-40,335,383			-36,323	-40,371,706
Other	285,001	-75,273	7,831	-5,284	212,275
Balance at 31 Dec 2017	**71,556,466**	**138,838**	**60,937**	**140,055**	**71,896,296**

SHORT-TERM TRADE PAYABLES (20)

SHORT-TERM TRADE PAYABLES (in EUR)	31 DEC 2018	31 DEC 2017
Short-term operating liabilities to associates	1,940,758	2,295,623
Short-term operating liabilities to jointly controlled companies	62,918	77,900
Short-term operating liabilities to suppliers	139,180,581	120,629,964
TOTAL	**141,184,257**	**123,003,487**

Disclosures regarding the maturity of trade payables are provided in the section discussing liquidity risk.

CONTRACT LIABILITIES (21)

CONTRACT LIABILITIES (in EUR)	31 DEC 2018	31 DEC 2017
Short-term deferred income	13,800	0
TOTAL	**13,800**	**0**

Deferred income is income that is not taken into account within the income statement, although it was already invoiced. With the introduction of IFRS 15, deferred income is no longer part of other short-term liabilities but the income arising under sales contracts with customers and disclosed in the item 'contract liabilities'. Such income represents the right to compensation in exchange for goods or services that transferred over to the customer.

OTHER SHORT-TERM LIABILITIES (22)

OTHER SHORT-TERM LIABILITIES (in EUR)	31 DEC 2018	31 DEC 2017
Short-term operating liabilities from advances	86,810	2,219,384
Short-term operating liabilities to employees	14,199,050	15,928,797
Short-term operating liabilities to state and other institutions	26,818,171	27,127,772
Short-term operating liabilities to others	3,520,520	2,825,153
Short-term deferred income	0	1,404
Short-term accrued costs and expenses	8,558,865	9,103,470
TOTAL	**53,183,416**	**57,205,980**

Payables to state and other institutions account nearly half of other short-term liabilities, where most thereof relates to VAT arising from emission coupons given to the state. Approximately a quarter of other short-term liabilities, which mostly include payables to employees, refer to December earnings paid out in January 2019. The Group hereunder discloses also liabilities arising in connection unused vacation days in the amount of EUR 1,554,785 (2017: EUR 1,536,774). Short-term accrued costs largely refer to costs for accounted interest and bank guarantees, costs for damages and costs relating to electricity purchases.

CONTINGENT LIABILITIES (23)

CONTINGENT LIABILITIES (in EUR)	31 DEC 2018	31 DEC 2017
Performance and repair guarantees	1,124,430	1,229,807
Other	250,000	585,696
TOTAL	**1,374,430**	**1,815,503**

The guarantees for appropriate execution of works and repair of irregularities comprise the guarantees the Group gave to third parties in connection with performed business.

Other contingent liabilities include the estimated value of lawsuits for which the possibility of the Group losing in legal procedures has been assessed as low.

3.5.7.2 CONSOLIDATED INCOME STATEMENT

NET SALES REVENUE (24)

NET SALES REVENUE (in EUR)	2018	2017
ON THE DOMESTIC MARKET	**538,683,506**	**470,578,143**
Electricity	521,860,433	453,363,731
Thermal heat	5,985,749	5,066,830
Other products	463,168	343,321
Other merchandise and material	1,464,444	1,372,123
Other services	8,909,712	10,432,138
ON THE FOREIGN MARKET - EU	**725,034,227**	**827,848,653**
Electricity	708,890,718	816,228,074
Other merchandise and material	74,570	131,704
Other services	16,068,939	11,488,875
ON THE FOREIGN MARKET - NON EU	**208,247,488**	**289,333,188**
Electricity	206,711,027	288,105,183
Other merchandise and material	51,161	0
Other services	1,485,300	1,228,005
TOTAL	**1,471,965,221**	**1,587,759,984**

NET SALES REVENUE IN TERMS OF THE MOMENT OF RECOGNITION (in EUR)	2018	2017	RECOGNITION
ON THE DOMESTIC MARKET	**538,683,506**	**470,578,143**	
Electricity	521,860,433	453,363,731	at the supply
Thermal heat	5,985,749	5,066,830	at the supply
Other products	463,168	343,321	at the supply
Other merchandise and material	1,464,444	1,372,123	at the supply
Other services	8,909,712	10,432,138	at the time of service performed
ON THE FOREIGN MARKET - EU	**725,034,227**	**827,848,653**	
Electricity	708,890,718	816,228,074	at the supply
Other merchandise and material	74,570	131,704	at the supply
Other services	16,068,939	11,488,875	at the time of service performed
ON THE FOREIGN MARKET - NON EU	**208,247,488**	**289,333,188**	
Electricity	206,711,027	288,105,183	at the supply
Other merchandise and material	51,161	0	at the supply
Other services	1,485,300	1,228,005	at the time of service performed
TOTAL	**1,471,965,221**	**1,587,759,984**	

CONTRACT ASSETS/ LIABILITIES PURSUANT TO IFRS 15 (in EUR)	31 DEC 2018	1 JAN 2018
Long-term operating receivables	3,690,818	4,007,906
Short-term operating receivables	135,127,685	123,926,907
Contract assets	1,014,437	0
Contract liabilities	13,200	0

Most of the revenue refers to the revenue generated through the sale of electricity by the controlling company.

Revenue from thermal energy fully refers to the company TEŠ, which produces thermal energy.

Income generated on other merchandise and material include mainly sale of waste material and the sales of emission coupons.

Revenue from other services provided is generated largely through services in connection with electricity (i.e. contribution for allocation of transfer capacities, etc.), whereas the rest refers to construction and maintenance services, mining and maintenance services, rents and other services.

OTHER OPERATING INCOME (25)

OTHER OPERATING INCOME (in EUR)	2018	ADJUSTED 2017
Income on reversal of provisions	2,928,333	2,998,663
Utilisation of deferred income	7,219,970	7,423,059
Reversal of impairment of receivables	407,866	891,194
Income from damages and contractual penalties	871,067	1,219,482
Default interest	67,225	53,705
Gains on sale of fixed assets	1,371,075	1,726,655
Reversal of impairment of property, plant and equipment		3,228,758
Profit generated on derivatives – trading with electricity and emission coupons	3,802,695	2,709,556
Revaluation of investment property		166,114
Other	957,807	1,874,394
TOTAL	**17,626,038**	**22,291,580**

Revenue from utilisation of deferred revenue account for the largest share among other operating revenue and represent assigned allowances for disabled persons.

Most of income relating to reversal of provisions refers to the reversal of damages to the municipalities in Šaleška valley, which were formed in 2016.

In line with the presentation-related consistency and classification of items in the financial statements, the item of other operating income includes profits generated on derivatives when trading with electricity and emission coupons; they were in previous years disclosed among finance income or costs by applying the net principle.

COSTS OF GOODS, MATERIAL AND SERVICES (26)

COSTS OF GOODS, MATERIAL AND SERVICES (in EUR)	2018	2017
Costs of goods sold	1,078,719,619	1,183,928,703
Dependent costs of goods sold	35,706,938	42,625,637
TOTAL COSTS OF GOODS SOLD	**1,114,426,557**	**1,226,554,340**
Costs of material	22,132,953	24,572,936
Costs of subsidiary material	2,535,016	2,732,594
Costs of energy	1,835,147	1,407,920
Costs of spare parts	7,061,006	4,131,703
Costs of small tools	385,338	275,216
Office stationary	206,406	261,601
Professional literature	40,752	63,862
Other	1,145,187	629,678
TOTAL COSTS OF MATERIAL	**35,341,805**	**34,075,510**
Services of manufacturing products	4,811,150	2,624,768
Transport services	885,451	870,566
Maintenance	9,232,931	9,072,409
Rentals	2,895,803	2,393,009
Refund of labour costs to employees	260,989	252,469
Insurance of bank services	5,392,942	5,475,079
Professional nad personal services	4,990,656	6,459,995
Research and development services	126,442	71,981
Fairs, advertisingand entertainment	766,065	761,967
Services rendered by individuals	860,392	858,763
Municipal utility services	3,828,028	3,193,823
Costs of mine-related damages	0	871,757
Costs of protection and surveillance	192,784	188,242
Cleaning costs	187,697	245,024
Sorting of coal	21,627	97,443
Membership fees	180,294	114,087
Management od properties	113,175	161,905
Costs of freight forwarding	3,902	3,828
Management of disposal facilities	450,511	219,610
Other	886,247	2,739,487
TOTAL COSTS OF SERVICES	**36,087,086**	**36,676,212**
TOTAL	**1,185,855,448**	**1,297,306,062**

Costs of goods sold include mainly costs of purchasing electricity and accompanying expenses thereof.

Costs of material comprise the most significant costs of energy products required for the production of electricity (except costs of coal) and thermal energy, as well as costs of spare parts and material for maintenance of plant and equipment. The costs of spare parts increased due to the material used in this year's overhauls of production facilities.

Costs of services to a large extent include maintenance costs of Group's fixed assets, costs of insurance, costs of personal and professional services; services relating to creating products include construction services, drilling work and diverse restoration work, and sewage disposal services.

COSTS OF AUDITOR

(in EUR)	2018	2017
Audit of the Annual Report	123,074	124,350
Other services of providing assurance	9,108	7,908
TOTAL	**132,182**	**132,258**

The financial statements of the HSE Group companies in Slovenia were in 2018 audited by the audit firm KPMG Slovenija d.o.o., which carried out also a review of financial information of subsidiaries abroad that are included in the consolidation; however, their financial statements were not audited in the country of residence. Two companies, which are registered abroad, were audited by the audit companies in their respective countries.

EMPLOYEE BENEFITS EXPENSE (27)

EMPLOYEE BENEFITS EXPENSE

(in EUR)	2018	2017
Wages and salaries	89,864,875	87,138,154
Pension insurance costs	15,301,567	14,827,512
Other insurance costs	6,538,015	6,397,891
Other labour costs	12,815,165	12,342,757
TOTAL	**124,519,622**	**120,706,314**

Employee benefits expense comprise salaries and wage compensations, social insurance contributions, additional pension insurance and other labour costs (i.e. meal allowance, commuting allowance, annual leave allowance, financial support, provisions for jubilee and termination benefits, etc.). Costs of compensations for unused vacation days in 2018, which can be utilised by 30 June 2019, are accounted as well.

NUMBER OF THE GROUP EMPLOYEES AND AVERAGE NUMBER OF EMPLOYEES BY EDUCATION	1 JAN 2018	31 DEC 2018	AVERAGE NUMBER OF EMPLOYEES
1	153	148	151
2	100	94	97
3	57	56	57
4	1,081	1,070	1,076
5	810	813	812
6/1	334	338	336
6/2	198	205	202
7	271	268	270
8/1	73	70	72
8/2	12	12	12
TOTAL	**3,089**	**3,074**	**3,082**

WRITE-DOWNS IN VALUE (28)

WRITE-DOWNS IN VALUE

(in EUR)	2018	ADJUSTED 2017
Amortisation of intangible assets	797,781	1,075,398
Depreciation of property, plant and equipment	76,148,173	75,295,909
Impairment/write-off of receivables	65,638	811,249
Impairment/write-off of inventories	222,833	525,529
Impairment of property, plant and equipment and intangible assets	18,705,593	2,958,467
Write-offs of property, plant and equipment	1,373,600	875,996
Sale of property, plant and equipment and investment property	373,320	256,248
TOTAL	**97,686,938**	**81,798,796**

The majority of write-downs in value made in 2018 relates to the impairment of property, plant and equipment, as well as investment property.

Expenses relating to property, plant and equipment occurred in connection with the cash generating unit TEŠ. The Group applies similar rates of depreciation to intangible assets and fixed assets of the same kind. As for the manufacturing plant and equipment, individual subsidiaries apply depreciation rates that correspond to the activity carried out.

Depreciation of fixed assets acquired through government grants or free of charge is accounted for separately. For the amount of accumulated depreciation, long-term deferred income is utilised, and other operating income is recorded.

Allowances for operating receivables include the formation of doubtful operating receivables, which is outlined in the section of credit risk.

CAPITALISED OWN PRODUCTS (29)

CAPITALISED OWN PRODUCTS AND SERVICES

(in EUR)	2018	2017
Capitalised own products and services	-15,395,195	-8,767,132
TOTAL	**-15,395,195**	**-8,767,132**

Capitalised own products and services largely comprise:

- engineering services rendered during the construction and reconstruction of HPP,
- work related to mining construction facilities,
- overhaul of the TEŠ Unit 6.

OTHER OPERATING EXPENSES (30)

OTHER OPERATING EXPENSES

(in EUR)	2018	2017
Formation of provisions	1,054,479	2,426,105
Fee for building site use	11,689,755	9,762,984
Concessions	14,223,216	10,973,527
Environmental charges	35,971,004	35,833,966
Donations	2,042,048	279,924
Other operating expenses	2,723,040	4,121,101
TOTAL	**67,703,542**	**63,397,607**

The most important among other operating expenses are the environmental levies (costs of emission coupons and water recovery), the concession contribution paid to the state, and charge for the use of construction land. Concession levies increased as a result of a higher volume of electricity produced and higher average sales price within the Group.

FINANCIAL RESULT (31)

The Group incurred in 2018 a negative financial result in the amount of EUR 33,204,731.

FINANCE INCOME

(in EUR)	2018	2017
Dividends and other profit shares	106,959	107,232
Finance income on loans granted and deposits	3,006	7,779
Finance income on sale of investments	52,697	406,204
Other finance income	209	397,156
TOTAL	**162,871**	**918,371**

The share in the positive operating result of associates and jointly controlled companies, which was accounted by using the equity method, was in this report disclosed in the consolidated income statement under a separate item. The share in profits of associates and jointly controlled entities for 2018 is recorded at EUR 1,915,087.

FINANCE COSTS

(in EUR)	2018	2017
Interest costs	26,091,743	27,855,120
Other finance costs	7,275,859	7,615,868
TOTAL	**33,367,602**	**35,470,988**

Other finance costs largely refer to borrowings raise.

Other finance costs largely include costs and collaterals related to the borrowings raised.

TAXES (32)

TAXES

(in EUR)	2018	2017
Current tax	10,847,119	9,615,333
Deferred taxes	108,629	5,119,308
Total income tax disclosed in income statement	**10,955,748**	**14,734,641**
Deferred taxes recognised in equity	-12,584	11,578

The HSE Group companies are liable to pay corporate income tax, VAT, financial services tax and excise duties.

In 2018, five out of thirteen Group companies in Slovenia were liable to pay corporate income tax, as well as three out of four companies abroad. Owing to tax incentives or the utilisation of tax losses and financial loss, the remaining companies did not determine the base for paying income tax.

Current tax of Group companies in 2018 amounted to EUR 10,847,119. As at the year-end of 2018, Group companies disclosed EUR 26,772 of receivables for current taxes and EUR 2,072,212 of liabilities for current taxes.

Deferred taxes refer to deferred tax assets recognised in the amount of likely available profit against which they can be used in the future. Deferred tax assets are decreased by the amount up to which it is no longer probable that tax deductible expenses can be utilised in the future or the amount up to which expenses have been included in tax statements for the current year.

The Group's deferred taxes comprise deferred tax assets in the amount of EUR 717,416 and EUR 18,789 of deferred tax liabilities. Further details on deferred tax assets are disclosed in Notes 5 and 6 of the consolidated statement of financial position.

At the end of 2018, the Group companies' unutilised tax losses amounted to EUR 875,874,942 for which no deferred tax assets were formed.

In establishing the base for current tax, income and expenses established in accordance with IFRS were corrected in terms of decrease and increase in tax base, as shown in the following below.

EFFECTIVE TAX RATE CALCULATION

(in EUR)	2018	2017
Profit or loss before tax	-846,855	23,313,614
Tax calculated at applicable tax rate	-165,730	4,397,912
Tax on income reducing tax base	589,443	-503,841
Tax on tax relief	-885,960	-1,728,124
Tax on expenses reducing tax base	-1,060,815	-297,537
Tax on non-deductible expenses	963,386	555,306
Tax on other changes in tax calculation	377,621	380,136
Tax effect of non-deductible deferred receivables for tax losses	11,029,174	6,811,993
Current taxes	**10,847,119**	**9,615,845**
Deferred tax	**108,629**	**5,119,308**
Total tax	**10,955,748**	**14,735,153**
Effective tax rate in %	**-1293.70%**	**63.20%**

NET PROFIT OR LOSS FOR THE PERIOD (33)

NET PROFIT OR LOSS

(in EUR)	2018	ADJUSTED 2017
Gross operating yield	1,489,591,259	1,610,051,565
Operating profit or loss	30,442,789	56,437,024
Financial result	-33,204,731	-34,552,617
Profit or loss before tax	-846,855	22,948,305
NET PROFIT OR LOSS FOR THE PERIOD	**-11,802,603**	**8,213,664**

The HSE Group recorded a net loss in 2018.

3.5.7.3 Related parties

Related companies are entities in which the Group has a significant influence and companies in which the Group jointly controls together with other owners the operations of this entity, and of the entity, where the government owns the majority equity interest.

The Group conducted transactions with related companies on the basis of sales and purchase contracts signed. Sales and purchases comprise the turnover of all transactions (exclusive of VAT), including finance income. Transactions with associates mostly refer to the purchase of electricity from the HESS and the write-up of profits in this company.

The most important transactions with related companies include following:

- transactions with associates and jointly controlled companies, and
- transactions with companies that are directly or indirectly owned by the Republic of Slovenia (ownership exceeds 50%) and are important for HSE from the perspective of significance of transactions (income or expenses in 2018 exceed EUR 2,000,000), except banks where all transactions are disclosed. Transactions primarily relate to trading in electricity or financing of the Group.

The controlling company is fully (100%) owned by the Republic of Slovenia. In 2017, no dividends were paid out.

RELATED PARTY TRANSACTIONS (in EUR)	SALES	PURCHASES	RECEIVABLES AT 31 DEC 2018	LIABILITIES AT 31 DEC 2018
Associated entities	2,395,693	11,378,060	175,056	1,940,758
Jointly controlled entities	170,192	626,424		62,918
TOTAL	**2,565,885**	**12,004,484**	**175,056**	**2,003,676**

TRANSACTIONS WITH REPUBLIC OF SLOVENIA AND ENTITIES WHICH ARE DIRECTLY OWNER BY THE REPUBLIC OF SLOVENIA (in EUR)	OUTSTANDING RECEIVABLES AS AT 31 DEC 2018	OUTSTANDING LIABILITIES 31 DEC 2018	INCOME 2018	EXPENSES 2018
BORZEN	766,577	309,008	6,259,954	7,912,674
BSP	225,365	1,211,203	80,116,192	34,896,713
ECE	10,568,986	365,001	99,464,253	4,979,233
ELEKTRO PRIMORSKA	0	0	0	37,805
ELES	2,882,576	924,356	24,772,991	3,831,791
ELEKTRO MARIBOR ENERGIJA PLUS	6,350,910	167,579	56,254,285	2,079,708
E3	10,036,619	238,645	56,320,403	2,782,603
GEN ENERIGJA	412,136	27,816	4,098,416	210,100
GEN-I	557,035	4,905,087	69,520,776	75,602,135
PETROL	3,169,073	2,818,369	21,673,152	21,914,751
Energy sector - total	**34,969,277**	**10,967,064**	**418,480,422**	**154,247,513**
TALUM	1,386,775	0	17,637,707	29,329
Aluminium production	**1,386,775**	**0**	**17,637,707**	**29,329**
AVTENTA	0	25,641	0	137,811
Other - total	**0**	**25,641**	**0**	**137,811**
NLB	0	14,166,667	0	1,541,993
SID	0	44,848,485	0	5,712,285
Gorenjska banka		1,935,585		23,632
ABANKA	0	858,958	156	37,211
Banks - total	**0**	**61,809,709**	**259**	**7,316,667**
TOTAL	**36,356,052**	**72,802,414**	**436,118,388**	**161,731,320**

3.5.7.4 Operating lease

The following table outlines liabilities arising from the operating lease (Company as lessee) in the notice period, which represents the minimum sums of lease payments:

OPERATING LEASE (in EUR)	31 DEC 2018	31 DEC 2017
Less than one year	552,437	821,136
TOTAL	**552,437**	**821,136**

3.5.7.5 Remuneration

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

- gross compensation included in the income tax return statement,
- other allowances (meals, transportation, per diems, untaxed portion of jubilee benefits), and
- premiums paid for voluntary supplementary pension insurance.

Remuneration of Supervisory Board members includes gross attendance fees of all members (changes of the Supervisory Board's composition during the year), including travel expenses related to the performance of tasks in the Supervisory Boards and their committees.

In 2018, members of Management Boards, other employees who are not subject to the tariff part of the collective labour agreement, and members of the Group's Supervisory Boards did not participate in the net profits under resolutions adopted by the Shareholders' Meeting, nor were they approved any advances, loans or guarantees by group companies.

REMUNERATION (in EUR)	GROSS SALARY	OTHER EARNINGS	BONUSES	REFUND OF COSTS	ATTENDANCE FEES	TOTAL
Members of the Managament Board	1,126,507	45,947	41,776	20,667	7,867	1,242,764
Members of the Supervisory Board and the Audit Committee			1,950	2,293	233,359	237,602
Employees who are not subject to the tariff part of the collective agreement	1,104,468	122,740	34,308	21,554		1,283,070
TOTAL 2018	**2,230,975**	**168,687**	**78,034**	**44,514**	**241,226**	**2,763,436**
Members of the Managament Board	1,120,576	129,672	34,421	21,720	7,313	1,313,702
Members of the Supervisory Board and the Audit Committee				3,742	265,021	268,763
Employees who are not subject to the tariff part of the collective agreement	1,286,918	181,019	45,174	30,391		1,543,502
TOTAL 2017	2,407,494	310,691	79,595	55,853	272,334	3,125,967

REMUNERATION OF COMPANIES MANAGEMENTS (in EUR)	GROSS SALARY	OTHER EARNINGS	BONUSES	REFUND OF COSTS	GROSS ATTENDANCE FEES	TOTAL
Stojan Nikolić - HSE	133,491	4,594	3,978	1,937	3,189	147,189
Matjaž Marovt - HSE	132,534	4,594	11,004	1,499	4,678	154,309
Marjan Pintar - SENG	113,434	4,593	1,985	1,617		121,629
Arman Koritnik - TEŠ	128,290	4,594	7,659	934		141,477
Ludvik Golob - PV	108,000	3,861	1,242	1,637		114,740
Mojca Letnik - PV	101,739	4,000	1,653	1,340		108,732
Marjan Hudej - RGP	62,700	3,234	2,998	1,568		70,500
Sandi Ritlop - HSE Invest	935	35	29	6		1,005
Suzana Koželjnik - HTZ	70,634	3,630	29	3,088		77,381
Andrej Tumpej - DEM	111,024	4,635	4,369	1,807		121,835
Natalija Sovič Jelenko - PV Invest	29,481	3,203	29	1,288		34,001
Miha Pečovnik - HSE Invest	85,142	1,775	6,712	1,726		95,355
Anton Žagar - RGP	4,603	223	60	43		4,929
Iztok Kikec - Sipoteh	44,500	2,976	29	2,177		49,682
TOTAL	**1,126,507**	**45,947**	**41,776**	**20,667**	**7,867**	**1,242,764**

REMUNERATION OF MEMBERS OF SUPERVISORY BOARDS (in EUR)	GROSS ATTENDANCE FEE/SESSIONS	BONUSES	GROSS ATTENDANCE FEE/ BASIC PAYMENTS	GROSS ATTENDANCE FEE	NET ATTENDANCE FEE	TRAVEL COSTS	TOTAL
Jančar Boštjan - SB member of HSE	3,135	153	11,300	14,588	10,457		14,588
Cukrov Vesna - SB member of HSE	3,135	153	11,300	14,588	10,424	172	14,760
Markoli Boštjan - Vice Chairman of SB of HSE	2,585	153	12,430	15,168	10,846	13	15,181
Otič Jernej - SB member of HSE	3,135	153	11,300	14,588	10,457	1,098	15,686
Pantoš Miloš - SB member of HSE	2,365	153	11,300	13,818	9,864	6	13,824
Perović Milan - SB Chairman of HSE	3,135	153	16,950	20,238	14,533	120	20,358
Vračar Viktor - SB member of HSE	3,135	153	11,300	14,588	10,424	26	14,614
Lipušček Damjan - SB member of HSE	2,035	153	6,622	8,810	6,255	415	9,225
Rijavec Petja - SB member of HSE	1,100		4,678	5,778	4,202		5,778
Gorjup Barbara - SB member of HSE	2,900	153	11,300	14,353	10,253	52	14,405
Marovt Matjaž - SB Chairman of PV	3,603	153	3,603	3,603	2,579		3,603
Nikolić Stojan - SB member of PV	2,772	153	2,772	2,772	1,974		2,772
Rednjak Danilo - član NS PV	2,772	153	2,772	2,772	1,974		2,772
Matjaž Marovt - SB Chairman of HSE Invest	577		578	578	420		578
Drago Polak - Vice Chairman of HSE Invest	2,090	19	2,090	2,090	1,515		2,090
Alida Rejec - SB member of HSE Invest	1,815	19	1,815	1,815	1,315		1,815
Andrej Tumpej - SB member of HSE Invest	2,090	19	2,090	2,090	1,515		2,090
Katja Rejec - SB member of HSE Invest	2,090	19	2,090	2,090	1,515		2,090
Ivan Zagožen - SB member of HSE Invest	2,073	19	2,074	2,074	1,503		2,074
Gregor Mikelj - SB member of HSE Invest	2,090	19	2,090	2,090	1,515		2,090
TOTAL	**48,632**	**1,950**	**130,453**	**158,490**	**113,540**	**1,902**	**160,392**

REMUNERATION OF AUDIT COMMITTEE MEMBERS OF SUPERVISORY BOARD (in EUR)	GROSS ATTENDANCE FEE/SESSIONS	GROSS ATTENDANCE FEE/BASIC PAYMENTS	GROSS ATTENDANCE FEE	NET ATTENDANCE FEE	TRAVEL COSTS	TOTAL
Jančar Boštjan - AC member of HSE	1,980	2,825	4,805	3,495	0	4,805
Markoli Boštjan - AC member of HSE	1,760	2,825	4,585	3,335	17	4,602
Gorjup Barbara - AC President of HSE	1,980	4,238	6,218	4,522	46	6,264
Zaman Groff Maja - AC external member of HSE	2,475	11,300	13,775	10,018	99	13,874
TOTAL	**8,195**	**21,188**	**29,383**	**21,370**	**162**	**29,545**

REMUNERATION OF MEMBERS OF THE HUMAN RESOURCES COMMITTEE OF SUPERVISORY BOARD (in EUR)	GROSS ATTENDANCE FEE/SESSIONS	GROSS ATTENDANCE FEE/BASIC PAYMENTS	GROSS ATTENDANCE FEE	NET ATTENDANCE FEE	TRAVEL COSTS	TOTAL
Markoli Boštjan - member of the Human Resources Committee	440	2,825	3,265	2,375	4	3,269
Otič Jernej - member of the Human Resources Committee	440	1,656	2,096	1,524	124	2,220
Rijavec Petja - member of the Human Resources Committee	0	1,169	1,169	851	0	1,169
Perović Milan - President of Human Resources Committee	440	4,238	4,678	3,402	27	4,705
Gorjup Barbara - member of the Human Resources Committee	440	2,825	3,265	2,375	11	3,276
TOTAL	**1,760**	**12,713**	**14,473**	**10,527**	**166**	**14,639**

REMUNERATION OF MEMBERS OF THE RESTRUCTURING COMMITTEE (in EUR)	GROSS ATTENDANCE FEE/SESSIONS	GROSS ATTENDANCE FEE/BASIC PAYMENTS	GROSS ATTENDANCE FEE	NET ATTENDANCE FEE	TRAVEL COSTS	TOTAL
Cukrov Vesna - member of the Restructuring Committee	660	2,825	3,485	2,535	38	3,523
Otič Jernej - member of the Restructuring Committee	880	2,825	3,705	2,695	0	3,705
Pantoš Miloš - member of the Restructuring Committee	616	2,825	3,441	2,503	4	3,445
Vračar Viktor - President of the Restructuring Committee	880	4,237	5,117	3,722	9	5,126
TOTAL	**3,036**	**12,712**	**15,748**	**11,455**	**51**	**15,799**

REMUNERATION OF MEMBERS OF THE MARKETING AND INVESTMENTS COMMITTEE (in EUR)	GROSS ATTENDANCE FEE/SESSIONS	GROSS ATTENDANCE FEE/BASIC PAYMENTS	GROSS ATTENDANCE FEE	NET ATTENDANCE FEE	TRAVEL COSTS	TOTAL
Markoli Boštjan - member of the Marketing and Investment Committee	616	2,825	3,441	2,503	0	3,441
Jančar Boštjan - member of the Marketing and Investment Committee	440	1,170	1,610	1,171	0	1,610
Pantoš Miloš - President of the Marketing and Investment Committee	660	4,237	4,897	3,562	6	4,903
Vračar Viktor - member of the Marketing and Investment Committee	616	2,825	3,441	2,503	6	3,447
Lipušček Damjan - member of Marketing and Investment Committee	220	1,655	1,875	1,364	0	1,875
TOTAL	**2,552**	**12,712**	**15,264**	**11,103**	**12**	**15,276**

3.5.7.6 FINANCIAL INSTRUMENTS AND RISKS

This section refers to section of the accounting report, as well as to the chapter about financial risks in the business report.

CREDIT RISK

98% of Group's revenue refers to the activity of electricity trading, therefore most of the credit risk management activities are centred in the controlling company. The latter manages credit risk in accordance with procedures described in section Credit risk in the Accounting report of the controlling company, which discusses also the structure of the controlling company's short-term receivables and their management. HSE company, which purchases most of the production from its subsidiaries or the Group's production units, settles its liabilities pursuant to provisions of the contract on electricity purchase concluded by the controlling company on an annual bases with its subsidiaries engaged in electricity production. The electricity is thereupon sold by the HSE company on the market, indicating that it is thus mostly exposed to credit risk. The credit risks of subsidiaries are managed according to internal policies and procedures of each individual subsidiary.

Group companies manage credit risks by means of a detailed examination and rational selection of its business partners prior to their approval, by means of regular monitoring of the business partner's operations upon their approval, and by means of a conservative approach that further defines the volume of operations with individual partner.

Operating receivables are insured with bank guarantees, corporate guarantees, pledge of receivables under contracts on managing bank accounts, with deposits, with advance payments, bills of exchange and enforcement drafts. Nearly 80% of Group companies' short-term trade receivables are insured, which represent the majority of Group's total receivables.

In case of default, the customers in Slovenia and abroad are charged default interest at the contractually agreed rate.

LONG-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY (in EUR)	DUE DATE: UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Long-term deposits to others	10,000	21,437	13,119	44,556
Long-term trade receivables	583,035			583,035
Long-term advances	10,147	28,440	18,292	56,879
Long-term operating receivables to others			3,050,904	3,050,904
TOTAL 31 DEC 2018	**603,182**	**49,877**	**3,082,315**	**3,735,374**
Long-term deposits to others	11,485	28,049	15,123	54,657
Long-term trade receivables	250,641	583,035		833,676
Long-term advances	11,366	29,440	27,439	68,245
Long-term operating receivables to others	1,869		3,104,116	3,105,985
TOTAL 31 DEC 2017	**275,361**	**640,524**	**3,146,678**	**4,062,563**

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY (in EUR)	NOT YET DUE	DUE DATE: OVERDUE UP TO 3 MONTHS (UP TO 90 DAYS)	OVERDUE FROM 3 TO 6 MONTHS (FROM 91 DAYS TO 180 DAYS)	OVERDUE FROM 6 TO 9 MONTHS (FROM 181 DAYS TO 270 DAYS)	OVERDUE FROM 9 TO 12 MONTHS (FROM 271 DAYS TO 360 DAYS)	OVERDUE MORE THAN ONE YEAR (MORE THAN 361 DAYS)	TOTAL
Short-term deposits to others	12,935,641				10,020		12,945,661
Short-term operating receivables to associates	166,362	8,694					175,056
Shor-term trade receivables	127,429,575	7,198,251	33,940	61,426	27,333	6,595,417	141,345,942
Short-term advances	1,551,533					206,731	1,758,264
Short-term operating receivables to state and other institutions	25,818,824						25,818,824
Short-term operating receivables to others	16,620,623					1,068,191	17,688,814
TOTAL 31 DEC 2018	**184,522,558**	**7,206,945**	**33,940**	**61,426**	**37,353**	**7,870,339**	**199,732,561**
Short-term financial receivables and loans to others						10,097	10,097
Short-term operating receivables to associates	224,344						224,344
Short-term operating receivables to jointly controlled companies	234						234
Shor-term trade receivables	120,594,617	2,690,915	87,779	37,972	214,647	6,600,665	130,226,595
Shor-term advances	2,592,214					206,731	2,798,945
Short-term operating receivables to state and other institutions	28,097,433				143,070		28,240,503
Short-term operating receivables to others	7,669,792					1,075,093	8,744,885
Short-term deposits to others	13,391,722	123,083		763			13,515,568
TOTAL 31 DEC 2017	**172,570,356**	**2,813,998**	**87,779**	**38,735**	**357,717**	**7,892,586**	**183,761,171**

MOVEMENTS OF ALLOWANCES FOR LONG-TERM OPERATING RECEIVABLES (in EUR)	2018	2017
Balance at 1 Jan 2018		**288,555**
Collected written-off receivables		-115,429
Final write-off of receivables		-173,126
Balance at 31 Dec 2018	**0**	**0**

MOVEMENTS OF ALLOWANCES FOR SHORT-TERM FINANCIAL RECEIVABLES AND LOANS (in EUR)	2018	2017
Balance at 1 Jan	**10,097**	**41,110**
Collected written-off receivables		-15,506
Final write-off of receivables	-10,097	-15,507
Balance at 31 Dec	**0**	**10,097**

MOVEMENTS OF ALLOWANCES FOR SHORT-TERM OPERATING RECEIVABLES

(in EUR)	2018	2017
Balance at 31 Dec 2017	**7,806,090**	**7,994,876**
Change due to the implementation of IFRS 9	338,831	0
Balance at 1 Jan 2018	**8,144,921**	**7,994,876**
Collected written-off receivables	-387,257	-201,057
Formation of allowances for receivables	28,781	793,635
Final write-off of receivables	-118,210	-781,364
Balance at 31 Dec 2018	**7,668,235**	**7,806,090**

As at the year-end of 2018, EUR 7,668,235 of allowances for doubtful and disputable short-term operating receivables were formed.

In 2018, the Group formed allowances for short-term receivables pursuant to provisions of IFRS 9. Accordingly, the Group applied the new impairment model, which is not solely founded on realised credit losses but takes into account expected credit losses (ECL). Given the total value of operating receivables, the ECL has no impact on the fair presentation of assets, as the Group already in the past properly disclosed and formed allowances for short-term operating receivables.

Credit risks were properly managed in 2018.

The value of pledged receivables for borrowings amounted as at 31 December 2019 to EUR 8,197,025.

LIQUIDITY RISK

Liquidity or solvency risk is the risk associated with insufficient financial sources and the subsequent inability of the Group to settle its liabilities in due time.

The Group implements the policy of regular cash flow planning and liquidity management based on which the liquidity situation and cash flows are monitored on a daily, monthly and annual level. The parent company provides for monitoring, planning and balancing of liquidity on the consolidated level.

Liquidity risk was in 2018 was properly managed by means of ongoing customisation of receivables' and liabilities' maturity, consistent collection of past due receivables, providing of proper liquidity reserve and the availability of appropriate credit lines, as well as the possibility of sustainable generating of cash flows from operations.

Within the framework of credit risk management, special attention is given to risks related to the breach of financial covenants laid down in the borrowing contracts. Ratios of the controlling company and the HSE Group were in 2018 in accord with covenants of the borrowing contracts and no breach thereof was recorded.

HSE company and the HSE Group have a sustainable liquidity balance in the long run and both established terms for managing liquidity risk and maintaining an appropriate liquidity reserve in case of unforeseen negative events.

Group's liquidity reserve, which consists of unused but approved credit lines and available funds and which is earmarked for balancing cash flows and materially reducing the liquidity risk of the controlling company and the Group, is suitable.

Liquidity risk management is monitored by individual categories of Group's operations, namely:

MANAGEMENT OF LIQUIDITY RISK ARISING ON OPERATING ACTIVITIES which is closely linked to the credit risk. Liquidity risk arising on operations is managed primarily through adjusting of payment deadlines for receivables and liabilities that occur in connection with the core activity – electricity trading, as well as payment deadlines for other liabilities in a way that Group companies in due time settle their trade payables. Measure for managing this category of liquidity risk aims at providing for optimum payment ability for settling current liabilities of Group companies in normal, as well as critical circumstances that arise from electricity trading, transfer capacities, emission coupons and futures contracts that require an adequate amount of liquidity reserves in order to ensure stable daily operations and trading. The respective measures include an up-to-date monitoring of settlements by supplier, in addition to extending payment deadlines, and agreements on postponing of payments. The liquidity risk arising from operations is in 2017 assessed as adequately managed.

MANAGEMENT OF LIQUIDITY RISK ARISING ON INVESTMENT ACTIVITIES, closely linked to investment risk. Management of liquidity risk arising on investment activities relates to financing investments in accordance with investment-related programmes and in a way that sufficient funds anticipated in the financial plans are timely ensured, and that no delays occur in the implementation of projects. Investment-related liquidity risk is also reflected on the side of inflows – by implementing divestment activities that are carried out within the process of optimising business operations of Group companies. Liquidity risk arising on investing activities is in 2017 assessed as adequately managed.

MANAGEMENT OF LIQUIDITY RISK ARISING ON FINANCING ACTIVITIES the risk linked to providing sufficient funds for Group's operating and investment activities, which includes an active relationship to financial markets, obtaining of sufficient short-term borrowings and credit lines, as well as long-term sources of financing for the purpose of a timely repayment of Group companies' liabilities that arise on operating and investment activities by taking into account obligations defined in the loan contracts with banks. The Group applies the so-called »cash management« system in form of borrowing among Group companies. The primary source of financing short-term deficits recorded by Group companies are the surpluses of free cash of other Group companies, whereas liquidity of individual Group companies is optimised. The liquidity risk arising on financing activities is in 2018 assessed as adequately managed, as the Group successfully ensured a sufficient amount of credit and guarantee lines for smooth business operations.

Based on deleveraging according to the plan and maintaining the credit rating ratings »Ba2 positive« (Moody's) and »BB positive« (Standard & Poor's) and both with a positive outlook, the company and the Group additionally discloses business stability.

Maturity of Group's long-term and short-term liabilities is outlined in following tables.

LONG-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY (in EUR)	DUE DATE: UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	DUE DATE: FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	DUE DATE: OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Long-term financial liabilities to banks	80,392,170	273,571,884	346,824,679	700,788,733
Other long-term financial liabilities	9,090	332,987		342,077
Long-term operating liabilities from advances			39,096	39,096
Other long-term operating liabilities	26,518		24,026	50,544
TOTAL 31 DEC 2018	**80,427,778**	**273,904,871**	**346,887,801**	**701,220,450**
Long-term financial liabilities to banks	81,340,025	309,552,588	388,587,143	779,479,756
Other long-term financial liabilities		63,165		63,165
Long-term operating liabilities to suppliers	26,802	19,612		46,414
Long-term operating liabilities from advances		3,000	5,758	8,758
Other long-term operating liabilities	86,697	2,582	59,467	148,746
TOTAL 31 DEC 2017	**81,453,524**	**309,640,947**	**388,652,368**	**779,746,839**

SHORT-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY (in EUR)	NOT YET DUE	DUE DATE					TOTAL
		OVERDUE UP TO 3 MONTHS (UP TO 90 DAYS)	OVERDUE FROM 3 TO 6 MONTHS (FROM 91 DAYS TO 180 DAYS)	OVERDUE FROM 6 TO 9 MONTHS (FROM 181 DAYS TO 270 DAYS)	FROM 9 TO 12 MONTHS (FROM 271 DAYS	MORE THAN ONE YEAR (MORE THAN	
Short-term financial liabilities to banks	55,724,848	1,792,529	11,500,000	2,242,424	11,500,000		82,759,801
Other short-term financial liabilities	246,702						246,702
Short-term operating liabilities to associates	1,776,790	163,968					1,940,758
Short-term operating liabilities to jointly controlled companies	62,918						62,918
Short-term operating liabilities to suppliers	136,243,853	2,882,926	51,451		479	1,870	139,180,579
Short-term operating liabilities from advances	86,810						86,810
Short-term operating payables to employees	14,199,050						14,199,050
Short-term operating liabilities to state and other institutions	26,818,171						26,818,171
Other short-term operating liabilities	3,520,520						3,520,520
TOTAL 31 DEC 2018	**238,679,662**	**4,839,423**	**11,551,451**	**2,242,424**	**11,500,479**	**1,870**	**268,815,309**
Short-term financial liabilities to banks	71,695,304						71,695,304
Short-term derivatives	60,937						60,937
Other short-term financial liabilities	140,055						140,055
Short-term operating liabilities to associates	2,165,249	130,374					2,295,623
Short-term operating liabilities to jointly controlled companies	77,900						77,900
Short-term operating liabilities to suppliers	118,996,805	1,314,467	17,853		4,599	296,243	120,629,967
Short-term operating liabilities from advances	2,219,384						2,219,384
Short-term operating payables to employees	15,928,797						15,928,797
Short-term operating liabilities to state and other institutions	27,127,772						27,127,772
Other short-term operating liabilities	2,788,496	36,656					2,825,152
TOTAL 31 DEC 2017	**241,200,699**	**1,481,497**	**17,853**	**0**	**4,599**	**296,243**	**243,000,891**

Exposure to liquidity risk arising on financial liabilities to banks as at 31 December 2018 is outlined in the following table. The amounts presented are not discounted and include contractually anticipated interest rates. The Group has sufficient financing sources to settle the liabilities to banks that mature in 2019. The aforesaid sources comprise operating income, whereby the Group also has a liquidity reserve in form of cash in the amount of EUR 83,066,580 and long-term revolving loans in the amount of EUR 50,300,000, whereof the undrawn part amounted to EUR 50,119,000 as at 31 December 2018.

EXPOSURE TO LIQUIDITY RISK ARISING IN FINANCIAL LIABILITIES TO BANKS (in EUR)	EXPECTED CASH FLOWS					TOTAL
	UP TO 2 MONTHS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	2 TO 12 MONTHS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	1 TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	2 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	MORE THAN 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	
Financial liabilities to banks without interest rate hedging						
short-term borrowings	-40,000	-339,838				-339,838
long-term borrowings	-245,482	-82,499,156	-81,594,640	-273,298,993	-346,824,680	-784,462,951
TOTAL	**-285,482**	**-82,838,994**	**-81,594,640**	**-273,298,993**	**-346,824,680**	**-784,802,789**

CURRENCY RISK

The Group is exposed to currency risk in a lesser extent since the majority of inflows and outflows are performed in domestic currency euro.

In 2018, the Group's currency risk was adequately managed. While hedging against currency risk, the company acts in compliance with the Group's internal rules. The controlling company is mainly exposed to currency risk while trading with electricity in foreign currencies on foreign markets. If required, the currency risk is managed by applying derivatives.

The exposure to currency risk occurs also in operations of subsidiaries registered in SE Europe. With regard to the fact that operations of subsidiaries based in SE Europe represent a smaller segment of operations in comparison with total HSE Group operations, the exposure to currency risk is thus minimum.

Since other currencies are used in smaller extent, the Group does not perform sensitivity analysis for changes in foreign currencies exchange rates, since this would not significantly affect the Group's profit or loss.

The following exchange rates were used for translation of items in the consolidated financial statements:

EXCHANGE RATES

COUNTRY	CURRENCY DESIGNATION	CLOSING EXHANGE RATE IN EUR FOR 2018	CLOSING EXHANGE RATE IN EUR FOR 2017
Bosnia and Herzegovina	BAM	1.9558	1.9558
Croatia	HRK	7.4125	7.4400
Macedonija	MKD	61.6060	61.2150
Serbia	RSD	118.4300	118.6600

EXPOSURE TO CURRENCY FLUCTUATION RISK

(in EUR)	EUR	HUF	OTHER CURRENCIES	TOTAL
Long-term financial receivables and loans	34,556		10,000	44,556
Long-term operating receivables	3,193,579		497,239	3,690,818
Short-term financial receivables and loans	12,945,661			12,945,661
Short-term operating receivables	176,364,024	485	2,754,156	179,118,665
Long-term financial liabilities	-701,130,810			-701,130,810
Long-term operating liabilities	-89,640			-89,640
Short-term financial liabilities	-83,006,503			-83,006,503
Short-term operating liabilities	-182,109,052	-904,757	-1,240,214	-184,254,023
Net exposure of the statement of financial position at 31 Dec 2018	**-773,798,185**	**-904,272**	**2,021,181**	**-772,681,276**
Long-term financial receivables and loans	44,657		10,000	54,657
Long-term operating receivables	3,442,935		564,972	4,007,907
Short-term financial receivables and loans	13,465,073		50,495	13,515,568
Short-term operating receivables	158,850,150	1,529	3,577,735	162,429,414
Long-term financial liabilities	-779,542,921			-779,542,921
Long-term operating liabilities	-203,918			-203,918
Short-term financial liabilities	-71,896,296			-71,896,296
Short-term operating liabilities	-166,303,461	-649,532	-2,614,828	-169,567,821
Net exposure of the statement of financial position at 31 Dec 2017	**-842,143,781**	**-648,003**	**1,588,374**	**-841,203,410**

CURRENCY SWAPS CONTRACTS BY MATURITY

(in EUR)	31 DEC 2018	31 DEC 2017
up to 12 months	5,982,329	4,493,519
TOTAL	**5,982,329**	**4,493,519**

EFFECT OF CURRENCY SWAPS

(in EUR)	2018	2017
Unrealised profit on effective swaps	54,987	
Unrealised loss on effective swaps		-49,359
Realised profit on effective swaps	32,773	4,996
Realised loss on effective swaps	-178,938	-88,879

INTEREST RATE RISK

The Group manages interest rate risks in compliance with its internal rules, which define the policy of managing interest rate risk in Group companies. Interest rate risk was in 2018 adequately managed as it aims to limit and reduce the risk relating to interest rate fluctuations and thereby stabilise cash flows.

As at 31 December 2018, EUR 451.5 million of Group's long-term loans bore the fixed interest rate, while the residual amount was subject to the variable interest rate.

Interest rate risks of Group companies are regularly monitored and reported about. Referring to the aforesaid also developments on the cash market, the movement of interest rates and the value of concluded interest rate hedges are monitored on an ongoing basis, with individual Group companies adopting appropriate hedging strategies.

CASH FLOW SENSITIVITY ANALYSIS WITH FINANCIAL INSTRUMENTS BEARING A VARIABLE INTEREST RATE

The change in interest rate for 50 b. p. on the reporting date would increase (decrease) the Group's net profit or loss for the values stated below. The analysis prepared assumes that all variables, particularly foreign currency rates, remain unchanged. In case of borrowings that bear the Euribor interest rate with the »zero floor« clause, a mark-up of + 0.50 b.p. to the average Euribor value in 2018 was taken into account (average value of the 3-month Euribor -0.322%; average value of 6-month Euribor -0.266%). Borrowings without the »zero floor« clause, the change of the interest rate +/- 50 b.p. was taken into account, with regard to the Euribor value as at the date of fixation prior to individual interest period. Consequently, the final result is different by +/- 50 b.p. change in the interest rate.

FINANCIAL INSTRUMENTS (in EUR)	NET PROFIT OR LOSS 2018		NET PROFIT OR LOSS 2017	
	INCREASE BY 50 BP	DECREASE BY 50 BP	INCREASE BY 50 BP	DECREASE BY 50 BP
Financial instruments at variable interest rate	-1,142,137	674,205	-1,284,477	811,408
Financial liabilities	-1,142,137	674,205	-1,284,477	811,408

PRICE RISK

The price risks arise on fluctuation of market prices of electricity and emission permits, which is the result of changed market categories such as market prices of other energy products (e.g. coal, gas, oil, etc.), changes in the structure of offer and demand on the market, as well as regulatory and other impacts.

The impact of price risk on Group's operations can be quantified on the basis of key variables:

- Group's market position on individual markets and products at a specific moment of supply,
- volatility or price fluctuation on individual markets and products at a specific moment of supply, and
- correlation between prices on individual markets and products in a certain moment of supply.

The metrics monitors for the purpose of price risk management are diverse in respect on the type of activity.

In order to manage price risks in the field of trading, three key parameters were applied in 2018, namely the VaR (value-at-risk) parameter, the floating stop-loss limit, and the limiting the capital risked.

The VaR parameter is the central metrics, which indicates the current exposure of price risk. It includes key impacts of the risk exposure, such as the observed portfolio's position, the fluctuation of price markets to which this market is exposed to, and the statistics link between market and product prices, which have an impact on the portfolio's value. The relevant parameter discloses the risk rate in respect of the chosen length of the time interval and the trust rate of the price exposure. The Group monitors the 5-day VaR with 95% of confidence interval. The respective parameter represents the amount of possible loss of the trading portfolio in five days, which in 95% of cases of normal market movements will not be exceeded in view of market prices, correlation and volatility, as well as in view of the volume position. The floating stop-loss limit aims to ensure the portfolio's achieved value. Limiting the capital risked represents the value's loss limit, which is still acceptable to the Group for a certain portfolio; in case of higher loss, however, the portfolio-related activities ceased to be carried out.

The sale of electricity and the purchase of emissions permits in connection with ow production, is managed through the Strategy for own production sales and purchase of emission coupons for the purpose of Group's own production. The respective strategy aims to disperse the price risk over a longer trading period. The controlling company reduces the risk arising on electricity prices based on partial quantity sales of own production and purchases of emissions coupons on energy markets for the years ahead. The length of the future time interval limits the market liquidity of long-term products. The development of markets tends to increase also the liquidity of long-term products in the region, indicating that we can insure in terms of price also more distant periods of supply. Procedures related to own production sales strategy, can be regularly monitored and assessed within meetings of the group in charge of own production sales.

The Group manages and controls price risks by means of following activities and methods:

- daily monitoring of the market position at the level of Group, as well as the controlling company by country and individual group of transactions that have a similar purpose or meaning. If the position in a certain moment exceeds the volumes allowed by rules, then it is properly adjusted,
- daily market activities – conclusion of counter transactions with equal volume on the same market or purchasing and selling forward contracts, with respect to the type of the trading deal,
- daily monitoring and analysing the prices of energy products and forecasting expected price changes on various markets,
- daily monitoring of market activities on the emission coupons market,
- monitoring investment-related decisions in the energy sector of the EU and the economic growth in the leading countries,
- daily monitoring and analysing the value of the parameter VaR and MtM (mark-to-market) in terms of individual groups of Group's transactions that have a similar purpose by taking into account limitations or the levels of the VaR value defined within internal rules,
- regular weekly treatment of changes in value and risk parameters within the sub-committee for market risk management.

FUTURE (FORWARD) CONTRACTS FOR ELECTRICITY

The Company trades with futures with the purpose to insure protect long-term positions, arising on own production, against price risks, and with the purpose of position trading.

In sales and purchase of electricity with physical supply, the Company simultaneously concludes future contracts with the position contrary quantity and the same maturity or future contracts with a maturity that is in line with the planned quantity of own production. In this way, the Company financially fixes the revenue, indicating that the loss arising from the purchase of forward contracts is compensated with revenue from physical quantity of the purchased/sold electricity or produced physical quantity of electricity. The planned electricity production by subsidiaries is used as the platform for implementing the price insurance strategy for the planned quantities of own production. Accordingly, the Company already in the current year sells electricity to the subsidiary for several years in advance, while the strategy's main goal is to maximise the profit and ensure stable revenue from sales of electricity.

In this relation, the Company recorded at the year-end of 2018 forward contracts in the amount of EUR 43,890,631. Related disclosures are provided in the section Equity.

The purchase or sales of futures contract with the purpose of position trading in the time of open position increases the price exposure of the Company since it is concluded with the intention to generate revenue on the account of changes in the prices of electricity. The price exposure is reduced only in case of concluding diametric futures contract. Disclosures of respective transactions are provided in section Equity. As at the year-end of 2018, the Company recorded EUR 58,115,015 of open future contracts held for trading.

CONCLUDED STANDARD CALL FUTURES FOR HEDGING PURPOSES (in EUR)	31 DEC 2018	31 DEC 2017
For electricity - purchase hedging	22,389,291	8,779,272
For electricity - sales hedging	21,501,340	5,739,504
TOTAL	**43,890,631**	**14,518,776**

CONCLUDED STANDARD CALL FUTURES FOR TRADING (in EUR)	31 DEC 2018	31 DEC 2017
For electricity - trading - purpose of purchasing	40,162,709	29,440,420
For electricity - trading - purpose of sale	17,952,306	22,098,252
TOTAL	**58,115,015**	**51,538,672**

EMMISSION COUPONS

The Company concluded forward contracts in 2018 for the purchase and sale of emission coupons in order to insure quantities of emission coupons, relating to own production requirements; the Company concluded also forward contracts in a limited scope also in connection with the trading activity, which was not linked to own production. As at the year-end of 2018, the Company recorded in this respect EUR 67,084,130 of open contracts for insuring the purchase and sale of emission contracts. Related disclosures are provided in the section Equity.

CONCLUDED STANDARD CALL FUTURES FOR HEDGING PURPOSES (in EUR)	31 DEC 2018	31 DEC 2017
For emission coupons - purhase hedging	63,567,160	41,948,880
For emission coupons - sales hedging	3,516,970	2,069,850
TOTAL	**67,084,130**	**44,018,730**

CAPITAL MANAGEMENT

CAPITAL MANAGEMENT (in EUR)	31 DEC 2018	ADJUSTED 31 DEC 2017
Long-term financial liabilities	701,130,810	779,542,921
Short-term financial liabilities	83,006,503	71,896,296
Total financial liabilities	784,137,313	851,439,217
Equity	1,091,245,472	1,038,307,041
Financial liabilities/Equity	**0.72**	**0.82**
Cash and cash equivalents	83,510,529	61,693,442
Net financial liability	700,626,784	789,745,775
Net debt/Equity	**0.64**	**0.76**

Ratio showing the relationship between the Group’s debt and equity was at the year-end of 2018 lower over the 2017. The respective improvement is attributable to the HSE Group’s lower indebtedness, which is due to the repayment of loans, higher balance of cash and equity due to the positive effect of the valuation of derivatives.

FAIR VALUES

The Group estimates that the carrying amount is a sufficient approximation for its financial instruments, except derivatives, which are recorded at fair value.

BOOK AND FAIR VALUES OF FINANCIAL INSTRUMENTS (in EUR)	31 DEC 2018		31 DEC 2017	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Non-derivative financial assets at fair value	**175,096**	**175,096**	**152,409**	**152,409**
Available-for-sale financial assets	175,096	175,096	152,409	152,409
Derivative financial assets at fair value	**67,885**	**67,885**	**0**	
Derivative financial instruments (receivables)	67,885	67,885	0	
Non-derivative financial assets at amortised cost	279,310,229	0	241,722,018	0
Financial receivables	12,990,217		13,591,255	
Operating and other receivables	182,809,483		166,437,321	
Cash	83,510,529		61,693,442	
TOTAL	**279,485,325**	**242,981**	**241,874,427**	**152,409**
Derivative financial liabilities at fair value	0	0	49,359	49,359
Derivative financial instruments (liabilities)	0	0	49,359	49,359
Non-derivative financial liabilities at amortised cost	970,035,761	0	1,024,486,467	0
Bank borrowings	783,548,534		851,175,060	
Other financial liabilities	588,779		214,798	
Operating and other liabilities	185,898,448		173,096,609	
TOTAL	**970,035,761**	**0**	**1,024,535,826**	**49,359**

Most of Level 1 financial assets at fair value include available-for-sale financial assets i.e. Triglav shares, which are disclosed by the SENG company in the amount of EUR 35,875. Level 3 financial assets at fair value primarily comprise HSE’s available-for-sale assets in the amount of EUR 111.500, and Level 2 financial assets at fair value include the unrealised profit from the efficient currency swaps in the amount of EUR 67,885.

3.5.8 EVENTS AFTER THE BALANCE SHEET DATE

No events or transactions have occurred after the date of the Company's statement of financial position that would have an impact on the 2018 financial statements or require additional disclosures.

4

Accounting Report of HSE Company

4.1 INDEPENDENT AUDITOR'S REPORT FOR THE HSE COMPANY

KPMG Slovenija, podjetje za revidiranje, d.o.o.
Železna cesta 8a
SI-1000 Ljubljana

Telefon: +386 (0) 1 420 11 60
Internet: http://www.kpmg.si

Independent Auditors' Report

To the owners of the Holding Slovenske elektrarne, d.o.o., Ljubljana

Report on the Audit of separate Financial Statements

Opinion

We have audited the separate financial statements of the Holding Slovenske elektrarne, d.o.o., Ljubljana ("the Company") which comprise the separate statement of financial position as of 31 December 2018, the separate statement of profit or loss, the separate statement of other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give true and fair view of the unconsolidated financial position of the Company as at 31 December 2018, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of Separate Financial Statements* section of our report. We are independent in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other Information

Management is responsible for the other information. The other information comprises the Introduction including Report of the Supervisory board and the Business Report included in the Annual Report, but does not include the separate financial statements and our auditor's report thereon. We obtained other information before the date of issuance of the auditor's report, except for the Report of the Supervisory Board, which is to become available at a later date.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the separate financial statements are prepared, is in all material respects consistent with the separate financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report. We have nothing to report in this respect.

Responsibility of Management and Those Charged with Governance for the Separate Financial Statements

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

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using of the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

KPMG

Report on Other Legal and Regulatory Requirements

The Company disclosed the financial statements by activity with notes in the section *Additional disclosures based on the Energy Act*, which include the statement of financial position by activity as at 31 December 2018, the statement of profit or loss by activity, and the statement of cash flows by activity for the year then ended.

Company's management is responsible for keeping separate accounting records by activity and applying criteria defined in the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act (ZPFOLERD-1) and in compliance with provisions of the Energy Act (EZ-1).

Our responsibility is to examine the adequacy of criteria and accuracy of their use as required under the provisions of ZPFOLERD-1 and whether the Company observed the provisions of the Energy Act in view of disclosures in the financial statements by activity.

Based on procedures carried out during the audit of financial statements, we herewith report that the Company disclosed the financial statements by activity and that it appropriately applied the criteria during the compilation of these statements.

On behalf of the auditing company

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Boštjan Mertelj	Danilo Bukovec
Certified Auditor	*Certified Auditor*
	Director
Ljubljana, 17 May 2019	KPMG Slovenija, d.o.o. 5

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

4.2 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management is responsible for the preparation of the financial statements for each financial year in accordance with the International Financial Reporting Standards, as adopted by the European Union, and the applicable legislation, i.e. in a manner that they represent the true and honest presentation of the operations of the company Holding Slovenske elektrarne, d.o.o. (hereinafter 'HSE company' or 'Company').

The management rightfully expects the Company to have available appropriate resources to continue operations in the near future, so the financial statements are prepared based on the going concern assumption.

The responsibility of the management for the preparation of financial statements comprises the following:

- the accounting policies are correctly chosen and consistently applied,
- the assessments and evaluations are reasonable and prudent.

The management is responsible for managing appropriate records, which at any time clearly and accurately represent the financial position of the Company and that the financial statements are in accordance with the International Financial Reporting Standards. The management is also responsible for protecting the assets of the Company, as well as for protecting against and discovering fraud and other irregularities.

The management confirms that the financial statements have been prepared in accordance with the provisions of the International Financial Reporting Standards, as adopted by the European Union.

On 15 May 2019, the management adopted the financial statements of Holding Slovenske elektrarne, d.o.o. for the business year which ended on 31 December 2018.

Ljubljana, 17 May 2019

Stojan Nikolić, M.Sc., Managing Director of HSE

Viktor Vračar, Ph.D., Business Director of HSE

4.3 INTRODUCTORY NOTES TO THE PREPARATION OF COMPANY'S FINANCIAL STATEMENTS

The accounting part of Holding Slovenske elektrarne d.o.o. consists of the financial statements with accompanying notes.

Based on the decision of the Capital Assets Management Agency of the Republic of Slovenia acting in the role of the representative of the founder of 29 November 2010, the Company has been preparing financial statements and explanations since 1 January 2011, in accordance with the International Financial Reporting Standards, as adopted by the European Union.

The audit company KPMG Slovenija d.o.o. audited the financial statements with notes and compiled an independent auditor's report which is included at the end of the chapter.

4.4 FINANCIAL STATEMENTS OF THE HSE COMPANY

4.4.1 STATEMENT OF FINANCIAL POSITION OF THE HSE COMPANY

ITEM (in EUR)	NOTE	31 DEC 2018	31 DEC 2017
ASSETS		**1,381,683,132**	**1,321,084,847**
A. LONG-TERM ASSETS		**1,132,223,499**	**1,118,973,996**
I. Intangible assets	1	31,725,965	26,839,006
II. Property, plant and equipment	2	11,917,946	12,426,495
IV. Long-term investments in subsidiaries	3	953,851,547	1,010,572,901
V. Other long-term investments and loans	4	131,409,250	65,764,009
VI. Long-term operating receivables	5	3,050,903	3,104,116
VIII. Deferred tax assets	6	267,888	267,469
B. SHORT-TERM ASSETS		**249,459,633**	**202,110,851**
II. Inventories		2,594	0
III. Short-term investments and loans	7	1,956,229	2,583,874
IV. Short-term trade receivables	8	135,490,797	135,565,806
V. Contract assets	9	3,016,725	0
VI. Current tax assets		0	1,269,830
VII. Other short-term assets	10	41,234,040	35,963,467
VIII. Cash and cash equivalents	11	67,759,248	26,727,874
EQUITY AND LIABILITIES		**1,381,683,132**	**1,321,084,847**
A. EQUITY	12	**979,389,150**	**905,369,122**
I. Called-up capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Revenue reserves		562,744,824	562,744,824
IV. Hedging reserve		75,592,355	10,753,380
V. Fair value reserve		-26,773	51,227
VI. Retained earnings or losses		-249,723,230	-258,982,283
B. LONG-TERM LIABILITIES		**194,193,846**	**220,242,684**
I. Provisions for termination benefits and jubilee premiums	13	949,464	821,898
II. Other provisions	14	311,675	0
III. Other long-term liabilities	15	485,750	0
IV. Long-term financial liabilities	16	192,434,059	219,420,786
VI. Deferred tax assets		12,898	0
C. SHORT-TERM LIABILITIES		**208,100,136**	**195,473,041**
II. Short-term financial liabilities	17	27,140,461	17,201,481
III. Short-term operating liabilities	18	132,676,890	132,706,401
V. Current tax liabilities	29	1,490,042	0
VI. Other short-term liabilities	19	46,792,743	45,565,159

* Notes to the financial statements are a constituent part thereof and must be rad in conjunction therewith.

4.4.2 INCOME STATEMENT OF THE HSE COMPANY

ITEM (in EUR)	NOTE	2018	2017
OPERATING INCOME		**1,485,894,248**	**1,613,524,258**
1 Net sales revenue	21	1,481,938,763	1,610,687,897
2. Other operating income	22	3,955,485	2,836,361
OPERATING EXPENSES		**1,431,439,881**	**1,563,353,061**
3. Costs of goods, material and services	23	1,419,386,924	1,551,738,705
4. Employee benefits expense	24	10,499,858	9,897,870
5. Write-downs in value	25	885,927	844,723
8. Other operating expenses	26	667,172	871,763
OPERATING PROFIT OR LOSS		**54,454,367**	**50,171,197**
9. Finance income	27	**33,283,502**	**44,064,043**
10. Finance costs	28	**69,458,334**	**61,273,723**
FINANCIAL RESULT		**-36,174,832**	**-17,209,680**
PROFIT OR LOSS BEFORE TAX		**18,279,535**	**32,961,517**
TAX	29	**8,793,266**	**13,223,902**
12. Income tax expense		8,805,263	7,980,242
13. Deferred tax		-11,997	5,243,660
NET PROFIT OR LOSS FOR THE PERIOD	30	**9,486,269**	**19,737,615**

* Notes to the financial statements are a constituent part thereof and must be rad in conjunction therewith.

4.4.3 STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE HSE COMPANY

ITEM (in EUR)	NOTE	2018	2017
Net profit or loss for the period	30	**9,486,269**	**19,737,615**
Actuarial gains and losses of employee defined benefit plans		-65,168	41,866
Items that will not be transferred to profit or loss		**-65,168**	**41,866**
Net effecitive portion of changes in fair value of cash flow hedges	12	64,734,630	9,019,098
Net effective portion of changes in fair value of cash flow hedges reclassified to profit or loss	12	104,346	-6,342
Items that may be transferred to profit or loss		**64,838,976**	**9,012,756**
Total comprehensive income for the period		**74,260,077**	**28,792,237**

* Notes to the financial statements are a constituent part thereof and must be rad in conjunction therewith.

4.4.4 STATEMENT OF CASH FLOWS OF THE HSE COMPANY

ITEM (in EUR)	2018	2017
CASH FLOWS FROM OPRATING ACTIVITIES		
Profit or loss for the period	9,486,269	19,737,615
Adjustment for:		
Amortisation of intangible assets	376,643	313,215
Depreciation on property, plant and equipment	492,274	493,578
Write-off of property, plant and equipment	0	694
Write-off of trade receivables	16,973	28,449
Loss on sale of property, plant and equipment	37	8,787
Finance income	-33,283,502	-44,064,043
Finance costs	69,458,334	61,273,724
Gain on sale of property, plant and equipment	-53,817	-7,790
Gain on sale of intangible assets	-4,628	0
Income tax paid	8,793,267	13,223,902
Cash generated from operating activities before change in net current assets and taxses	***55,281,850***	***51,008,131***
Change in net current assets and provisions		
Change in:		
Inventories	-2,594	0
Trade and other receivables	-7,677,928	-28,251,342
Trade and other payables	65,932,704	13,357,287
Recived advances	485,750	0
Provisions	126,800	114,279
Income tax paid	-6,045,392	-10,719,559
Cash from operating activities	***108,101,190***	***25,508,796***
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	210,867	277,348
Dividends received	30,353,648	41,155,479
Income from other financing activities	1,000,733	1,087,383
Proceeds from sale of property, plant and equipment	755,071	28,567
Proceeds from sale of intangible assets	25,850,491	36,586,940
Proceeds from decrease in short-term investments	560,000	240,000
Proceeds from decrease in long-term investments	1,000,000	47,509,354
Acquisitions of property, plant and equipment	-685,017	-1,196,741
Acquisitions of intangible assets	-31,109,465	-36,305,402
Acquisition of subsidiaries	0	-47,259,354
Costs for increasing long-term loans	-64,791,457	-20,000,000
Costs for increasing other long-term financial investments	0	-27,259,354
Net cash used in investing activities	***-36,855,129***	***-5,135,780***

(continuing)

ITEM (in EUR)	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	15,000,000	0
Payment of interest on borrowings	-7,823,799	-8,018,356
Costs for other financial liabilities	-4,906,040	-5,374,517
Repayment of long-term borrowings	-17,484,848	-9,203,468
Repayment of short-term borrowings	-15,000,000	0
Repayment of other short-term financial liabilities	0	-250
Net cash used in financing activities	***-30,214,687***	***-22,596,591***
OPPENING BALANCE OF CASH AND CASH EQUIVALENTS	***26,727,874***	***28,951,447***
Financial result	41,031,374	-2,223,575
CLOSING BALANCE OF CASH AND CASH EQUVALENTS	***67,759,248***	***26,727,872***

4.4.5 STATEMENT OF CHANGES IN EQUITY OF THE HSE COMPANY

ITEM (in EUR)	CALLED-UP CAPITAL		REVENUE RESERVES			RETAINED EARNINGS OR LOSSES		
	SHARE CAPITAL	CAPITAL SURPLUS	OTHER REVENUE RESERVES	HEDGING RESERVE	FAIR VALUE RESERVE	RETAINED EARNINGS OR LOSSES	NET PROFIT OR LOSS FOR THE PERIOD	TOTAL
Balance at 1 Jan 2017	29,558,789	561,243,185	562,744,824	1,740,624	20,527	-278,731,064	0	876,576,885
B.2. Changes in total comprehensive income	0	0	0	9,012,756	30,700	11,166	19,737,615	28,792,237
Profit or loss for the period							19,737,615	19,737,615
Items that will not be transferred to profit or loss	0	0	0	0	30,700	11,166	0	41,866
Actuarial gains and losses of employee defined benefit plan					*30,700*	*11,166*		*41,866*
Items that may be transferred to profit or loss	0	0	0	9,012,756	0	0	0	9,012,756
Net effective portion of change in fair value of instrument for cash flow hedging				*-6,342*				*-6,342*
Net effective portion of change in fair value of instrument for cash flow hedging, transferred to profit or loss				*9,019,098*				*9,019,098*
B.3. Changes within equity	0	0	0	0	0	19,737,615	-19,737,615	0
Settlement of loss as a deductible equity component						19,737,615	-19,737,615	0
Balance at 31 Dec 2017	29,558,789	561,243,185	562,744,824	10,753,380	51,227	-258,982,283	0	905,369,122
Change due to the implementation of IFRS 9						*-240,047*		
Balance at 1 Jan 2018	**29,558,789**	**561,243,185**	**562,744,824**	**10,753,380**	**51,227**	**-259,222,330**	**0**	**905,129,075**
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**64,838,976**	**-78,000**	**12,830**	**9,486,269**	**74,260,075**
Profit or loss for the period							**9,486,269**	**9,486,269**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**0**	**-78,000**	**12,830**	**0**	**-65,170**
Actuarial gains and losses of employee defined benefit plan					*-78,000*	*12,830*		*-65,170*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**64,838,976**	**0**	**0**	**0**	**64,838,976**
Net effective portion of change in fair value of instrument for cash flow hedging				*104,346*				*104,346*
Net effective portion of change in fair value of instrument for cash flow hedging, transferred to profit or loss				*64,734,630*				*64,734,630*
B.3. Changes within equity	**0**	**0**	**0**	**0**	**0**	**9,486,269**	**-9,486,269**	**0**
Settlement of loss as a deductible equity component						*9,486,269*	*-9,486,269*	*0*
Balance at 31 Dec 2018	**29,558,789**	**561,243,185**	**562,744,824**	**75,592,356**	**-26,773**	**-249,723,231**	**0**	**979,389,150**

* Notes to the financial statements are a constituent part thereof and must be rad in conjunction therewith.

4.5 NOTES TO THE FINANCIAL STATEMENTS OF THE HSE COMPANY

4.5.1 REPORTING COMPANY

Holding Slovenske elektrarne d.o.o. (hereinafter 'HSE company' or 'Company') is a company with its registered office in Slovenia and the controlling company of the HSE Group. The address of its registered head office is Koprska ulica 92, Ljubljana. Its core activity is trading with electricity.

The financial year of the Company equals the calendar year. The separate financial statements of the HSE company for the year ended 31 December 2018 are presented below.

4.5.2 BASIS FOR PREPARATION

A) STATEMENT OF COMPLIANCE

When preparing the financial statements as of 31 December 2018, the Company took into consideration the following:

- the International Financial Reporting Standards (IFRS), which include the International Accounting Standards (IAS), Interpretations from the Standing Interpretations Committee (SIC), the International Financial Reporting Standards, and Interpretations from the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union,
- the Companies Act,
- the Energy Act,
- the Corporate Income Tax Act,
- the Rules on the implementation of the Corporation Tax Act and its executive acts,
- the Accounting Manual of the HSE Group, and,
- other applicable legislation.

B) ACCOUNTING ASSUMPTIONS AND QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

The effects of transactions and other business events are recognised when they occur and not when they are paid; they are recorded and then reported for the periods to which they refer. Therefore, the financial statements also include information on liabilities regarding monetary payments in the future, as well as assets which will generate cash in the future.

The financial statements of the Group were prepared by taking into consideration the assumption that the Group would not significantly decrease the scope of its operations, or even cease its operations, and that it shall continue with its operations in the foreseeable future.

The following qualitative characteristics of consolidated financial statements have been taken into account:

- **FAIR PRESENTATION IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS**: the financial statements present fairly the financial position, financial performance and cash flows of the Company.
- **CONSISTENT PRESENTATION**: the presentation and classification of items in the financial statements equals the form applied in the previous year. Certain items are in terms of recognition more appropriately presented in the 2018 accounting report relative to the previous year.

The changed presentations include following:

- profits/losses from derivatives arising on electricity trading and emission coupons are in 2018 disclosed by the net principle among other operating income or other operating costs, while they were in 2017 disclosed among finance income or costs.

  The changes impact the disclosure of items in the income statement and the statement of cash flows.

- **MATERIALITY AND AGGREGATION**: each material group which comprises similar items is presented separately in the consolidated financial statements. Items of dissimilar nature or function are presented separately, unless they are immaterial.
- **OFFSETTING**: the assets and obligations to the sources of assets, mother revenues and expenditures are offset, unless the standard or the explanation of offsetting requires or allows this.

- COMPARATIVE INFOMRATION: unless the standard or the explanation permit or require otherwise, for all of the presented amounts in the financial statements comparative information is disclosed in respect of the previous period. Comparative information is included in the narrative and descriptive information when it is relevant for the understanding of financial statements for the relevant period.
- CHANGES TO SIGNIFICANT ACCOUNTING POLICIES: the same accounting bases, policies and recognition-related policies were observed while compiling the financial statements as for the fiscal year 2017, except for the changes stated below.

As of 1 January 2018, the Company started to apply two new standards i.e. IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers.

IFRS 9 – FINANCIAL INSTRUMENTS

The standard defines rules and requirements for recognising and measuring financial instruments and replaces IAS 39 – Financial Instruments: Recognition and Measurement.

The standard introduces new requirement regarding the classification and measurement of financial assets and liabilities, the recognition of their impairment and accounting hedging.

CHANGE OF NAMING	IAS CATEGORY 39	IFRS CATEGORY 9
Other investments measured at fair value	Financial assets available for sale	Financial assets at fair value through other comprehensive income
Loans granted	Loans and receivables	Financial assets at amortized cost
Trade receivables	Loans and receivables	Financial assets at amortized cost
Other short-term assets (except deferred expenses, costs and accrued revenues)	Loans and receivables	Financial assets at amortized cost
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost
Derivatives	Derivative financial instruments at fair value through operating result	Derivative financial instruments at fair value through operating result
Received loans	Financial liabilities at amortized cost	Financial liabilities at amortized cost
Other financial liabilities	Financial liabilities at amortized cost	Financial liabilities at amortized cost
Operating liabilities to suppliers	Financial liabilities at amortized cost	Financial liabilities at amortized cost
Other short-term liabilities (except accrued expenses, costs and deferred revenues)	Financial liabilities at amortized cost	Financial liabilities at amortized cost

On the basis of the new standard, the Company formed a new impairment model for trade receivables, which no longer basis solely on realised credit losses as applicable under IAS 39, but on expected credit losses. On each reporting date, the reporting entity measures the value of the impairment loss of the financial as the amount, which equals the expected credit losses in the entire period of duration.

Accordingly, the Company formed a new impairment model that, in addition to forming allowances for due trade receivables, is based also on forming allowances for trade receivables not yet due. On the basis of the internal credit rating and risk assessment, the Company defined the risk classes by country of the customer.

EFECT OF THE ADOPTED IFRS 9 AT 1 JANUARY 2018 (in EUR)	31 DEC 2017	CHANGE OF IFRS 9	1 JAN 2018
ASSETS			
Financial assets available for sale	111,500	-111,500	0
Financial assets at fair value through other comprehensive income	0	111,500	111,500
Other	1,118,862,496	0	1,118,862,496
Long-term assets	**1,118,973,996**	**0**	**1,118,973,996**
Trade receivables	163,277,771	-240,048	163,037,723
Other	37,833,080		37,833,080
Short-term assets	**202,110,851**	**-240,048**	**201,870,803**
TOTAL ASSETS	**1,321,084,847**	**-240,048**	**1,320,844,799**
EQUITY AND LIABILITIES			
Other	1,164,351,405		1,164,351,405
Retained earnings or losses	-258,982,283	-240,048	-259,222,331
Equity	**905,369,122**	**-240,048**	**905,129,074**
Long-term liabilities	**220,242,684**		**220,242,684**
Short-term liabilities	**195,473,041**		**195,473,041**
TOTAL EQUITY AND LIABILITIES	**1,321,084,847**	**-240,048**	**1,320,844,799**

The adoption of the IFRS 9 - Financial Instruments has changed the separate financial statements in the part of short-term trade receivables, where additional allowances were formed for trade receivables in the amount of EUR -240,048 and in the same amount the retained earnings or losses as at 1 January 2018 decreased. the value refers to the Company's receivable, which was in the past already determined as doubtful as the relevant company started insolvency proceedings, which are still in progress.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The purpose of the revised standard is to provide a robust framework for recognizing revenue from customer contracts, with clear principles and in-depth disclosures, which should lead to improved comparability of revenue between companies, industries and capital markets. The basic principle of the framework is that recognition of revenue reflects the transfer of goods and services to the customer in an amount reflecting the compensation that the company expects to be entitled to, in return for those goods and services. In order to achieve the latter, the IFRS 15 defines the use of following five steps:

- step 1 – identification of the contract with customer,
- step 2 – identification of separate performance obligations,
- step 3 – determining the transaction price,
- step 4 – allocating the transaction price to each performance obligation,
- step 5 – recognising revenue when a performance obligation is satisfied.

According to the contracts with customers, the Company meets the new standard's criteria regarding revenue recognition and that the performance obligations in the contracts are appropriately defined, which enables their classification and measurement, and defining the timing of their fulfilment. Contracts with customers include the sale of goods and services, which the Company discloses separately in the financial statements.

Short-term accrued revenue from the sale of goods to buyers were in accordance with IFRS 15 reclassified in the statement of financial position i.e. under contract asset. The effects of adopting IFRS 15 as at 1 January 2018 are presented in the table below.

EFFECT OF THE ADOPTED IFRS 15 (in EUR)	31 DEC 2017	CHANGE OF IFRS 15	1 JAN 2018
ASSETS			
Long-term assets	**1,118,973,996**	**0**	**1,118,973,996**
Contract assets	0	1,904,537	1,904,537
Other short-term assets	35,963,467	-1,904,537	34,058,930
Other	166,147,384	0	166,147,384
Short-term assets	**202,110,851**	**0**	**202,110,851**
TOTAL ASSETS	**1,321,084,847**	**0**	**1,321,084,847**
EQUITY AND LIABILITIES			
Equity	**905,369,122**	**0**	**905,369,122**
Long-term liabilities	**220,242,684**	**0**	**220,242,684**
Short-term liabilities	**195,473,041**	**0**	**195,473,041**
TOTAL EQUITY AND LIABILITIES	**1,321,084,847**	**0**	**1,321,084,847**

The adoption of the new IFRS 15 – Revenue from Contracts with Customers had no impact on the Company's separate financial statements and concurrently on retained earnings or losses.

C) BASIS FOR MEASUREMENT

Company's financial statements are prepared on the basis of historical values, except for derivatives and assets available for sale, which are disclosed at fair value and financial assets that are carried at fair value through profit or loss.

D) FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements contained in this report are presented in euro (EUR) exclusive of cents. The euro has been the functional and presentation currency of the Company. Due to the rounding of amounts, minor but insignificant deviations exist in the tables.

E) USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the management to form certain estimates and assumptions which affect the disclosed amounts of assets and liabilities, revenue and expenses and disclosures of contingent assets and liabilities in the reporting period. The formation of estimates and of accompanying assumptions and uncertainties are disclosed in notes to individual items.

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

Estimates and assumptions are present at the following judgements:

- assessment of useful life of amortisable assets (Note 1, 2 of the income statement),
- impairment testing of long-term assets (Note 1, 2 and 3 of the income statement),
- assessment of realisable value of receivables (Credit risk disclosure),
- assessment of provisions for post-employment and other long-term employees benefits (Note 13 of the statement of financial position), and
- assessment of contingent assets and liabilities (Note 10 of the statement of financial position).

Additional estimates and judgements of the management when preparing the financial statements on 31 December 2018 include the following:

1. The Company has the right to repurchase the entire participating interest in HESS sold in 2014 (35.6% and not less), i.e. any time up to 31 December 2019. However, the Company does not plan to purchase of the participating interest in HESS by the year-end of 2019.

   Based on the resolution of the Management Board of Slovenski državni holding d. d. (SDH) of 6 March 2019, the latter requires from the controlling company to reach an agreement with the management of GEN energija d.o.o. and Savske elektrarne Ljubljana d.o.o. so that the validity of the purchase option is extended by 31 December 2023, while the enforcement of the purchase option is not possible prior to 1 June 2023. The same method and valuation approach are applied during the repurchase as during the sale of the equity interest.

   In the given market conditions, the current indebtedness of the HSE Group, as well as the realised and planned free cash flow, the Company does not have available free cash for purchasing the participating interest in HESS; moreover, it is limited in obtaining additional financial resources in the form of increasing indebtedness of the Company or the HSE Group.

   By selling the 35.6% participating interest in HESS, the Company lost the majority control in managing HESS (the HSE Group has the minority of members in the Supervisory Board of HESS).

2. The Company concludes the sales and purchasing transactions (except for transactions with derivative financial instruments) in order to trade with electricity, i.e. physical supply. According to the IAS 39, those transactions are not included with the transactions within the scope of financial instruments.

3. In case of impairment testing of money-generating units (TEŠ), the business projections for their entire useful life are used. The used price projections for price fluctuations of electricity and emission allowances prepared by an external independent institution are limited to the 2012-2040 period. The reasons for using long-term projections for implementing the impairment testing include: the nature of activity itself which demands long-term investment cycles, adopting investment decisions based on taking into consideration long-term market projections, the existence of long-term projections for price fluctuations of the most important entry data for the realisation of tests of impairment, equal distribution of investments into preserving capacities through the periods of the envisaged operations of energy facilities, as well as adapting the scope of production to the availability of the energy product.

4.5.3 BRANCHES AND THE REPRESENTATIVE OFFICE

The Company has a branch office in the Czech Republic. The Company did not perform any transactions through the branch office in 2018 as the trade with electricity was transferred to the parent company itself. The operations of the branch are included in financial statements of the Company.

4.5.4 SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements are prepared on the basis of accounting policies presented below. The respective accounting policies are used for both years presented, unless otherwise indicated. When necessary, the comparative data was adjusted so that it is in accordance with the presentation of data in the current year.

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated to the respective functional currency at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Exchange rate differences are recognised in the income statement by applying the net principle.

INTANGIBLE ASSETS

Intangible assets are long-term assets enabling performance of the Company’s registered activities, whereas physically they do not exist. The Company's intangible assets comprise long-term property rights and emission coupons for the purposes of electricity production in the HSE Group. Emission coupons for trading are disclosed among inventories.

Upon initial recognition, an intangible asset is measured at cost. Cost includes costs that can be directly attributed to the acquisition of an item of intangible assets. The Company did not finance purchases of intangible assets through loans; therefore, historical cost does not comprise costs of borrowing.

Intangible assets are subsequently measured using the cost model.

The Company has no intangible assets, for which it would record the residual value when purchased.

Amortisation is accounted for on a straight-line basis, taking into account the useful life of each individual (integral) part of an intangible asset. The amortisation begins to be calculated from the cost when an asset is available for use. Emission coupons are not amortised as they are purchased for individual years and also utilised accordingly.

Amortisation methods and useful lives of groups of intangible assets are checked at the end of each business year and adjusted if necessary. In the event of extending the useful life, the costs of the accounted amortisation in the business year are reduced, while in case the shortening the useful life the respective costs are increased. The adjustment of the useful life must be recalculated in a manner which allows the intangible asset to be finally amortised in the new envisaged useful life. The change of the useful life is treated as a change of the accounting assessment and affects only the period in which the accounting assessment was changed and for each subsequent period in the remaining useful life.

THE ESTIMATED USEFULL LIFE FOR INTANGIBLE ASSETS	2018	2017
Software	2-20 years	2-20 years

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

PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment (hereinafter also ‘fixed assets’) are disclosed at cost less accumulated depreciation. Cost includes costs that can be directly attributed to the acquisition of an item of property, plant and equipment. The parts of items of plant and equipment with different useful lives are accounted for as individual assets. Borrowing costs that are directly allocated to the purchase, construction or production of a qualifying asset, i.e. until the capitalisation of an asset, are recognised as a part of cost of such an asset. The Company did not obtain any loans for purchase of fixed assets. Accordingly, the costs of borrowing are not attributed to the assets in the process of construction or production.

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

The Company has no fixed assets, for which it would record the residual value when purchased.

Depreciation is calculated using the straight-line depreciation method, taking into account the useful life of individual (integral) part of a fixed asset. Depreciation begins to be calculated from the cost when an asset is available for use. Assets in the course of construction or production are not depreciated.

THE ESTIMATED USEFULL LIFE FOR PROPERTY, PLANT AND EQUIPMENT	2018	2017
Business premises	50 years	50 years
Solar power plant	25 years	25 years
Computer equipment	2-5 years	2-5 years
Furniture	10 years	10 years
Small tools	3-5 years	3-5 years
Personal vehicles	5 years	5 years
Other plant and equipment	3-10 years	3-10 years

Depreciation methods, useful life and other values of groups of assets are examined at the end of each financial year and adapted if necessary. In case the useful life is extended, the Company decreases accrued depreciation costs in the discussed financial year, while in case the useful life is shortened, it increases them. The adjustment of useful life has to be calculated in a manner that the asset will be depreciated in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

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

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

The Company verifies on a yearly basis whether there is indication of impairment relating to property, plant and equipment being acquired. Significant indication of impairment includes following circumstances:

- adopting the decision on suspending a certain investment,
- material deterioration of circumstances relating to the economic efficiency of an individual investment.

LEASED ASSETS

Leases in terms of which the company assumes substantially all major risks and benefits of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in line with the accounting policies applying to such assets.

Other leases are treated as operating leases, where the lease payments are disclosed as cost in the income statement based on straight-line deferral.

LONG-TERM INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are those where the company has the controlling influence and it performs consolidated financial statements for this group of companies.

In financial statements, investments in subsidiaries are disclosed at cost.

The company recognises revenue from investment in the period when the decision on payment of profit shares was adopted.

Any indications of impairment of investments in subsidiaries are determined on an annual basis. In the event impartial evidence exists that a loss due to impairment was incurred, the amount of loss is measured as the difference between the carrying amount of a financial asset and its recoverable amount (the higher of fair value less selling costs and value in use) and is recognised as a financial expense.

If a subsidiary is submitted to liquidation, the difference between carrying amount and liquidation value of the investment is recorded in finance income or expenses.

In case of selling an equity interest in the subsidiary, the difference between the carrying amount and the sales value of the investment is recorded among finance income or expenses.

LONG-TERM INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

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

Investments in jointly controlled companies are investments in which the company controls the operations of such companies together with other owners, namely on the basis of contractually agreed division of control.

investments in associates as well investments in jointly controlled companies are In the Company's financial statements disclosed at cost.

FINANCIAL INSTRUMENTS

Upon initial recognition, the Company's financial instruments are classified as follows:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income, and
- financial assets measured at fair value through profit or loss.

The classification depends on the business model selected for asset management and whether the company acquires contractual cash flows from financial instruments exclusively from the principal payments and interest on the outstanding principal amount. Apart from operating receivables that do not contain significant components of financing, the Company measures the financial asset during its initial recognition at fair value, which is increased by the cost of transaction. Operating receivables that do not contain significant components of financing are measured at the transaction price.

A) FINANCIAL ASSETS THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss and financial assets that must be measured at fair value.

Financial assets are classified as held for trading if they are acquired for selling or repurchasing in the near future. Derivatives are classified as held for trading, except in the case of effective hedging instruments.

Financial assets that generate cash flows and are not solely principal and interest payments, are classified and measured at fair value through profit or loss regardless of the business model chosen.

Financial assets at fair value through profit or loss are in the statement of financial position disclosed at their fair value, including the net change in the fair value recognized in the income statement.

B) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (EQUITY INSTRUMENTS)

Financial assets recognised at fair value through other comprehensive income, which have the nature of an equity instrument, are those financial assets that meet the equity-related definition in accordance with IAS 32 - Financial Instruments, and for which the company irrevocably chooses to be classified as equity instruments at fair value through other comprehensive income and that are not held for trading. The classification is stipulated by individual financial instrument.

Gains and losses on these financial assets are never reallocated to the income statement.

C) FINANCIAL ASSETS AT AMORTISED COST

Financial assets at amortized cost include financial assets held by the company within the business model for obtaining contractual cash flows and if cash flows represent exclusively principal payments and interest on outstanding principal amounts. Financial assets at amortized cost include also loans and receivables. Given their maturity, they are classified as short-term financial assets (maturity of up to 12 months after the date of the statement of financial position) or long-term financial assets (maturity over 12 months after the date of the statement of financial position).

Financial assets at amortized cost are initially recognized at fair value increased by direct transaction costs. Upon initial recognition, they are measured at amortized cost using the effective interest rate method, less any impairment losses. Gains and losses are recognized in profit or loss upon reversal, changes or impairments.

FINANCIAL LIABILITIES

Company's financial liabilities include loans received and liabilities to suppliers. They are upon initial recognition classified as financial liabilities at fair value through profit or loss, loans received or operating liabilities. All other financial liabilities are initially recognized on the date of trading or when the company becomes a contracting party in connection with the instrument. Apart from the loans received, all financial liabilities are initially measured at fair value. Loans received are measured at amortized cost using the applicable interest rate. In terms of maturity, loans are classified as short-term financial liabilities (maturity of up to 12 months after the date of statement of financial position) or long-term financial liabilities (maturity over

12 months after the date of the statement of financial position). Profits and losses are recognised in the income statement upon derecognising the financial liability within the amortisation of the applicable interest rate.

The Company derecognises a financial liability when the obligations defined in the relevant contract are met, cancelled or expire.

DERIVATIVES

Derivatives are used for the hedging of Company's cash flow exposure against price and currency risks, as well as trading risk. Within the hedging framework, the Company concluded currency swaps as well as standardized futures contracts for the purchase of electricity and emission coupons in the following years.

These are financial instruments that do not require initial financial investment, while their value is changing due to change in goods prices or foreign exchange rates.

Derivatives are initially recognised at fair value, namely according to net principle, which means that the sole value of transaction concluded is not disclosed in financial statements.

After the initial recognition, derivatives are measured at fair value, while the corresponding changes are considered differently with respect to whether the derivatives meet the terms of hedge accounting or not.

When a derivative is defined as hedging in case of exposure to changeability of cash flows that may be attributed to an individual risk related to recognised asset, liability or very probable envisaged transactions, which can affect the profit or loss, the successful portion of changes in fair value of derivative is recognised in period's other comprehensive income and disclosed in risk hedging reserve. Unsuccessful portion of changes in the fair value of financial instrument is directly recognised in the income statement. The Company shall discontinue prospectively the hedge accounting if the hedge no longer meets the criteria for hedge accounting, if the hedging instrument is sold, terminated or exercised. The accumulated profit or loss recognised in the period's comprehensive income remains recorded in the hedging reserve until the envisaged transaction impacts the profit or loss. If the envisaged transactions can no longer be expected, the amount in other comprehensive income must be directly recognised in profit or loss. In other cases, the amount recognised as comprehensive income is transferred to profit or loss in the same period in which the protected item affects the profit or loss.

Effects of other derivatives, which are not defined as risk hedges in case of exposure to cash flow changeability or cannot be attributed to individual risk related to recognised asset or liability, are recognised in profit or loss i.e. among other operating income to other operating costs by applying the net principle.

If forward purchases and sales for physical supply of electricity are treated as contracts concluded within the Company's own use, they are not subject to criteria under IFRS 9. The latter enters into force when following criteria is met:

- physical supply is part of all such contract,
- volume of purchased or sold energy within the framework of contracts corresponds to the operative requirements of the Group,
- the contract cannot be treated as an option defined in the standard. Contracts on the sale of energy equal the fixed-term sale or can be deemed as sale of capacities.

The Company is of the opinion that transactions subject to negotiations on balancing the commitments on purchasing and selling electricity are to be considered as part of their operations and not within the scope of IFRS 9.

IMPAIRMENT OF ASSETS

I. FINANCIAL ASSETS

Pursuant to IFRS 9, the Company started to apply the expected loss model, according to which not only incurred losses are recognised but also losses that are expected to occur in the future.

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

Objective evidence on the impairment of financial assets can be: non-compliance or violation by the debtor, signs that the debtor will go bankrupt; restructuring the amount, owned to the company by others, and disappearance of active market for such instrument.

IMPAIRMENT OF RECEIVABLES AND LOANS

If it is assessed that the carrying amount of receivable has exceeded its fair value (realisable value), the receivable is impaired.

Appropriate supporting documents are required for the final write-off of receivables such as: final decisions on compulsory settlement, bankruptcy proceeding, court decision or other relevant documents.

The impairment assessment is based on the expected credit losses associated with the probability of defaults on loans and receivables in the next 12 months, unless the credit risk significantly increased since the initial recognition. In these cases, the impairment assessment is based on the probability of default over the entire duration of the financial asset (CECL). Expected credit losses represent the difference between contractual cash flows that are due under the contract and all cash flows for which the company expects to receive them. Expected cash flows will include the cash flows from the sale of security.

Impairments for expected credit losses are assessed in two stages. As for credit exposures where no significant increase in credit risk was established after initial recognition, impairments for expected credit losses are recognised for credit losses arising from defaults that are possible within the next 12 months. For those credit exposures for which a significant increase in credit risk has occurred since the initial recognition, the company recognises an allowance from losses expected in the remaining useful life of the exposure, regardless of the default period.

Doubtful receivables from others are those which are not settled within 180 days after their due date.

Disputed receivables are those which comply with one of the following conditions:

- the legal collection procedure began at the court,
- the decision on beginning of compulsory settlement, liquidation or bankruptcy is published.

The impairment of receivables that as such are insignificant is assessed collectively so that receivables with similar risk characteristics are grouped together. The company forms groups of receivables based on their maturity. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

In case all actions were performed with the carefulness of a good manager, with intention to repay certain unsettled receivable and in case that due to the amount of receivable, it would not be economic for the Company to enter the collection procedure through court, receivables are finally written down in full based on the management's decision.

The Company assesses evidence on loan impairment for each individual loan.

Impairment loss related to financial asset carried at realisable value is calculated as difference between the carrying amount of an asset and expected cash flows discounted at historical interest rate. Loss is recognised in the income statement among operating expenses.

IMPAIRMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSICE INCOME

Expenses arising on impairment of financial assets at fair value through other comprehensive income are recognised so that that potential accumulated loss, which is initially recognised in other comprehensive income and disclosed in fair value reserve, is transferred to profit or loss. Subsequent increase in fair value of impaired available-for-sale financial assets is recognised in other comprehensive income or in the fair value reserve.

II. NON-FINANCIAL ASSETS

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

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

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

Impairment losses recognised in prior periods are assessed by the Company at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss would have been recognised in previous years.

Impairment losses that occurred in previous years are not eliminated in case of investments in subsidiaries, associates and jointly controlled entities.

EQUITY

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

Share capital and capital surplus represent owner's cash contributions and contributions in kind.

As at 31 December 2002, the general equity revaluation adjustments included the revaluation of share capital before 2002 in accordance with then applicable Slovene Accounting Standards (SAS). The adjustment due to the transfer to new SAS has been transferred to capital surplus.

Other reserves are purposely retained earnings from the previous years. They are created on the basis of the decision by relevant supervisory body or owner.

Hedging reserve includes the effect of changed fair value of derivatives, which were classified as successful hedges in case of exposure to cash flow fluctuations.

Fair value reserve represents the revaluation amounts of derivatives and actuarial gains relating to payables to employees for termination benefits upon retirement.

Retained earnings include unallocated profit of the current year.

PROVISIONS FOR POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

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

Employee benefits expense and interest costs are recognised in the income statement, while the restatement of post-employment benefits or of unrealised actuarial gains or losses arising on termination benefits upon retirement are recognised in other comprehensive income.

EMPLOYEE BENEFITS

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

OTHER PROVISIONS

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

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

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

OTHER ASSETS AND OTHER LIABILITIES

Other assets include advances given, receivables due from state and other institutions, and short-term deferred costs and accrued income, which are not related to sales contracts. Deferred costs represent the amounts incurred but not yet charged against the profit or loss.

By introducing IFRS 15, accrued income is no longer part of other assets. Instead, accrued income from sales contracts with customers is disclosed under the item 'contract assets'.

Other liabilities include advances received, payables to employees, payables to state and other institutions, and long-term and short-term accrued costs and deferred income, which are not related to liabilities arising on sales contracts. Accrued costs are amounts that have not occurred yet but will in the future and have already an impact on profit or loss.

By introducing IFRS 15, deferred income is no longer part of other assets: Instead, deferred income arising on sales contracts with customers are disclosed in the item 'contract liabilities'.

CONTINGENT LIABILITIES

Contingent liability is:

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

Company's contingent liabilities include the guarantees granted and parent guarantees.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognized when control over goods or services is transferred to the buyer in an amount that reflects the consideration, which the company believes to be entitled to receive in return for these goods or services. Revenue from contracts with customers are recognised at fair value of received repayment or receivable arising thereunder.

The revenue is disclosed when the buyer assumes all significant types of risks and benefits related to the ownership of the asset, when there is a certainty in relation to recoverability of a fee and related costs or possibility of repayment of products and when the company stops deciding on products sold.

SALE OF GOODS

When selling goods, the performance obligation occurs upon the supply of goods. Goods are invoiced within 14 days or on a monthly basis. The sale of electricity accounts for the largest share within the sale of goods structure, which is followed by the sale of secondary and tertiary energy and deviations from the sale of electricity. This part includes also the sale of emission coupons arising on trading.

If the company records more foreign exchange gains than foreign exchange losses arising on operations, then these are disclosed among revenue from sale of goods by applying the net principal.

SALE OF SERVICES

When selling services, the performance obligation arises while rendering the services, while invoicing is performed on a monthly basis. The largest share within the structure of sale of services relates to services provided in connection with IT transmission capacities, services relating to guarantees of origin, services of negative electricity prices, and advisory services provided in the accounting, legal, HR and financial sectors.

Accrued income includes revenue that is considered in the income statement although not invoiced yet. In compliance with IFRS 15, they are recognized in the statement of financial position as contract assets and represent the right to compensation in return for goods or services, which is transferred to the buyer.

Deferred income is presented in accordance with IFRS 15 as a contract liability and is recognized as revenue when the company meets its performance obligation under the contract.

OTHER OPERATING AND FINANCE INCOME

Other operating income relating to operating effects include income from advances granted, income from default interest, gains arising from sales of fixed assets, received compensations and contractual penalties and similar revenue.

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

Finance income comprises income from shares in investments (dividends, sales revenue), interest on deposits and loans granted, and income from parent guarantees granted, and profits on hedging instruments, which are recognised in the income statement.

OPERATING AND FINANCE COSTS

Expenses are recognised if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt and this decrease can be reliably measured.

Operating expenses are recognised once the merchandise has been sold.

Costs of goods sold include expenses related to the sales of electricity, gas, trading emission coupons and their contingent costs. In case the company has more negative than positive foreign exchange differences, they are recorded as costs of goods sold.

Costs of materials are historical costs of materials purchased, namely costs of protection equipment, small tools, whose useful life does not exceed one year, energy products, office material, technical literature and other materials.

Costs of services are historical costs of services purchased, namely maintenance services rendered in connection with software, buildings and equipment, advertising services, entertainment, insurance premiums, payment transaction and other banking services (except interest), rentals, advisory services, business travels, and similar services.

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

Employee benefits expense are historical costs that refer to salaries and similar values in gross amounts as well as contributions and allowances that are calculated from this basis and are not an integral part of gross amounts.

Other operating income occur in connection with the formation of provisions, environmental charges and other duties.

Financial expenses comprise borrowing costs, including related derivatives and losses from impairment of financial assets and liquidations of subsidiaries. Interest expenses are recognised upon their occurrence, in the amount of agreed-upon interest rate.

TAXATION

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

Current tax liabilities are based on the taxable tax basis for the period. The taxable tax basis differs from the reported in the income statement, since it excludes items of income or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. The company's current tax liabilities are calculated using the tax rate that is applicable on the reporting date. Current tax liabilities are reduced in the event of advance payments of corporate income tax during the year.

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

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

Deferred tax liability represents the amount of current corporate income tax, which is based on taxable temporary differences and indicates higher tax payment in the future.

In 2018, the applicable tax rate for corporate income tax amounted to 19%, which will remain the same also in the next tax periods, based on the currently applicable tax legislation.

STATEMENT OF CASH FLOWS

The cash flows statement comprises changes in the balance of cash and cash equivalents for the period for which it was compiled. In the part relating to operating activities, the cash flow statement is prepared by using the indirect method and data from the statement of financial position, the income statement, and tables outlining the movements in assets and liabilities pursuant to International Financial Reporting Standards (IFRS).

Company's item of cash comprises bank balances, call deposits and deposits of up to three months.

SEGMENT REPORTING

The Company does not disclose operations by segments in the annual report. Segment reporting must be disclosed by companies whose treasury or debt securities are traded in the market, and companies which are issuing treasury or debt securities in public security markets.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY THE IASB AND ADOPTED BY THE EUROPEAN UNION, WHICH ARE NOT YET EFFECTIVE

New standards, interpretations and amendments to the existing standards as adopted by the European Union and stated below are not yet applicable and were not taken into account during the compilation of the annual financial statements for the fiscal year that started as of 1 January 2018. No standard was adopted prematurely by the Company.

➢ IFRS 16 - LEASES

(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, thus eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated, and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Regardless the stated accounting, no major changes apply to the lessor as the difference between the operating and finance lease remains.

The Company does not expect that the new standard, when initially applied, will have material impact on the financial statements as the assets and liabilities arising under the finance lease will have to be disclosed in the statement of financial position, in which the Company acts as the lessee.

The Company will recognise new assets and liabilities for its operating leases (rent relating to business premises in Ljubljana, Šoštanj, Maribor and Nova Gorica, car rentals). The nature and costs relating to these leases will consequently change, as the Company will recognise depreciation rights to the use of assets and interest costs for liabilities arising under the lease. In previous years, the Company recognised costs from the operating lease on the basis of straight-line depreciation over the lease period, and recognised the assets and liabilities in a scope, in which there was a time difference between the actual payments of lease and the recognised expenses. In addition, the Company will no longer recognise provisions for operating leases that are deemed by the Company as onerous. The Company will instead include payments of liabilities, which fall due under the lease. A larger impact on Company's finance leases is not expected. Given the currently available information, the Company assesses that additional lease liabilities will be recognised as at 1 January 2019 in the amount of EUR 1,028,319. The Company does not expect that the adoption of IFRS 16 will have an impact on its ability to meet the maximum leverage threshold in connection with loans received and does not expect that it will have a significant impact on the value of rations from the contracts concluded with lessors.

The Company will apply IFRS 16 for the first time on 1 January 2019 based on a changed retrospective approach. Consequently, the cumulative effect of adopting IFRS 16 will be recognised as a restatement of the opening balance of retained earnings as at 1 January 2019, without adjusting the comparative data.

➢ IFRIC 23 - UNCERTAINTY OVER INCOME TAX TREATMENT

(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.)

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment, then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and had full knowledge of all the relevant information.

The Company does not expect that the interpretation, when initially applied, will have material impact on the financial statements as it does not operate in a complex multinational tax environment.

➢ AMENDMENTS TO IFRS 9 - PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.

The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

The Company does not expect that the amendments will have a material impact on its financial statements.

NEW STANDARDS AND INTERPRETATIONS THAT WERE NOT YET ADOPTED BY THE EUROPEAN UNION

➢ AMENDMENTS TO IFRS 10 AND IAS 28 - SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

(The European Commission decided to defer the endorsement indefinitely.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company expects that the amendments, when initially applied, will have a material impact on its financial statements.

➢ IFRS 17 – INSURANCE CONTRACTS

(Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.)

This amendment was not yet endorsed by the European Union.

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of its financial statements, as it is not engaged in the insurance industry.

➢ AMENDMENTS TO IAS 28 - LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (ISSUED ON 12 OCTOBER 2017)

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

The amendment clarifies that companies account the investments in associates or joint ventures, which are not subject to the equity method, pursuant to provisions of IFRS 9 – Financial Instruments.

The Company expects that the amendments, when initially applied, will not have a material impact on ITS financial statements but will take them into account when they become applicable.

➢ ANNUAL IMPROVEMENTS TO IFRS 2015–2017 CYCLE (ISSUED ON 12 DECEMBER 2017)

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

The Improvements to IFRSs (2015-2017) contains 4 amendments to standards. The main changes were to:

- clarify that the company remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations;
- clarify that the company does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements;
- clarify that the company should always accounts for income tax consequences of dividend payments in profit or loss in the income statement, other comprehensive income or equity according to where the company originally recognized past transactions or events that generated distributable profits; and
- clarify that the company should exclude from the funds that the company borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

None of these changes are expected to have a material impact on the Company's financial statement.

➢ AMENDMENTS TO IAS 19 - EMPLOYEE BENEFITS

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

The amendments require that an entity applies current and upgraded assumptions in the event of the changed programme and/or the change, curtailment or limitation of the programme with the purpose to determine current service cost and net interest in the reporting period upon the programme's change.

The Company expects that the amendments, when initially applied, will not have a material impact on its financial statements.

➢ AMENDMENTS TO IFRS 3 – BUSINESS COMBINATIONS

(Effective for annual periods beginning on or after 1 January 2020.)

These amendments are not yet endorsed by the European Union.

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Company expects that the amendments, when initially applied, will not have a material impact on ITS financial statements.

➢ AMENDMENTS TO IAS 1 - PRESENTATION OF FINANCIAL STATEMENTS AND IAS 8 - ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

(Effective for annual periods beginning on or after 1 January 2020.)

These amendments are not yet endorsed by the European Union.

The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Company expects that the amendments, when initially applied, will not have a material impact on its financial statements.

4.5.5 DETERMINATION FAIR VALUE

With reference to disclosing fair values of non-financial and financial assets and liabilities, the determination of fair value is required either for measuring individual assets or due to additional fair value disclosures. Fair value is the amount by which an asset can be sold, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

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

Quoted prices are used as a basis for determining fair value of financial instruments. In case a financial instrument is not quoted on the regulated market or the market is assessed as inactive, the second and third level input data is used to assess the fair value of the financial instrument.

In order to determine the fair value of interest and currency swaps we use information submitted to the Company by the bank where an individual swap was concluded. Values are verified in the Company’s financial department.

In order to determine the fair values for derivatives that related to electricity and emission coupons, the known stock prices are used as at the balance sheet date.

4.5.6 FINANCIAL RISK MANAGEMENT

Detection and management of financial risks is defined in the management report. In notes to the financial statements, the risks are presented in connection with items in consolidated financial statements (section 4.5.7.6 Financial instruments and risk management), namely:

- credit risk,
- liquidity risk,
- currency risk,
- interest rate risk, and
- price risk.

4.5.7.1 STATEMENT OF FINANCIAL POSITION

INTANGIBLE ASSETS (1)

Intangible assets comprise emission coupons for the purposes of electricity production within the HSE Group and software.

INTANGIBLE ASSETS (in EUR)	31 DEC 2018	31 DEC 2017
Emission coupons	29,537,396	24,726,009
Other long-term property rights	2,188,569	2,112,997
TOTAL	**31,725,965**	**26,839,006**

MOVEMENT OF INTANGIBLE ASSETS (in EUR)	EMISSION COUPONS	OTHER LONG-TERM PROPERTY RIGHTS	TOTAL
Cost at 1 Jan 2018	**24,726,009**	**6,764,458**	**31,490,467**
Acquisitions	30,547,436	562,029	88,119,535
Disposals - write-offs, sales	-25,736,049	-340,475	-83,086,594
Cost at 31 Dec 2018	**29,537,396**	**6,986,012**	**36,523,408**
Write-downs at 1 Jan 2018		**4,651,461**	**4,651,461**
Disposals - write-offs, sales		-230,661	-230,661
Amortisation		376,643	376,643
Write-downs at 31 Dec 2018		**4,797,443**	**4,797,443**
Carrying amount at 1 Jan 2018	**24,726,009**	**2,112,997**	**26,839,006**
Carrying amount at 31 Dec 2018	**29,537,396**	**2,188,569**	**31,725,965**
Cost at 1 Jan 2017	**25,557,569**	**6,651,615**	**32,209,184**
Acquisitions	30,299,379	550,023	30,849,402
Disposals - write-offs, sales	-31,130,940	0	-31,130,940
Write-offs		-437,179	-437,179
Cost at 31 Dec 2017	**24,726,008**	**6,764,459**	**31,490,467**
Write-downs at 1 Jan 2017		**4,775,425**	**4,775,425**
Amortisation		313,215	313,215
Write-offs		-437,179	-437,179
Write-downs at 31 Dec 2017		**4,651,461**	**4,651,461**
Carrying amount at 1 Jan 2017	**25,557,569**	**1,876,190**	**27,433,759**
Carrying amount at 31 Dec 2017	**24,726,008**	**2,112,998**	**26,839,006**

Among its intangible assets, the Company records emission coupons for covering requirements of own electricity production at TEŠ and HSE EDT. In 2011, the Agreements on Managing the Emission Coupon Portfolio were signed according to which HSE manages emission coupons of both companies. The Company purchases the required quantity of coupons for several years in advance (depending on the quantities of electricity sold in those periods). The number of coupons needed at TEŠ and HSE EDT for the current period is determined at the beginning of the next year, thus the sale and transfer of coupons to the companies TEŠ and HSE EDT is carried out in the next period. However, all sales effects are included in the Company's operating result for the current year.

At the start of 2018, the Company had in stock and recorded 3,812,163 emission coupons for covering the requirements of own electricity production in its subsidiaries. For this purpose, the Company purchased in 2018 4,210,165 and sold 3,926,163 thousand coupons, whereas the stock as at the balance sheet date is recorded at 4,096,165. The sale of emission coupons to subsidiaries indicates profit for the Company as at 31 December 2018 in the amount of EUR 390,386.

Significant value among long-term property rights refers to the SAP software and the eDMS document system.

Increase in intangible assets includes in 2018 the upgrade of the software in the Management Centre and the SAP software ERP module PM.

The Company assessed the useful lives of significant software and established they can remain unchanged.

As of 1 October 2018, the Company transferred the system infrastructure over to the DEM company with the value of the relevant software recorded at EUR 114,442.

As at 31 December 2018, the Company recorded EUR 1,115,890 relating to software upgrade, the Management Centre simulator, and the SAP software ERP module PM.

No pledges or other ownership-related limitations referring to intangible assets exist.

PROPERTY, PLANT AND EQUIPMENT (2)

PROPERTY, PLANT AND EQUIPMENT (in EUR)	2018	2017
Buildings	1,224,594	1,259,591
Production equipment	86,367	91,447
Other equipment	872,794	1,498,707
Property, plant and equipment being acquired	9,734,192	9,576,750
TOTAL	**11,917,947**	**12,426,495**

The item of buildings includes part of Company's business premises in Ljubljana, whereby part of premises in Ljubljana, business premises in Šoštanj, Maribor and Nova Gorica are hired by the Company. The item of production equipment comprises the solar power plant, while other equipment includes mostly computer equipment.

MOVEMENT PROPERTY, PLANT AND EQUIPMENT (in EUR)	BUILDINGS	PRODUCTION EQUIPMENT	OTHER EQUIPMENT	PROPERTY, PLANT AND EQUIPMENT BEING ACQUIRED	TOTAL
Cost at 1 Jan 2018	**1,733,285**	**127,009**	**9,440,736**	**9,576,750**	**20,877,780**
Acquisition				685,017	685,017
Disposals			-5,058,804		-5,058,804
Transfers from investments			527,574	-527,574	0
Write-offs			-5,955		-5,955
Cost at 31 Dec 2018	**1,733,285**	**127,009**	**4,903,551**	**9,734,193**	**16,498,038**
Write downs at 1 Jan 2018	**473,694**	**35,562**	**7,942,029**	**0**	**8,451,285**
Disposals			-4,357,513		-4,357,513
Depreciation	34,998	5,080	452,196		492,274
Write-offs			-5,954		-5,954
Write downs at 31 Dec 2018	**508,692**	**40,642**	**4,030,758**	**0**	**4,580,092**
Carrying amount at 1 Jan 2018	**1,259,591**	**91,447**	**1,498,707**	**9,576,750**	**12,426,495**
Carying amount at 31 Dec 2018	**1,224,593**	**86,367**	**872,793**	**9,734,193**	**11,917,946**
Cost at 1 Jan 2017	**1,733,285**	**127,009**	**8,787,765**	**9,390,168**	**20,038,227**
Acquisition				1,196,741	1,196,741
Disposals			-227,737		-227,737
Transfers from investments			1,010,159	-1,010,159	0
Write-offs			-129,451		-129,451
Cost at 31 Dec 2017	**1,733,285**	**127,009**	**9,440,736**	**9,576,750**	**20,877,780**
Write-downs at 1 Jan 2017	**438,696**	**30,481**	**7,815,458**	**0**	**8,284,635**
Disposals			-198,169		-198,169
Depreciation	34,998	5,081	453,499		493,578
Write-offs			-128,759		-128,759
Write downs at 31 Dec 2017	**473,694**	**35,562**	**7,942,029**	**0**	**8,451,285**
Carying amount at 1 Jan 2017	**1,294,589**	**96,528**	**972,307**	**9,390,168**	**11,753,592**
Carying amount at 31 Dec 2017	**1,259,591**	**91,447**	**1,498,707**	**9,576,750**	**12,426,495**

Property, plant and equipment being acquired includes the investment in the construction of the middle Sava HPP in the amount of EUR 9,476,826. The aforesaid investment refers to the compilation and preparation of the pre-investment and investment-related documentation that is required within procedure of setting up the hydro-power plant into the environment. In 2018, the investment in the middle Sava HPP has gone up by EUR 69,528. Due to demanding circumstances on the electricity market, the HSE Group conducts its activities on the project in a limited scope so as to not hinder the long-term proceedings of setting the plant in the environment. All the so-far compiled documentation and expert opinions were prepared so that they will not fall under the statute of limitation and can be used by the new investor as the basis for further activities. All the above-mentioned confirms that regardless of the investment's slowdown, the investment itself is probably not at risk. Circumstances that could indicate the need for impairment have not occurred in 2018.

As of 1 October 2018, the Company carried out an amortised transfer of the system infrastructure over to the DEM company with the value of the relevant software and other equipment recorded at EUR 731,876.

The investment in Slovenia-Italy commercial water increased as well, namely in the amount of EUR 86,514.

The useful lives of significant equipment were assessed in 2018 and the Company established that they remain unchanged.

The Company does not have any item of property, plant and equipment under mortgage. As at 31 December 2018, the Company recorded EUR 148,753 of liabilities relating to the acquisition of other equipment, studies for designing a spatial plan for Slovenia-Italy commercial waters, and the implementation of the investment in the middle Sava HPP.

Plant and equipment were not impaired in 2018 as the useful life of relevant equipment does not exceed five years. The Company examined the possible indication of impairment of investments in business premises, by comparing the market value at the end of 2018 with their carrying amount. It was determined that differences between the carrying and market value are immaterial and indicate that the reasons for impairment are not required to be checked.

No pledges, finance leases or other ownership-related limitations referring to property, plant and equipment exist.

INVESTMENTS IN SUBSIDIARIES (3)

INVESTMENTS IN SUBSIDARIES (in EUR)	31 DEC 2018	31 DEC 2017
DEM	387,058,979	387,058,979
SENG	152,692,249	152,692,249
TEŠ	367,318,000	424,039,354
HSE EDT	2,153,668	2,153,668
PV	42,989,329	42,989,329
HSE Invest	80,000	80,000
SRESA	60,000	60,000
HSE Balkan Energy	856,000	856,000
HSE Adria - in liquidation	102,553	102,553
HSE MAK Energy	26,779	26,779
HSE BH	513,990	513,990
TOTAL	**953,851,547**	**1,010,572,901**

Large part of Company's assets comprises long-term investments in subsidiaries. They include investments in companies, in which the parent company – directly or indirectly through other owners – owns a controlling interest and prepares consolidated financial statements for this group of companies.

COMPANY	ADDRESS	COUNTRY	ACTIVITY	% OF OWNERSHIP	% OF VOTING RIGHTS
DEM	Obrežna ulica 170, 2000 Maribor	Slovenia	Hydroelectricity generation	100.0%	100.0%
SENG	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Hydroelectricity generation	100.0%	100.0%
TEŠ	Cesta Lole Ribarja 18, 3325 Šoštanj	Slovenia	Electricity production at thermal power plants	100.0%	100.0%
PV	Partizanska 78, 3320 Velenje	Slovenia	Mining and agglomeration of lignite	100.0%	100.0%
HSE EDT	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production at thermal power plants	100.0%	100.0%
HSE Balkan Energy	Bulevar Mihaila Pupina 117, Beograd	Serbia	Electricity trading	100.0%	100.0%
HSE Adria - in liquidation	Miramarska 24, 10 000 Zagreb	Croatia	Electricity trading	100.0%	100.0%
HSE MAK Energy	Belasica no. 2, 1000 Skopje	Macedonia	Electricity trading	100.0%	100.0%
HSE BH	Ul. Alije Isakovića br.1, Sarajevo	Bosnia and Herzegovina	Electricity trading	100.0%	100.0%
*ELPROM	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Hydroelectricity generation	100.0%	100.0%
*HTZ I.P.	Partizanska 78, 3320 Velenje	Slovenia	Repair of machines and plants	100.0%	100.0%
*PV Invest	Koroška cesta 62 b, 3320 Velenje	Slovenia	Ground preparation work	100.0%	100.0%
*SIPOTEH	Partizanska cesta 78, 3320 Velenje	Slovenia	Production of metallic structures	100.0%	100.0%
*RGP	Rudarska cesta 6,3320 Velenje	Slovenia	Specialized construction work	60.9%	60.9%
*mHE Lobnica	Obrežna ulica 170, Maribor	Slovenia	Hydroelectricity generation	65.0%	65.0%
SRESA	Ob železnici 27, 1420 Trbovlje	Slovenia	Hydroelectricity generation	60.0%	60.0%
HSE Invest	Obrežna ulica 170 a, 2000 Maribor	Slovenia	Other project engineering and technical consulting	25.0%	25.0%

* HSE in these companies shows indirect ownership

SIGNIFICANT AMOUNTS FROM THE FINANCIAL STATEMENTS OF SUBSIDIARIES (in EUR)	ASSETS	LIABILITIES (WITHOUT EQUITY)	REVENUE	NET PROFIT OR LOSS FOR THE PERIOD	TOTAL EQUITY
TEŠ	1,027,242,961	674,618,956	200,568,853	-58,529,301	352,624,005
DEM	460,054,050	14,768,497	64,734,960	8,320,493	445,285,553
SENG	226,705,599	27,740,621	35,464,200	4,008,871	198,964,978
PV	124,685,916	81,846,828	109,226,557	-3,831,881	42,839,088
HTZ I.P.	15,848,665	14,450,461	31,563,888	238,031	1,398,204
RGP	7,362,319	5,120,334	13,154,312	809,890	2,241,985
HSE EDT	3,630,414	1,455,838	1,288,333	-541,450	2,174,576
HSE MAK Energy	2,489,571	2,354,213	12,042,033	38,084	135,358
HSE BH	2,139,603	1,385,977	16,198,370	2,702	753,626
HSE Invest	1,535,375	946,291	2,979,319	-1,039,125	589,084
HSE Balkan Energy	1,366,648	485,543	13,316,847	18,701	881,105
SIPOTEH	989,107	532,451	2,443,904	161,511	456,656
mHE Lobnica	617,102	1,199	25,359	-3,924	615,903
HSE Adria - in liquidation	82,804	1,465	10	-18,162	81,339
SRESA	62,980	12	1	-5,195	62,968
ELPROM	51,698	18		-219	51,680
PV Invest			962,209	176,267	
TOTAL	**1,874,864,812**	**825,708,704**	**503,969,155**	**-50,194,707**	**1,049,156,108**

CHANGES IN LONG-TERM INVESTMENTS IN GROUP COMPANIES (in EUR)	2018	2017
Share capital increase in TEŠ	0	47,259,354
Impairment of investments in TEŠ	56,721,354	-47,300,000
TOTAL	**56,721,354**	**-40,646**

MOVEMENT OF LONG-TERM INVESTMENTS IN SUBSIDIARIES (in EUR)	2018	2017
Cost at 1 Jan	**1,684,472,759**	**1,637,213,405**
Acquisition		47,259,354
Cost at 31 Dec	**1,684,472,759**	**1,684,472,759**
Write-downs at 1 Jan	**-673,899,858**	**-625,438,758**
Impairments	-56,721,354	-48,461,100
Write-downs at 31 Dec	**-730,621,213**	**-673,899,858**
Carrying amount at 1 Jan	**1,010,572,901**	**1,011,774,647**
Carrying amount at 31 Dec	**953,851,547**	**1,010,572,901**

None of the subsidiaries or comparable companies are listed on the stock exchange, hence reasons for a possible impairment could not be determined based on the market prices. Possible grounds for impairment were examined based on the Company's business results and by comparing the differences between the carrying amount of the Company's long-term investment with a proportionate share of the carrying amount of the total capital of subsidiaries. Certified company appraisers performed impairment testing of long-term investments in relation to companies that recorded negative results or where the carrying amount of the long-term investment exceeded the proportionate share of the carrying amount of the total equity. The carrying amounts of the total capital of subsidiaries are, in case of all subsidiaries and upon the impairment of the investment of TEŠ, higher or equal to the carrying amount of a long-term investment in an individual company. Impairment testing of long-term financial assets were conducted by certified appraisers for the companies TEŠ and the PV Group companies. No impairment was carried out in relation to PV Group companies.

As at 30 September 2018, the long-term investment in the company TEŠ was impaired in the amount of EUR 56,721,354 and charged against finance costs.

The tables below show the assumptions applied in the impairment testing and the relevant result:

LONG-TERM INVESTMENTS IN TEŠ

2018	2017
METHOD OF DEFINING THE RECOVERABLE VALUE DURING IMPAIRMENT TESTING	
Value in use (present value of the expected free cash flow)	Value in use (present value of the expected free cash flow)
DATE OF IMPAIRMENT TESTING	
30 September 2018	30 September 2017
SIGNIFICANT ASSUMPTIONS USED DURING IMPAIRMENT TESTING	
Company's business operations until 2054.	Company's business operations until 2054.
Discount rate in the nominal rate of 7.71%, adjusted to the real level: 5.54% in the October-December 2018 period, and 5.57% from including 2019 onwards.	Discount rate in the nominal rate of 7.50%, adjusted to the real level: 5.81% in the October-December 2017 period, 5.59% in 2018 and 5.39% from 2019 onwards.
Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2019-2021, with the starting price of EUR 40.39/MWh, the price change in the period is 26.32%.	Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2018-2020, with the starting price of EUR 40.72/MWh, the price change in the period is 8.7%.
Exchange prices for standardized futures contracts for CO_2 emission coupons at the EEX stock exchange for 2019-2021, with the starting price of EUR 6.45/t, the price change in the period is 230.95%.	Exchange prices for standardized futures contracts for CO_2 emission coupons at the EEX stock exchange for 2018-2020, with the starting price of EUR 6.48/t, the price change in the period is 14.8%.
Long-term forecasts for electricity prices fluctuations (Poyry Management Consulting) for the 2022-2040 period, with the starting price of EUR 55.85/MWh, the price change in the period is 32.14%.	Long-term forecasts for electricity prices fluctuations (Poyry Management Consulting) for the 2021-2040 period, with the starting price of EUR 48.04/MWh, the price change in the period is 58.7%.
Long-term forecasts for market price fluctuations for CO_2 emissions coupons (Poyry Management Consulting) for the 2022-2030 period, with the starting price at EUR 15.09/t, and the price change in the period is 50.10%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is kept on the level at 33%.	Long-term forecasts for market price fluctuations for CO_2 emissions coupons (Poyry Management Consulting) for the 2021-2030 period, with the starting price at EUR 12,32/t, and the price change in the period is 107%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is kept on the level at 34%.
The 2041-2054 takes account of the prices for electricity and CO_2 emission coupons from 2040.	The 2041-2054 takes account of the prices for electricity and CO_2 emission coupons from 2040.
Average annual production of electricity from coal power plant sis recorded at 3.7 TWh in the 2019-2030 period, 2.5 TWh in the 2031-2040 period and 2.0 TWh in the 2041-2054 period.	Average annual production of electricity from coal power plant sis recorded at 3.6 TWh in the 2018-2030 period, 2.5 TWh in the 2031-2040 period and 2.0 TWh in the 2041-2054 period.
The value of other income (income from providing system services, themral energy, income from sale of dust and gypsum) in the amount of EUR 27,926,000 in 2018 to EUR 18,475,000 until 2054.	The value of other income (income from providing system services, themral energy, income from sale of dust and gypsum) in the amount of EUR 20,030,000 in 2018 to EUR 19,169,000 until 2054.
CAPEX in the period of projections is recorded at EUR 151,221,000.	CAPEX in the period of projections is recorded at EUR 179,730,000.
IMPAIRMENT TESTING RESULTS	
Carrying amount of assets prior to impairment testing was recorded at EUR 424,039,354.	Carrying amount of assets prior to impairment testing was recorded at EUR 424,080,000.
Recoverable value is stated at EUR 367,318,000.	Recoverable value is stated at EUR 376,780,000.
Revaluation expenses for impairment are recorded at EUR 56,721,354.	Revaluation expenses for impairment are recorded at EUR 47,300,000.

LONG-TERM INVESTMENTS IN PV

2018	2017
METHOD OF DEFINING THE RECOVERABLE VALUE DURING IMPAIRMENT TESTING	
Value in use (present value of the expected free cash flow)	Value in use (present value of the expected free cash flow)
DATE OF IMPAIRMENT TESTING	
30 September 2018	30 September 2017
SIGNIFICANT ASSUMPTIONS USED DURING IMPAIRMENT TESTING	
Company's business operations until 2054.	Company's business operations until 2054.
Discount rate in the nominal value of 9.18%, adjusted to the real level at 7.04%, which was taken into account until 2054 .	Discount rate in the nominal value of 7.85%, adjusted to the real value: 6.15% in the October-December 2017 period, 5.93% in 2018 and 5.73% from 2019 onwards.
Coal's sales price is recorded at EUR 2.75/GJ in the overall period until 2054.	Coal's sales price is recorded at EUR 2.75/GJ in the overall period until 2054.
Costs for closing the coal mine after its operations are estimated at EUR 43,299,000.	Costs for closing the coal mine after its operations are estimated at EUR 53,980,000.
Average annual coal production is recorded at 35.367 TJ/year in the 2019-2030 period, decline in the volume of operations in the 2030-2040 period due to the anticipated closure of the coal mine; a constant production and sale of coal at 19,168 TJ/year is anticipated after 2040.	Average annual coal production is recorded at 35.292 TJ/year in the 2018-2030 period, decline in the volume of operations in the 2030-2040 period due to the anticipated closure of the coal mine; a constant production and sale of coal at 19,168 TJ/year is anticipated after 2040.
CAPEX in the period of projections is recorded at EUR 328,047,445.	CAPEX in the period of projections is recorded at EUR 371,539,000.
The recoverable value of investments in subsidiaries and other companies is recorded at EUR 21,248,000.	The recoverable value of investments in subsidiaries and other companies is recorded at EUR 27,480,000.
The recoverable value of non-performing assets is recorded at EUR 2,658,000.	The recoverable value of non-performing assets is recorded at EUR 4,288,000.
»We advocate the assumptions that the Company shall not be liable to meet the covenants, which are not explicitly stated in the currently applicable concession contract.«	
IMPAIRMENT TESTING RESULTS	
Carrying amount of assets prior to impairment testing was recorded at EUR 42,989,329.	Carrying amount of assets prior to impairment testing was recorded at EUR 42,989,000.
Recoverable value is stated at EUR 47,947,000.	Recoverable value is stated at EUR 59,911,000.
Revaluation expenses for impairment are recorded at EUR 0 thousand.	Revaluation expenses for impairment are recorded at EUR 0 thousand.

SENSITIVITY ANALYSIS – IMPAIRMENT TESTING OF THE LONG-TERM INVESTMENT IN TEŠ AND PV

LONG-TERM INVESTMENT	RECOVERABLE VALUE IN EUR	SENSITIVITY (CHANGE) OF THE RECOVERBLE VALUE IN EUR					
		CHANGE IN THE DISCOUNT RATE (WACC) IN %		NOPLAT CHANGE (EBIT-TAX) IN %		CAPEX CHANGE IN %	
		(0,5)	0.5	(5)	5	(5)	5
In TEŠ	367,318,000	3,636,500	-3,260,750	-24,408,000	24,407,500	4,096,500	-4,097,000
In PV	47,947,000	2,650,500	-2,650,500	-60,370,000	60,370,000	8,132,000	-8,132,000

OTHER LONG-TERM INVESTMENTS AND LOANS (4)

The largest share among other long-term investments comprise the long-term investment in the associate and long-term loans granted (including interest) to Group companies.

OTHER LONG-TERM INVESTMENTS AND LOANS (in EUR)	31 DEC 2018	31 DEC 2017
Long-term investments in associated companies	40,513,942	40,513,942
Long-term investments in jointly controlled companies	255,000	255,000
Available-for-sale long-term financial assets	111,000	111,000
Other long-term investments	500	500
Long-term financial receivables and loans	90,528,807	24,883,567
TOTAL	**131,409,249**	**65,764,009**

MOVEMENTS OF LONG TERM INVESTMENTS AND LOANS (in EUR)	LONG-TERM INVESTMENTS IN ASSOCIATES	LONG-TERM INVESTMENTS IN JOINTLY CONTROLLED ENTITIES	LONG-TERM ASSETS AVAILABLE FOR SALE	OTHER LONG-TERM INVESTMENTS	LONG-TERM LOANS TO GROUP COMPANIES	TOTAL
Balance at 1 Jan 2018	**40,513,942**	**255,000**	**111,000**	**500**	**24,883,567**	**65,764,009**
Additions					66,645,240	66,645,240
Transfers to short-term recievbales					-1,000,000	-1,000,000
Balance at 31 Dec 2018	**40,513,942**	**255,000**	**111,000**	**500**	**90,528,807**	**131,409,249**
Balance at 1 Jan 2017	40,513,942	255,000	111,000	500	24,507,308	65,387,750
Additions					28,885,613	28,885,613
Transfers from short-term receivables					20,000,000	20,000,000
Transfers to short-term receivables					-1,000,000	-1,000,000
Share capital increase in TEŠ					-47,259,354	-47,259,354
Repayments					-250,000	-250,000
Balance at 31 Dec 2017	40,513,942	255,000	111,000	500	24,883,567	65,764,009

A) LONG-TERM INVESTMENTS IN ASSOCIATES

No changes were recorded in 2018 with respect to investments in associates. As for the investment in the associate, the Company does not detect indication of impairment, thus no impairment testing was carried out.

SIGNIFICANT AMOUNTS IN THE FINANCIAL STATEMENTS OF ASSOCIATES IN 2018 (in EUR)	ASSETS	LIABILITIES (WITHOUT EQUITY)	REVENUE	NET PROFIT OR LOSS FOR THE PERIOD	TOTAL EQUITY
HESS	344,419,943	61,897,016	19,380,860	3,561,010	282,522,927

DATA ON ASSOCIATE AS AT 31 DEC 2018	ADDRESS	ACTIVITY	% OF OWNERSHIP
HESS	Cesta bratov Cerjakov 33a 8250 Brežice	Production of electricity in HPP	15.4%

B) LONG-TERM INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Investments in jointly controlled entities include the 25% equity interest in the company Soenergetika in the amount of EUR 255,000. No changes were recorded in 2018.

SIGNIFICANT AMOUNTS IN THE FINANCIAL STATEMENTS OF THE JOINTLY CONTROLLED ENTITY IN 2018 (in EUR)	ASSETS	LIABILITIES (WITHOUT EQUITY)	REVENUE	NET PROFIT OR LOSS FOR THE PERIOD	TOTAL EQUITY
SOENERGETIKA	2,700,116	888,959	3,490,992	680,768	1,811,157

DATA OF JOINTLY CONTROLLED COMPANIES AS AT 31 DEC 2018	ADDRESS	ACTIVITY	% OF OWNERSHIP	% OF VOTING RIGHTS
SOENERGETIKA	Stara cesta 3 4000 Kranj	proizvodnja elektrike in toplote	25 %	25 %

C) OTHER LONG-TERM INVESTMENTS

Other long-term investments comprise the investment in the company Stelkom (12.13% share) at EUR 111,000 thousand and the contribution in Zavod CO NOT in the amount of EUR 500. No changes were recorded with these investments in 2018.

D) LONG-TERM FINANCIAL LOANS TO GROUP COMPANIES

LONG-TERM FINANCIAL RECEIVABLES AND LOANS (in EUR)	31 DEC 2018	31 DEC 2017
Long-term financial receivables and loans to Group companies, exclusive of interest	85,282,956	21,491,499
Long-term interest receivables and loans to Group companies	5,245,851	3,392,068
TOTAL	**90,528,807**	**24,883,567**

MOVEMENT OF LONG-TERM RECEIVABLES AND LOANS (in EUR)	2018	2017
Balance at 1 Jan	**24,883,567**	**24,507,308**
Increases	66,645,240	28,885,613
Transfer from short-term receivables		20,000,000
Transfer on short-term receivable	-1,000,000	-1,000,000
Share capital increase in TEŠ		-47,259,354
Repayments		-250,000
Balance at 31 Dec	**90,528,807**	**24,883,567**

Long-term financial receivables and loans include loans extended to Group companies and related interest. The principal amount of the loan to PV is recorded at EUR 3,850,000 and to TEŠ at EUR 81,432,956. The value of principal amounts of granted loans with the due date in 2019, are disclosed among short-term liabilities to the interest rate of approved loans is defined in accord with the transfer price methodology and ranges from 3.60% to 4.20%. The loan to the PV company is insured with bills of exchange. Loans to TEŠ mature in the period from 2026 to 2037, whereby the maturity of loans to the PV company by 2022. The valuation of long-term loans is assessed together with established recoverable value of investments in interests of both HSE Group companies.

LONG-TERM OPERATING RECEIVABLES (5)

LONG-TERM OPERATING RECEIVABLES TO OTHERS (in EUR)	31 DEC 2018	31 DEC 2017
Long-term operating receivables to others	3,050,905	3,104,116
TOTAL	**3,050,905**	**3,104,116**

Company's long-term operating receivables to others include financial coverages extended for the purpose of electricity trading.

DEFERRED TAX ASSETS (6)

DEFERRED TAX ASSETS (in EUR)	31 DEC 2018	31 DEC 2017
Provisions	90,199	78,080
Impairment	177,618	177,610
Depreciation and amortisation expense	71	201
Other	0	11,578
TOTAL	**267,888**	**267,469**

Deferred tax assets amounted to EUR 267,888 on 31 December 2018 and were calculated by applying the tax rate of 19%. Deferred tax assets were formed in connection with expenses that impact the profit or loss of individual year, but they are not fully or in part deductible for tax purposes in the current year (provisions for jubilee premiums and retirement benefits, operating amortisation/depreciation exceeding the deductible for tax purposes, impairment of investments and receivables). They are also formed from the fair value of derivatives disclosed in the hedging reserve and does not yet affect the profit or loss.

MOVEMENT OF DEFERRED TAX (in EUR)	PROVISIONS	IMPAIRMENT	DEPRECIATION AND AMORTISATION EXPENSE	OTHER	TOTAL
Balance at 1 Jan 2018	**78,080**	**177,610**	**201**	**11,578**	**267,469**
To debit/credit of profit or loss	12,119	8	-130	-11,578	419
Balance at 31 Dec 2018	**90,199**	**177,618**	**71**	**0**	**267,888**
Balance at 1 Jan 2017	**70,141**	**5,416,125**	**1,095**	**22,280**	**5,509,641**
To debit/credit of profit or loss	7,939	-5,238,515	-894	-12,190	-5,243,660
To debit/credit of other comprehensive income				1,488	1,488
Balance at 31 Dec 2017	**78,080**	**177,610**	**201**	**11,578**	**267,469**

The change in deferred tax assets represent in 2018 the formation of related assets arising on actuarial items and currency swaps.

SHORT-TERM INVESTMENTS AND LOANS (7)

SHORT TERM INVESTMENTS AND LOANS (in EUR)	31 DEC 2018	31 DEC 2017
Short-term financial receivables due from Group companies	872,874	1,000,731
Short-term loans granted to Group companies	1,000,000	1,560,000
Short-term interest receivables due from Group companies	15,470	23,143
Fair value of currency futures	67,885	
TOTAL	**1,956,229**	**2,583,874**

Short-term financial receivables due from Group companies comprise receivables for repaying allowances for guarantees and guarantees to Group companies given, and the value of the principal amount of the loan extended to the subsidiary that falls due in 2019; the latter loan was granted to the PV company.

MOVEMENT OF SHORT-TERM FINANCIAL RECEIVABLES AND LOANS

(in EUR)	2018	2017
Balance at 1 Jan	**2,583,874**	**1,906,300**
Increases	1,075,177	21,535,624
Transfer on long-term receivables		-20,000,000
Transfer from long-term receivables	1,000,000	1,000,000
Repayments	-2,770,707	-1,858,050
Other	67,885	
Balance at 31 Dec	**1,956,229**	**2,583,874**

As at 31 December 2018, there is no indication that would require short-term financial receivables and loans to be impaired.

SHORT-TERM TRADE RECEIVABLES (8)

SHORT-TERM TRADE RECEIVABLES

(in EUR)	31 DEC 2018	31 DEC 2017
Short-term operating receivables due from Group companies	6,167,484	22,253,939
Short-term operating receivables due from associates	5,079	1,719
Short-term operating receivables due from jointly controlled companies	0	234
Short-term trade receivables	129,318,234	113,309,914
TOTAL	**135,490,797**	**135,565,806**

Short-term trade receivables in the amount of EUR 129,318,234 refer primarily to the sale of electricity in Slovenia and abroad.

SHORT-TERM OPERATING RECEIVABLES DUE FROM GROUP COMPANIES

(in EUR)		31 DEC 2018	31 DEC 2017
DEM	Slovenia	177,357	98,364
SENG	Slovenia	170,683	3,522,834
TEŠ	Slovenia	94,889	118,411
HSE EDT	Slovenia	20,442	18,861
PV	Slovenia	2,237,894	493,403
HSE Invest	Slovenia	2,377	311
HSE Balkan Energy	Serbia	476,735	7,876,253
HSE Adria - in liquidation	Croatia	1,164	1,303
HSE MAK Energy	Macedonia	1,944,755	1,731,138
HSE BH	Bosnia and Herzegovina	1,041,186	8,393,061
TOTAL		**6,167,484**	**22,253,939**

Short-term operating receivables due from Group companies comprise receivables arising from sales of electricity and various services provided for subsidiaries (e.g. trading, financial function, IT function, etc.).

Maturities for short-term operating receivables due from Group companies are presented within the section discussing the credit risks.

CONTRACT ASSETS (9)

CONTRACT ASSETS

(in EUR)	31 DEC 2018	31 DEC 2017
Contract assets	3,016,725	0
TOTAL	**3,016,725**	**0**

Contract assets include income not yet charged but taken into account in the operating result. In compliance with IFRS 15, these assets are disclosed as contract assets in the income statement and include the right to compensation in return for goods or services, which is transferred to the buyer.

OTHER CURRENT ASSETS (10)

OTHER SHORT-TERM ASSETS

(in EUR)	31 DEC 2018	31 DEC 2017
Short-term advances	649	3,093
Short-term operating receivables to state and other institutions	22,111,931	20,569,476
Short-term operating receivables due from others	15,847,654	7,139,396
Short-term deferred costs and expenses	3,273,807	6,346,966
TOTAL	**41,234,041**	**35,963,468**

Most of other short-term operating receivables comprise receivables due from state and other institutions, which primarily refer to the input VAT. The largest value thereunder refers to electricity-related invoices received from abroad, where self-taxation is carried out. The right to deduct VAT is gained on the date of the invoice received from abroad.

Most of short-term operating receivables due form others refers to exceeding the overdraft, which was authorised for operations in connection with derivatives.

Short-term deferred costs and expenses comprise transactions related to electricity trading.

CASH AND CASH EQUIVALENTS (11)

CASH AND CASH EQUIVALENTS (in EUR)	31 DEC 2018	31 DEC 2017
Cash in transit		751,315
Bank balances	48,131,317	15,406,586
Call deposits	15,607,593	10,029,568
Deposits tied up to 3 months	4,020,338	540,405
TOTAL	**67,759,248**	**26,727,874**

For the purposes of carrying out its activities, the Company holds bank accounts in Slovenia and abroad and as at the year-end of 2018 recorded EUR 48,131,317 of bank balances.

As at 31 December 2018, the Company had no approved bank overdrafts.

EQUITY (12)

EQUITY (in EUR)	31 DEC 2018	31 DEC 2017
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Other revenue reserves	562,744,824	562,744,824
Risk protection reserve	75,592,355	10,753,380
Fair value reserve	-26,773	51,227
Reatined earnings	-249,723,230	-258,982,283
TOTAL	**979,389,150**	**905,369,122**

CAPITAL SURPLUS (in EUR)	31 DEC 2018	31 DEC 2017
Paid-in capital surplus	561,243,072	561,243,072
Amounts arising from reversal of general capital revaluation adjustment	113	113
TOTAL	**561,243,185**	**561,243,185**

The value of share capital and capital surplus remained unchanged in 2018.

As at 31 December 2018, the Company discloses under hedging reserves totalling to EUR 75,592,355 following items:

- results of standardized futures for electricity (forward contracts) in the amount of EUR 1,678,240,
- results of standardized futures for emission coupons (forward contracts) in the amount of EUR 77,215,610, and
- fair value of currency swaps in the amount of EUR 54,986.

MOVEMENT OF HEDGING RESERVES (in EUR)	STANDARDIZED FUTURES FOR ELECTRICITY	STANDARDIZED FUTURES FOR EMISSION COUPONS	CURRENCY SWAPS	TOTAL
Balance at 1 Jan 2018	**1,177,938**	**9,624,800**	**-49,358**	**10,753,380**
Formation, increase	4,736,726	133,875,140	104,344	138,716,210
Decrease	-783,950	-9,799,020		-10,582,970
Transfer to expenses	-6,808,954	-56,485,310		-63,294,264
Balance at 31 Dec 2018	**-1,678,240**	**77,215,610**	**54,986**	**75,592,356**
Balance at 1 Jan 2017	94,140	1,689,500	-43,016	1,740,624
Formation, increase	2,029,190	13,179,850	-49,358	15,159,682
Decrease	-505,833	-5,244,550	43,016	-5,707,367
Transfer to costs	-439,559			-439,559
Balance at 31 Dec 2017	**1,177,938**	**9,624,800**	**-49,358**	**10,753,380**

The hedging reserve increased in 2018 by EUR 64,838,976 relative to the previous year. The relevant increase is primarily the result of emission coupons' high price at the year-end of 2018. The hedging reserve includes the trading with standard futures on the electricity markets and to the emission coupons.

Electricity futures contracts refer to concluding deals on purchase of electricity on foreign electricity stock exchanges for the period from 2019 to 2021, thus securing the already concluded deals for the sale of electricity in the same period. Standard futures contracts for emission coupons represent contracts of purchase and sale of emission coupons on foreign exchanges for the period from 2018 to 2020. On the basis of electricity fluctuations and emission coupon prices on the stock exchange, a cumulative positive financial effect in the amount of EUR 64,734,632 was realised in forwards concluded in 2018. No deferred taxes were accounted in this relation, as the Group will pay an agreed-upon price during the deal's realisation.

In 2018, the Company closed the currency swaps, whose negative fair value amounted as at 31 December 2017 (inclusive of deferred taxes) to EUR 49,359. The Group entered in the reporting period into new deals and partly already also closed them. The overall change in the fair value is positive and recorded at EUR 104,344. The positive fair value of open currency swaps amounted at the year-end of 2018 to EUR 67,885, whereof EUR 12,898 were accounted for deferred tax liabilities. Thus, the closing balance, inclusive of deferred taxes, is recorded at EUR 54,987.

MOVEMENT OF FAIR VALUE RESERVE (in EUR)	ACTUARIAL GAINS OR LOSSES ON TERMINATION BENEFITS UPON RETIREMENT	TOTAL
Balance at 1 Jan 2018	**51,227**	**51,227**
Formation, increase	-88,312	-88,312
Decrease	23,143	23,143
Transfer to retained earnings or losses	-12,831	-12,831
Balance at 31 Dec 2018	**-26,773**	**-26,773**
Balance at 1 Jan 2017	**20,527**	**20,527**
Formation, increase	43,500	43,500
Decrease	-1,634	-1,634
Transfer to retained earnings or losses	-11,166	-11,166
Balance at 31 Dec 2017	**51,227**	**51,227**

The fair value reserve in the total value of EUR 26,773 disclosed at the year-end of 2018 includes actuarial loss arising on accounted retirement benefits paid to employees. The actuarial loss increased in 2018 by EUR 65,169. According to the actuarial calculation, retained earnings or losses increased due to reversal of termination benefits by EUR 12,831.

ACCUMULATED PROFIT OR LOSS (in EUR)	2018	2017
Net profit or loss for the period	9,486,269	19,737,615
Transfered profit or loss	-259,209,499	-278,719,898
Accumulated profit or loss	**-249,723,230**	**-258,982,283**

At the end of the reporting period, the Company discloses a negative retained result consisting of net profit for 2018 in the amount of EUR 9,486,269, reduced by the negative retained loss from 2017, adjusted by the utilisation of provisions for termination benefits upon retirement in 2018 in the amount of EUR 12,832, and additionally formed impairments at the Company as at 1 January 2018 in the amount of EUR 240,048 in connection with the new IFRS 9.

Company's total capital increased in 2018 by EUR 74,020,029, namely:

- by the net loss for the period (EUR 9,486,269),
- retained net result (EUR 12,832),
- change impacted by the IFRS 9 (EUR -240,048),
- change in the hedging reserve (EUR 64,838,976), and
- change in the fair value reserve (EUR -78,000).

RETAINED EARNINGS OR LOSSES (in EUR)	2018	2017
Retained earnings or losses	-249,723,230	-258,982,283
TOTAL	**-249,723,230**	**-258,982,283**

PROVISIONS FOR RETIREMENT BENEFITS AND JUBILEE PREMIUMS (13)

Provisions for retirement benefits and jubilee premiums include termination benefits upon retirement and anniversary bonuses. They are formed in the amount of estimated future payments for jubilee premiums, discounted at the end of the year. A calculation is made per individual employees taking into account the cost of termination benefit upon retirement and the cost of all expected anniversary benefits by the time of retirement.

PROVISIONS FOR TERMINATION BENEFITS AND JUBILEE PREMIUMS (in EUR)	31 DEC 2018	31 DEC 2017
Provisions for termination benefits upon retirement	728,726	625,249
Provisions for jubilee premiums	220,739	196,649
TOTAL	**949,465**	**821,898**

The Company discloses provisions for termination benefits and jubilee premiums created on the basis of an actuarial calculation prepared as at 31 December 2018.

The calculation of provisions for retirement benefits and jubilee premiums is based on the actuarial calculation, observed following actuarial assumptions:

- mortality tables,
- staff fluctuation,
- retirement,
- average salary growth in accord with the Decree of the Republic of Slovenia that anticipated a 2.0% growth from 2021 onwards,
- salary growth rate in the Company,
- discount rate, which is defined as at 31 December 2018 at 1.2%.

MOVEMENT OF PROVISIONS FOR TERMINATION BENEFITS AND JUBILEE PREMIUMS (in EUR)	PROVISIONS FOR TERMINATION BENEFITS UPON RETIREMENT	PROVISIONS FOR JUBILEE PREMIUMS	TOTAL
Balance at 1 Jan 2018	**625,249**	**196,648**	**821,897**
Interest expenses	5,559	1,666	7,225
Cost of current service	87,255	36,702	123,957
Cost of past service	-9,328	3,366	-5,962
Actuarial gains and losses - change in actuarial item	78,393	20,315	98,708
Actuarial gains - reversal	-23,143	-7,388	-30,531
Actuarial losses - formation and use	9,919		9,919
Payment of employee benefits in the current year	-45,178	-30,571	-75,749
Balance at 31 Dec 2018	**728,726**	**220,738**	**949,464**
Balance at 1 Jan 2017	**549,711**	**188,607**	**738,318**
Interest expenses	5,887	1,860	7,747
Cost of current service	73,743	33,427	107,170
Cost of past service	73,535	10,725	84,260
Actuarial gains and losses - change in actuarial item	-28,448	-6,586	-35,034
Actuarial gains - reversal	-15,052	-8,196	-23,248
Actuarial losses - formation and use	1,634	0	1,634
Payment of employee benefits in the current year	-35,761	-23,189	-58,950
Gains and losses on set-off	0	0	0
Balance at 31 Dec 2017	**625,249**	**196,648**	**821,897**

Change in actuarial gains and losses in the amount of EUR -65,169 arising from termination benefits upon retirement is disclosed in the movement of fair value reserve.

SENSITIVITY ANALYSIS FOR PROVISIONS FOR TERMINATION BENEFITS AND JUBILEE PREMIUMS (in EUR)	DISCOUNT RATE		GROWTH OF WAGES	
	DECREASE BY 0,5 %	INCREASE BY 0,5 %	DECREASE BY 0,5 %	INCREASE BY 0,5 %
Provisions for termination benefits upon retirement	50,471	-45,588	-47,077	50,795
Provisions for jubilee premiums	8,118	-7,581	-7,944	8,348
TOTAL 2018	**58,589**	-53,169	-55,021	**59,143**
Provisions for termination benefits upon retirement	40,029	-36,289	-37,647	40,514
Provisions for jubilee premiums	6,875	-6,438	-6,922	7,164
TOTAL 2017	**46,904**	**-42,727**	**-44,569**	**47,678**

OTHER PROVISIONS (14)

OTHER PROVISIONS (in EUR)	31 DEC 2018	31 DEC 2017
For lawsuits	311,675	
TOTAL	**311,675**	**0**

MOVEMENT OF OTHER PROVISIONS (in EUR)	LAWSUITS	TOTAL
Balance at 1 Jan 2018	**0**	**0**
Formation, increase	311,675	311,675
Balance at 31 Dec 2018	**311,675**	**311,675**

Other provisions comprise provisions formed in 2018 in connection with a lawsuit in the amount of EUR 290,000 and related default interest.

OTHER LONG-TERM LIABILITIES (15)

OTHER LONG-TERM LIABILITIES (in EUR)	31 DEC 2018	31 DEC 2017
Other long-term liabilities	485,750	0
TOTAL	**485,750**	**0**

MOVEMENT OF OTHER LONG-TERM LIABILITIES (in EUR)	OTHER	TOTAL
Balance at 1 Jan 2018	**0**	**0**
Acquisitions	521,203	521,203
Drawdown	-35,453	-35,453
Balance at 31 Dec 2018	**485,750**	**485,750**

Company's other long-term liabilities include assets in the amount of EUR 521,203 received in connection with co-financing the European OSMOSE project. The drawing refers to the share of costs incurred in this relation in 2018.

LONG-TERM FINANCIAL LIABILITIES (in EUR)	31 DEC 2018	31 DEC 2017
Long-term financial liabilities to banks	192,434,059	219,420,786
TOTAL	**192,434,059**	**219,420,786**

The item of long-term liabilities to banks includes Company's long-term borrowings in the total amount of EUR 193,363,636, reduced by the long-term deferred costs of loan approval from 2016. The value of principal amounts of relevant long-term borrowings that mature in 2019 are disclosed among short-term liabilities to banks in the amount of EUR 27,484,848, reduced by the short-term deferred part of costs of loan approval from 2016. In 2018, EUR 17,484,848 thousand of long-term loans were repaid.

Contracts on long-term loans include bank covenants, which the Company meets in full as at 31 December 2018.

LONG-TERM FINANCIAL LIABILITIES (16)

MOVEMENT OF LONG-TERM FINACIAL LIABILITIES (in EUR)	LONG-TERM FINANCIAL LIABILITIES TO BANKS	OTHER LONG-TERM FINANCIAL LIABILITIES	TOTAL
Balance at 1 Jan 2018	**219,420,786**	**0**	**219,420,786**
Transfers to short-term liabilities	-26,986,727		-26,986,727
Balance at 31 Dec 2018	**192,434,059**	**0**	**192,434,059**
Balance at 1 Jan 2017	236,407,512	250	236,407,762
Transfers to short-term liabilities	-16,986,726		-16,986,726
Repayments		-250	-250
Balance at 31 Dec 2017	219,420,786	0	219,420,786

In 2018, the Company was ensured a revolving loan in the amount of EUR 50,000,000, which was not drawn as at 31 December 2018.

The loans bear interest at the variable interest rate, which is based on the 3-month or 6-month Euribor, which in case of a negative Euribor equals 0 and a mark-up, ranged between 1.15% and 3.50%.

The past due instalments and related interest are paid in due time by the Company.

Interest risk is managed. Moreover, the Company regularly monitors the movement of Euribor market interest rates and accordingly compiles periodical Strategies of interest rate management of the HSE company. Interest rate risk management aims to limit and reduce the risk relating to interest rate fluctuations and thereby stabilise cash flows. In 2018, the Company did not enter into new interest-related insurances.

Long-term loans to banks are insured by bills of exchange, an equity interests, and by collaterals of subsidiaries.

Detailed disclosures are provided in section discussing the interest rate risk.

SHORT-TERM FINANCIAL LIABILITIES (17)

SHORT-TERM FINANCIAL LIABILITIES (in EUR)	31 DEC 2018	31 DEC 2017
Short-term financial liabilities to banks without interest	26,986,727	16,986,727
Short-term financial liabilities to Group companies for interest	48,226	60,902
Short-term derivatives	0	60,937
Other short-term financial liabilities	105,508	92,915
TOTAL	**27,140,461**	**17,201,481**

Most of short-term financial liabilities include the short-term portion of long-term loans' principal amounts, which mature in 2019 in the amount of EUR 27,484,848, reduced by short-term deferred costs of loan approval from 2016.

MOVEMENT OF SHORT-TERM FINANCIAL LIABILITIES (in EUR)	SHORT-TERM FINANCIAL LIABILITIES TO GROUP COMPANIES WITHOUT INTEREST	SHORT-TERM FINANCIAL LIABILITIES TO GROUP COMPANIES FOR INTEREST	SHORT-TERM FINANCIAL LIABILITIES TO BANKS WITHOUT INTEREST	SHORT-TERM FINANCIAL LIABILITIES TO BANKS FOR INTEREST	SHORT-TERM DERIVATES	OTHER SHORT-TERM FINANCIAL LIABILITIES	TOTAL
Balance at 1 Jan 2018	**0**	**0**	**16,986,727**	**60,902**	**60,937**	**92,915**	**17,201,481**
Increase	18,341,143	198,082	10,000,000	7,641,534		2,027,550	38,208,309
Transfers from long-term liabilities			26,986,727				26,986,727
Short-term repayments	-18,341,143	-198,082	-10,000,000	-7,654,210		-2,014,957	-38,208,392
Long-term repayments			-17,484,848				-17,484,848
Other			498,121		-60,937		437,184
Balance at 31 Dec 2018	**0**	**0**	**26,986,727**	**48,226**	**0**	**105,508**	**27,140,461**
Balance at 1 Jan 2017	925,208	9,100	8,705,347	79,492	53,106	229,553	10,001,806
Increase	42,345,833	222,397		7,805,958		1,466,988	51,841,176
Transfers from long-term liabilities			16,986,726				16,986,726
Short-term repayments	-43,271,041	-231,497		-7,824,548		-1,603,627	-52,930,713
Long-term repayments			-9,203,468				-9,203,468
Other			498,122		7,831		505,953
Balance at 31 Dec 2017	0	0	16,986,727	60,902	60,937	92,915	17,201,481

SHORT-TERM TRADE PAYABLES (18)

SHORT-TERM OPERATING LIABILITIES

(in EUR)	31 DEC 2018	31 DEC 2017
Short-term operating liabilities to Group companies	21,216,035	40,235,463
Short-term operating liabilities to associates	1,400,082	1,792,415
Short-term operating liabilities to jointly controlled companies	62,918	77,900
Short-term operating liabilities to suppliers	109,997,856	90,600,623
TOTAL	**132,676,891**	**132,706,401**

Short-term operating liabilities to Group companies mostly comprise liabilities arising under the purchase of electricity.

Short-term trade payables to suppliers primarily refer to liabilities for electricity purchased in Slovenia and abroad.

SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES

(in EUR)		31 DEC 2018	31 DEC 2017
DEM	Slovenia	8,811,372	8,540,110
mHE Lobnica	Slovenia	1,595	2,351
SENG	Slovenia	4,205,819	7,505,739
TEŠ	Slovenia	5,593,109	21,335,848
HSE EDT	Slovenia	0	109,800
PV	Slovenia	137	8,816
HTZ I.P.	Slovenia	14,526	19,906
RGP	Slovenia	163	0
HSE Invest	Slovenia	85,956	68,860
HSE Balkan Energy	Serbia	497,658	12,635
HSE MAK Energy	Macedonia	1,029,371	796,737
HSE BH	Bosnia and Herzegovina	976,329	1,834,661
TOTAL		**21,216,035**	**40,235,463**

OTHER SHORT-TERM LIABILITIES (19)

OTHER SHORT-TERM LIABILITES

(in EUR)	31 DEC 2018	31 DEC 2017
Short-term operating liabilities from advances	26,528	25,426
Short-term operating liabilities to employees	1,134,304	1,104,403
Short-term operating liabilities to state and other institutions	17,815,874	17,348,708
Short-term operating liabilities to others	12,457	12,110
Short-term accrued costs and expenses	27,803,580	27,074,512
TOTAL	**46,792,743**	**45,565,159**

Other short-term liabilities mainly comprise payables to the state and other institutions, and accrued costs and expenses.

Short-term liabilities to the state and other institutions comprise VAT liabilities, customs duty liabilities, liabilities for December contributions for salaries and contributions on other employment-related income payable by the employer. The largest value thereunder refers to VAT and represents electricity-related invoices received from abroad, where self-taxation applies. The right to deduct VAT is gained on the date of the invoice received from abroad.

Accrued costs are costs and expenses referring to 2018 and included in the income statement, but the Company did not receive the relevant bills or invoices in the reporting year. Most thereof includes purchases of electricity for 2018 from the subsidiary. The residual amount includes deviations from commuter schedules for December 2018 and interest on borrowings, which were not yet accounted for by the Company in 2018.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS (20)

CONTINGENT LIABILITIES

(in EUR)	31 DEC 2018	31 DEC 2017
Guarantees and parent guarantees granted to subsidiaries in Slovenia	136,389,178	146,348,424
Bank guarantees granted to subsidiaries in Slovenia	503,739	235,024
Bank and parent guarantees granted to subsidiaries abrod	386,808	3,311,331
Guarantees granted to others	0	6,861,401
TOTAL	**137,279,725**	**156,756,180**

Contingent liabilities include the guarantees granted and parent guarantees.

The item of guarantees granted to others include in 2017 among others the assessment on possible liabilities under the replacement Unit 6 in the amount of EUR 6,861,401. This refers to Company's obligation under the loan agreement between TEŠ and the EBRD to provide additional financing to settle all liabilities in the event of higher costs for the Unit 6 at TEŠ. The investment was completed in 2018 and consequently the contingent liability thereunder reversed.

BENEFICIARY	DEBTER	TYPE OF GUARANTEE	VALIDITY	CONTIGENT LIABILITY AT 31 DEC 2018 (in EUR)	CONTIGENT LIABILITY AT 31 DEC 2017 (in EUR)
EBRD**	TEŠ	Guarantee for EBRD loan	Effective for the period of contract's validity	125,726,123	145,714,286
Unicredit banka	TEŠ	Guarantee for short-term borrowing	31 December 2018	6,000,000	0
NLB	RGP	Collateral for bank guarantee	Effective for the period of contract's validity	283,080	283,080
Petrol	HSE	Guarantee for liabilities of PV, TEŠ, SENG and DEM provided to Petrol	31 December 2020	274,682	243,493
Geoplin	TEŠ	Guarantee statement	30 January 2019	105,293	107,565
BKS Bank AG	TEŠ	Guarantee for short-term revolving loan	31 December 2018	4,000,000	
TOTAL				**136,389,178**	**146,348,424**

* Unrealized contractual value from concluded contracts (excluding VAT) is disclosed as a contingent liability.

** The principal amount of the borrowing is disclosed as contigent liability.

Granted suretyships and parent company guarantees decreased relative to the 2017 balance due to the repayment of the principal amount's part to EBRD and increased due to the guarantees provided for the subsidiary.

4.5.7.2 INCOME STATEMENT

NET SALES REVENUE (21)

NET SALES REVENUE

(in EUR)	2018	2017
ON THE DOMESTIC MARKET	**536,246,172**	**470,117,853**
Electricity	533,828,321	468,170,268
Other merchandise	393,026	415,458
Other services	2,024,825	1,532,127
ON THE FOREIGN MARKET - EU	**724,719,479**	**827,623,718**
Electricity	708,890,717	816,228,074
Other merchandise	0	12,500
Other services	15,828,762	11,383,144
ON THE FOREIGN MARKET - NON EU	**220,973,112**	**312,946,326**
Electricity	219,576,315	311,887,722
Other services	1,396,797	1,058,604
TOTAL	**1,481,938,763**	**1,610,687,897**

REVIEW OF NET SALES REVENUE ACCORDING TO THE CURRENT OF RECOGNITION

(in EUR)	2018	2017	RECOGNITION
ON THE DOMESTIC MARKET	**536,246,172**	**470,117,853**	
Electricity	533,828,321	468,170,268	on delivery
Other merchandise	393,026	415,458	on delivery
Other services	753,699	513,129	on delivery
Other services	1,271,126	1,018,998	at the time of services rented
ON THE FOREIGN MARKET - EU	**724,719,479**	**827,623,718**	
Electricity	708,890,717	816,228,074	on delivery
Other merchandise	0	12,500	on delivery
Other services	15,828,762	11,383,144	at the time of services rented
ON THE FOREIGN MARKET - NON EU	**220,973,112**	**312,946,326**	
Electricity	219,576,315	311,887,722	on delivery
Other services	1,396,797	1,058,604	at the time of services rented
TOTAL	**1,481,938,763**	**1,610,687,897**	

CONTRACTS ASSEST / LIABILITIES IN CONNECTION WITH ADOPTION OF IFRS 15

(in EUR)	31 DEC 2018	1 JAN 2018
Long-term operating receivables	3,050,903	3,104,115
Short-term operating receivables	173,691,079	163,277,772
Contract assets	3,016,725	0
Long-term operating liabilities	0	0
Short-term operating liabilities	151,781,158	151,258,642
Contract liabilities	0	0

The Company generates revenue mostly through the sale of electricity. The revenue from the sale of electricity accounts in 2018 for 98.66% of total net sales revenue. The item of revenue declined over the 2017 balance due to lower sale of electricity abroad.

Revenue from services provided was generated through services in connection with electricity (transfer capacities, contribution for allocation of transfer capacities, guarantee of origin), and services provided for the subsidiaries.

OTHER OPERATING INCOME (22)

OTHER OPERATING INCOME
(in EUR)

	2018	2017
Revenue from damages and contractual penalties	6,182	90,049
Interests on arrears	52,698	28,865
Revenue from sales of fixed assets	58,445	7,790
Income on derivatives relating to trading with electricity and emission coupons	3,802,695	2,709,556
Other	35,466	101
TOTAL	**3,955,486**	**2,836,361**

Most of other operating income refers to profits generated on trading with standardized futures contracts in relation to electricity and emission coupons. In line with the presentation-related consistency and classification of items in the financial statements, the item of other operating income includes (by applying the net principle) profits generated on derivatives when trading with electricity and emission coupons; they were in previous years disclosed among finance income or costs.

COSTS OF GOODS, MATERIALS AND SERVICES (23)

COSTS OF GOODS, MATERIAL AND SERVICES
(in EUR)

	2018	2017
Costs of goods sold	1,376,533,467	1,500,608,798
Dependent costs of goods sold	35,318,502	42,639,917
Total purchase cost of goods sold	**1,411,851,969**	**1,543,248,715**
Costs of energy	36,264	41,925
Costs of small tools	3,348	7,476
Office stationary	16,428	16,112
Professional literature	234,055	206,615
Other	4,795	8,389
Total costs of material	**294,890**	**280,517**
Maintenance costs	1,420,322	1,662,228
Rentals	973,915	1,117,024
Insurance costs and costs of bank services	1,108,348	1,021,755
Professional and personal services	2,191,385	3,183,466
Fairs, advertising and entertainment	438,799	400,299
Services rendered by individuals	273,236	296,513
Other	834,060	528,188
Total costs of services	**7,240,065**	**8,209,473**
TOTAL	**1,419,386,924**	**1,551,738,705**

Costs of goods sold, which account 98.63% of total operating income, include mainly costs of purchasing electricity and accompanying expenses thereof.

The largest amounts among costs of material refer to professional literature, costs of energy and costs of office stationary.

Costs of services to a large extent include professional services, maintenance costs of computer hardware and software, costs of renting premises, costs of insurance and bank services. Relative to the previous period, costs of services declined, which is attributable to lower lawyer services referring to the development of court proceedings started by the audited company.

COSTS OF AUDITORS
(in EUR)

	2018	2017
Audit of the Annual Report	15,000	14,930
Other services of providing assurance	408	408
TOTAL	**15,408**	**15,338**

Apart from the fee for auditing the financial statements, no other payments were made to the audit company KPMG Slovenija d.o.o. in 2018.

EMPLOYEE BENEFITS EXPENSE (24)

LABOUR COSTS (in EUR)	2018	2017
Wages and salaries	7,811,013	7,399,660
Pension insurance costs	1,057,890	989,107
Other insurance costs	585,517	559,843
Other labour costs	1,045,438	949,260
TOTAL	**10,499,858**	**9,897,870**

Employee benefits expense comprises costs of salaries and other earnings by employees, including employer's contributions. Costs of compensations for unused vacation days in 2018, which can be utilised by 30 June 2019, are accounted as well. Employee benefits expense increased over the previous period due to higher average number of employees.

NUMBER OF THE EMPLOYEES AND AVERAGE NUMBER OF EMPLOYEES BY EDUCATION	1 JAN 2018	31 DEC 2018	AVERAGE NUMBER OF EMPLOYEES
5	12	11	12
6/1	17	20	19
6/2	40	42	41
7	76	75	76
8/1	26	26	26
8/2	2	2	2
TOTAL	**173**	**176**	**175**

WRITE-DOWNS IN VALUE (25)

WRITE-DOWNS IN VALUE (in EUR)	2018	2017
Amortisation of intangible assets	376,643	313,215
Amortisation of property, plant and equipment	492,274	493,578
Impairment / write-offs of receivables	16,973	28,449
Write-offs of property, plant and equipment	0	694
Sale of property, plant and equipment and investment property	37	8,787
TOTAL	**885,927**	**844,723**

Write-downs in value comprise the amortisation and depreciation of Company's assets, write-off of receivables, and loss on the sale of equipment.

OTHER OPERATING EXPENSES (26)

OTHER OPERATING EXCPENSES (in EUR)	2018	2017
Formation of provisions	311,674	0
Fee for building site use	11,106	10,927
Donations	36,255	24,700
Other operating expenses	308,137	836,136
TOTAL	**667,172**	**871,763**

Decline in other operating costs relative to the 2017 balance is attributable to lower court fees paid with respect to the on-going court proceedings, filed by the Company.

FINANCE INCOME (27)

FINANCIAL INCOME (in EUR)	2018	2017
Dividends and other profit shares	30,353,648	41,155,479
Financial income on granted loans and deposits	2,056,977	1,904,688
Other financial income	872,877	1,003,876
TOTAL	**33,283,502**	**44,064,043**

Finance income from shares and interests comprises profit pay-outs of subsidiaries DEM, SENG and HSE Adria in the total value of EUR 30,177,747 and the jointly controlled entity Soenergetika in the amount of EUR 175,901.

Finance income from loans granted and deposits mostly relate to accounted interest on loans to Group companies.

Company's other finance income include mostly income on parent guarantees granted to Group companies.

FINANCE COSTS (28)

FINANCIAL EXPENSES (in EUR)	2018	2017
Interest expenses	7,811,123	7,990,666
Financial expenses for impairment of investments	56,721,354	48,461,100
Other financial expenses	4,925,857	4,821,957
TOTAL	**69,458,334**	**61,273,723**

Interest-related finance costs comprise interest on short-term and long-term borrowings received from banks (EUR 7,613,041), and accounted interest on short-term borrowings from HSE Group companies (EUR 198,082).

Loss on impairment of investments refers to the impairment of the investments in the company TEŠ.

Other finance costs refer to the guarantee given by DEM, costs of the withholding tax and costs of raising long-term borrowings.

TAXES (29)

TAXES
(in EUR)

	2018	2017
Current tax	8,805,263	7,980,242
Deferred taxes	-11,997	5,243,660
Total income tax recognised in income statement	**8,793,266**	**13,223,902**
Deferred taxes recognised in equity	12,898	11,578

The Company is subject to the Value Added Tax Act, the Excise Duty Act, the Financial Services Tax Act, and the Corporate Income Tax Act. The branch office in the Czech Republic is liable to pay corporate income tax.

In accordance with the Corporate Income Tax Act, the tax for 2018 amounted to 19% of the tax base reported in the Company's tax return.

The Company's current tax in 2018 amounted to EUR 8,805,263. Based on the 2017 tax return, the Company made an advance payment of the income tax for 2018 in the amount of EUR 7,980,242. At the end of 2018, the Company discloses a liability in the amount of EUR 1,490,042.

Deferred taxes include deferred tax assets. The values of deferred taxes created and used are presented in the table showing deferred tax assets (Note 6 to the Income Statement).

In establishing the base for current tax, revenue and expenses established in accordance with IFRS were corrected in terms of decrease and increase in tax base, as shown in the following table.

EFFECTIVE TAX RATE CALCULATION
(in EUR)

	2018	2017
Profit or loss before tax	18,279,536	32,961,517
Tax calculated at applicable tax rate	3,473,111	6,262,688
Tax on income reducing tax base	-5,769,179	-7,822,817
Tax on tax relief	-155,895	-186,127
Tax on expenses reducing tax base	-7,331	-6,498
Tax on non-deductible expenses	10,909,163	9,337,406
Tax on other changes in tax calculation	355,394	395,590
Current tax	**8,805,263**	**7,980,242**
Deferred taxes	**-11,997**	**5,243,660**
Total taxes	**8,793,266**	**13,223,902**
Effective tax rate	**48.10%**	**40.12%**

As at 31 December 2018, temporary deductible differences for which deferred tax assets were not formed are recorded at EUR 604,772,720; they arise from impairment of investments made in subsidiaries. Pursuant to IAS 12 – Income tax, deferred tax assets are recognised only if it is possible that temporary difference can be eliminated in the foreseeable future. The Company did not form deferred tax assets in this relation as it has no intention to dispose these investments in the foreseeable future.

NET PROFIT FOR THE PERIOD (30)

NET PROFIT OR LOSS
(in EUR)

	2018	2017
Gross operating yield	1,485,894,248	1,613,524,258
Operating profit or loss	54,454,367	50,171,197
Financial result	-36,174,832	-17,209,680
Profit or loss before tax	18,279,536	32,961,517
Net profit or loss fot the period	**9,486,269**	**19,737,615**

The Company completed the financial year 2018 with a profit in the amount of EUR 9,486,269. Without the impairment of investments made in TEŠ, the Company would complete the reporting period with a profit of EUR 66,207,623.

4.5.7.3 RELATED ENTITIES

Related companies are entities, which the HSE controls directly or indirectly via its subsidiaries.

Related entities comprise also companies, where the government owns the majority equity interest.

The columns of sales and purchases represent the turnover of all transactions (exclusive of VAT) between the HSE company and related entities in 2018. As for loans granted and received, the balance at the end of 2018 is presented (principal amount with interest).

Income from parent guarantees granted in 2018 are disclosed separately in the net amount (exclusive of VAT). The value of parent guarantees is disclosed in section Contingent liabilities and Contingent assets (Note 20 to the Income Statement).

The balance of outstanding operating receivables due from related entities is disclosed in section Short-term trade receivables, while the balance of outstanding operating liabilities is disclosed in section Short-term trade payables to suppliers.

RELATED PARTY TRANSACTIONS (in EUR)	DISPOSALS	PURCHASES	LOANS, WARRANTIES AND GUARANTEES INCLUDING	INCOME ON PARENT GUARANTEES ISSUED
DEM	258,233	62,817,633		
mHE Lobnica		10,931		
SENG	9,326,192	35,145,153		
TEŠ	2,939,891	190,532,270	87,547,901	869,094
HSE EDT	116,577	508,520		
PV	3,349,992	49,686	4,865,470	
HTZ I.P.		73,789		
RGP	5,610	133	3,680	3,680
HSE Invest	8,217	177,855		
HSE Balkan Energy	12,381,888	1,352,263	100	100
HSE Adria - in liquidation	2,142			
HSE MAK Energy	9,669,330	9,478,172		
HSE BH	13,451,708	8,119,646		
TOTAL 2018	**51,509,780**	**308,266,051**	**92,417,151**	**872,874**

Sales and purchase prices for services are defined on the basis of the applicable internal price list of HSE Group companies, rentals based on comparable free prices, sales prices for electricity on the basis of comparable free prices and cost mark-up methods, purchase prices for electricity on the basis of cost mark-up methods, the comparable free prices or a combination of both.

The sole (100%) owner of HSE is the Republic of Slovenia. In 2018, the Company did not enter into any transactions with the Government of the Republic of Slovenia and did not pay out any dividends to the owner.

ASSOCIATED COMPANY TRANSACTIONS (in EUR)	DISPOSALS	PURCHASES	WARRANTIES AND GUARANTEES INCLUDING INTEREST	RECEIVED LOANS INCLUDED INTEREST	INCOME ON PARENT GUARANTEES ISSUED
HESS	0	9,400,984	0	0	0
TOTAL	**0**	**9,400,984**	**0**	**0**	**0**

JOINTLY CONTROLLED COMPANY TRANSACTIONS (in EUR)	DISPOSALS	PURCHASES	GRANTED LOANS, WARRANTIES AND GUARANTEES INCLUDING INTEREST	RECEIVED LOANS INCLUDED INTEREST	INCOME ON PARENT GUARANTEES ISSUED
SOENERGETIKA	0	626,424	0	0	0
TOTAL	**0**	**626,424**	**0**	**0**	**0**

TRANSACTIONS WITH REPUBLIC OF SLOVENIA AND ENTITIES WHICH ARE DIRECTLY OWNED BY THE REPUBLIC OF SLOVENIA (in EUR)	OUTSTANDING RECEIVABLES AS AT 31 DEC 2018	OUTSTANDING LIABILITIES AS AT 31 DEC 2018	REVENUE 2018	EXPENSES 2018
BORZEN	766,577	309,008	6,259,954	7,912,674
BSP	225,365	1,211,203	80,116,192	34,896,713
ECE	10,568,986	365,001	99,464,253	4,979,233
ELEKTRO PRIMORSKA	0	0	0	37,805
ELES	2,882,576	924,356	24,772,991	3,831,791
ELEKTRO MARIBOR ENERGIJA PLUS	6,350,910	167,579	56,254,285	2,079,708
E3	10,036,619	238,645	56,320,403	2,782,603
GEN ENERIGJA	412,136	27,816	4,098,416	210,100
GEN-I	557,035	4,905,087	69,520,776	75,602,135
PETROL	3,169,073	2,818,369	21,673,152	21,914,751
STELKOM	0	92	16,351	386,606
Energy sector - total	**34,969,277**	**10,967,156**	**418,496,773**	**154,634,119**
TALUM	1,386,775	0	17,637,707	29,329
Aluminium production	**1,386,775**	**0**	**17,637,707**	**29,329**
AVTENTA	0	25,641	0	137,811
Other - total	**0**	**25,641**	**0**	**137,811**
NLB	0	14,166,667	0	1,541,993
SID	0	44,848,485	0	5,712,285
Banks - total	**0**	**59,015,152**	**0**	**7,254,278**
TOTAL	**36,356,052**	**70,007,949**	**436,134,480**	**162,055,537**

The table shows transactions with entities, which are directly or indirectly majorly owned by the Republic of Slovenia (more than 50%) and are important for HSE from the perspective of significance of transactions (income or expenses in 2018 exceed EUR 2 million), except banks where all transactions are disclosed. Other transactions with companies, ministries, agencies and other legal entities, where the Republic of Slovenia is a majority or minority owner, are irrelevant in terms of reporting.

4.5.7.4 Operating lease

The Company is renting business premises, garages, parking lots, cars, server lockers and a secure system computer room.

The following table outlines liabilities arising from the operating lease (Company as lessee) in the notice period, which represents the minimum sums of lease payments:

OPERATING LEASES (in EUR)	2018	2017
Less than one year	185,379	350,789
TOTAL	**185,379**	**350,789**

Costs for the operating lease amounted in 2018 to EUR 973,915.

4.5.7.5 Remuneration

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

- gross compensation included in the income tax return statement,
- other allowances (meals, transportation, per diems), and,
- premiums paid for voluntary supplementary pension insurance.

Remuneration of Supervisory Board members includes gross attendance fees of all members, including travel expenses related to the performance of tasks in the Supervisory Board and the Audit Committee.

In 2018, the Company provided no advances, loans or guarantees to these groups of persons and records at the year-end of 2018 no receivables due from the management and members of the Supervisory Board.

Short-term operating liabilities include payables for December wages paid to the Company's Management and employees who are not subject to the tariff part of the collective agreement, and attendance fees for December paid to members of the Supervisory Board and its Committees.

REMUNERATION (in EUR)	GROSS SALARY	OTHER EARNINGS	BONUSES	REFUND OF COST	ATTENDANCE FEES	TOTAL
Members of the Managament Board	266,025	9,188	14,982	3,436	7,867	301,498
Members of the Supervisory Board and the Audit Committee			1,377	2,293	211,385	215,055
Employees who are not subject to the tariff part of the collective agreement	235,755	12,207	13,952	4,928		266,842
TOTAL 2018	**501,780**	**21,395**	**30,311**	**10,657**	**219,252**	**783,395**
Members of the Managament Board	250,929	77,192	13,246	3,288	7,313	351,968
Members of the Supervisory Board and the Audit Committee				3,742	233,000	236,742
Employees who are not subject to the tariff part of the collective agreement	394,193	72,599	19,744	11,522		498,058
TOTAL 2017	645,122	149,791	32,990	18,552	240,313	1,086,768

EARNINGS RECEIVED BY MANAGEMENT BOARD MEMBERS (in EUR)	GROSS SALARY	OTHER EARNINGS	BONUSES	REFUND OF COST	ATTENDANCE FEES	TOTAL
Stojan Nikolić	133,491	4,594	3,978	1,937	3,189	147,189
Matjaž Marovt	132,534	4,594	11,004	1,499	4,678	154,309
TOTAL	**266,025**	**9,188**	**14,982**	**3,436**	**7,867**	**301,498**

In case of Management Board members Stojan Nikolić and Matjaž Marovt, the disclosed amounts include also attendance fees received as Supervisory Board members in the PV company.

REMUNERATION OF MEMBERS OF SUPERVISORY BOARD (in EUR)	GROSS ATTENDANCE FEE/SESSIONS	BONUSES	GROSS ATTENDANCE FEE/BASIC PAYMENT	GROSS ATTENDANCE FEE	NET ATTENDANCE FEE	TRAVEL COSTS	TOTAL
CUKROV VESNA - SB member of HSE	3,135	153	11,300	14,588	10,424	172	14,760
GORJUP BARBARA - SB member of HSE	2,900	153	11,300	14,353	10,253	52	14,405
JANČAR BOŠTJAN - SB member of HSE	3,135	153	11,300	14,588	10,457	0	14,588
LIPUŠČEK DAMJAN - SB member of HSE	2,035	153	6,622	8,810	6,255	415	9,225
MARKOLI BOŠTJAN - Vice Chairman of the SB of HSE	2,585	153	12,430	15,168	10,846	13	15,181
OTIČ JERNEJ - SB member of HSE	3,135	153	11,300	14,588	10,457	1,098	15,686
PANTOŠ MILOŠ - SB member of HSE	2,365	153	11,300	13,818	9,864	6	13,824
PEROVIĆ MILAN - President of the SB of HSE	3,135	153	16,950	20,238	14,533	120	20,358
RIJAVEC PETJA - SB member of HSE	1,100	0	4,678	5,778	4,202	0	5,778
VRAČAR VIKTOR - SB member of HSE	3,135	153	11,300	14,588	10,424	26	14,614
TOTAL	**26,660**	**1,377**	**108,480**	**136,517**	**97,715**	**1,902**	**138,419**

REMUNERATION OF AUDIT COMMITTEE MEMBERS OF SUPERVISORY BOARD (in EUR)	GROSS ATTENDANCE FEE/SESSIONS	GROSS ATTENDANCE FEE/BASIC PAYMENT	GROSS ATTENDANCE FEE	NET ATTENDANCE FEE	TRAVEL COSTS	TOTAL
GORJUP BARBARA - AC President of HSE	1,980	4,238	6,218	4,522	46	6,264
JANČAR BOŠTJAN - AC member of HSE	1,980	2,825	4,805	3,495	0	4,805
MARKOLI BOŠTJAN - AC member of HSE	1,760	2,825	4,585	3,335	17	4,602
ZAMAN GROFF MAJA - AC external member of HSE	2,475	11,300	13,775	10,018	99	13,874
TOTAL	**8,195**	**21,188**	**29,383**	**21,370**	**162**	**29,545**

REMUNERATION OF MEMBERS OF THE HUMAN RESOURCES COMMITTE (in EUR)	GROSS ATTENDANCE FEE/SESSIONS	GROSS ATTENDANCE FEE/BASIC PAYMENT	GROSS ATTENDANCE FEE	NET ATTENDANCE FEE	TRAVEL COSTS	TOTAL
GORJUP BARBARA - member of the Human Resources Committee	440	2,825	3,265	2,375	11	3,276
MARKOLI BOŠTJAN - member of the Human Resources Committee	440	2,825	3,265	2,375	4	3,269
OTIČ JERNEJ - member of the Human Resources Committee	440	1,656	2,096	1,524	124	2,220
PEROVIĆ MILAN - President of the Human Resources Committee	440	4,238	4,678	3,402	27	4,705
RIJAVEC PETJA - member of the Human Resources Committee	0	1,169	1,169	851	0	1,169
TOTAL	**1,760**	**12,713**	**14,473**	**10,527**	**166**	**14,639**

REMUNERATION OF MEMBERS OF THE RESTRUCTURING COMMITTEE (v EUR)	GROSS ATTENDANCE FEE/SESSIONS	GROSS ATTENDANCE FEE/BASIC PAYMENT	GROSS ATTENDANCE FEE	NET ATTENDANCE FEE	TRAVEL COSTS	TOTAL
CUKROV VESNA - member of the Restructuring Committee	660	2,825	3,485	2,535	38	3,523
OTIČ JERNEJ - member of the Restructuring Committee	880	2,825	3,705	2,695	0	3,705
PANTOŠ MILOŠ - member of the Restructuring Committee	616	2,825	3,441	2,503	4	3,445
PANTOŠ MILOŠ - President of the Committee	880	4,237	5,117	3,722	9	5,126
TOTAL	**3,036**	**12,712**	**15,748**	**11,455**	**51**	**15,799**

REMUNERATION OF MEMBERS OF THE MARKETING AND INVESTMENTS COMMITTEE (in EUR)	GROSS ATTENDANCE FEE/SESSIONS	GROSS ATTENDANCE FEE/BASIC PAYMENT	GROSS ATTENDANCE FEE	NET ATTENDANCE FEE	TRAVEL COSTS	TOTAL
JANČAR BOŠTJAN - member of the Marketing and Investment Committee	440	1,170	1,610	1,171	0	1,610
LIPUŠČEK DAMJAN - member of the Marketing and Investment Committee	220	1,655	1,875	1,364	0	1,875
MARKOLI BOŠTJAN - member of the Marketing and Investment Committee	616	2,825	3,441	2,503	0	3,441
PANTOŠ MILOŠ - President of the Marketing and Investment Committee	660	4,237	4,897	3,562	6	4,903
VRAČAR VIKTOR - member of the Marketing and Investment Committee	616	2,825	3,441	2,503	6	3,447
TOTAL	**2,552**	**12,712**	**15,264**	**11,103**	**12**	**15,276**

4.5.7.6 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

This section refers to section Financial Risk Management of the accounting report, as well as to the chapter about financial risks in the business report.

CREDIT RISK

An important part of activities where we face the risk of partners' non-fulfilment of obligations results from electricity trading. The portfolio of partners, with which we conclude contracts in the field of electricity trading mostly refer to companies with a high credit rating and payment discipline. Activities for managing credit risks are subject to the Company's Credit risk management policy and the Policy of obtaining and maintaining the partner status, which clearly defines the procedures and due diligence applied while selecting the business partners. We decide upon the form of business relationship with other partners on the basis of prior analysis of partner's credit rating, which further defines the possible allowed volume and time frame of operations, elements of contractual relationship and particularly the necessary volume of additional collateral for complying with contractual liabilities in form of bank and corporate guarantees, advances received and other forms of insurance that the Company considers acceptable.

The Company monitors credit exposure to individual on a daily basis. An essential measure for reducing credit risk in conclusion of contractual frameworks i.e. general and framework agreements (e.g. EFET), which among others determine monthly financial offsets of receivables and liabilities, as well as an offset of the maximum possible volume of mutual receivables and liabilities in case of premature termination of a contract due to the partner's possible insolvency.

Company's maximum exposure to credit risk arising under its short-term operating and financial receivables, lies in the carrying amount of short-term operating receivables, decreased by financial security, and financial off-set of receivables and liabilities from those partners, where it is legally and contractually possible. Receivables due from partners are insured by means of bank and corporate guarantees, pledge of receivables based on contracts for managing bank accounts, advance payments, enforcement drafts and bills of exchange.

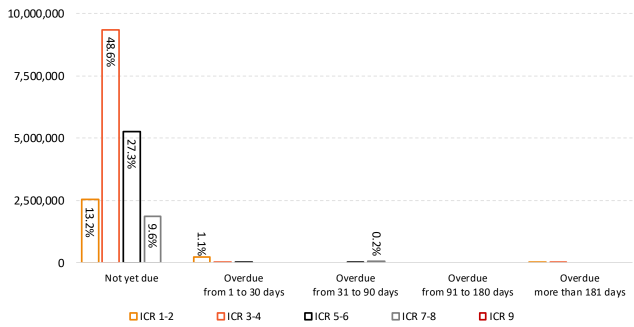
ITEM (in EUR)	RECEIVABLES	SECURED RECEIVABLES	%	UNSECURED RECEIVABLES	%
Short-term receivables to Group companies	6,167,484	5,068,370	82%	1,099,114	18%
Short-term receivables to associates	5,079	5,079	100%	0	0%
Shor-term trade receivables	129,318,230	110,046,606	85%	19,271,624	15%
TOTAL	**135,490,793**	**115,120,054**	**85%**	**20,370,738**	**15%**

The unsecured part of receivables is the sum of sales to partners made via the open account within the approved credit limits, in line with the applicable internal rules i.e. given their financial strength and risk to which they are exposed to in business operations with individual partners. The most frequent among the unsecured receivables are primarily the receivables from partners with good credit rating and from partners which belong to a highly regulated activity and are frequently state-owned (e.g. providers of system services, and similar). Short-term receivables deu from Group companies are managed in view of their liquidity and solvency. They are accordingly eliminated from the following analysis of receivables in respect of IFRS 9 and additional requirements for the formation of allowances.

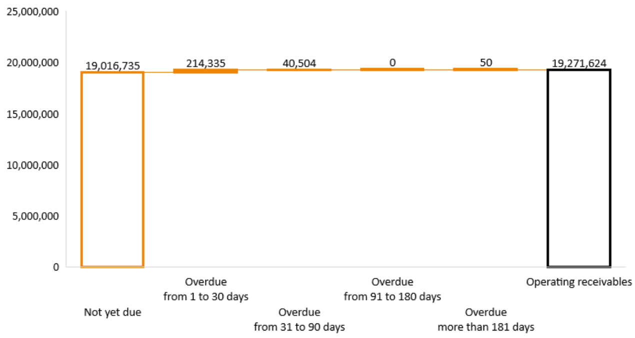
The following analysis shows the unsecured short-term trade receivables as at 31 December 2018 in respect of the internal customer classification by credit ratings, age structure of unsecured receivables, and the structure of receivables by country.

Based on granting a credit rating to individual partners and their guarantors (i.e. in case of financial insurance), which is defined on the basis of a combination of theoretical financial models and the credit rating agency's transition matrices, the Company regularly monitors the risk of default by the partner or the guarantor, and accordingly adjusts the structure of insurance and the approved limits. In line with the internal methodology, this affects the quality and structure of the Company's operating receivables.

UNSECURED TRADE RECEIVABLES BY AGE STRUCTURE AND IBR AS AT 31 DECEMBER 2018

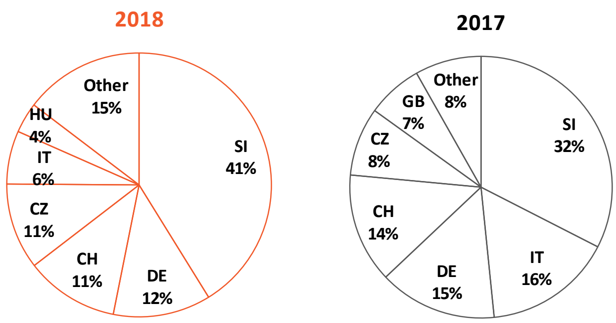


UNSECURED TRADE RECEIVABLES BY THEIR STRUCTURE AS AT 31 DECEMBER 2018



As at 31 December 2018, trade receivables due from customers in Slovenia account for 41 % of total operating receivables. Total value of operating receivables due from partners remained on the level of receivables as recorded on 31 December 2017.

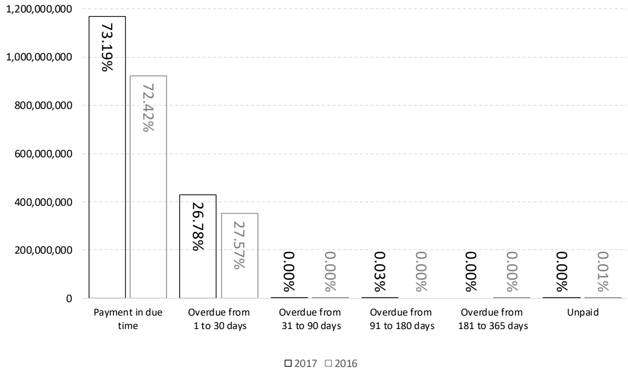
TRADE RECEIVABLES BY COUNTRY AS AT 31 DECEMBER 2018 AND 2017



The analysis of the partners' repayment dynamics and the payment discipline in 2016 and 2017 (shown in the table below) shows that partners regularly (with rare exceptions) settled their liabilities in the past.

In the event of delayed payment, the customers are charged contractually defined default interest.

THE REPAYMENT DYNAMICS IN TERMS OF TOTAL INVOICED RECEIVABLES IN 2017 AND 2016



The Company establishes that the current internal policy of forming allowances and impairing operating receivables is appropriate and that the application of the disclosure-related guidelines under IFRS 9 in view of the expected credit loss (ECL) on trade receivables has no significant impact on the fair presentation of the Company's assets. Given the guidelines of the said standards and the analysis results of past repayment patterns, the Company's expected loss on trade receivables is assessed at EUR 1,747 as at 31 December 2018, which is considered an insignificant amount and thus no additional allowances are formed.

We herewith conclude that the calculated ECL, given the total value of operating receivables, indicates no impact on the fair presentation and that the allowances of trade receivables were already in the past appropriately disclosed and formed by the Company. The possible credit loss estimate took account the trade liabilities as at 31 December 2018, the Company's ownership-related connection with the business partner, the past repayment dynamics in terms of invoices issued, the possibility of default by the partners in view of his financial situation, the type of insurance received, and the aging structure of trade receivables as at 31 December 2018.

In accordance with the aforesaid and the internal rules for forming allowances, the Company formed in the reporting period EUR 44 of new doubtful receivables arising on default interest in relation to a customer, in addition to the already mentioned formation as at 1 January 2018 based on the new amended IFRS 9. Thus, the Company discloses as at 31 December 2018 allowances worth EUR 1,090,350. Doubtful receivables primarily refer to the sale of electricity to Korlea Invest a.s., formed in 2012 in the amount of EUR 824,309, as at 1 January 2018 in the amount of EUR 240,048, and in the 2017 formed allowances for receivables referring to the sale of electricity to the company S.C. Transenergo com S.A. in the amount of EUR 25,950.

MOVEMENTS OF ALLOWANCES FOR SHORT-TERM OPERATING RECEIVABLES (in EUR)	2018	2017
Balance at 31 Dec 2017	**850,258**	824,309
Change due to the implementation of IFRS 9	240,048	0
Balance at 1 Jan 2018	**1,090,306**	**0**
Formation of allowances for receivables	44	25,949
Balance at 31 Dec 2018	**1,090,350**	850,258

LONG-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY (in EUR)	DUE DATE OVERDUE UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Long-term financial receivables and loans to Group companies			85,282,956	85,282,956
Long-term financial receivables and loans to Group companies for interest			5,245,851	5,245,851
Long-term operating receivables due from others			3,050,905	3,050,905
TOTAL 31 DEC 2018	**0**	**0**	**93,579,712**	**93,579,712**
Long-term financial receivables and loans to Group companies			21,491,499	21,491,499
Long-term financial receivables and loans to Group companies for interest			3,392,068	3,392,068
Long-term operating receivables due from others			3,104,116	3,104,116
TOTAL 31 DEC 2017	**0**	**0**	**27,987,683**	**27,987,683**

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY (in EUR)	DUE DATE NOT YET DUE	OVERDUE UP TO 3 MONTHS (UP TO 90 DAYS)	OVERDUE FROM 3 TO 6 MONTHS (FROM 91 DAYS TO 180 DAYS)	OVERDUE FROM 6 TO 9 MONTHS (FROM 181 DAYS TO 270 DAYS)	OVERDUE MORE THAN ONE YEAR (MORE THAN 361 DAYS)	TOTAL
Short-term financial receivables and loans to Group companies	1,872,874					1,872,874
Short-term financial receivables and loans to Group companies for interest	15,470					15,470
Short-term operating receivables due from Group companies	4,310,751	1,278,155	578,576			6,167,482
Short-term operating receivables due from associates	5,079					5,079
Shor-term trade receivables	122,643,976	6,674,207			1,090,400	130,408,583
Shor-term advances	649					649
Short-term operating receivables due from state and other institutions	22,111,931					22,111,931
Short-term operating receivables due from others	15,847,654					15,847,654
TOTAL 31 DEC 2018	**166,808,384**	**7,952,362**	**578,576**	**0**	**1,090,400**	**176,429,722**
Short-term financial receivables and loans to Group companies	2,560,731					2,560,731
Short-term financial receivables and loans to Group companies for interest	23,143					23,143
Short-term operating receivables due from Group companies	22,253,939					22,253,939
Short-term operating receivables due from associates	1,719					1,719
Short-term operating receivables due from jointly controlled companies	234					234
Shor-term trade receivables	110,655,763	2,366,968	7,973	4,440	1,125,028	114,160,172
Shor-term advances	3,093					3,093
Short-term operating receivables due from state and other institutions	20,569,476					20,569,476
Short-term operating receivables duefrom others	7,139,396					7,139,396
TOTAL 31 DEC 2017	**163,207,494**	**2,366,968**	**7,973**	**4,440**	**1,125,028**	**166,711,903**

LIQUIDITY RISK

Company's and Group's liquidity risk is largely linked and connected due to the mutual relationships arising from the purchase contracts for electricity and coal, and from the provision of finance sources relating to financing of investments in the Unit 6.

Liquidity risk is subject to implementation of the policy of regular cash flow planning and liquidity management at the Company and HSE Group level based on which the liquidity situation and cash flows are monitored on a daily, monthly and annual level. Much of attention in 2018 was paid to the preparation of cash flow plans, as only in this way an optimum liquidity management is ensured, in addition to a timely forecast on using possible liquidity surpluses or coverage of deficits. The risk of short-term liquidity was effectively reduced by the Company also by means of adjusting the maturity of receivables and liabilities on an on-going basis, and a consistent collection of receivables.

At the year-end of 2018, the Company's liquidity reserve, which consists of unused approved long-term revolving loans and available bank balances, amounted to EUR 117,759,808 and is earmarked to balancing the cash flows and significantly reduces the liquidity risk of the HSE company and Group.

Company’s overdue short-term liabilities were all settled as at 31 December 2018.

Maturity of the Company’s long-term operating and financial liabilities in the next years is shown in the table below. A portion of long-term borrowings, which matures within a year is disclosed among short-term financial liabilities.

LONG-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY (in EUR)	DUE DATE			
	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Long-term financial liabilities to banks	26,555,272	143,454,545	22,424,242	192,434,059
TOTAL 31 DEC 2018	**26,555,272**	**143,454,545**	**22,424,242**	**192,434,059**
Long-term financial liabilities to banks	26,986,726	165,524,969	26,909,091	219,420,786
TOTAL 31 DEC 2017	**26,986,726**	**165,524,969**	**26,909,091**	**219,420,786**

Company's exposure to liquidity risk as at 31 December 2018 and arising from financial liabilities to banks is shown in the table below. The relevant amounts disclosed are not discounted and include the contractually anticipated interest and costs of insurance.

EXPOSURE TO LIQUIDITY RISK ARISING IN FINANCIAL LIABILITIES TO BANKS (in EUR)	EXPECTED CASH FLOWS					
	UP TO 2 MONTHS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	2 TO 12 MONTHS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	1 TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	2 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	MORE THAN 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	TOTAL
Financial liabilities to banks without interest rate hedging						
Long-term borrowings	0	-27,484,848	-27,484,848	-143,454,545	-22,424,242	-220,848,483
TOTAL 31 DEC 2018	**0**	**-27,484,848**	**-27,484,848**	**-143,454,545**	**-22,424,242**	**-220,848,483**
Financial liabilities to banks without interest rate hedging						
Long-term borrowings	60,902	29,168,451	38,331,210	182,905,777	29,118,334	279,584,674
TOTAL 31 DEC 2017	**60,902**	**29,168,451**	**38,331,210**	**182,905,777**	**29,118,334**	**279,584,674**

The Company secured additional liquidity in 2018 within the framework of HSE Group's cash management, relating to the free cash flows of DEM. The loan was settled in form of set-off i.e. pay-out of the accumulated profit of DEM.

In order to ensure an appropriate structure of sources of financing, the Company has sufficient long-term resources. In addition, the Company disposes of a liquidity reserve is form of a long-term revolving loan of EUR 50,000,000 for the period of up to 2019.

Based on the centralized cash flow planning, implemented measures for restructuring and optimizing debt's maturity, proper liquidity reserve provided, an active attitude towards the financial markets and by maintaining the credit rating, the Company's liquidity reserve was under control and ensured in 2017 and thus the liquidity reserve appropriately managed.

CURRENCY RISK

Currency risk is a risk associated with transactions involving foreign currencies and is subject to changes in exchange rates. Currency risk in operations is smaller, since the majority of inflows and outflows are in domestic currency - EUR. Within the framework of trading with electricity, the Company was in 2018 exposed to certain other currencies (HUF, TRY, RON), whereby it applied derivatives for hedging if required.

Other currencies are present in minimum amount and therefore the Company does not perform sensitivity analysis for the change in foreign exchange rates, since the change in exchange rate would not significantly affect the profit or loss.

The Company constantly monitors the currency risk and reports to the management on a regular basis. In addition, the Company continuously follows developments on the money market, changes in prices and values of currency hedging contracts.

The following exchange rates were used to convert assets and liabilities as at 31 December 2018:

COUNTRY	CURRENCY DESIGNATION	CLOSING EXHANGE RATE FOR 2018	CLOSING EXHANGE RATE FOR 2017
Czech Republic	CZK	25.7240	25.5350
Hungary	HUF	320.9800	310.3300
Romania	RON	4.6635	4.6585
United States	USD	1.1450	1.1993
United Kingdom	GBP	0.8945	0.8872
Bulgaria	BGN	1.9558	1.9558
Turkey	TRY	/	/
Croatia	HRK	7.4125	7.4400
Serbia	RSD	118.4300	118.6600
Macedonia	MKD	/	/

EXPOSURE TO CURRENCY FLUCTUATION RISK (in EUR)	EUR	HUF	OTHER CURRENCIES	TOTAL
Long-term financial receivables and loans	90,528,807			90,528,807
Long-term operating receivables	2,553,666		497,239	3,050,905
Short-term financial receivables and loans	1,888,344			1,888,344
Short-term operating receivables	172,366,193	485	1,084,352	173,451,030
Long-term financial liabilities	-192,434,059			-192,434,059
Long-term operating liabilities	0			0
Short-term financial liabilities	-27,140,461			-27,140,461
Short-term operating liabilities	-149,834,753	-904,757	-486,331	-151,225,841
Net exposure of the statement of financial position at 31 Dec 2018	**-102,072,263**	**-904,272**	**1,095,260**	**-101,881,275**
Long-term financial receivables and loans	24,883,567			24,883,567
Long-term operating receivables	2,539,143		564,972	3,104,115
Short-term financial receivables and loans	2,583,874			2,583,874
Short-term operating receivables	163,089,213	1,529	187,029	163,277,771
Long-term financial liabilities	-219,420,786			-219,420,786
Short-term financial liabilities	-17,201,481			-17,201,481
Short-term operating liabilities	-149,726,948	-649,532	-394,528	-150,771,008
Net exposure of the statement of financial position at 31 Dec 2017	-193,253,418	-648,003	357,473	-193,543,948

CURRENCY SWAPS CONTRACTS BY MATURITY (in EUR)	31 DEC 2018	31 DEC 2017
Currency swaps contracts up to 12 months	5,982,329	4,493,519
TOTAL	**5,982,329**	**4,493,519**

EFFECT OF CURRENCY SWAPS (in EUR)	2018	2017
Unrealised profit on effective swaps	54,987	
Unrealised loss on effective swaps		-49,359
Realised profit on effective swaps	32,773	4,996
Realised loss on effective swaps	-178,938	-88,879

INTEREST RATE RISK

For the purpose of hedging against interest rate risk, the Company acts in compliance with the Rules of HSE Group's interest rate management, within which it monitors the circumstance on the money market, the interest rate fluctuations and the movement of prices of derivatives, aimed at proposing measures for timely hedging against interest rate risk. The decision on interest rate hedging is grounded on the forecast on the interest rate development and the impact on the amount of finance costs, whereby it should be emphasised that the Euribor's value was negative throughout the 2018 period. The Company namely concluded contracts for long-term borrowings in a way that the variable interest rate equals 0 if the EURIBOR is negative (i.e. zero floor) and is exposed to Euribor growth into the positive area. Hedging of short-term maturity rates would in circumstances that apply to the money market and interest rate development additionally increase costs of financing and expose the Company to the risk of a decline in interest rates. Consequently, the Company concluded no new interest rate hedging in 2018.

Interest rate risks are regularly monitored and reported about.

Interest-bearing and non-interest bearing financial assets and liabilities are outlined in the table below:

FINANCIAL INSTRUMENTS AT VARIABLE INTERES RATE (in EUR)	31 DEC 2018
Financial liabilities	220,848,485
Financial receivables	0

CASH FLOW SENSITIVITY ANALYSIS WITH FINANCIAL INSTRUMENTS BEARING A VARIABLE INTEREST RATE

The change in the variable interest rate for 50 base points on the reporting date would increase (decrease) the net profit or loss for the values stated below. The analysis prepared assumes that all variables, particularly foreign currency rates, remain unchanged. In the calculation, the receivables/liabilities at variable interest rate are reduced by the total amount of IRS transactions concluded. Due to negative values of EURIBOR interest rates in 2018, we used solely considered the mark-up/increase + 0.50 b.p. As for borrowings concluded based on the Euribor zero floor interest rate, the mark-up + 0.50 b.p. to the Euribor's average value in 2018 was taken into account (average value of the 3-month Euribor – 0.322%; average value of the 6-month Euribor – 0.266%).

	NET PROFIT OR LOSS 2018		NET PROFIT OR LOSS 2017	
FINANCIAL INSTRUMENTS (in EUR)	INCREASE BY 50 BP	DECREASE BY 50 BP	INCREASE BY 50 BP	DECREASE BY 50 BP
Financial instruments at variable interest rate	-454,396	n/a	-460,066	n/a
Financial liabilities	-454,396	n/a	-460,066	n/a

Fixed interest rates are defined for the financial assets, thus a sensitivity analysis was not compiled for this part.

PRICE RISK

FUTURE (FORWARD) CONTRACTS FOR ELECTRICITY

The Company trades with futures with the purpose to insure protect long-term positions, arising on own production, against price risks, and with the purpose of position trading.

In sales and purchase of electricity with physical supply, the Company simultaneously concludes future contracts with the position contrary quantity and the same maturity or future contracts with a maturity that is in line with the planned quantity of own production. In this way, the Company financially fixes the revenue, indicating that the loss arising from the purchase of forward contracts is compensated with revenue from physical quantity of the purchased/sold electricity or produced physical quantity of electricity. The planned electricity production by subsidiaries is used as the platform for implementing the price insurance strategy for the planned quantities of own production. Accordingly, the Company already in the current year sells electricity to the subsidiary for several years in advance, while the strategy's main goal is to maximise the profit and ensure stable revenue from sales of electricity.

In this relation, the Company recorded at the year-end of 2018 forward contracts in the amount of EUR

43,890,631. Related disclosures are provided in the section Equity.

The purchase or sales of futures contract with the purpose of position trading in the time of open position increases the price exposure of the Company since it is concluded with the intention to generate revenue on the account of changes in the prices of electricity. The price exposure is reduced only in case of concluding diametric futures contract. Disclosures of respective transactions are provided in section Equity. As at the year-end of 2018, the Company recorded EUR 58,115,015 of open future contracts held for trading.

CONLUDED STANDARD CALL FUTURES FOR HEDGING PURPOSES (in EUR)	31 DEC 2018	31 DEC 2017
For electricity - purchase hedging	22,389,291	8,779,272
For electricity - sales hedging	21,501,340	5,739,504
TOTAL	**43,890,631**	**14,518,776**

CONCLUDED STANDARD CALL FUTURES FOR TRADING (in EUR)	31 DEC 2018	31 DEC 2017
For electricity - trading - purpose of purchasing	40,162,709	29,440,420
For electricity - trading - purpose of sale	17,952,306	22,098,252
TOTAL	**58,115,015**	**51,538,672**

EMMISSION COUPONS

The Company concluded forward contracts in 2018 for the purchase and sale of emission coupons in order to insure quantities of emission coupons, relating to own production requirements; the Company concluded also forward contracts in a limited scope also in connection with the trading activity, which was not linked to own production. As at the year-end of 2018, the Company recorded in this respect EUR 67,084,130 of open contracts for insuring the purchase and sale of emission contracts. Related disclosures are provided in the section Equity.

CONCLUDED STANDARD CALL FUTURES FOR HEDGING PURPOSES (in EUR)	31 DEC 2018	31 DEC 2017
For emission coupons - purchase hedging	63,567,160	41,948,880
For emission coupons - sales hedging	3,516,970	2,069,850
TOTAL	**67,084,130**	**44,018,730**

CAPITAL MANAGEMENT

CAPITAL MANAGEMENT (in EUR)	31 DEC 2018	31 DEC 2017
Long-term financial liabilities	192,434,059	219,420,786
Short-term financial liabilities	27,140,461	17,201,481
Total financial liabilities	219,574,520	236,622,267
Equity	979,389,150	905,369,122
Financial liabilities/Equity	**0.22**	**0.26**
Cash and cash equivalents	67,759,248	26,727,874
Net financial liability	151,815,272	209,894,393
Net debt/Equity	**0.16**	**0.23**

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

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

The ratio shows the relationship between the Company's debt and equity. The ratio at the end of 2018 has improved over the 2017 year-end balance due to lower indebtedness.

FAIR VALUES

The Company estimates that the carrying amount is a sufficient approximation for its financial instruments, except derivatives, which are recorded at fair value.

BOOK VALUES AND FAIR VALUES OF FINANCIAL INSTRUMENTS (in EUR)	31 DEC 2018		31 DEC 2017	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Non-derivative financial assets at fair value	**111,500**	**111,500**	111,500	111,500
Financial assest at fair value over comprehensive income	111,500	111,500	111,500	111,500
Derivative financial assets at fair value	**67,885**	**67,885**	0	0
Derivative financial instruments (receivables)	67,885	67,885		
Non-derivative financial assets at amortised cost	**336,918,381**	**0**	220,577,202	0
Financial receivables	92,417,151		27,467,441	
Operating and other receivables	176,741,982		166,381,887	
Cash	67,759,248		26,727,874	
TOTAL	**337,029,881**	**179,385**	220,688,702	111,500
Derivative financial liabilities at fair value	**0**	**0**	60,937	60,937
Derivative financial instruments (liabilities)	0		60,937	60,937
Non-derivative financial liabilities at amortised cost	**371,355,676**	**0**	387,758,378	0
Bank borrowings	219,469,012		236,468,415	
Other financial liabilities	105,508		92,915	
Operating and other liabilities	151,781,156		151,197,048	
TOTAL	**371,355,676**	**0**	387,819,315	60,937

FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE BY HIERARCHY (in EUR)	31 DEC 2018	31 DEC 2017
Financial assets at the fair value - Level 2	67,885	0
Financial assets at the fair value - Level 3	111,500	111,500
Financial liabilities at the fair value - Level 2	0	60,937

4.5.8 EVENTS AFTER THE BALANCE SHEET DATE

No events or transactions have occurred that would have an impact on the Group's operating result and the statement of financial position.

4.5.9 ADDITIONAL DISCLOSURES PURSUANT TO THE ENERGY ACT

The Company started producing electricity in SPP Velenje in 2011. In accordance with provisions of the Energy Act, the Company is required to monitor its activity of electricity production in the SPP separately.

The statement of financial position for the activities of electricity production in SPP is composed based on the following rules:

- carrying amount of the SPP is disclosed under the production plant within property, plant and equipment,
- receivables due from buyers of electricity and input VAT are recorded among short-term operating receivables,
- operating result of the individual activity and the difference between items of assets and liabilities in the statement of financial position, are disclosed within equity,
- trade payables relating to operations and maintenance of the SPP and the output VAT are disclosed among short-term operating liabilities.

4.5.9.1 THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 (ENERGY ACT)

ITEM (in EUR)	ELECTRICITY TRADING	SP PRODUCTION	TOTAL
ASSETS	**1,381,485,728**	**197,404**	**1,381,683,132**
A. LONG-TERM ASSETS	**1,132,137,131**	**86,368**	**1,132,223,499**
I. Intangible assets	31,725,965		31,725,965
II. Property, plant and equipment	11,831,579	86,368	11,917,947
IV. Long-term investments in subsidiaries	953,851,547		953,851,547
V. Other long-term investments and loans	131,409,249		131,409,249
VI. Long-term operating receivables	3,050,903		3,050,903
VIII. Deferred tax assets	267,888		267,888
B. SHORT-TERM ASSETS	**249,348,597**	**111,036**	**249,459,633**
II. Inventories	2,594		2,594
III. Short-term investments and loans	1,956,229		1,956,229
IV. Short-term trade receivables	135,489,556	1,241	135,490,797
V. Contract assets	3,016,725		3,016,725
VI. Other short-term assets	41,234,040		41,234,040
VIII. Cash and cash equivalents	67,649,453	109,795	67,759,248
EQUITY AND LIABILITIES	**1,381,485,728**	**197,404**	**1,381,683,132**
A. EQUITY	**979,192,625**	**196,525**	**979,389,150**
I. Called-up capital	29,558,789		29,558,789
II. Capital surplus	561,096,840	146,345	561,243,185
III. Revenue reserves	562,744,824		562,744,824
IV. Hedging reserve	75,592,355		75,592,355
V. Fair value reserve	-26,773		(26,773)
VI. Retained earnings or losses	-249,773,410	50,180	(249,723,230)
B. LONG-TERM LIABILITIES	**194,193,846**	**0**	**194,193,846**
I. Provisions for termination benefits and jubilee premiums	949,464		949,464
II. Other provisions	311,675		311,675
III. Other long term liabilities	485,750		485,750
IV. Long-term financial liabilities	192,434,059		192,434,059
VI. Deferred tax liabilities	12,898		12,898
C. SHORT-TERM LIABILITIES	**208,099,257**	**879**	**208,100,136**
II. Short-term financial liabilities	27,140,461		27,140,461
III. Short-term operating liabilities	132,676,101	789	132,676,890
V. Current tax liabilities	1,489,952	90	1,490,042
VI. Other short-term liabilities	46,792,743		46,792,743

4.5.9.2 INCOME STATEMENT FOR 2018 (ENERGY ACT)

ITEM (in EUR)	ELECTRICITY TRADING	SP PRODUCTION	TOTAL
OPERATING INCOME	**1,485,875,750**	**18,498**	**1,485,894,248**
1.Net sales revenue	1,481,920,265	18,498	1,481,938,763
4. Other operating income	3,955,485	0	3,955,485
OPERATING EXPENSES	**1,431,432,598**	**7,283**	**1,431,439,881**
5. Costs of goods, material and services	1,419,384,721	2,203	1,419,386,924
6. Labour costs	10,499,858	0	10,499,858
7. Write-downs in value	880,847	5,080	885,927
8. Other operating expenses	667,172	0	667,172
OPERATING PROFIT OR LOSS	**54,443,152**	**11,215**	**54,454,367**
9. Financial income	33,283,502	0	33,283,502
10. Financial expenses	69,458,334	0	69,458,334
FINANCIAL RESULT	**-36,174,832**	**0**	**-36,174,832**
PROFIT OR LOSS BEFORE TAX	**18,268,320**	**11,215**	**18,279,535**
TAX	**8,791,135**	**2,131**	**8,793,266**
12. Income tax expense	8,803,132	2,131	8,805,263
13. Deferred tax	-11,997	0	-11,997
NET PROFIT OR LOSS FOR THE PERIOD	**9,477,185**	**9,084**	**9,486,269**
Majority owner	9,477,185	9,084	9,486,269

The income statement for the activities of electricity production in SPP is composed based on the following rules:

- value of invoices issued to clients for the SPP electricity is disclosed in net operating income,
- costs of maintenance and operations of the SPP are recorded among costs of materials and services,
- depreciation costs refer to depreciation of the SPP,
- current tax is calculated as corporate income tax based on the operating result of the activity.

4.5.9.3 STATEMENT OF CASH FLOWS FOR 2018 (ENERGY ACT)

ITEM (in EUR)	ELECTRICITY TRADING	SP PRODUCTION	TOTAL
CASH FLOWS FROM OPRATING ACTIVITIES			
Profit or loss for the period	9,477,185	9,084	9,486,269
Adjustements for:			
Amortisation of intangible assets	376,643		376,643
Amortisation on property, plant and equipment	487,194	5,080	492,274
Property, plant and equipment wrire - offs	16,973		16,973
Loss on sale of property, plant and equipment	37		37
Financial income	-33,283,502		-33,283,502
Financial expenses	69,458,334		69,458,334
Gain on sale of intangible assets	-53,817		-53,817
Gain on sale of property and plant and equipment	-4,628		-4,628
Income tax	8,791,136	2,131	8,793,267
Cash generated from operating activities before change in net current assets and taxses	**55,265,555**	**16,295**	**55,281,850**
Change in net current assets and provisions			
Change in:			
Inventories	-2,594		-2,594
Trade and other receivables	-7,678,048	120	-7,677,928
Trade and other payables	65,933,591	-887	65,932,704
Recived advances and other liabilities	485,750		485,750
Provisions	126,800		126,800
Income tax paid	-6,043,261	-2,131	-6,045,392
Cash from operating activities	**108,087,793**	**13,397**	**108,101,190**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	210,867		210,867
Cash receipts from oteher financing activities	1,000,733		1,000,733
Dividends received	30,353,648		30,353,648
Proceeds from sale of property, plant and equipment	755,071		755,071
Proceeds from sale of intangible assets	25,850,491		25,850,491
Proceeds from decrease in short-term loans given	560,000		560,000
Receipts from decrease in long-term loans given	1,000,000		1,000,000
Acquisitions of property, plant and equipment	-685,017		-685,017
Acquisitions of intangible assets	-31,109,465		-31,109,465
Costs for increasing long-term loans	-64,791,457		-64,791,457
Net cash used in investing activities	**-36,855,129**	**0**	**-36,855,129**

(continuing)

ITEM (in EUR)	ELECTRICITY TRADING	SP PRODUCTION	TOTAL
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings	15,000,000		15,000,000
Payment of interest on borrowings	-7,823,799		-7,823,799
Costs for other financial liabilities	-4,906,040		-4,906,040
Repayment of long-term borrowings	-17,484,848		-17,484,848
Repayment of short-term borrowings	-15,000,000		-15,000,000
Net cash used in financing activities	**-30,214,687**	**0**	**-30,214,687**
OPPENING BALANCE OF CASH AND CASH EQUIVALENTS	**26,631,476**	**96,398**	**26,727,874**
Financial result	41,017,977	13,397	41,031,374
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**67,649,453**	**109,795**	**67,759,248**

ABBREVIATIONS

AC	Audit Committee
DEM	Dravske elektrarne Maribor d.o.o.
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECB	European Central Bank
EIB	European Investment bank
ELES	ELES d.o.o., sistemski operater prenosnega elektroenergetskega omrežja
EU	European Union
EUR / €	Euro
HESS	Hidroelektrarne na Spodnji Savi d.o.o.
HPP	Hydro power plant
HSE	Holding Slovenske elektrarne d.o.o.
HSE Adria	HSE Adria d.o.o. – in liquidation
HSE BE	HSE Balkan Energy d.o.o.
HSE BH	HSE Bosna in Hercegovina d.o.o.
HSE EDT	HSE Energetska družba Trbovlje d.o.o.
HSE Mak	HSE Mak Energy DOOEL
HTZ	HTZ harmonija tehnologije in znanja invalidsko podjetje d.o.o. Velenje
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
ISO	International Standards Organisation
IT	Information technology
NEK	Nuklearna elektrarna Krško d.o.o.
OPEC	Organisation of Petroleum Exporting Countries
PLP	PLP Lesna industrija d.o.o. Velenje
PV	Premogovnik Velenje d.o.o.
RGP	RGP Rudarski gradbeni program d.o.o.
SB	Supervisory Board
SDH	Slovenski državni holding d.d.
SENG	Soške elektrarne Nova Gorica d.o.o.
SIPOTEH	SIPOTEH Strojna in proizvodna oprema d.o.o.
Small HPP	Small hydro power plant
SPP	Solar power plant
SRESA	Srednjesavske elektrarne d.o.o.
TEŠ	Termoelektrarna Šoštanj d.o.o.
TET–in liquidation	Termoelektrarna Trbovlje d.o.o. – in liquidation

TPP	Thermal power plant
USD	US dollar
VAT	Value added tax

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