Annual Report 2019

We conquer the peaks with good power

hse Group

www.hse.si

Holding Slovenske elektrarne d.o.o.
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Annual Report

2019

We conquer the peaks with good power

HSE Group

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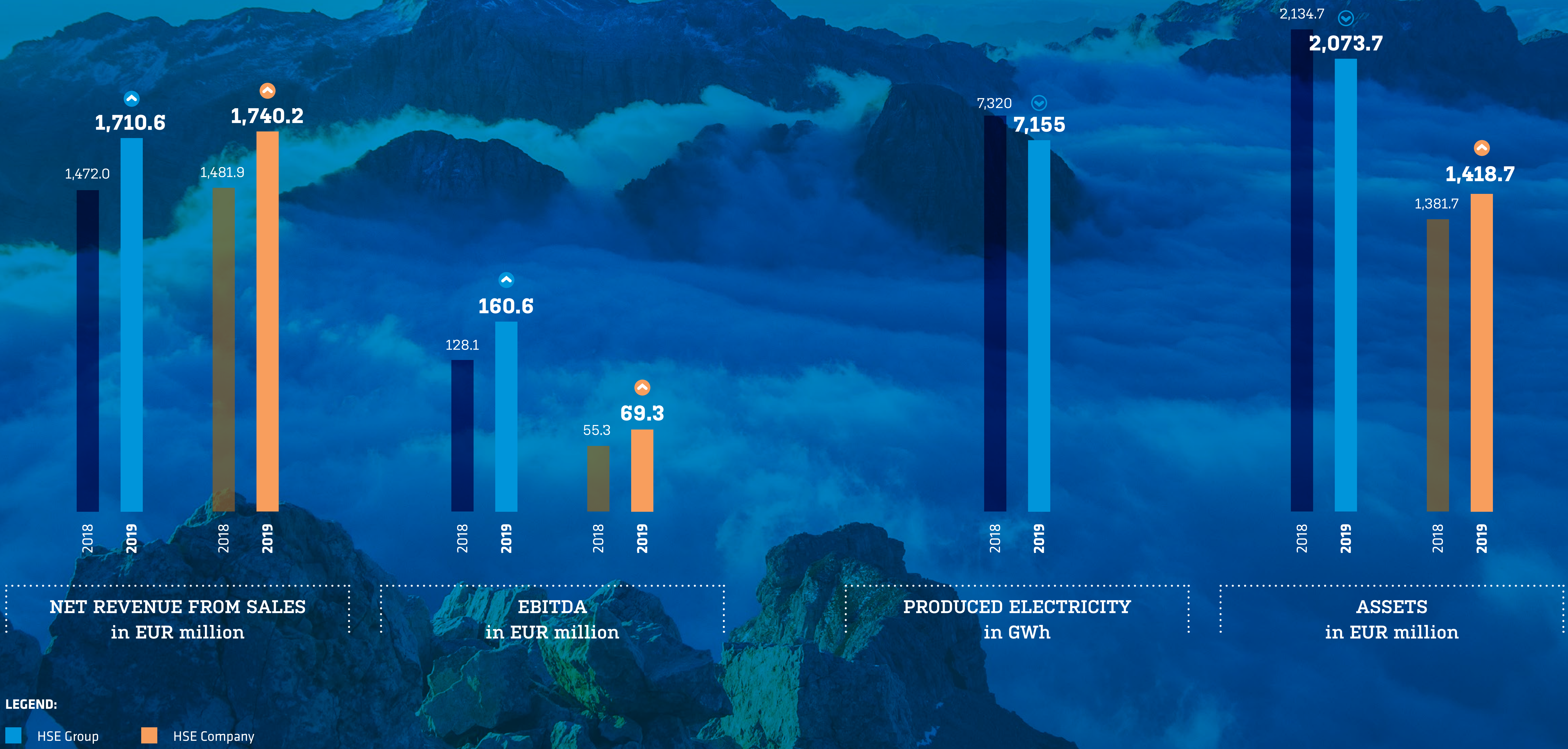
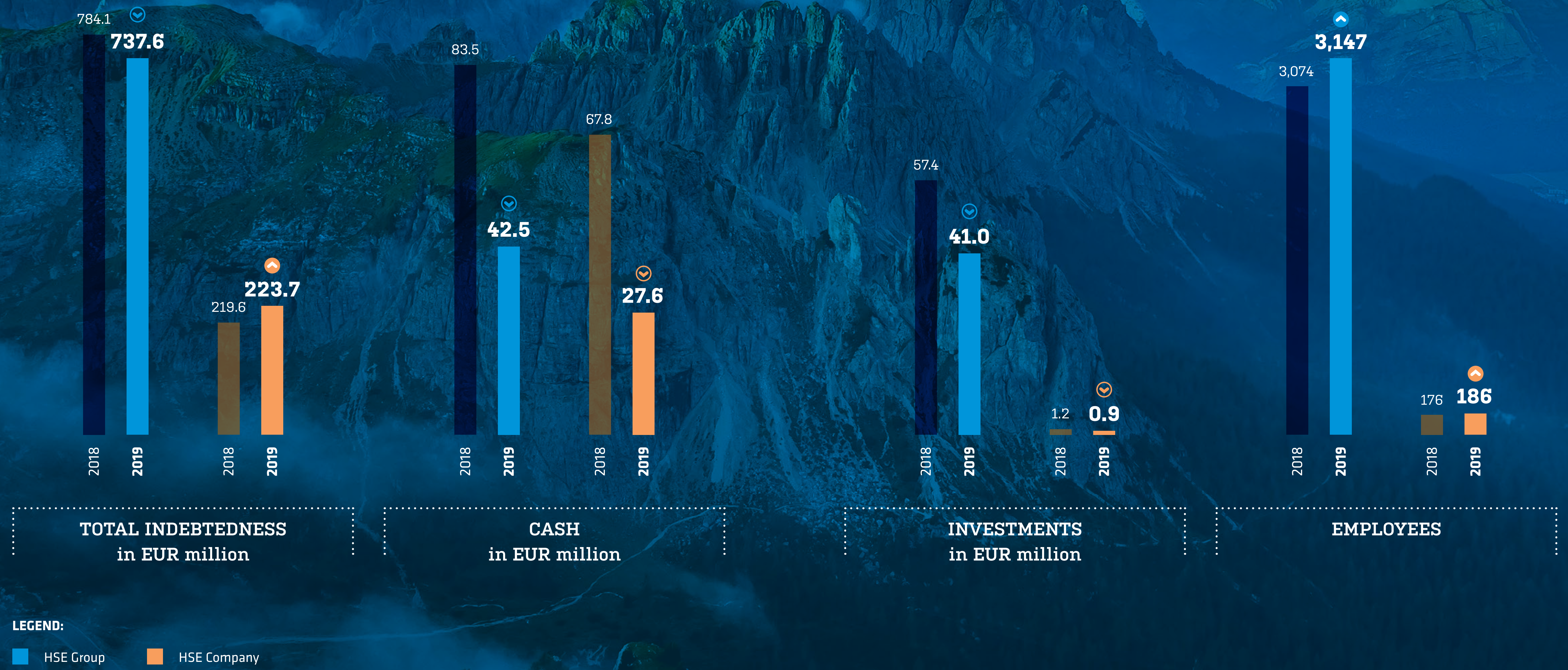
Introduction

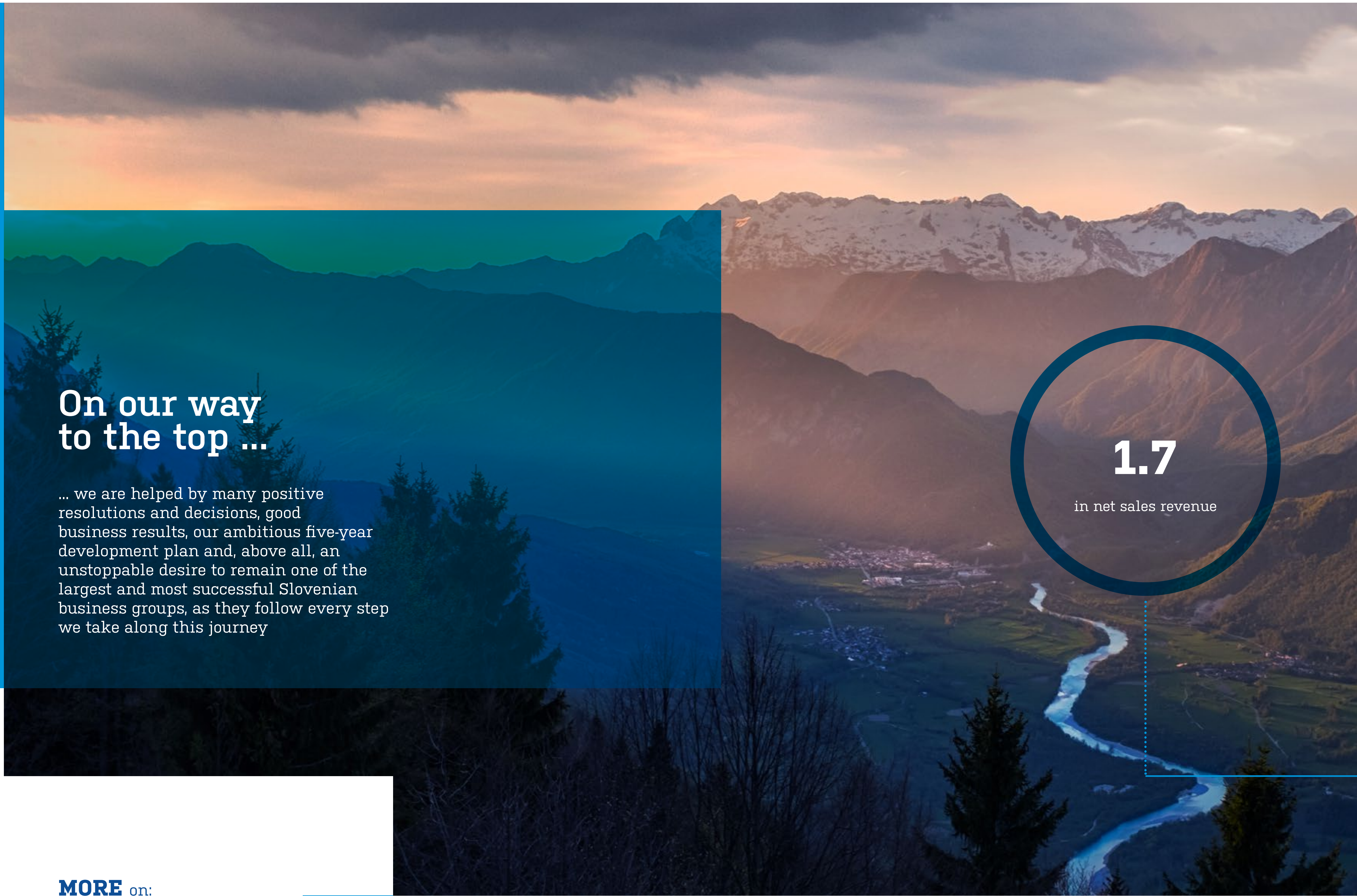
We overcome the steep path to success with a sequence of individual thoughtful steps

01

1.1 Operating highlights of the HSE Group and the HSE Company




784.1
737.6
219.6
223.7
2018
2019
2018
2019
TOTAL INDEBTEDNESS
in EUR million
83.5
42.5
67.8
27.6
2018
2019
2018
2019
CASH
in EUR million
57.4
41.0
1.2
0.9
2018
2019
2018
2019
INVESTMENTS
in EUR million
3,074
3,147
176
186
2018
2019
2018
2019
EMPLOYEES
LEGEND:
HSE Group
HSE Company



On our way to the top ...

... we are helped by many positive resolutions and decisions, good business results, our ambitious five-year development plan and, above all, an unstoppable desire to remain one of the largest and most successful Slovenian business groups, as they follow every step we take along this journey

1.7

in net sales revenue

EBITDA

EUR

160.6

milion

Highest revenue and highest achieved EBITDA in business history of HSE Group.

MORE on:

2.6.1 Business performance analysis of the HSE Group

2.6.2 Business performance analysis of the HSE Company

1.2 Letter of the Management Board

Solid foundations, good outlook for the future

In the days when we are completing the preparation of the annual report of the HSE Group and the HSE Company for 2019, we have already taken a deep step into the new twelve months of production, sales, trading, and above all new projects and objectives to which we have committed in the past period. Numerous positive decisions, encouraging business results, an ambitious five-year development plan, and above all the irresistible desire to become and remain one of the largest and most successful Slovenian business groups, accompany us at every step of this path.

Stojan Nikolić, M.Sc.
Managing Director of HSE

We will remember 2019 for the completed consolidation of the HSE Company's financial position. Indeed, we successfully refinanced loans and saved a lot on financing costs. The Group's indebtedness towards banks has therefore lowered by seven per cent. This is why Moody's has improved our rating from Ba2 to Ba1, which confirms our success in meeting the set goals and growth of our reputation in the international environment, while also making us one of the best Slovenian companies. By improving risk management, we have achieved a record result on the sales and trading part. At the end of the year, we received the consent of the Slovenian Competition Protection Agency for the implementation of vertical integration together with the companies Elektro Celje, Elektro Gorenjska and Elektro Primorska.

Our power plants produced 7.2 TWh of electricity last year, which is two percent less than in 2018, mainly due to poor hydrological situation in the first three quarters of the year and due to operating restrictions in the coal mine and unforeseen shutdowns of Unit 6 in TEŠ. Most of the quantity, similar to previous years, was produced by the Drava power plants and the Šoštanj thermal power plant. The HSE Group, with a 65% share in total electricity generation in Slovenia, remains the largest domestic producer of electricity and the largest, more than 70%, producer of environmentally friendly electricity from renewable sources. The image of the running year is somewhat damaged by worse hydrology, smaller coal excavation than planned and the unplanned shutdown of Unit 6 in TEŠ. But 2019 has nonetheless been a year of many superlatives for the HSE Group. We generated more than EUR 1.7 billion in net sales revenue, the highest in HSE's history of existence, and the highest EBITDA in the last five years, which was as much as EUR 160.6 million. This result was possible thanks to reliable production of power plants, record sales of electricity and cost-effective refinancing of loans. We are present in twenty-five markets where we sold 34 TWh of electricity in 2019, representing 98 per cent of all net sales revenue of the HSE Group. The efficient system of monitoring the exposure to key risks enabled us to take timely measures for risk management at the level of the HSE Company and the HSE Group throughout the year.

Our power plants have produced
7.2 TWh
of electricity

The largest domestic producer of electricity
with a **65%**
market share

We produce
70%
of electricity from renewable sources in Slovenia

Viktor Vračar, Ph.D.
Business Director of HSE

Mirko Marinčič, M.Sc.
Business Director of HSE

*We have realized **more than EUR 1.7 billion of net sales revenue**, which is the largest number in the history of HSE, and the highest EBITDA in the last five years, which amounted to as much as EUR 160.6 million.*

Present on
25
markets

We sold
34 TWh
of electricity

In the HSE Group, we spent almost EUR 41 million on investments last year, most of the funds were aimed at increasing the safety and reliability of electricity generation. Associates of HSE and Drava power plants Maribor conducted a joint project of updating the software and hardware of the production control center for the whole group in Maribor last year. Upgrading the management centre with modern digital tools improves the planning, management and analysis of production in the HSE Group.

*Last year, the HSE Group spent almost **EUR 41 million** on investments, most of these funds were earmarked to increase security and reliability in the production of electricity*

In mid-2019, the Šoštanj thermal power plant decided to start preparations for the co-incineration project of alternative fuel from non-hazardous waste. It is important to be aware of the big problem in Slovenia's waste management and to work together to ensure that we produce as little waste as possible – and to use it properly in such a way as to minimise environmental interventions. We named the project SOEN - SOsežig za ENergijo - and paid special attention to communication with the local community, as acceptability in the local environment is key to the success of the project.

We also pay a lot of attention to our employees. We take care of safety and health at work, constantly invest in development and education, pay attention to the coordination of family and professional life, and through many internal initiatives and events we strengthen the connection between employees. All of the above is also reflected in the positive trend of the ratio of organizational climate, satisfaction and commitment of employees.

The objectives we will pursue in the period from 2020 to 2024 that are described in the development plan agreed by the HSE Supervisory Board at the beginning of 2020, focus on three main development orientations: raising the cost efficiency and flexibility of the existing production portfolio; increasing production volumes and lowering the average production price of our product portfolio and reducing dependence on the wholesale market while simultaneously raising the added value of the production portfolio and the whole HSE Group with new products. We begin this interesting period with the eagerly expected gradual entry to the retail electricity market. The project, which has been "in preparation" for more than ten years, provides advantages for everyone: the HSE Group will gain access to final customers which will contribute to the growth of business performance indicators, and the Slovenian electricity market will get a new competitive player with almost twenty years of experience in the field of sales and trading of electricity.

2020 → **2024**

an increase in cost efficiency
and
flexibility of the existing production portfolio

+

an increase in the volume of production
and a
reduction of the average production price
of our production portfolio

+

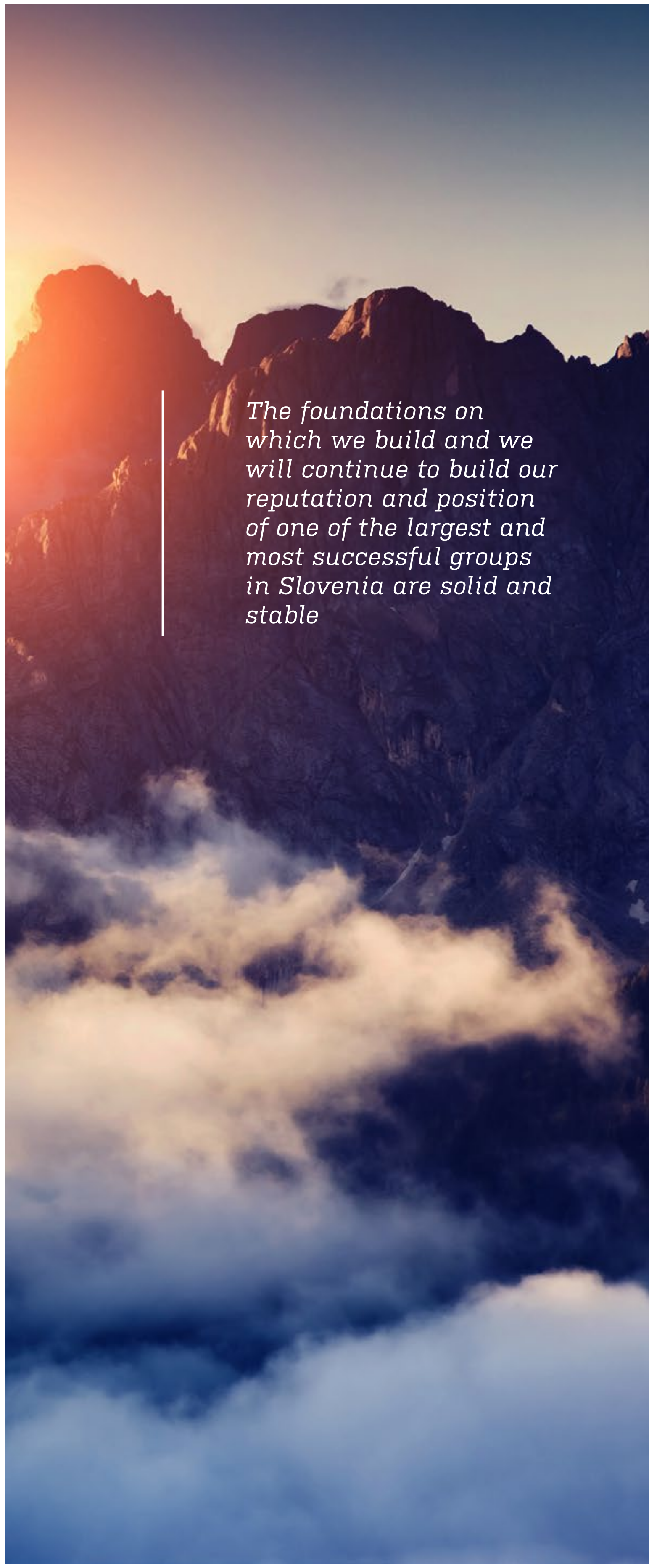
lesser dependency on the wholesale market
with a simultaneous increase in the added value of the production portfolio and of the entire HSE Group with new products

The growth and development of the HSE Group thus remain an imperative and a constant point of our direction. The National Energy and Climate Plan of the Republic of Slovenia (NEPN), adopted in the beginning of 2020, is not doing us any favours. On the contrary, it poses challenges related to the effective achievement of the set development goals in the field of renewable energy sources, the construction of new gas-steam power plants to replace electricity from coal Units and the plan to abandon the use of domestic coal for electricity generation. We still hope and believe that new reasonable decisions will be taken in this area and we will begin concrete activities in the construction of hydroelectric power plants on the central Sava river in 2020, a project that can reunite personnel, professional and technical potential of both "pillars" of the Slovenian energy industry.

The foundations on which we build and continue to build our reputation and position as one of the largest and most successful groups in Slovenia are therefore solid and stable. On their basis, we will use all internal potential, while building partnerships outside our group, we will lead and direct the transition of the Slovenian energy industry to carbon neutrality.

We, the employees, owners, supervisory board, companies, banks, business partners and local communities are on this journey together and we would like to thank everyone for following our work, supporting our plans and motivating us to achieve the goals we have set.

Ljubljana, 10 April 2020



1.3 Report of the Supervisory Board

1.3.1 Manner and extent of verification of management and operations of the Company HSE in financial year 2019

In 2019, the HSE Management Board met at a total of eighteen meetings, eight of which were ordinary, four extraordinary, while nine were correspondence meetings.

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

The HSE Supervisory Board was regularly informed about the operating results of the HSE Group and the HSE 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 HSE Company. On a regular basis, the Management Board informed the HSE Supervisory Board about the development of the vertical integration project, the operations of the HSE Group and the HSE 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. It gave its consent for the Business Plan of the HSE Group and HSE Company for 2020 with an additional indicative plan for 2021 and 2022 and for the HSE Group Development Plan 2019-2023 with a view to 2030 and already in January 2020 gave consent for the HSE Group Development Plan for 2020-2024. It approved the 2018 Annual Report of the HSE Group and the HSE Company. On the basis of the opinion of the Audit Committee of the Supervisory Board of HSE, it proposed to the founder to appoint Deloitte revizija d.o.o. as the auditor of the financial statements of the HSE Group and HSE Company for 2019-2021, and gave consent for the Rebalance of the Internal Audit Service (IA Service) work plan for 2019, approved the Annual Work Plan of IA Service for 2020 in January 2020 and regularly took note of the audits of this service and of the quarterly Reports on the work of the Internal Audit Service. It issued two authorizations to the Fraud Prevention and Detection Service (SPOP) to conduct forensic investigations in connection with accusations of alleged irregularities from anonymous reports. In 2019, the HSE Supervisory Board increasingly focused its activities on the supervision of the liquidity position and borrowings of the HSE Company and the HSE Group, whereby it paid special attention to the monitoring of the situation in the PV companies and TEŠ. The Supervisory Board has implemented the necessary personnel procedures for the appointment of a three-member management of HSE. In scope of its supervision function, the HSE Supervisory Board collected answers to the additionally posed questions that supplemented the material for the Supervisory Board meetings. The HSE Supervisory Board assesses that it acted to the benefit of the HSE Company and the HSE 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. The 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 HSE Group. In January 2020, the Supervisory Board conducted a self-assessment and adopted proper measures. In all cases of a conflict of interest in decision-making, the members of the Supervisory Board exclude themselves.

1.3.2 Operation of the HSE Supervisory Board Audit Committee

In 2019, 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).

In 2019, the Audit Committee met in seven regular sessions, two extraordinary sessions and held two correspondence sessions in which, as a rule, all members of the Audit Commission of the Management Board of HSE d.o.o., were present or voted by delivering a ballot to the Chairperson of the Audit Committee. 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 Comittee discussed issues in accordance with the Companies Act (ZGD-1), Recommendations for the Work of Audit Committees, Rules of Work of the Audit Committee, the Audit Committee's 2019 work plan, and the HSE Supervisory Board's decisions.

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

In 2019, the Audit Committee was informed about the annual report of the IA Service for 2018 and its plan of activities for 2019. 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.

In 2019, the Audit Committee conducted several meetings with the auditors of the audit company KPMG Slovenija d.o.o., both during the pre-audit and during auditing of the financial statements, in which it actively participated in determining the areas of audit, monitored the independence and quality of the work of the current auditor, and briefed on the progress and key findings of the pre-audit/audit of the financial statements of the HSE Company and the HSE Group. It reviewed the unaudited and audited 2018 Annual Report of the HSE Company and the HSE Group including the opinion of the independent auditor. It prepared the report on its work in the year 2018 with the assessment of the annual report of the HSE Company and the HSE Group for 2018. It was also kept up to date with the findings and recommendations stated in the management letter that the audit firm prepared and with the response reports.

The Audit Committee participated in the elaboration of technical specifications, focusing on transparent and non-discriminatory selection criteria, the joint procurement for the performance of auditing financial statements and the annual report of the group and individual companies of the HSE Group for the financial years 2019, 2020 and 2021 and actively participated in the entire selection process of the statutory audit firm. It proposed to the Supervisory Board of HSE d.o.o. to propose to the founder to appoint the company DELOITTE Revizija d.o.o as the auditor of the financial statements of the HSE Company and the HSE Group for 2019 - 2021. The audit firm DELOITTE revizija 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 2019, the audit company DELOITTE Revizija d.o.o. carried out permitted non-audit services in the HSE Group on a very small scale, and did not provide non-legal audit services. Its objectivity and independence were not jeopardised in the opinion of the Audit Committee. The Audit Committee also discussed the contract for the audit of the annual report of the HSE Company and the HSE Group for 2019.

The Audit Committee was also informed about the starting points and the business plan of the HSE Company and the HSE Group for 2020 and the planned risks of the HSE Company and the HSE Group for the business plan for 2020. The Audit Committee adopted the action plan of the Audit Committee for 2020 and conducted a self-evaluation of its work for the previous year and thus established the foundations of its work in the following year.

1.3.3 Operation of the HSE Supervisory Board Personnel Committee

In 2019, the permanent HSE Supervisory Board Personnel Committee operated and held eleven sessions, six regular sessions, four extraordinary sessions and one correspondence session, aimed at offering professional assistance to the Supervisory Board while managing two procedures, the procedure for selecting and appointing the CFO and CEO with two full terms of office that was completed in March 2019, and following the adoption of the new Act establishing HSE d.o.o. dated 28 March 2019, the process for the selection and appointment of a full-term business director, which was completed in June 2019.

1.3.4 Operation of the HSE Supervisory Board Restructuring Committee

In 2019, the permanent HSE Supervisory Board Restructuring Committee operated and met for four regular sessions and one extraordinary session. The Committee acted as the expert support group 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 also discussed the assumptions of the long-term plan for the PV Group and the Company, the Business Plan of the HSE Group and the Company for 2020 with an additional indicative plan for 2021 and 2022 and a renewed Restructuring Action Plan.

1.3.5 Operation of the HSE Supervisory Board Marketing and Investment Committee

In 2019, 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 expert support group 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 got acquainted with the HSE Group and Company business plan for 2020 with an additional indicative plan for 2021 and 2022, in the framework of which the greatest emphasis was placed on investment. It gave a positive opinion on the investment programme “Renovation of secondary systems at the facilities of the Mariborski otok HPP, the Dravograd HPP and the Vuzenica HPP”. It got acquainted with information on electricity trading, on the sale of system services and heat, on liquidity management under the CO2 emission coupons, on the amount of bank deposits, on the management of HPP on the lower Sava river from the GEN production control center. It addressed the HSE Group Development Plan 2019 - 2023 with a view to 2030 and an amendment to Article 10 of the Act establishing a methodology for pricing system services.

1.3.6 Opinion on the Management's work in 2019

In accordance with the law and good practice in the year 2019, the HSE Supervisory Board comprehensively supervised the management and operations of the HSE Group and 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 assessed the work of the management, when it assessed periodic business results, compared the HSE Group and HSE d. o. o. operations to past periods and planned objectives and took note of the reports of external experts regarding individual companies of the HSE Group. The management acted with care and commitment in the best interest of the HSE Group and HSE d. o. o. and successfully collaborated with the Supervisory Board.

1.3.7 Opinion on the operations of the HSE Group and the HSE Company in 2019

The HSE Group has achieved its highest net sales revenue in 2019 since the group operates. The achieved electricity generation of HSE Group companies was 2% lower compared to the previous year 2018. Due to accelerated melting and evaporation of snow in May and below-average rainfall in the August-October 2019 period, hydro production was lower by 147 GWh. Avče PSPP produced 14 GWh more and the thermal power plant 32 GWh less electricity due to the power limits of Unit 6 and occasional problems in the provision of coal. The outage of hydro and thermo production sold in advance was replaced by the HSE Group by purchases of electricity on the foreign market, ensuring reliable and safe supply of electricity, increasing sales activities and realizing 16% higher revenues from electricity sales. From electricity sales, the HSE Group achieved a 14% better operating performance compared to the previous year.

Despite inferior production and higher own price of production facilities (higher cost of CO_2 emission coupons and concession duties due to higher prices), the HSE Group realized an EBITDA of EUR 160.6 million and net profit or loss of EUR 29.7 million, the highest in the last five years. EBITDA was most affected by the difference between the price of electricity on the market and the own cost of the HSE Group's production facilities and a trading margin that was higher by 3%. The cost of the material was 3% higher mainly due to the use of a stronger, steel arc support used in the coal extraction process. The cost of services was 7% higher due to higher costs of subcontractors (on the other hand, revenue was higher) and higher maintenance costs. However, labour costs were 6% higher due to the higher average number of employees mainly in the PV group and the new collective agreement, which compared to the previous one foresees higher severance payments at retirement, which made it necessary to create additional provisions. In 2019, due to the stopped investment in the construction of HPP on the Mura River, the HSE Group realized write-offs of EUR 5,960,636.

HSE Group assets are down 3% due to the decrease in cash. Cash and capital were adversely affected by the valuation of financial instruments due to the closure of contracts for the purchase of CO2 emission coupons. Therefore, despite the net profit business, capital is 2% lower. Total indebtedness is lower by 6% due to loan repayments and net indebtedness is lower by 1%. HSE parent group has successfully completed the refinancing of loans already taken. The net financial liability/EBITDA indicator improved further due to lower indebtedness.

The HSE Group's investments amounted to EUR 41 million. The investments necessary to ensure the safety of operation of production units were the most common.

In 2019, the company HSE realized a net profit in the amount of EUR 60.1 million. Despite a 2% lower production, it successfully replaced the already sold lower hydro and thermo production with imports of electricity, ensuring a reliable supply of electricity, while increasing sales activities and delivering a better result from trade by almost EUR 8 million.

Net profit of the HSE Company in 2019

amounted to EUR 60.1

milion

Due to higher long-term financial investments, the company's assets are higher by 3%. Capital increased by a net profit of the current year of EUR 60.1 million and was negatively affected by the risk hedging reserve, which decreased by EUR 55.1 million. In August 2019, the company successfully refinanced a part of the existing long-term loan, so overall indebtedness is 2% higher and net indebtedness is 29% higher. As of 31 December 2019, the company fully complies with the financial commitments under long-term loan agreements.

Investments in the HSE Company amounted to EUR 0.9 million and most thereof were earmarked for the business information system.

1.3.8 Verification and confirmation of the Annual Report of the HSE Company and the HSE Group for the year 2019 including the opinion on the auditors' report and auditor's management letter

Pursuant to Article 272, Paragraph 3 of the Companies Act (ZGD-1), the HSE Management Board submitted the 2019 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 2019, which the Supervisory Board of HSE d.o.o. discussed during its 70th (regular) session of 16 April 2020. The audit of the 2019 Annual Report of the HSE Group and the Company was conducted by the audit firm Deloitte revizija 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 2019 in its 51rd (regular) session held on 15 April 2020, 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 2019 by the audit company Deloitte revizija d.o.o. The audit committee made no comments on the 2019 HSE Group and Company Annual Report, so it proposed to the Supervisory Board to adopt a decision on the confirmation of the 2019 HSE Group and Company Annual Report, in accordance with Article 282 of the Companies Act (ZGD-1). 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 2019 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 2019 and their income statement and the Cash flow statements for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union. The Supervisory Board has no comments on the auditor's report. It had no other comments on the 2019 Annual Report of the HSE Group and the Company either that would keep anyone from taking a decision on its confirmation. For this reason, the HSE Supervisory Board has in accordance with Paragraph 3 of Article 282 of the Companies Act (ZGD-1) adopted the 2019 Annual Report of the HSE Group and Company. The mentioned report was adopted within the open deadline, i.e. prior to the expiry of one month from the day when the company's management submitted the 2019 Annual Report to the HSE Supervisory Board.

1.3.9 Report on the verification of the proposal of the Management Board for the use of the accumulated profit

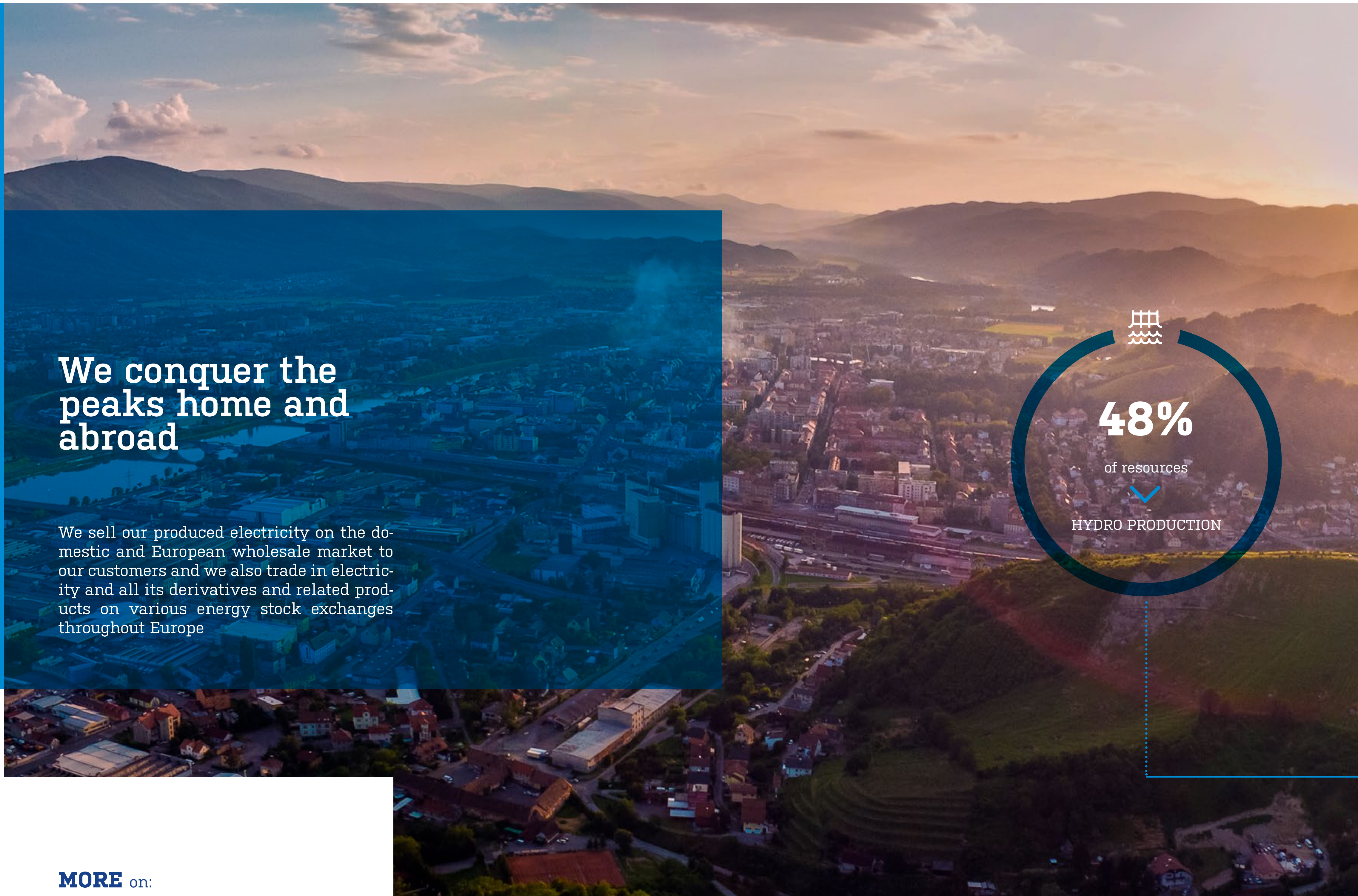
HSE d.o.o. generated net profit in the amount of EUR 60,117,716.63 in the financial year 2019. Under Article 230, paragraphs 1 and 2 of the Companies Act (ZGD-1), HSE used net profit for covering retained loss of the year 2015.

Ljubljana, 16 April 2020

Business Report

With top-quality services we always remain at the very top

02



We conquer the peaks home and abroad

We sell our produced electricity on the domestic and European wholesale market to our customers and we also trade in electricity and all its derivatives and related products on various energy stock exchanges throughout Europe

48%

of resources

HYDRO PRODUCTION

52%

of resources

THERMO PRODUCTION

Production of electricity consists of hydro and thermal production.

MORE on:

2.1 Significant events in the HSE Group in 2019

2.3 Corporate Governance Statement

2.6 Business performance analysis of the HSE Group and the Company

2.1 Significant events in the HSE Group in 2019

JANUARY

On 1 January, Radovan Jereb, M.Sc., became Director of SENG. He was appointed for a four-year term of office.

On 18 January, 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 coal production.

FEBRUARY

On 28 February, Arman Koritnik was dismissed from the position of the Director of TEŠ on the basis of a letter of resignation.

MARCH

On 1 March, Mitja Tašler was appointed for a 6-month term of office as Director of TEŠ.

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

On 25 March, at its 49th regular meeting, the Supervisory Board of HSE appointed the new managing director of HSE, Stojan Nikolić, M.Sc. with the commencement of his term of office on 1 April, and the new business director, Viktor Vračar, Ph.D. with the commencement of his term of office on 1 May. Both directors were nominated for a four-year term of office.

On 25 March, the new Chairman of the Supervisory Board of HSE, Boštjan Markoli, Ph.D., and new Deputy Chairperson of the Supervisory Board of HSE, Barbara Gorjup, M.Sc., were elected.

On 28 March, the Slovenian Sovereign Holding, based on their letters of resignation, relieved of their duties the members of the Supervisory Board of HSE Milan Perović and Viktor Vračar, Ph.D., and appointed as new members of the Supervisory Board of HSE Goran Brankovič, M.Sc., and Tomaž Besek.

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

On 31 March 2019, based on the letter of resignation, Matjaž Marovt was relieved of the duties as Managing Director of HSE.

APRIL

On 5 April, the HSE Supervisory Board nominated the HSE Supervisory Board member Tomaž Besek as the temporary business director of HSE and Management Board member. He was appointed to this function until 30 April.

On 16 April, a new Collective agreement for the Slovenian coal mining industry was signed.

On 19 April, the overhaul and the start-up tests of Avče PSPP were completed.

MAY

On 6 May, after the completion of maintenance works, Unit 6 TEŠ was synchronized with the slovenian electricity network.

On 10 May, HSE entered into a contract to purchase 25% of SEL's shareholding in HSE Invest. According to the Court's decision, the amendment of 14 May was entered in the commercial register. The amount of HSE's shareholding in HSE Invest after the purchase amounts to 50%.

On 15 May, DEM celebrated the 50th anniversary of Zlatoličje HPP.

On 31 May, the HSE Supervisory Board approved the revised Annual Report of HSE Group in Company for 2018.

In late May and early June, credit rating agencies Moody's and S&P conducted a regular annual review of HSE Group operations.

JUNE

On June 1, SENG marked the first anniversary of the successful operation of the new Control Centre.

On 12 June, Tomaž Besek was appointed the new chairman of the HSE Supervisory Board.

On 17 June, the Supervisory Board of HSE appointed the third member of management – business director with a four-year mandate – Mirko Marinčič, M.Sc., starting his term of office on 15 July.

JULY

On July 5, the repair works on the stator winding of the power unit 1 in Solkan HPP of the company SENG were completed.

On 30 July, an authorisation of use for the reconstruction of the Plave 1 HEPP of the company SENG was obtained.

On 31 July, the 17th regular meeting of HSE Invest was held, at which a new social contract was adopted, which, inter alia, abolishes the supervisory board of the company (changing the management system from two-tier to single-tier, all in the context of rationalisation and optimisation of operations). This also terminated the mandate of all members of the Supervisory Board.

AUGUST

From 6 August to 5 September, the experimental operation of the small hydropower plant Rogoznica of the company DEM took place, which exploits the water potential of the Rogoznica watercourse at the site of the Markovci dam.

On 21 August, a loan agreement was signed between the bank syndicate and HSE for EUR 185 million (EUR 160 million of a long-term fixed loan with a maturity of seven years and EUR 25 million of a long-term revolving loan with a maturity of three years). The purpose of the loan was to refinance the existing long-term syndicated loan and provide a sufficient liquidity reserve. In addition to the above, the company concluded bilateral contracts with domestic commercial banks amounting to EUR 20 million in a long-term fixed loan with a maturity of five years and EUR 25 million in a long-term revolving loan with a maturity of three years.

On 29 August, the management of HSE appointed as managing director Viktor Vračar, Ph.D., while Mitja Tašler became the director of the company. Both were appointed for a four-year term, starting their term of office on 1 September.

On 30 August, the Supervisory Board of PV appointed as managing director of PV for a term of four years Marko Mavec, M.Sc.

SEPTEMBER

On September 2, a live transition on the SAP4PM project was performed, a new maintenance and production support programme in the HSE Group, which includes about 210 users.

On 4 September, DEM completed the planned repairment of the slope surfaces of the Ptuj lake asphalt lining.

On September 6, the credit rating agency Moody's increased the long-term credit rating of HSE from Ba2 to Ba1. This confirms that the HSE Group, as the leading electricity producer in Slovenia, will be able to meet the set financial obligations and maintain credit indicators at the appropriate level.

On 17 September, we held the official opening of the Kneža sHPP (SENG) and the trial operation began.

On 18 September, an umbrella agreement was signed on cooperation in the preparation of the project establishing a museum and tourism activity in the field of energy and railways (SENG).

OCTOBER

On 4 October, the regular autumn audit of the Avče PSPP (SENG), which lasted from 28 September, was successfully completed.

On 10 October, the managing director of HSE, Stojan Nikolič, M.Sc., was elected vice-president of the Energy Industry Chamber of Slovenia.

On 11 October, a technical inspection of Kneža sHPP was carried out.

On 21 October, the annual planning conference of the HSE Group took place. It was attended by the group companies management and key associates of the HSE Company. In addition to presenting the plans of subsidiaries, the main focus of the conference was to reflect on new milestones brought by the National Energy and Climate Plan (NEPN).

NOVEMBER

On 12 November, TEŠ organized an information meeting with journalists in its premises, where basic information about the project SOEN: Sosežig za Energijo was presented. The project represents a step forward towards reducing greenhouse gas emissions, which is consistent with the European Union's strategy towards a carbon-free society, but also the strategic direction of HSE, which envisages phasing out fossil fuel use.

On 25 November, at the 62nd regular meeting, the Supervisory Board of HSE adopted the Business Plan of the HSE Group and Company for 2020 with an additional indicative plan for 2021 and 2022.

On 29 November 2019, the Slovenian Competition Protection Agency (AVK) issued a positive decision regarding the notification of concentrations of HSE, Elektro Gorenjska, Elektro Primorska and Elektro Celje on the intended acquisition of joint control in companies ECE d.o.o. and E3 d.o.o. In doing so, the HSE Group had to take some corrective measures committed to ensure the sale of part of the quantities of electricity on the domestic market for a period of five years after the successful completion of vertical integration.

DECEMBER

On 9 December, the Supervisory Board of HSE gave its consent to transfer part of the activities from HSE - Energy company Trbovlje (HSE-EDT) to HSE. On 18 December, the management of HSE adopted a resolution authorising the conclusion of all legal transactions necessary for those activities.

On 10 December, HSE Adria - in liquidation - was removed from the commercial register in Zagreb.

On 11 December, HSE received special recognition under the full Family Friendly Company Certificate.

On 12 December, HSE's new business unit, Trbovlje, was registered.

On 19 December, a project to update the equipment of the Control Centre of HSE, launched in 2018, was successfully completed.

DEM exercised the pre-emptive right to purchase 56.9% of PV's shareholding in RGP, for which the purchase price was paid **on 24 December**. With a share of 86.9%, DEM became the majority owner of RGP, since it had already held a 30% stake in RGP before that purchase.

2.2 Important events after the end of the reporting period 2019

JANUARY 2020

On 1 January 2020, the amendments to the Corporate Governance Code for Companies with State Capital Investments, November 2019, came into force.

On 1 January 2020, part of HSE EDT's activity was transferred to HSE (marketing of oil warehouse, marketing of electricity generation from two gas turbines for the purposes of system services and commercial operation, real estate and all related movable property management, and development of energy location on HSE EDT real estate).

On 30 January 2020, the Supervisory Board of HSE, at its 66th regular meeting, gave its consent to the HSE Group Development Plan for 2020-2024 with a view to 2030 and instructed the HSE management to submit it to the Founder (SSH).

FEBRUARY 2020

The HSE Group took a preliminary position on NEPN and the environmental report in public hearing.

TEŠ designed a new special website aimed at informing about the planned SOEN project. At the beginning of February, the project of planned co-incineration of alternative fuel SRF was presented at a meeting of the Council of the Municipality of Velenje, in the Odmevi tv news show and at a round table at the Šoštanj Culture Centre organized by the Šaleška dolina eco movement, attended by the Director of TEŠ and the managing director of HSE.

Start of activities for the introduction of the SAP and BC information system in companies of the PV group.

On 27 February 2020, the Government of the Republic of Slovenia adopted the Comprehensive National Energy Climate Plan of the Republic of Slovenia (NEPN), which was also submitted to the European Commission in accordance with EU Regulation 2018/1999 on the Governance of the Energy Union and Climate Action. NEPN will present a major challenge for the HSE Group in the effective implementation of renewable energy development goals, in the construction of new gas steam plants to replace electricity from coal Units, as well as in the sense of achieving the appropriate exit dynamics from domestic-use coal for the production of electricity, while providing sources for PV closure works outside the electricity price.

MARCH 2020

From 1 March 2020, HSE employees are offered the option to benefit from "Specialists+Collective" benefits, with the employer paying the basic premium to employees. Insurance will allow shorter queues and comprehensive medical treatment from first screening to diagnosis, intervention, medication and rehabilitation, shorter sick leave and minor income foregone.

On 6 March 2020, SENG submitted to its founder (HSE) a decision to terminate ELPROM d.o.o., which has been at a standstill since 2015, following a shortened procedure.

On 11 March 2020, based on instructions from the Corporate Security Service of the HSE Group and in accordance with Article 169 of the Labor Relations Act with the aim of managing risks and preventing the spread of COVID -19 infection among coworkers and consequently preventing potential disturbances in the work process, an order for HSE employees to carry out their work obligations under the employment contract at home during the period from 12 March until cancellation. Only a minimum number of employees remain in the company, which are strictly necessary for management and coordination in critical conditions within the HSE Group and for the smooth course of trading activities. Other companies of the HSE Group also followed these guidelines.

On 11 March 2020, the Slovenian Sovereign Holding re-appointed as a member of the Supervisory Board of HSE Barbara Gorjup, M.Sc., who started her four-year term to office on 6 April 2020.

On 25 March 2020, the HSE team handed two respirators to the University Clinical Center Ljubljana for the treatment of COVID-19 disease. They are transport respirators with all associated equipment belonging to a high-class of transport ventilators, which allow the use of various ventilation techniques and are equipped with a system that communicates wirelessly with other medical devices (e.g. defibrillator) and can send information about the status and settings on the remote computer. Respirators also include a portable oxygen cylinder and a connecting tube for connecting to oxygen installations in a hospital or in an ambulance.

APRIL 2020

On 1 April 2020, the HSE Group donated surgical protective masks, FFP2 masks, 3M respirators, protective goggles, protective visors, gloves, protective overalls and disinfectants to the Velenje medical centre, to the civil protection Velenje and civil protection Šoštanj. The purpose of the donation was to provide adequate protective equipment to people who work in the Velenje Basin area for preventive purposes and take care of a larger number of people employed by TEŠ and PV.

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 2019 to 31 December 2019:

The Management and Supervisory Boards of HSE declare that in 2019 the management of the company was conducted in compliance with the applicable laws and regulations, with the Articles of Association of the HSE Limited Liability Company, with recommendations cited in the Corporate Governance Code for Companies with State Capital Investments. In compliance with Article 60a of the Companies Act, the HSE's Management and Supervisory Boards declare that the annual report with all its components, including the declaration on the management of the company, has been drawn up and published in accordance with the Companies Act and the International Financial Reporting Standards. The Corporate Governance Statement is an integral part of the annual report and it is available on the website of the Company under htpp://www.hse.si.

2.3.1 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)

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

As its reference code, HSE used the Corporate Governance Code for Companies with State Capital Investments of the Slovenian Sovereign Holding, d. d. (SSH Code, May 2017, hereinafter: 'the Code'), which is publicly available on the website of the Slovenian Sovereign Holding and was renewed in November 2019, starting from 1 January 2020. In its operations the company has, taking into account its activity and other specificities, mainly complied sensibly with the Code. In accordance with the comply-and-explain-principle, in 2019, the Company fully observed the major part of recommendations contained in the Code that referred to the companies 100% owned by the state. 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. In accordance with the Corporate Governance Code for Companies with State Capital Investments (November 2019), the Succession Policy is being prepared in 2020.

Recommendation 6.4.1:
The recommendation is followed reasonably. With its decision, the Supervisory Board determines the competence profile for a concrete procedure, considering the direct legal basis - Article 21 of the Slovenian Sovereign Holding Act. The latter 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 6.8.1:
We do not use this recommendation. The Supervisory Board shall be appointed by the owner.

Recommendation 6.9.2:
The recommendation is applied sensibly. 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 recommendations are not followed 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 accordance with tax rules, they are accounted for the tax bonus.

Recommendation 8.3:
While fully respecting the recommendation, we did not publish the remuneration from the employment relationship of the members of the Supervisory Board who are representatives of the workers, as we consider it a disproportionate disclosure from the point of view of the terms of the employment contract of the employee. In the new SSH Code, the subject requirement was eliminated.

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 regularly receives reports also beyond disclosures, does not need to prepare and publish a financial calendar in the opinion of the Slovenian Directors' Association.

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:
We do not use this recommendation. The Business Compliance Service was been established, procedures are under way to occupy jobs.

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

During the operations in 2019, the Company reasonably and to a great extent followed the recommendations of the Slovenian Sovereign Holding (March 2018) under consideration of the Company's activity and its other specificities. By the principle of respect or explain, the company fully respected a significant part of the recommendations. Deviations are explained in the sections below:

Recommendation 3.6:
used 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. Publication of the conducted transactions stated in the recommendation is carried out in line with the Public Information Access Act.

Recommendation 4.5:
We do not use this recommendation. The company does not publish a collective agreement because it does not have the consent of the representatives of the workers for this. Links to collective agreements of activities are published.

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.

2.3.2 Data on the work of the shareholders' meeting, composition and work of the management and supervisory bodies

In 2019, HSE was managed by the Slovenian Sovereign Holding as the sole shareholder 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, renewing it on 27 February 2020. This was published 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.

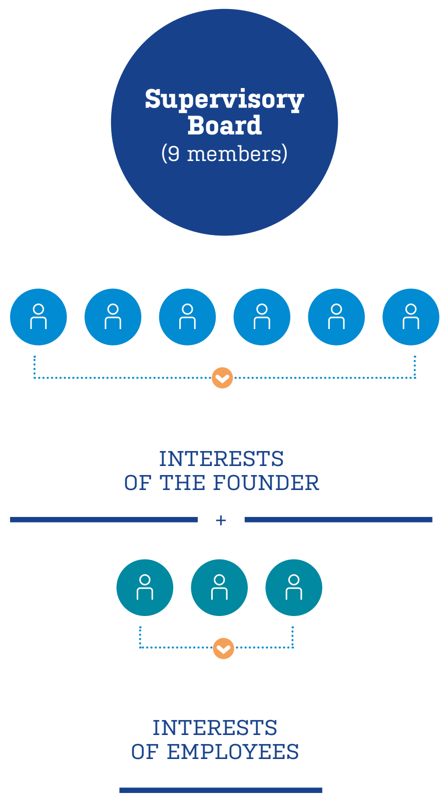
2.3.2.1 Founder in the role of Shareholders' Meeting

The founder has the function and the capacities of an assembly, in accordance with the Articles of Association of HSE, the Companies Act, and the legislation in force. In compliance with Article 526 of the Companies Act, the Founder records his decisions in the decision book. In 2019, the Founder acted in compliance with the competences provided in the Articles of Association, which have been made publicly available (the Agency of the Republic of Slovenia for Public Legal Records and Related Services - AJPES). Key competences include:

- 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 consent of the Supervisory Board,
- deciding on the use of the balance-sheet profit,
- deciding on the return of subsequent payments,
- deciding on the use, distribution and withdrawal of shares,
- appointment and recall of the Supervisory Board members, except those elected by the Works Council,
- deciding on the establishment of companies and the acquisition of majority participation in the capital of other companies on the proposal of the Management Board and the consent of the Supervisory Board,
- deciding on the disposition of stocks and shares in the companies that in the respective decision about the strategy of the management of capital investments of the country are defined as strategic or important investments,
- deciding on the disposition and burdening of business shares/stocks in subsidiaries and associates per the proposal of the Management Board and the consent of the Supervisory Board,
- granting discharge to the Management and Supervisory Boards,
- deciding on the conclusion of contracts and other transactions, with which the company binds to transfer, whether or not for consideration, on another person with one transaction or more related transactions together, at least 3% of the company's property, whereby it is not a transfer according to the provisions of the Companies Act on status changes,
- deciding on changes in the share capital of the Company,
- deciding on status changes and the termination of the company as well as other competences that are further determined in the Articles of Association and the applicable legislation.

2.3.2.2 Work of the Supervisory Board

In 2019, the Supervisory Board acted in compliance with its competences 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 for 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 competences of the Supervisory Board. The Supervisory Board had nine members in 2019. 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). The Supervisory Board members can be named for a period of four years and can be reappointed after the expiry of their term. 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).



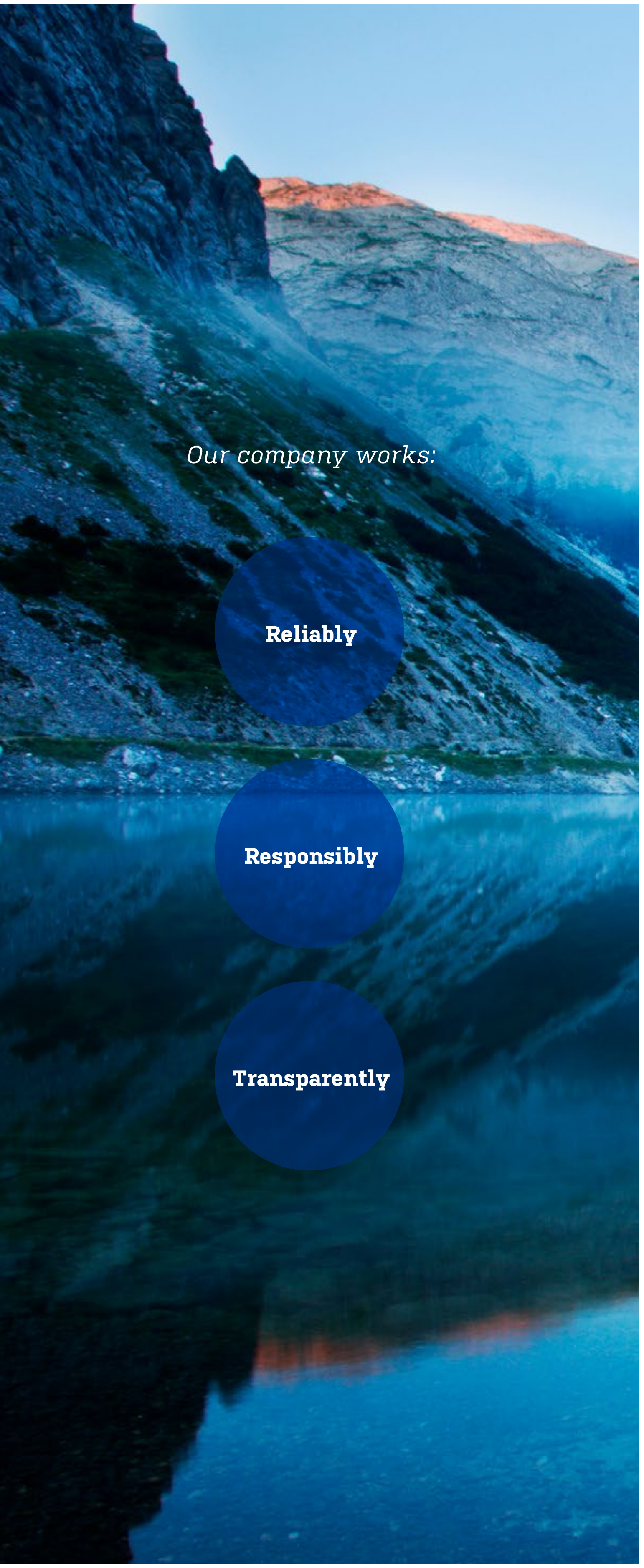
COMPOSITION OF THE SUPERVISORY BOARD AND THE COMMITTEES IN 2019

NAME AND SURNAME	Tomaž Besek	Boštjan Markoli, Ph.D.	Miloš Pantoš, Ph.D.	Barbara Gorjup, M.Sc.	Vesna Cukrov	Goran Brankovič, M.Sc.	Boštjan Jančar	Jernej Otič	Petja Rijavec, M.Sc.	Milan Perović	Viktor Vračar, Ph.D.
FUNCTION (Chairperson, Deputy, Member of the SB)	Chairperson of the SB from 12.6.2019	Member of the SB, Chairperson from 25.3.2019 to 12.6.2019, deputy from 28.1.2014 to 25.3.2019	Member of the SB	Deputy Chairman from 25.3.2019	Member of the SB	Member of the SB	Member of the SB	Member of the SB	Member of the SB	Chairperson of the SB to 28.3.2019	Member of the SB
FIRST APPOINTMENT TO THE FUNCTION	29.3.2019 - Member, Chairperson of the SB from 12.6.2019	21.1.2014 - Member	21/1/2014	5/4/2016	1/9/2017	29/3/2019	9/5/2013	30/6/2014	2/7/2018	5.4.2016 - Member Chairperson: 13.5.2016	5/4/2016
END OF FUNCTION/TERM	28/3/2023	22/1/2022	22/1/2022	5/4/2020	1/9/2021	28/3/2023	2/7/2022	2/7/2022	2/7/2022	28/3/2019	28/3/2019
REPRESENTATIVE OF CAPITAL/EMPLOYEES	representative of capital	representative of capital	representative of capital	representative of capital	representative of capital	representative of capital	representative of employees	representative of employees	representative of employees	representative of capital	representative of capital
PARTICIPATION IN SB MEETINGS WITH REGARD TO THE TOTAL NUMBER OF SB MEETINGS	16* of 20	100%	100%	19 of 20	19 of 20	100%	100%	19 of 20	19 of 20	100%	3 of 4
GENDER	male	male	male	female	female	male	male	male	female	male	male
CITIZENSHIP	Slovenia	Slovenia	Slovenia	Slovenia	Slovenia	Slovenia	Slovenia	Slovenia	Slovenia	Slovenia	Slovenia
YEAR OF BIRTH	1970	1968	1977	1973	1967	1964	1971	1976	1971	1964	1971
EDUCATION	Electronics engineer (spec. in energy) and BA in Work organization - IT	Doctor of Science	Doctor of Science	MA in International Economics	Bachelor of Law, bar exam	MA in Economic Science and BA in Electrical Engineering	MA in Business Science	BA in Electrical Engineering, MA in Economic and Business Science	MA in Communicology	BSc in Ecomomics	Doctor of Science and BA in Electrical engineering
PROFESSIONAL PROFILE	Electronic engineering, energy, organization	Mining engineering	Power engineering	Business finance, valuation, assessing the economic viability of investments, control (planning, reporting system), accounting, corporate management	Legal area, investments, restructuring, audits	Electro-energy, economics, business finance, control, accounting, asset management, corporate restructuring, supervision of large enterprises, investment and project management, crisis management, real estate management, IT	Finance	Electrical engineering, production of electric energy	Public relations	Business finance	Management, organisation, restructuring
INDEPENDENCE ACCORDING TO ARTICLE 23 OF THE CODE (YES/NO)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
EXISTENCE OF A CONFLICT OF INTEREST IN THE FINANCIAL YEAR (YES/NO)	No	No	No	No	No	No	No	No	No	No	No
MEMBERSHIP IN SUPERVISORY AUTHORITIES OF OTHER COMPANIES	DUTB, d.d.	/	/	Telekom Slovenije,d.d.	/	/	/	/	/	/	/
MEMBERSHIP IN COMMITTEES	PC	PC MIC AC	MIC PC RC	AC PC	RC	MIC from 8.4.2019 Chairperson of the RC from 8.4.2019	AC, MIC	RC	PC	PC	RC MIC
CHAIRPERSON/MEMBER OF THE COMMITTEE	PC - Member from 16.12.2019	PC MIC AC - Member	MIC - Chairperson RC - Member PC - Chairperson from 5.4.2019	AC - Chairperson PC - Member	RC - Member	RC - Chairperson MIC - Member	AC - Member, MIC - Member	RC - Member	PC - Member	PC - Chairperson to 28.3.2019	RC - Chairperson to 28.3.2019 MIC - Member to 28. 3. 2019
PARTICIPATION IN MEETINGS OF COMMITTEES CONSIDERING THE TOTAL NUMBER OF COMMITTEE MEETINGS	PC - 100%	PC - 100% MIC - 100% AC - 100%	PC - 100% MIC - 100% RC - 100%	AC - 100% PC - 100%	RC - 3 of 5 **	MIC - 100% RC - 100%	AC - 100% MIC - 100%	RC - 4 of 5	PC - 100%	PC - 9 of 11	RC - 100% MIC - no sessions during the term of office

SB - supervisory board, **AC** - audit committee, **PC** - personnel committee, **MIC** - marketing and investment committee, **RC** - restructuring committee

*From 5.4.2019 to 30.4.2019 he was not allowed to act as a member of the SB, in accordance with paragraph 2 of Art. 273 of the ZGD-1, as he was appointed interim business director from among the members of the SB.

**Excusable absence and familiarity with the material



EXTERNAL MEMBERS IN THE COMMITTEES IN 2019	
NAME AND SURNAME	Maja Zaman Groff, Ph.D.
COMMITTEE	AC
PARTICIPATION IN MEETINGS OF COMMITTEES ACCORDING TO THE TOTAL NUMBER OF MEETINGS OF COMMITTEES	10 of 11
GENDER	female
CITIZENSHIP	Slovenia
EDUCATION	Doctor of Science
YEAR OF BIRTH	1972
PROFESSIONAL PROFILE	audit (external, internal), financial accounting
MEMBERSHIP IN SUPERVISORY AUTHORITIES OF UNRELATED PARTIES	not a member of supervisory authorities

2.3.2.3 Work of the Management Board

In accordance with the Articles of Association of HSE and the Supervisory Board's decision, the company is managed and represented by the Management Board on its own responsibility. In the period from 1 January 2019 to 31 March 2019, the Management Board had two members, namely Matjaž Marovt, managing director, and Stojan Nikolić M.Sc., finance director. From 1 April 2019 to 30 April 2019, Stojan Nikolić, M.Sc., managing director, represented the company independently. From 5 April 2019 to 30 April 2019, he was joined by Tomaž Besek as interim business director appointed from among the members of the SB. From 1 May 2019 to 15 July 2019, a two-person management operated, and the managing director was joined by Viktor Vračar, Ph.D., business director. As of July 15, 2019, a three-member management was operating, and a third member of management joined the directors already appointed, Mirko Marinčič, M.Sc., business director.

COMPOSITION OF THE MANAGEMENT BOARD IN 2019					
NAME AND SURNAME	Stojan Nikolić, M.Sc.	Viktor Vračar, Ph.D.	Mirko Marinčič, M.Sc.	Matjaž Marovt	Tomaž Besek
FUNCTION (Chairperson, Member)	Financial Director to 31.3.2019, Managing Director from 1.4.2019	Business Director	Business Director	Managing Director	Interim Business Director
AREA OF WORK IN THE ADMINISTRATION	Financial Director to 31.3.2019, Managing Director from 1.4.2019	Business Director	Business Director	Managing Director	Interim Business Director
FIRST APPOINTMENT TO THE FUNCTION	1.10.2014 - Financial Director, 1.4.2019 Managing Director	1/5/2019	15/7/2019	19/4/2017	5/4/2019
END OF FUNCTION/TERM	31.3.2019 - Financial Director, 1.4.2023 - Managing Director	30/4/2023	14/7/2023	31/3/2019	30/4/2019
GENDER	male	male	male	male	male
CITIZENSHIP	Slovenia	Slovenia	Slovenia	Slovenia	Slovenia
YEAR OF BIRTH	1975	1971	1971	1962	1970
EDUCATION	MA in Economics	Doctor of Science and BA in Electrical Engineering	Master of Science, BA in Electrical Engineering	BA in Electrical Engineering and MSc in the field of quality management	Electronics engineer (spec. in energy) and BA in Work organization - IT
PROFESSIONAL PROFILE	financial management	management, organisation, restructuring	electrical engineering, organization	production processes, investments, procurement, development, quality	electronic engineering, energy, organization
MEMBERSHIP IN SUPERVISORY AUTHORITIES OF UNRELATED PARTIES	/	/	/	/	DUTB, d.d.

2.3.3 Description of the main characteristics of the 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 and 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, ISO 14001 environmental management standard (standard introduced and implemented but not certified) and internal acts of the Company with a precisely elaborated reporting system by individual organisational unit. The system of internal controls is supported by the IT security control system that, among other things, provides for appropriate limitations and control over the network as well as for precise, updated and complete data processing.

ISO 9001 quality management standard + **OHSAS 18001** occupational health and safety standard + **ISO/IEC 27001** information security standard + **ISO 14001** environmental management standard

The system of internal controls in the company allows for a planned and systematic uses of procedures and methods, which assure accuracy, reliability and completeness of data and information, make correct and fair preparation of financial statements possible, prevent and detect deficiencies in the system and ensure compliance with laws and regulations, the governing bodies' acts and systemic rules of the Company.

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 the 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. Its mission in the HSE Group is carried out on the basis of a long-term and annual plan. The organisational independence has been displayed 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 2019, the internal audit carried out the internal audit procedures and other activities in line with the approved annual plan of work and the rebalanced plan of work. One internal audit transaction carried out in eight companies of the HSE Group was carried out at the request of the Supervisory Board of HSE. 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. In 2019, an external assessment of the functioning of the internal audit function was carried out, which concluded that the functioning of the internal audit function was in all relevant respects consistent with standards, codes of ethics and internal internal audit acts.

Ljubljana, 10 April 2020

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

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

Mirko Marinčič, M.Sc.,
Business Director of HSE

Tomaž Besek,
Chairman of the Supervisory Board of HSE

2.4 Profile of the HSE Group

We are one of the two largest groups in the field of electricity in Slovenia and the largest producer of electricity in Slovenia.

We sell our own electricity to our customers on the domestic and European wholesale market, and we trade electricity and all its derivatives and related products on different energy exchanges across Europe. We are present in 25 European countries, including Slovenia.

We produce
> 65%
of electricity in Slovenia

We produce
> 70%
of renewable energy sources in Slovenia

Our 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.

We are the largest producer of electricity from renewable sources in Slovenia. On average, 48% of our production is provided from renewable energy sources – from systematic hydro power plants, Avče PSPP, small hydropower plants and solar power plants.

The rest of the electricity in the HSE Group is produced from conventional sources, using two coal Units in TEŠ using 100% domestic primary source and four gas turbines.

We also have our own primary energy source – lignite. Annually, we excavate more than 3 million tons of coal to produce electricity and thermal energy. We have a modern coal mine with underground coal exploitation.

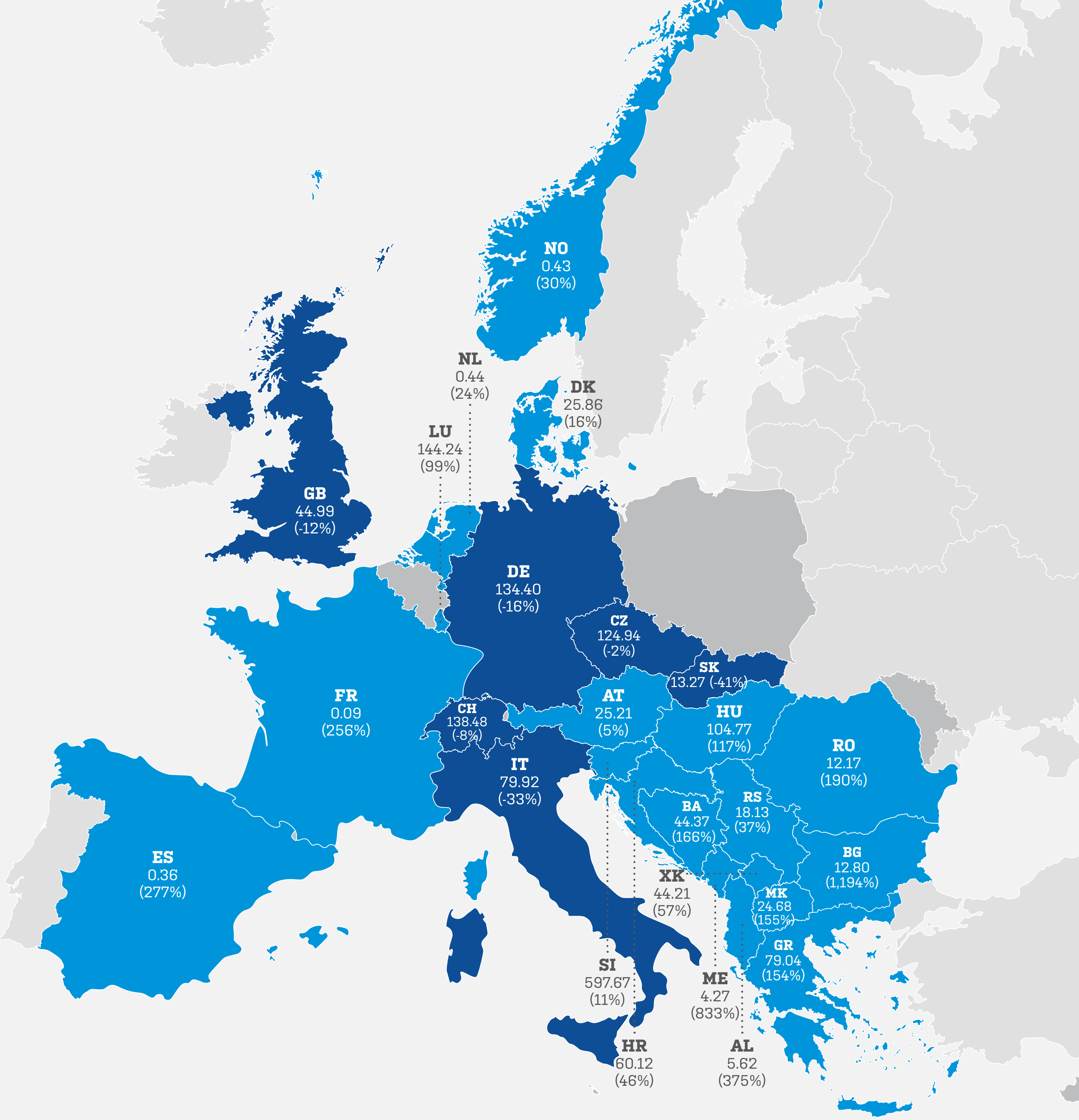
Our power plants are remotely operated and operated via a common, powerful and well-connected control centre that enables a coordinated appearance of the HSE Group on the electricity market, including within the framework of the virtual power plant concept.

The HSE Group's activity comprises the management of energy and the environment and the process and risks related thereto. A wide array of activities comprises the following main groups:

- production of electrical 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 the ancillary services required for the functioning of the electric power system in Slovenia,
- management and implementation of energy projects and environmental projects.

We recognise that the operations of the HSE Group, in addition to market, hydro-meteorological and geo-mehanical conditions, depend largely on our responsible handling of key shareholders. We communicate with them openly, up to date, objectively and proactively.

REVENUE FROM THE SALE OF ELECTRICITY OF THE CONTROLLING COMPANY OF THE HSE GROUP IN EUR MILLION IN 2019 AND A CHANGE OVER THE YEAR 2018 EXPRESSED AS A PERCENTAGE



KEY STAKEHOLDERS OF THE HSE GROUP

1. Employees and social partners

- representative trade unions of HSE,
- Joint Workers' Council of the HSE Group,
- the Workers' Council of the companies of the HSE Group,
- sports and other interest associations of employees of the HSE Group.

2. Buyers of goods and services

- international and domestic producers and traders of electricity, CO_2 emission coupons and other certificates related to the production of electricity, gas and other energy products necessary for the production of electricity,
- system operators of European electricity systems (ELES, APCS, MAVIR, HOPS, ČEPS, SEPS, EMS, NOS BIH, Elektroprenos BIH, CGES, ESO EAD, NEK EAD, Transelectrica, OST, UKRENERGO),
- major domestic business and industrial customers and utility companies,
- system operators of the electricity distribution network (SODO).

3. Organizers of market activities and stock exchanges

- European electricity market organisers (OTE, Borzen, MEPSO, COTEE, HROTE, KOSTT, OKTE),
- international auction houses (SEE CAO, JAO, MAVIR, MEPSO, EMS, HOPS, ADMIES, NOS BIH, ESO, Transelectrica),
- European daily and futures exchanges with electricity and other related products (EEX, EXAA, EPEX, HUPX, HUDEX, OTE, PXE, BSC Southpool, OPCOM, CROPEX, IBEX, SEEPEX, OKTE).

4. EU and national institutions and regulators

- Republic of Slovenia as our 100% owner, Slovenian Sovereign Holding (SSH),
- Ministry of Infrastructure, Ministry of Finance, Ministry of Environment and Spatial Planning and other ministries and state institutions,
- municipal and local communities,
- international and domestic electricity market regulators (Energy Agency, ACER, EWRC, DERK, HEA, ERU, ERE, FERK, REERS, REGAGEN, HERA, EOR, ANRE, URSO, AERS, NERC, EA, ERC),
- Court of Audit of the Republic of Slovenia and inspectorates.

5. Financial institutions

- international and domestic banks and other financial institutions,
- international and domestic credit rating houses and agencies,
- international and domestic insurance companies.

6. International, national and regional media

- print media,
- electronic media,
- online media,
- agencies.

7. Civil society

- civil initiatives,
- non-governmental and non-profit-making organisations,
- sports, cultural and other institutions.

8. Suppliers of equipment and services

- international and domestic suppliers of raw materials, materials and services outside the HSE Group for the purposes of HSE Group's operations.

9. Occupational and professional associations

Professional associations and organizations where we are active members in Slovenia:

- Energy Industry Chamber of Slovenia (IPET Section),
- Chamber of Commerce and Industry of Slovenia,
- Association of Employers of Slovenia,
- Electrotechnical Association of Slovenia,
- Slovenian Committee of Electric Power CIGRE - CIRED,
- Slovenian Chamber of Engineers,
- Slovenian Association for Quality and Excellence – Energy Section,
- SI:RISK,
- ICS Slovenian Corporate Security Association,
- Slovenian Institute of Audit – Slovenian Section IIS,
- ACFE Slovenia,
- Slovenian Directors' Association,
- Managers' Association of Slovenia,
- Association of Corporate Treasurers Slovenia,
- Agriculture-Forestry Chamber,
- Savinjsko-Šaleška Chamber Of Commerce And Industry,
- Slovenian Museums Association,
- Slovenian National Committee on Large Dams SLOCOLD,
- Slovenian Maintenance Society and Chamber Of Commerce And Industry Of Štajerska
- Association of economists in electrical power industry and coal industry of Slovenia, etc.

International professional associations and organisations to which we belong:

- Euroelectric (operates within the section of the Energy Industry Chamber of Slovenia),
- SAEE (works within the section of the Energy Industry Chamber of Slovenia and is a member of IAEE),
- Slovenian Committee of Electric Power CIGRE - CIRED Paris,
- EUROCOAL European Association,
- EFET (European Federation of Energy Traders), etc.

10. RESEARCH AND EDUCATIONAL INSTITUTIONS

- universities,
- primary and secondary schools,
- institutes.

RELATED COMPANIES OF THE HSE GROUP AS AT 31 DECEMBER 2019

HOLDING SLOVENSKE ELEKTRARNE D.O.O

Hydro 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%)**

Thermo 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%)**
  - **BRANCH OFFICE IN MACEDONIA**
  - **RCE - RAZVOJNI CENTER ENERGIJA D. O. O. IN LIQUIDATION (PV 15.5%, TEŠ 8%, HTZ 1%)**
- **HTZ I. P. D. O. O. (HSE 100.0%)**
- **SIPOTEH D. O. O. (HSE 100.0%)**
- **PLP D. O. O. (HSE 100.0%)**

International network

- HSE BE D. O. O. **(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 50.0%, DEM 25.0%, SENG 25.0%)**
- RGP D. O. O. **(PV 4.0%, DEM 86.9%, SENG 4.0%, TEŠ 5.1%)**

BUSINESS MODEL OF THE HSE GROUP

HOLDING SLOVENSKE ELEKTRARNE D.O.O.

	2019	2018
Number of employees	186	176

SALES OF ELECTRICITY

Domestic market	2019	2018
Sales of electricity in GWh	11,282	10,860
Share of sales on the domestic market	33%	35%

Foreign markets	2019	2018
Sales of electricity in GWh	23,256	20,298
Share of sales on foreign markets	67%	65%

PURCHASE OF ELECTRICITY

Other sources of electricity	2019	2018
Purchase of electricity in GWh	27,383	23,838
Share of other resources	79%	77%

HESS	2019	2018
Production of electricity in GWh (49% share)	265	289

Own production resources	2019	2018
Production of electricity in GWh	7,155	7,320
Share of own resources	21%	23%
Number of employees*	1,892	1,919
Power in MW	1,913	2,161

48% of resources — HYDRO PRODUCTION

	2019	2018
Number of employees	363	359
Production of electricity in GWh	3,434	3,566
Power in MW	927	927
Units	70 turbines	66 turbines

DEM	2019	2018
Number of employees	236	238
Production of electricity in GWh	2,744	2,929
Power in MW	591	592
Units	31 turbines	28 turbines

SENG	2019	2018
Number of employees	127	121
Production of electricity in GWh	690	637
Power in MW	336	335
Units	39 turbines	38 turbines

52% of resources — THERMO PRODUCTION

	2019	2018
Number of employees	336	329
Production of electricity in GWh	3,721	3,753
Power in MW	986	1,234
Units	2 blocks, 4 gas turbines	2 blocks, 4 gas turbines

HSE EDT	2019	2018
Number of employees	17	17
Production of electricity in GWh	0	0
Power in MW	58	58
Units	2 gas turbines	2 gas turbines

TEŠ	2019	2018
Number of employees	319	312
Production of electricity in GWh	3,721	3,753
Power in MW	928	1,176
Units	2 blocks, 2 gas turbines	2 blocks, 2 gas turbines

PRIMARY SOURCES

PV	2019	2018
Number of employees	1,193	1,231
Coal production in TJ	37,113	37,596

*The number of employees does not include employees of PV subsidiaries, international network and investments.

2.5 Market environment

The operations of the HSE Group are most subject to quantitative or production risks — the hydrological conditions of the Drava, Soča and Sava rivers, where our hydroelectric power plants are located (more in Section 2.7 HSE Group Risk Management), only 32.9% of all business risks are related to market conditions, and we control these in the HSE Group through established strategies to hedge against price risks.

In the HSE Group, we sell our own produced electricity and trade products directly related to the electricity market in the wholesale market. Therefore, our business is significantly affected by electricity prices, which are directly related to other energy prices and economic developments at global level, and the prices of CO_2 emission coupons.

*Only **32.9%** of all business risks are related to market conditions.*

MORE on:
2.7 Risk management of the HSE Group

ECONOMIC GROWTH IN EUROPE

2019
1.4%
2018
1.8%

- The measures of ECB (as well as FED) helped maintain positive economic growth.
- Outstanding growth in stock markets.
- Trade war between the U.S. and China, and the U.S. and other countries.
- Brexit.

INTEREST RATE 12 M EURIBOR

2019
- 0.248%
2018
- 0.121%

Movement range: [-0.399, -0.108]

- The ECB insists on a policy of low interest rates.
- In 2019, the ECB again implemented a quantitative easing measure in order to influence the rise in economic activity.

EXCHANGE RATE

2019
1.1225
2018
1.1440

Movement range: [1.0898, 1.1541]

- Forecast of production cuts of OPEC+ countries (i.e. OPEC + Russia) starting implementation in the first quarter of 2020.
- Brexit had a negative impact on both the euro and most other European currencies.

OIL PRICE

2019
67 USD/Bbl
2018
54 USD/Bbl

Movement range: [56, 75]

- The tightening of U.S. sanctions against Iran and Venezuela and, as a consequence, a reduction in the production of crude oil of the said countries.
- Incidents in the Persian Gulf (capture of oil tankers, attacks on Saudi refineries).
- Forecast of production cuts of OPEC+ countries (i.e. OPEC + Russia) starting implementation in the first quarter of 2020.
- Continued growth in U.S. shale crude oil production.
- Lower economic growth on a global scale.

GAS PRICE

2019
17 EUR/MWh
2018
20 EUR/MWh

Movement range: [9, 23]

- Uncertainties over the completion of the Nord Stream 2 gas pipeline and the agreement on the transit of Russian gas through Ukraine (negotiations about a long-term contract).
- Higher prices of CO_2 emission coupons have led to higher competitiveness of gas over coal for electricity generation in Europe (the so-called coal to gas switch). As a result, higher gas consumption.
- Excess liquefied gas (LNG) on a global scale.
- Above average high gas reserves in warehouses across Europe.

COAL PRICE

2019
53 USD/t
2018
88 USD/t

Movement range: [48, 86]

- Filling coal reserves in India.
- Inspections and closures of some mines in China.
- Lower coal consumption in Europe (including in the U.S. and partly in Asia) due to the replacement of coal with gas for electricity generation.
- New environmental regulations at a global level foresee the abandonment of coal use.
- In the European Union, coal consumption fell by more than 35%, while coal imports from countries outside the European Union fell by approx. 40%.
- Restriction of imports of coal by the Chinese authorities.
- Pollution conditioned restriction of coal use (S. Korea, Taiwan, China, India...)

ENERGY FROM WATER IN SOUTHEASTERN EUROPE

2019
40.0 TWh
2018
44.7 TWh

- There was a huge amount of snow in the high mountains at the beginning of the year, affecting good production in the second quarter.
- Rainfall was above average as a result of heavy rainfall in November and December.
- Lower production from flow-through hydroelectric power plants in 2019 compared to 2018 in South Europe, as well as in Slovenia. The deficit was mostly due to the lack of rainfall in the period from August to October.

RENEWABLE ENERGY SOURCES IN GERMANY

2019
165 TWh
2018
149 TWh

- In Germany, as the leading country with the most renewable sources in Europe, they raised the installed power of RES in 2019 by approx. 5 GW.
- German solar plants produced 43.3 TWh of electricity, which is only a bit more than in 2018.
- Wind production in Germany was nearly 15 times greater in 2019 (123.8 TWh) than in 2018.

CO_2 PRICES

2019
24.64 EUR/t
2018
25.01 EUR/t

Movement range: [19, 30]

- As of 1 January 2019, the "Market Stability Reserve" mechanism began to operate, which significantly reduced supply and thereby caused price rises.
- Election of the new President of the European Commission, Ursula von der Leyen, who supports the carbon-free policy (50% reduction of emissions by 2030, 100% by 2050).
- Less demand for CO_2 emission coupons due to the strong replacement of coal electricity production by gas.
- Introducing environmentally oriented policies of the countries of the European Union outside the ETS (European Emissions Trading System) scheme with a view to achieving carbon neutrality (i.e. closing thermal power plants, preferably coal).
- Brexit, as Britain represented the net spender of coupons for the ETS system.

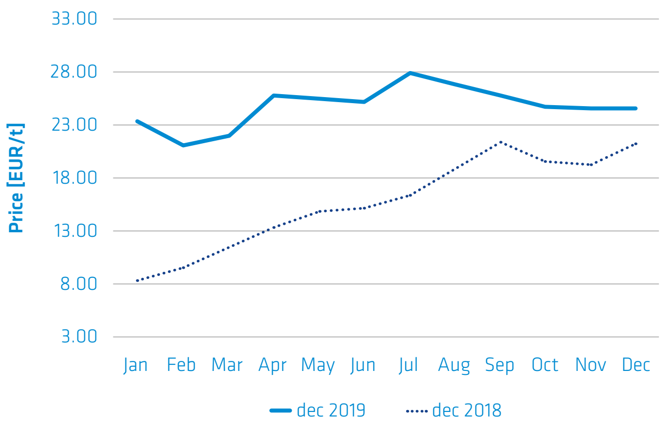
AVERAGE ELECTRICITY PRICES

	2019	2018
DE	39 EUR/MWh	44 EUR/MWh
HU	50 EUR/MWh	51 EUR/MWh
SI	49 EUR/MWh	51 EUR/MWh
IT	52 EUR/MWh	61 EUR/MWh
GR	64 EUR/MWh	60 EUR/MWh
RO	50 EUR/MWh	46 EUR/MWh

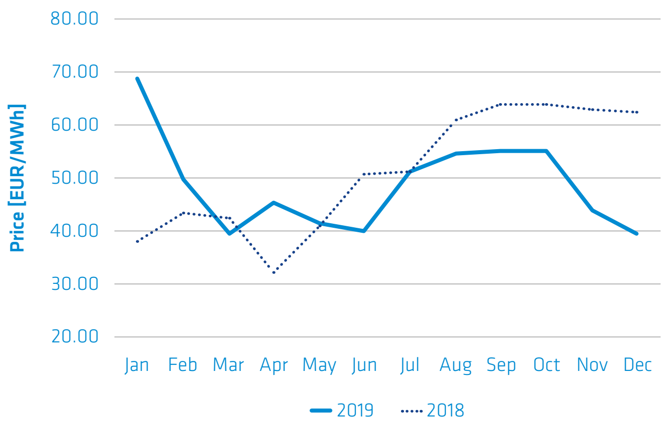
* DE - Germany / HU - Hungary / SI - Slovenia / IT - Italy / GR - Greece / RO - Romania

Electricity prices fluctuated sharply on the daily market in 2019, similarly to the CO_2 emission coupon markets and energy markets. In the first half of 2019, electricity prices correlated strongly with CO_2 emission coupons prices, even exceeding EUR 30/t in the middle of the year. In the southeastern region of Europe, where the HSE Group operates, there is still a huge amount of lignite production, for which CO_2 emission coupons are paid (Slovenia, Hungary, Romania, Bulgaria, Greece). The second half of the year also brought a collapse in energy prices, mainly gas prices (including coal), which reached extremely low levels due to the strong flow of liquefied gas (LNG) and high stocks in warehouses. Due to the region's high electricity needs (the drought period from May), prices on the daily market began to approach prices in Greece, which was generally the most expensive market. In the region, a large deficit was caused by a lack of energy from Romania (poor hydrology, reduced production from lignite thermal power plants) and Bulgaria. Romania turned from a net exporter even into a net importer, so electricity prices from Romania reached practically the same or even higher levels than regional ones. Bulgaria remained a net exporter, but its balance has changed significantly since the abolition of the export tax. In the region, there was significantly worse hydrology in 2019 compared to 2018, this was especially reflected in the second and third quarters, when mainly Slovenia, Bosnia, Croatia, Montenegro and Albania recorded significantly lower overall hydro production than in 2018. Italy's balance, an extremely important market for our region, recorded 3 TWh fewer imports, as their gas thermal power plants were able to produce significantly higher amounts of electricity due to higher competitiveness (low gas prices). Despite its worse hydrology, Italy has reduced its energy dependence on imports. Italy's improved competitiveness was also reflected on prices falling from EUR 61 per MWh to EUR 52 per MWh from 2018 to 2019, while prices in the region fell just slightly, from EUR 51 per MWh to EUR 50 per MWh (Hungary) and 49 EUR per MWh (Slovenia). The region thus became more dependent on energy imports from neighbouring markets (Italy, Greece). The last few days of December marked the beginning of testing a new cable for cross-border energy transmission between Italy and Montenegro, but with reduced volumes, so no significant impact on electricity prices in the region was detected.

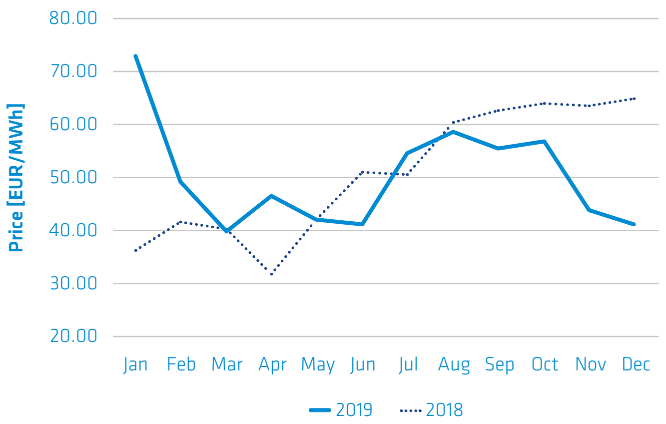
AVERAGE MONTHLY PRICES OF CO_2 EMISSION COUPONS WITH THE DELIVERY IN DECEMBER WITHIN THE YEAR OF DELIVERY



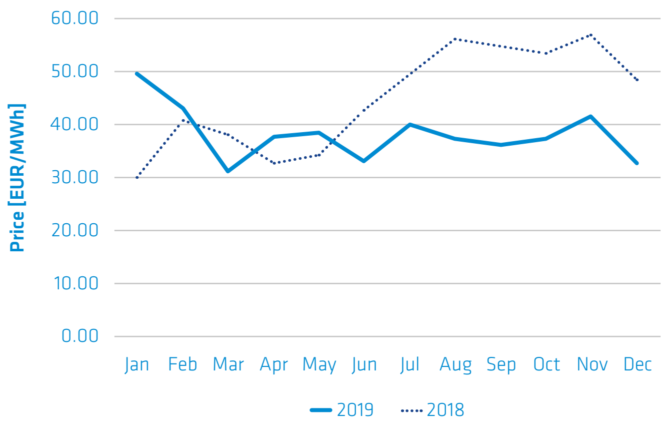
AVERAGE MONTHLY PRICE OF ELECTRICITY BSP - SOUTHPOOL (SLOVENIA)



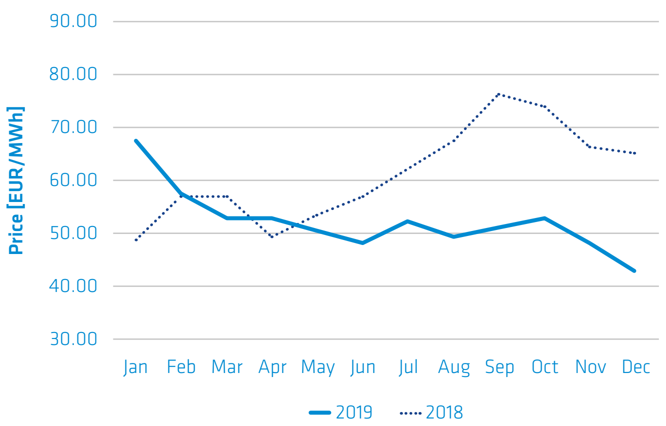
AVERAGE MONTHLY PRICE OF ELECTRICITY HUPX (HUNGARY)



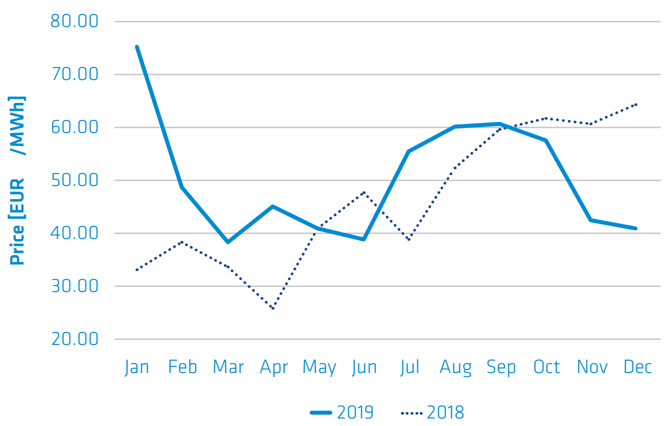
AVERAGE MONTHLY PRICE OF ELECTRICITY EPEX SPOT DE/AT (GERMANY)



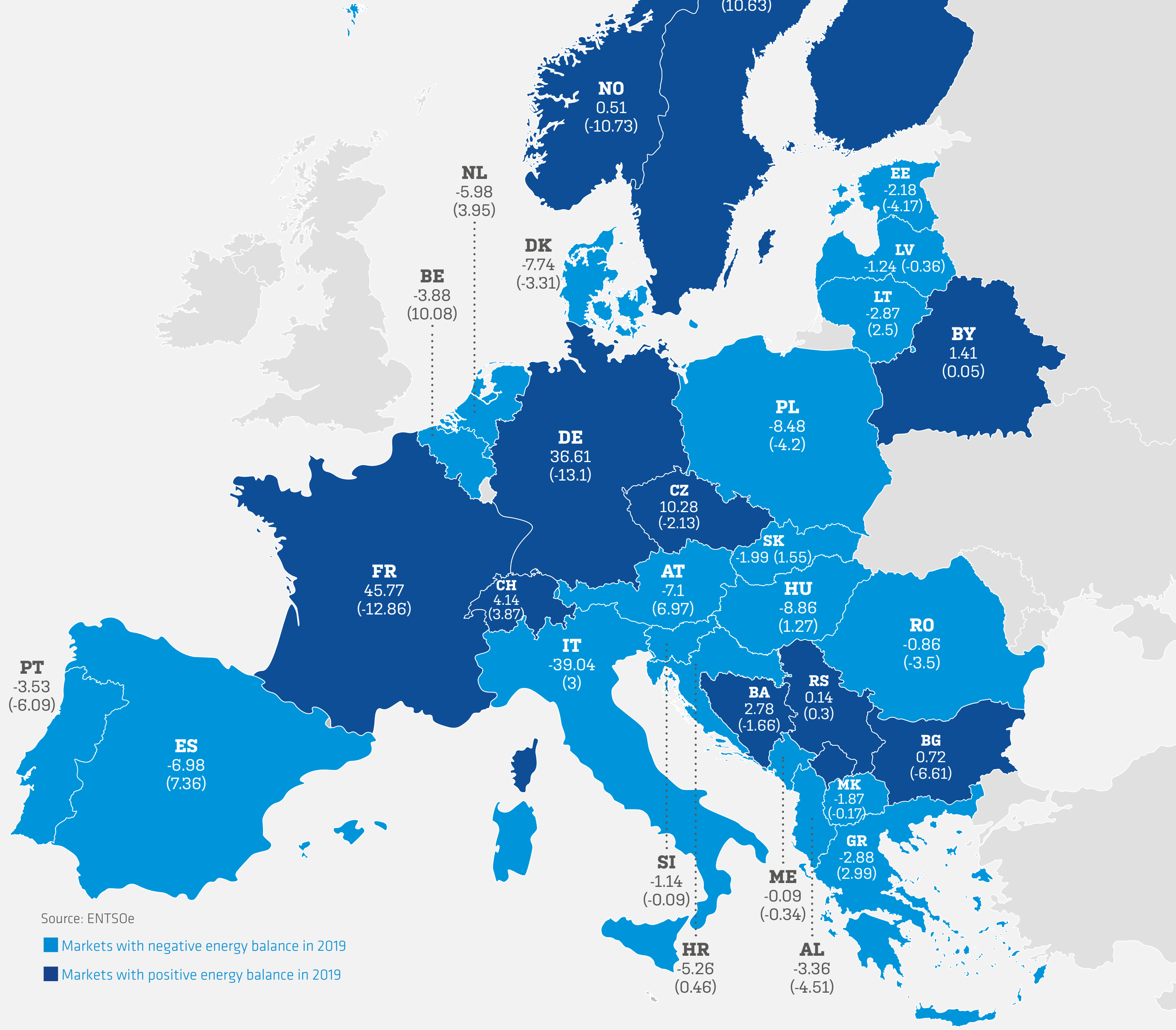
AVERAGE MONTHLY PRICE OF ELECTRICITY GME PUN (ITALY)



AVERAGE MONTHLY PRICE OF ELECTRICITY OPCOM (ROMANIA)



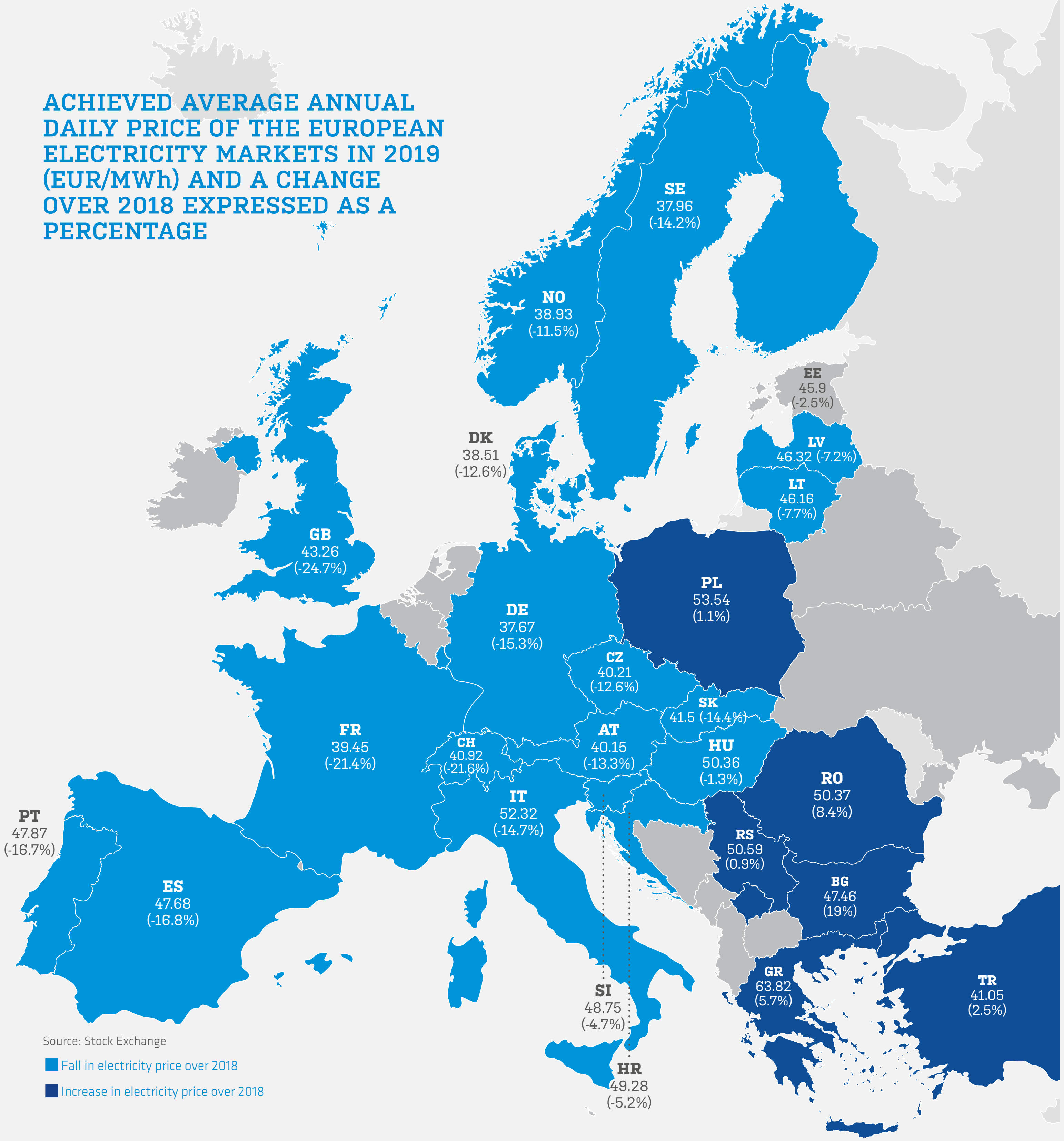
BALANCE SHEET OF THE EUROPEAN ELECTRICITY MARKETS IN 2019 AND A CHANGE IN THE BALANCE SHEET OVER 2018 EXPRESSED IN TWh



Source: ENTSOe

Despite the exceptionally good hydrology in the first half of the year, the balance of Alpine countries was lower than last year. The rapid melting of snow was the main reason for the rapid emptying of water reserves, while the drought period significantly reduced hydro production in the second half of the year. In our region, where we include the Balkan countries (Croatia, Serbia, Bosnia and Herzegovina, Macedonia, Montenegro, Albania), Hungary, Slovenia and Greece, balances were mostly lower than last year. The significant deficit of hydrology was felt mainly by Albania. The balance of Romania and Bulgaria was significantly lower than the year before, which significantly affected the price levels of the region. Romania has turned from an exporter into a net electricity importer, and in Bulgaria there has been a significant decrease in net exports compared to previous years. Italy has slightly reduced its import dependence because it has increased production from gas power plants greatly.

ACHIEVED AVERAGE ANNUAL DAILY PRICE OF THE EUROPEAN ELECTRICITY MARKETS IN 2019 (EUR/MWh) AND A CHANGE OVER 2018 EXPRESSED AS A PERCENTAGE



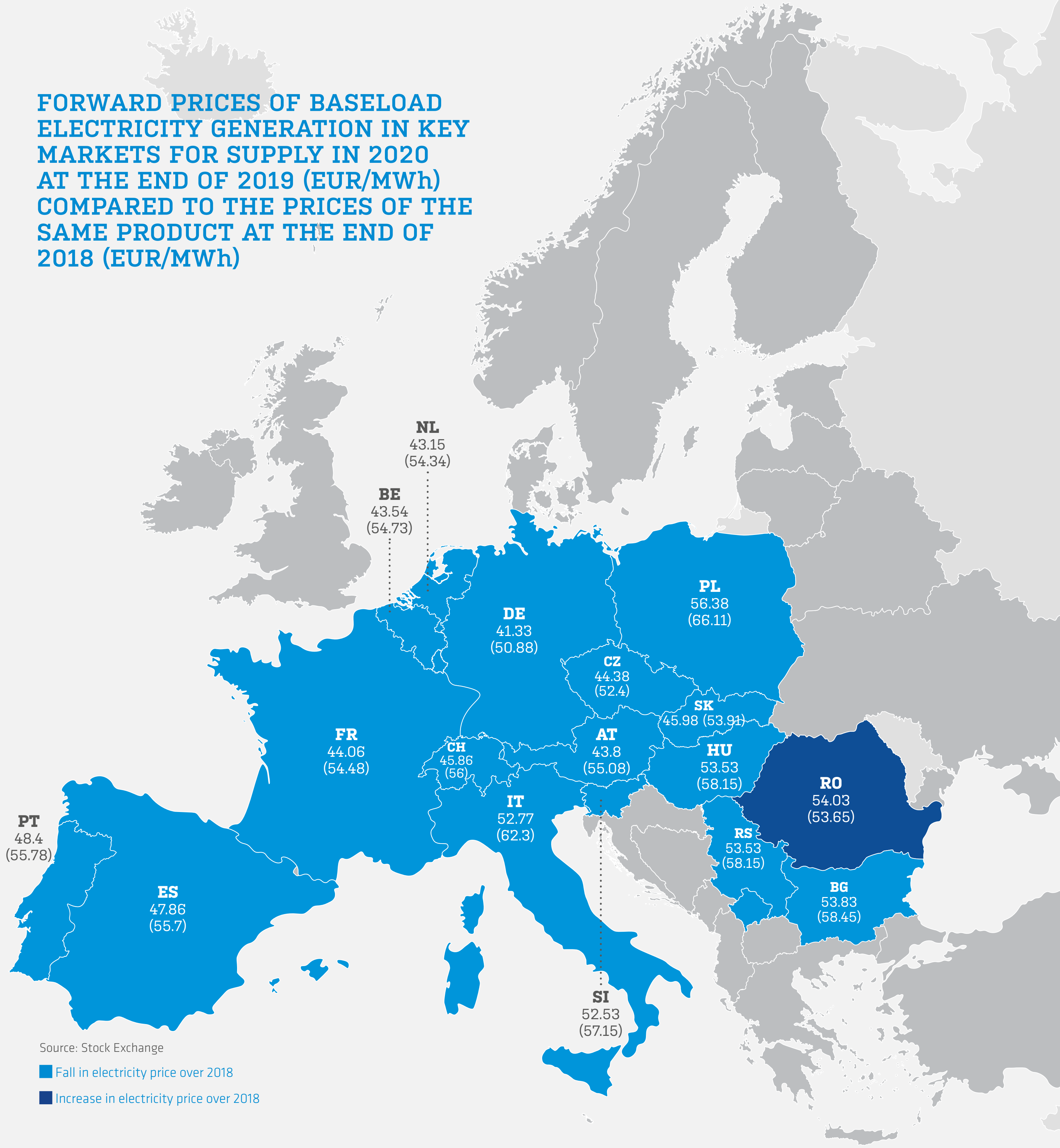
Source: Stock Exchange

Fall in electricity price over 2018

Increase in electricity price over 2018

Electricity prices were higher in 2019 compared to 2018 mainly in the eastern part of Europe, while in the western part prices have mainly fallen. Prices have fallen mainly in countries where much electricity is produced from imported energy products (gas, coal), whose price has fallen drastically in 2019. On the other hand, the cost of generating electricity in countries that produce a lot of energy from lignite and are simultaneously included in the ETS scheme has jumped. Large changes in the net balance of Romania (including Bulgaria) and poor hydrological conditions throughout the southeastern region have kept prices at relatively high levels, taking into account price falls on neighbouring markets. Italy's average daily price fell by almost 15%, while the region's prices fell between 1% and 5%. During the dry months from August to October, regional prices often exceeded the prices of all neighbouring markets. In addition to poor hydrology, the Romanian balance was greatly affected by the decrease in the production of lignite thermal power plants, which are facing financial difficulties due to high prices of CO_2 emission coupons at fixed costs of lignite production.

FORWARD PRICES OF BASELOAD ELECTRICITY GENERATION IN KEY MARKETS FOR SUPPLY IN 2020 AT THE END OF 2019 (EUR/MWh) COMPARED TO THE PRICES OF THE SAME PRODUCT AT THE END OF 2018 (EUR/MWh)



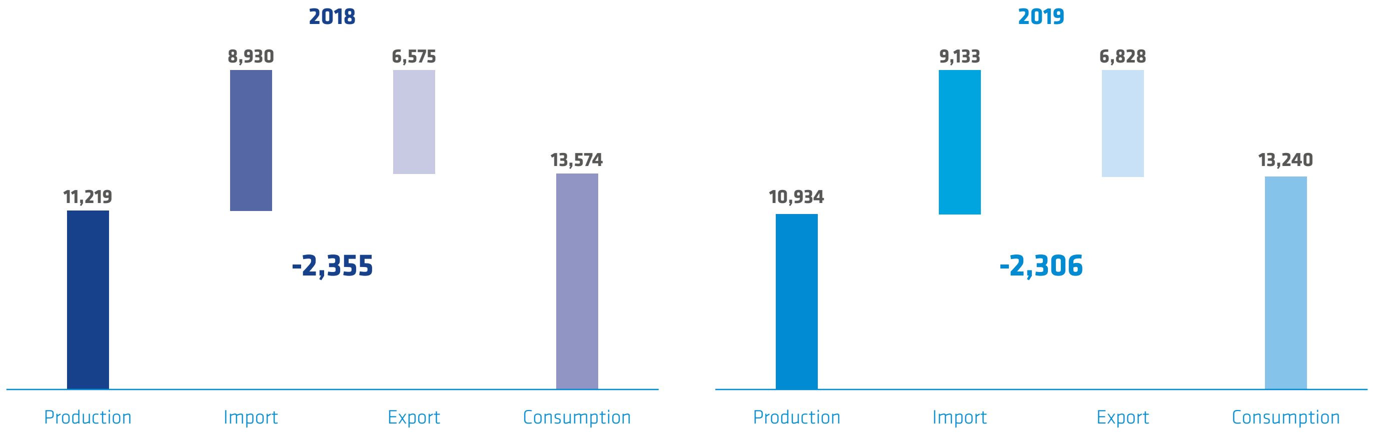
Source: Stock Exchange

Fall in electricity price over 2018

Increase in electricity price over 2018

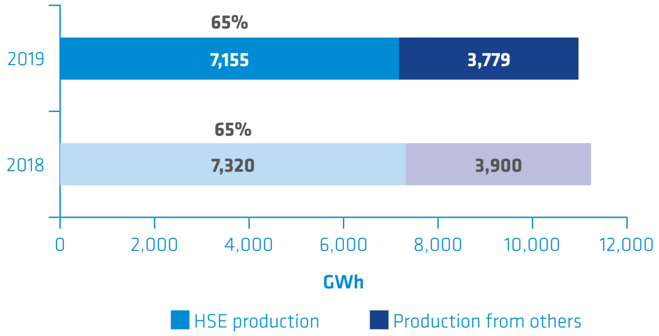
Forward prices of baseload electricity for supply in 2020 followed the trend in energy prices, heavily under the influence of CO_2 emission coupons. The sharp decline in natural gas and coal prices, accompanied by a strong growth in CO_2 emission coupon prices, gave rise to a neutral trend in forward contract prices. Slowed economic growth in the world and also in China, as a result of a trade war with the U.S., has sharply lowered energy prices, combined with mild winter temperatures. Throughout the year, we have witnessed a fall in the price of coal falling even to levels close to USD 50 per t towards the end of the year. One of the reasons for the fall in coal prices in Europe is also the phenomenon of replacing coal electricity production with gas, since higher prices of CO_2 emission coupons and an overabundance of gas reserves have made gas thermal power plants significantly more competitive than coal ones. As a result, coal imports outside Europe were also significantly lower. Europe's liquefied gas supply trend continued throughout 2019.

SLOVENE ELECTRICITY MARKET IN GWh



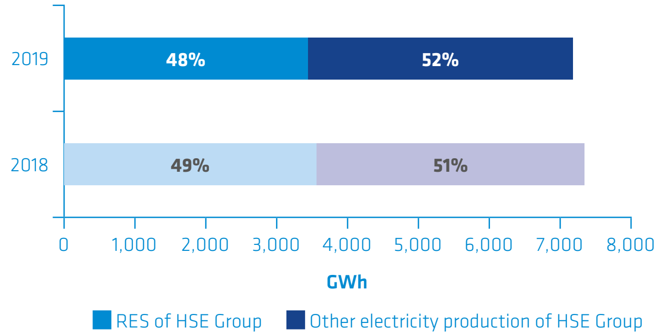
In the second quarter we had an above-average hydrology in Slovenia, based on heavy rainfall in May, when the level of snow in the high mountains reached the highest levels. This snow melted in June, followed by a drought practically until November, when more rainfall again took care of a slightly higher hydrology in the end of the year. In the last two months of the year, hydrology was higher than the longstanding average, and at the same time also higher than hydrology in 2018. Still, hydrology was 4.6% lower than hydrology in 2018 throughout 2019 and, along with lower production from thermal power plants, affected higher energy imports despite lower consumption. The latter was 2.5% lower than in 2018, and production was also 2.5% lower.

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



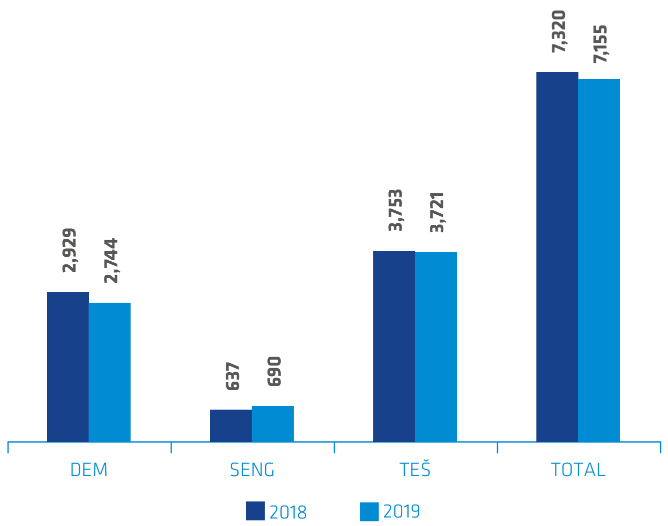
Lower production in TEŠ in 2019 is due to higher numbers of non-availability of Unit 6 (LUVO cleaning and urgent pipeline repair on PP1) and lower Unit 5 engagement than originally envisaged. Coal production was also lower. Hydro production partially compensated for the failure of thermal units in the first quarter, however, in the second and third quarters there was a significant lag in production from 2018 (from August to October drought period). In the last two months, due to heavy rainfall, production from hydroelectric power plants has grown again, thereby partially compensating for the shortfalls of the second and third quarter.

SHARE OF RENEWABLE ENERGY SOURCES IN THE PRODUCTION OF THE HSE GROUP IN GWh



The share of HSE production from renewable sources was lower in 2019 than the year before. Electricity production from renewable sources was lower overall in Slovenia. This is mainly due to lower hydropower production (partly as a result of the above-average hydrological conditions in 2018 through mid-May).

RATED POWER PRODUCED IN THE HSE GROUP IN GWh



Due to the high volatility and increasing correlation of electricity prices and other energy products, large shifts in electricity prices in neighbouring markets (falling gas prices and rising prices of CO_2 emission coupons), changes in electricity balances (e.g. in Romania), growth of consumption in the region and new maritime cross-border transmission capacities between Montenegro and Italy, the HSE Group paid great attention to the development of more in-depth analyses of expected balances, flows between countries and, consequently, expected prices for different time ranges (days, weeks, months).

2.6 Business performance analysis of the HSE Group and the HSE Company

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

HSE GROUP

	2019	2018
Value of assets	2,073,747,513	2,134,733,707
Amount of total capital	1,064,640,821	1,091,245,475
Net profit of loss	29,727,979	-11,802,603
EBITDA	160,617,601	128,129,727

HOLDING SLOVENSKE ELEKTRARNE D.O.O.

	2019	2018
Value of assets	1,418,699,514	1,381,683,134
Amount of total capital	984,344,305	979,389,150
Net profit of loss	60,117,717	9,486,269
EBITDA	69,323,633	55,340,294

MORE on:
3 Accounting Report of the HSE Group
4 Accounting report of the HSE Company

Hydro production

DRAVSKE ELEKTRARNE MARIBOR D.O.O.

	2019	2018
Value of assets	453,346,543	460,054,050
Amount of total capital	440,215,315	445,285,553
Net profit of loss	5,126,119	8,320,493
EBITDA	25,632,677	21,402,296

SOŠKE ELEKTRARNE NOVA GORICA D.O.O.

	2019	2018
Value of assets	225,002,840	226,705,599
Amount of total capital	203,870,114	198,964,978
Net profit of loss	4,980,024	4,008,871
EBITDA	16,794,803	15,495,123

SREDNJESAVSKE ELEKTRARNE D.O.O.

	2019	2018
Value of assets	57,793	62,980
Amount of total capital	57,782	62,968
Net profit of loss	-5,187	-5,195
EBITDA	-5,187	-5,195

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

	2019	2018
Value of assets	342,524,469	344,419,943
Amount of total capital	284,528,188	282,522,927
Net profit of loss	2,401,078	3,561,010
EBITDA	12,296,223	12,272,417

Thermo production

TERMOELEKTRARNA ŠOŠTANJ D.O.O.

	2019	2018
Value of assets	1,016,196,704	1,027,242,961
Amount of total capital	364,537,027	352,624,004
Net profit of loss	-19,582,324	-58,529,301
EBITDA	44,610,838	22,211,796

HSE - ENERGETSKA DRUŽBA TRBOVLJE D.O.O.

	2019	2018
Value of assets	3,265,047	3,630,414
Amount of total capital	1,458,871	2,174,576
Net profit of loss	-708,656	-541,450
EBITDA	-379,617	-104,819

Primary sources and other activities

PREMOGOVNIK VELENJE D. O. O.

	2019	2018
Value of assets	139,920,428	124,685,916
Amount of total capital	36,309,737	42,839,088
Net profit of loss	-6,584,420	-3,831,881
EBITDA	2,745,263	10,920,471

HTZ I. P. D. O. O.

	2019	2018
Value of assets	16,158,442	15,848,665
Amount of total capital	1,883,381	1,398,204
Net profit of loss	-1,542,243	238,031
EBITDA	-544,107	1,260,389

SIPOTEH D. O. O.

	2019	2018
Value of assets	1,341,749	989,107
Amount of total capital	727,333	456,655
Net profit of loss	271,007	161,511
EBITDA	367,949	236,816

PLP D. O. O. *

	2019
Value of assets	1,701,396
Amount of total capital	817,237
Net profit of loss	169,876
EBITDA	248,126

*The company PLP d.o.o. was in 2018 not included in the consolidation procedure due to its planned sale in early 2019. As the company has not been sold, the 2019 figures are being consolidated.

International network

HSE BE D. O. O.

	2019	2018
Value of assets	1,104,100	1,366,648
Amount of total capital	926,855	881,105
Net profit of loss	37,699	18,701
EBITDA	45,409	99,331

HSE ADRIA D. O. O. - IN LIQUIDATION *

	2019	2018
Value of assets		82,804
Amount of total capital		81,339
Net profit of loss	-5,663	-18,162
EBITDA	-5,663	-18,173

*HSE Adria d.o.o. - In liquidation, the company was removed from the commercial register in Zagreb on 10 December 2019, so for 2019 the data is displayed only from the profit and loss.

HSE MAK ENERGY DOOEL

	2019	2018
Value of assets	6,404,842	2,489,571
Amount of total capital	341,109	135,358
Net profit of loss	205,029	38,084
EBITDA	227,810	49,481

HSE BH D. O. O.

	2019	2018
Value of assets	9,694,678	2,139,603
Amount of total capital	1,032,521	753,626
Net profit of loss	278,893	2,702
EBITDA	310,232	3,955

Investments

SOENERGETIKA D. O. O.
(25% share of HSE- is not consolidated)

	2019	2018
Value of assets	2,748,088	2,700,116
Amount of total capital	1,822,060	1,811,157
Net profit of loss	691,738	680,768
EBITDA	1,450,904	1,462,225

HSE INVEST D. O. O.

	2019	2018
Value of assets	2,034,631	1,535,375
Amount of total capital	346,042	589,084
Net profit of loss	-232,382	-1,039,125
EBITDA	-47,380	-970,937

RGP D. O. O.

	2019	2018
Value of assets	9,958,998	7,362,319
Amount of total capital	2,967,738	2,241,985
Net profit of loss	703,937	809,890
EBITDA	1,586,692	1,333,379

2.6.1 Business performance analysis of the HSE Group[1]

2.6.1.1 Key data about the HSE Group

Key data	Unit of measure	2015	2016	2017	2018	2019
Net sales revenue	EUR	1,224,011,025	1,179,841,222	1,587,759,985	1,471,965,221	1,710,574,972
Net profit of loss	EUR	-480,102,728	21,660,852	8,213,664	-11,802,603	29,727,979
Revenue	EUR	1,241,057,112	1,201,249,357	1,611,867,720	1,491,669,217	1,729,972,574
EBIT = Operating result	EUR	-443,546,965	75,027,419	56,437,024	30,442,789	74,100,308
EBITDA	EUR	121,574,031	155,690,340	138,235,820	128,129,727	160,617,601
Assets	EUR	2,233,923,431	2,156,756,540	2,138,362,354	2,134,733,707	2,073,747,513
Capital	EUR	991,749,078	1,015,220,355	1,038,307,041	1,091,245,475	1,064,640,823
Indebtedness to banks	EUR	1,014,505,756	896,097,180	851,175,060	783,548,534	732,273,957
Total indebtedness	EUR	1,015,105,207	899,604,980	851,439,217	784,137,313	737,556,113
Investments	EUR	97,952,979	33,510,462	49,208,528	57,444,700	40,971,390
Electricity produced	GWh	6,763	7,778	7,034	7,320	7,155
Electricity sold	GWh	27,194	28,344	36,987	30,629	33,638
Employees at the end of the year	Number	3,390	3,110	3,093	3,074	3,147
Average number of employees	Number	3,531	3,250	3,102	3,078	3,111
Trading margin	in EUR/GWh	11,260	12,823	9,297	11,120	11,508

[1] The introduction of IFRS 16 - Leases as of 1.1.2019 did not have a significant impact on the financial statements of the HSE Group. As a result of the transition to IFRS 16, the financial statements of the HSE Group were higher by EUR 4,678,163 in the financial statements of the HSE Group, funding liabilities by EUR 5.201,369, and EBITDA was better by EUR 1,475,462 at the expense of lower service costs. The introduction of IFRS 16 also affects the following indicators: the level of capital investment, the degree of long-term investment, the coefficient of capital coverage of fixed assets, the coefficient of economy, the coefficient of net profitability of capital – ROE, the coefficient of net profitability of assets – ROA, coefficient of debt – equity ratio, total financial liability/EBITDA, EBITDA/financial expense from loans received, total financial liability/assets, net financial liabilities, net financial liability/EBITDA and net financial liability/capital. The impact, however, is small. A more detailed overview is in the HSE Group's Financial Report.

Key data	Unit of measure	2015	2016	2017	2018	2019
Equity financing rate		44.39	47.07	48.56	51.12	51.34
Long-term financing rate		79.62	89.82	88.21	86.91	87.31
Operating fixed assets rate		80.09	80.73	79.57	77.80	78.40
Long-term assets rate		86.58	87.58	87.08	85.36	86.13
Capital coverage ratio of fixed assets		0.55	0.58	0.61	0.66	0.65
Direct coverage of short-term liabilities ratio (quick ratio)		0.22	0.39	0.30	0.35	0.21
Accelerated coverage of short-term liabilities ratio (accelerated ratio)		0.56	1.06	0.94	0.99	0.93
Short-term coverage of short-term liabilities ratio (short-term ratio)		0.65	1.19	1.09	1.12	1.07
Operating efficiency ratio		0.74	1.07	1.04	1.02	1.04
Net ROE ratio	%	-39.0	2.2	0.8	-1.1	2.8
Net ROA ratio	%	-19.3	1.0	0.4	-0.6	1.4
Value added	EUR	251,699,079	281,479,876	258,115,028	251,427,464	291,532,762
Value added per employee	EUR	71,293	86,609	83,223	81,685	93,725
Debt to capital ratio		1.02	0.89	0.82	0.72	0.69
Total financial liabilities/EBITDA		8.35	5.78	6.16	6.12	4.59
EBITDA/Financial expenses from loans received		6.05	4.59	4.96	4.91	6.92
Total financial liabilities/Assets		0.45	0.42	0.40	0.37	0.36
Net financial liabilities	EUR	936,224,926	816,119,586	789,745,775	700,626,784	695,038,514
Net financial liabilities/EBITDA		7.70	5.24	5.71	5.47	4.33
Net financial liabilities/Capital		0.94	0.80	0.76	0.64	0.65

2.6.1.2 Analysis of the profit and loss statement of the HSE Group

RECORD YEAR 2019

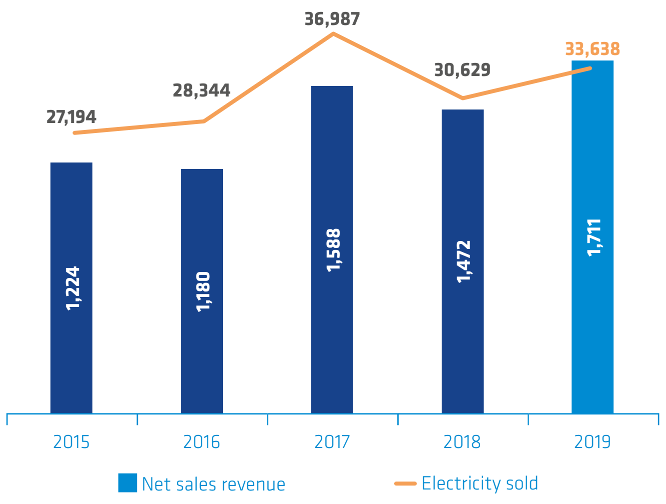
The HSE Group is the largest producer of electricity in Slovenia. As members, we are present on all major European futures and daily electricity exchanges, and with the rise in renewable production and the development of smart grids, intraday trading is gaining power, where we are present 24 hours a day all days of the week. The year 2019 was a record year for the HSE Group. Net sales revenue achieved in 2019 was the highest since we operate and EBITDA was the highest in the past five years.

Net sales revenue achieved in 2019 **was the highest** since we operate

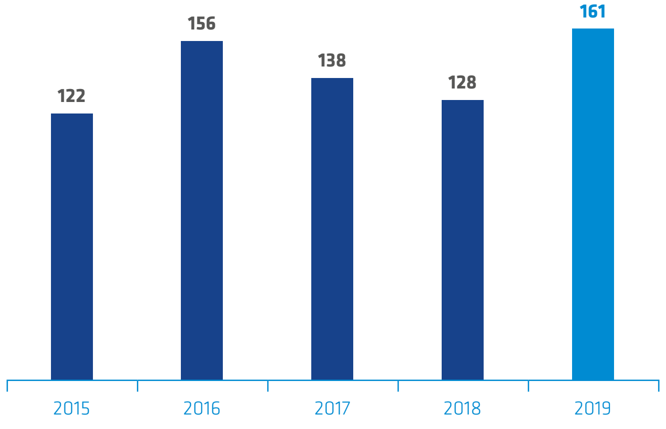
+

EBITDA **was the highest** in the past five years

NET SALES REVENUE IN EUR MILLION AND ELECTRICITY SOLD IN GWh

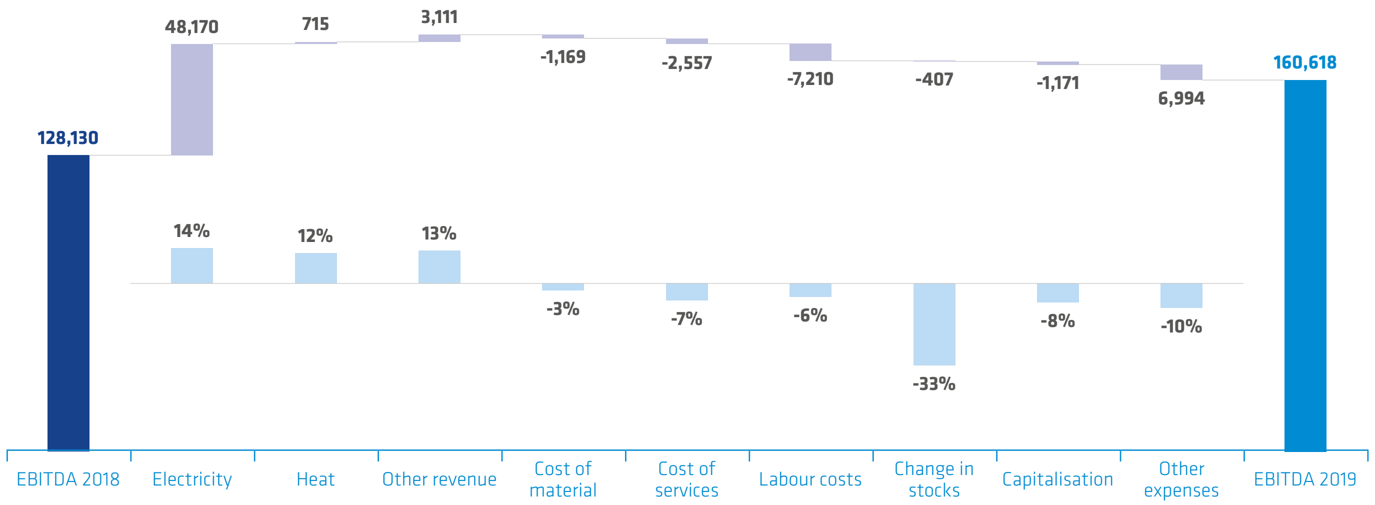


EBITDA IN EUR MILLION



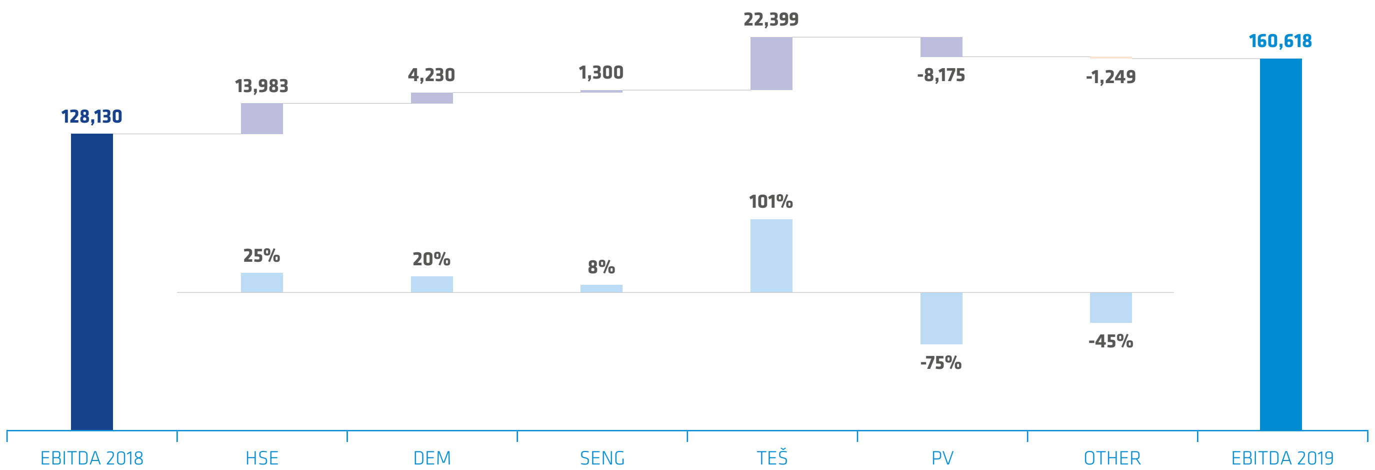
We also faced a number of challenges in 2019. The achieved electricity generation of HSE Group companies was in 2019 2% lower compared to the previous year 2018. Hydro production was lower by 147 GWh. Drava power plants produced 185 GWh less, while hydroelectric power plants on the Soča River produced 39 GWh (taking into account Avče PSPP) more electricity than the previous year. The production outage at DEM was due to lower snow quantities in the high mountains, accelerated melting and volatilisation of snow in May and below-average rainfall in August - October 2019. We prematurely completed the overhaul of the power unit and other primary equipment at Avče PSPP, so the production of the pumping plant was 14 GWh higher. The thermal power plant produced 32 GWh of electricity less, due to the power limits of Unit 6 and occasional problems in the provision of coal. The failure of hydro and thermo production sold in advance was replaced by purchases of electricity on the market in the HSE Group. Regardless of the amount of electricity produced, we provided reliable and safe supply of electricity to all our customers, consumers and traders, while increasing sales activities, especially abroad, and realized 16% higher revenues from sales of electricity energy. Sales volumes were 10% higher and average wholesale electricity prices were 6% higher. From electricity sales, the HSE Group achieved a 14% better operating performance compared to the previous year.

HSE GROUP EBITDA CHANGE IN 2019 RELATIVE TO 2018 IN EUR THOUSAND



TEŠ achieved 12% higher revenues from the sale of thermal energy due to higher prices as a result of higher prices of CO_2 emission coupons. The bulk of the remaining revenue (47% share) was achieved in the HSE Group by offering construction, mining and maintenance services and rents. **Revenue from services** (excluding electricity-related services) was 52% higher compared to 2018. The rest of the remaining revenue was achieved by the HSE Group with **revenue from drawing deferred revenue** higher by 2% (27% share), with **revenues from sales of merchandise, materials and products** higher by 32% (8% share), with **revenue from compensation and contractual penalties** higher by 17% (4% share), and revenue from the abolition of provisions and profits from the sale of fixed assets.

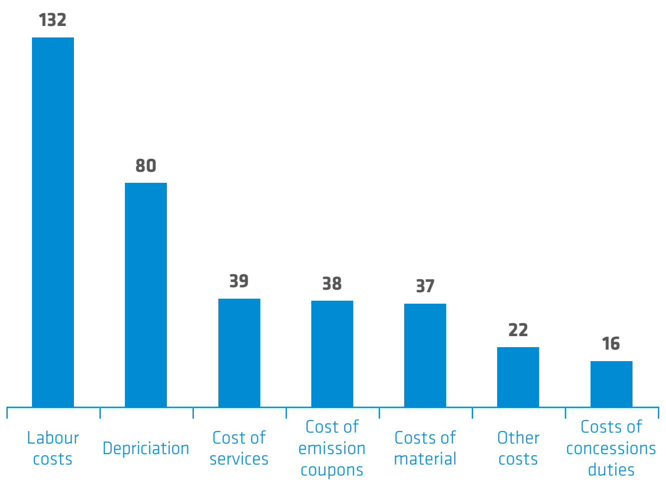
HSE GROUP EBITDA CHANGE IN 2019 RELATIVE TO 2018 IN EUR THOUSAND



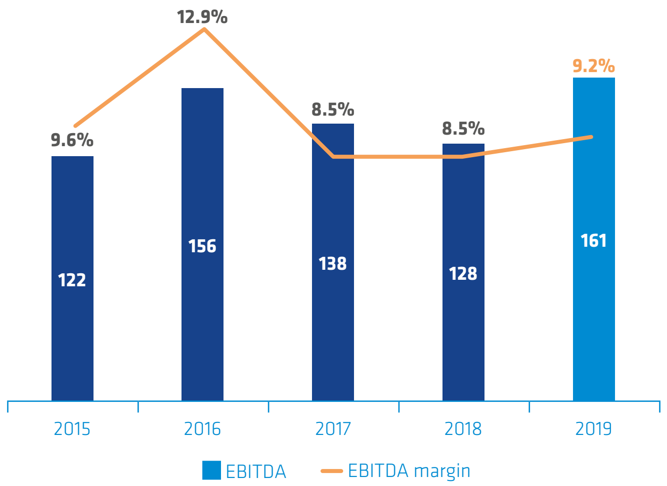
EBITDA was most affected by the difference between the price of electricity on the market and the own cost of the HSE Group's production facilities and a trading margin that was higher by 3%. Material costs were 3% higher compared to the previous year 2018 due to the use of a stronger, steel arc support used in the coal extraction process, which represented a 22% share in the material cost structure, and gas costs (13% share) due to higher production. The cost of material is also EUR 1,5 million higher at the expense of PLP's inclusion in the consolidated statements of the group (PLP did not consolidate in 2018). In 2019, service costs were 7% higher compared to the previous year due to higher costs of subcontractors (on the other hand, revenue was also higher) and higher maintenance costs. The largest share of the cost of services were maintenance services (28%), followed by the cost of services when creating products (22%), insurance and banking services (15%), intellectual and personal services costs (12%) and other costs. Labour costs, which were 6% higher, were affected by a higher average number of employees by 33 workers mainly in the PV group (more in the section Personell, consolidation of PLP) and a new collective agreement in force (2019), which, according to the preliminary, foresees higher severance payments upon retirement, which made it necessary to make additional provisions on the basis of actuarial calculation. Capitalised own products and services were lower by 8% as we did more work in the previous year 2018 and spent more material on Unit 6 overhaul and Unit 5 repairment. The HSE Group achieved the bulk of its capitalised own products and services through the construction of the CPS3 coal mine pumping station and the construction or joinery of other major stable coal mine facilities, construction and engineering services and the construction of coal mine machinery. Other operating expenses were higher by 11%. Half of the other operating expenses was accounted for by the cost of CO_2 emission coupons, which was 42% higher due to the higher price. Following are the costs of concession duties (21% share), which were 13% higher due to the higher price, and compensation for the use of building land (13% share), which was 15% lower.

EBIT operating profit or loss was higher by 143% mainly due to a better result from electricity trading. In the previous year 2018, operating profit and loss was reduced by asset impairment of EUR 18,489,038. In 2019, due to the halt of the investment in the construction of HPP on the Mura River, we realized write-offs of EUR 5,960,636.

HSE GROUP COSTS IN 2019 IN EUR MILLION



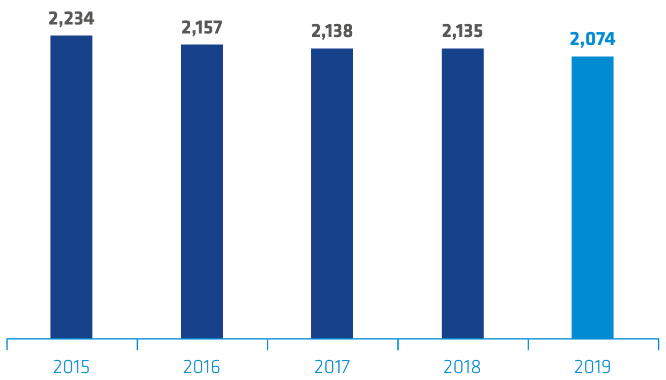
EBITDA IN EUR MILLION AND EBITDA MARGIN



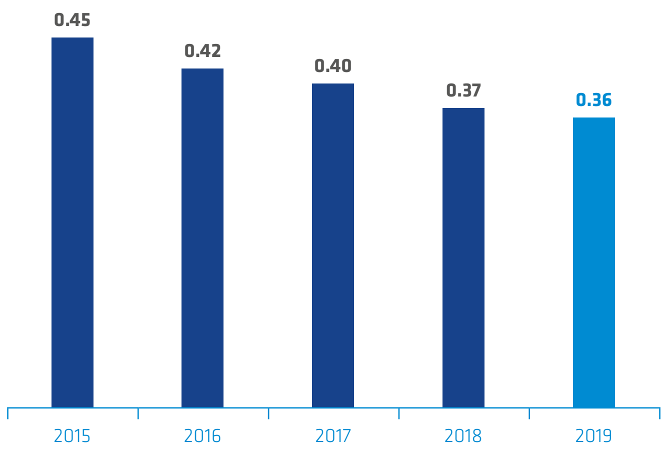
Despite the lower production and the higher own price of production facilities (higher costs of CO_2 emission coupons and concession duties due to higher prices), the HSE Group realized a better EBITA and a financial performance. The HSE Group realized, in the main, financial revenue with a share in the profit or loss of the associate, which is 30% lower compared to the previous year. Financial expenses are a reflection of deleveraging and refinancing and were lower by 3%. After tax deduction, the group realised a net profit of EUR 29,727,979, the highest in the last five years.

2.6.1.3 Analysis of financial position statement of the HSE Group

ASSETS IN EUR MILLION



TOTAL FINANCIAL LIABILITIES/ASSETS

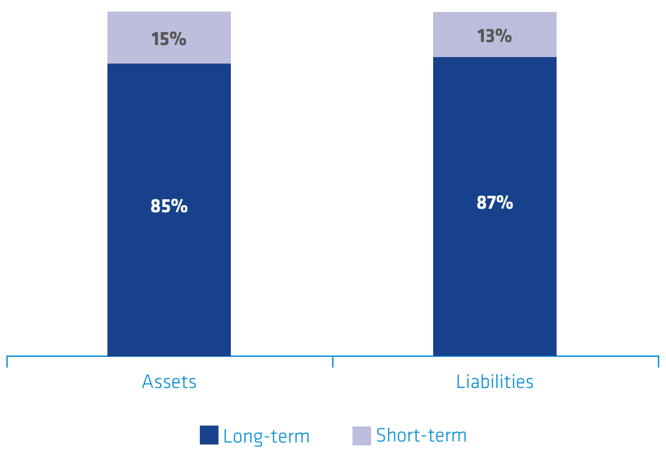


As of 31 December 2019, HSE Group assets were 3% lower relative to the situation at the end of 2018. In the asset structure, relative to 2018, the proportion of long-term assets increased due to a decrease in cash.

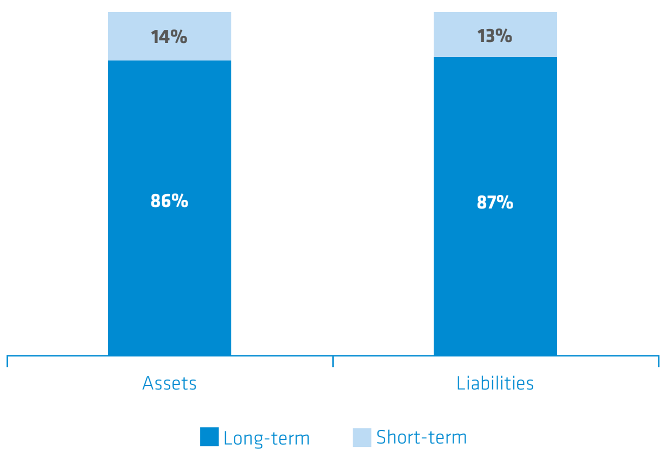
Among intangible assets, 32% are represented by the stock of CO_2 emission coupons, which is higher by 7% due to the higher price. Property, plant and equipment is lower by 2% as investments have not followed depreciation. The largest (71% share) is represented by **production equipment**, which is lower by 3%, followed by **buildings** (24% share) that remain at the level of last year, **property, plant and equipment** in acquisition increased by 66%, representing a 3% share, **land** increased by 3% (2% share). The right to use leased assets refers to leased assets by the group (IFRS 16 – Leases). Investment properties increased by 2% as a result of a revaluation to fair value. Other long-term investments included a 49% share in HESS that was higher by 1% due to the valuation at equity method. Long-term operating receivables mainly represented receivables for granted financial cover for the purposes of electricity trading.

HSE Group stocks are higher by 9% due to higher coal stocks. Short-term investments included special-purpose deposits for the repayment of financial liabilities of TEŠ. Short-term trade receivables were 5% higher due to higher turnover of the parent company. Among other short-term assets, VAT receivables occupy the better part, whereas among contractual assets accrued revenue is predominant. Changes in cash are presented in the Cash flow statement.

STRUCTURE OF FINANCIAL POSITION OF THE HSE GROUP AS AT 31 DECEMBER 2018



STRUCTURE OF FINANCIAL POSITION OF THE HSE GROUP AS AT 31 DECEMBER 2019



Despite the fact that the HSE Group was operating at net profit in 2019, capital is lower by 2% as of 31 December, 2019 compared to 31 December 2018. The risk hedging reserve was negatively affected, which was lower by 76% mainly due to the closure of contracts for the purchase of CO_2 emission coupons. Capital represented a 51% share in the structure of liabilities to asset resources, which is the same as last year.

Provisions for severance pay and jubilee prizes were up 37%. They have increased the most in the PV group, as a result of a new collective agreement in place in 2019. In fact, in the light of the foregoing, it foresees higher severance payments at retirement, which required additional provisions to be made on the basis of actuarial calculation. Other provisions were higher by 17% due to higher provisions for closing works. European funds spent (costs generated on the Osmose project) and lower allocated contributions for disabled people make other long-term liabilities lower by 13%.

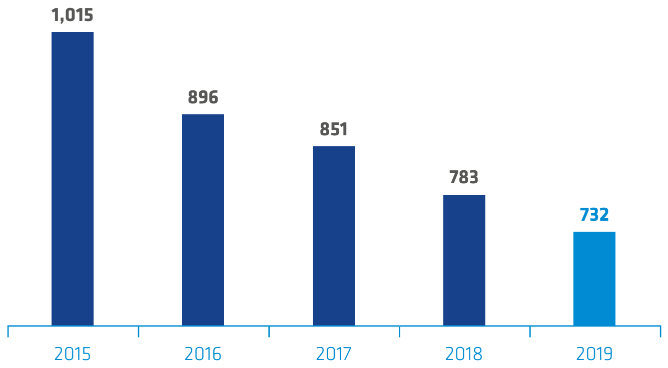
REFINANCING AND DEBT REDUCTION

The total debt declined in comparison to 2018 by 6% as a result of loan repayments, while the net debt is lower by 1%. The HSE parent company successfully completed the refinancing of loans already taken (more in the analysis of HSE's financial position statement). The net financial liability/EBITDA indicator improved further due to lower indebtedness. Financial lease liabilities of EUR 5.201,369 (transition to IFRS 16 – Leases) make overall indebtedness higher. Without taking into account the financial liabilities under lease agreements, the overall financial liability indicator would be even lower.

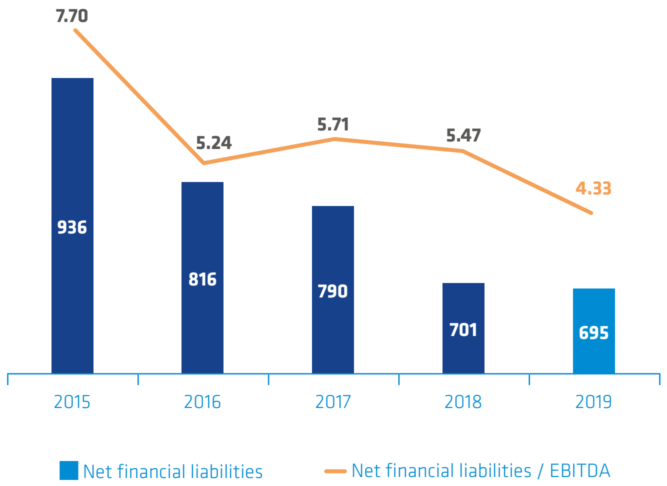
Total indebtedness has decreased by

6%

INDEBTEDNESS TO BANKS IN EUR MILLION

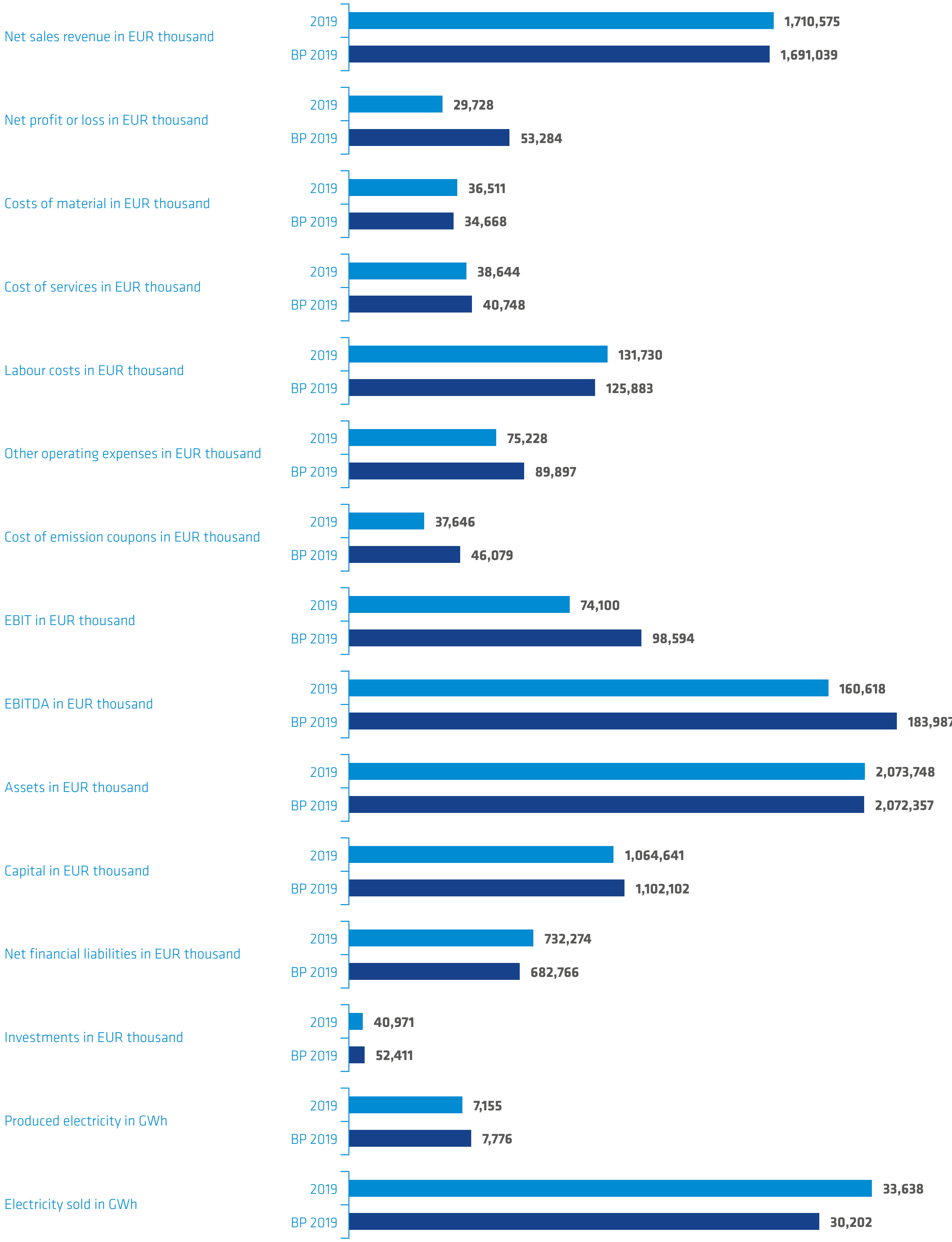


NET FINANCIAL LIABILITIES IN EUR MILLION AND NET FINANCIAL LIABILITIES/EBITDA



Short-term trade liabilites were lower by 2% compared to the end of 2018 due to repayments of overdue liabilities in the PV group. Other short-term liabilities, however, were at the level of the previous year.

2.6.1.4 Comparison of 2019 operations with the 2019 plan



Due to the poor hydrological situation in the first three quarters of 2019, as well as the operating restrictions of Unit 6 in TEŠ, production was lower than planned. Increased sales activities are reflected in above-planned sales volumes of electricity and higher net sales revenues. The cost of the material exceeded the planned ones due to more material used for anchoring and steel arc support due to the difficult conditions in the coal mine and higher gas costs. Due to delays in arbitration costs, the cost of services was lower than planned. PV and HTZ realised above-planned labour costs due to unrealised but planned measures to reduce labour costs (active retirement and systemisation) and unrealised measures requiring the consent of the social partners and higher provisions for retirement severance payments because of the new collective agreement. Other operating expenses are lower due to lower costs of CO_2 emission coupons and concession duties due to under-planned production. Lower sales of own production and higher labour and material costs make EBITDA lower than planned, while the net profit or loss of the HSE Group is also lower.

The assets of the HSE Group were at the planned level. The bulk of the lower than planned investments is represent by investments in the reliability of production. The capital of the HSE Group is lower than planned due to lower net profit or loss of previous years (the asset impairment in 2018 was not planned) and lower net profit or loss of the current year.

At the end of December, the net indebtedness of the HSE Group is higher than planned due to the refinancing of HSE parent company. Higher overall indebtedness is also caused by the introduction of IFRS 16 - Leases, as we also state liabilities to landlords among our financial liabilities, which was not planned.

2.6.2 Business performance analysis of the HSE Company[2]

2.6.2.1 Key data about the HSE Company

Key data	Unit of measure	2015	2016	2017	2018	2019	
Net sales revenue	EUR	1,303,117,500	1,234,432,724	1,610,687,897	1,481,938,763	1,740,154,682	
Net profit of loss	EUR	-323,117,370	44,359,794	19,737,615	9,486,269	60,117,717	
Revenue	EUR	1,324,718,804	1,293,642,769	1,657,588,300	1,519,177,749	1,762,118,339	
EBIT = Operating result	EUR	50,266,532	64,207,895	50,171,197	54,454,367	68,441,332	
EBITDA	EUR	53,434,736	64,973,556	51,015,920	55,340,294	69,323,633	
Assets	EUR	1,206,606,876	1,299,127,630	1,321,084,847	1,381,683,132	1,418,699,514	
Capital	EUR	829,661,563	876,576,884	905,369,122	979,389,150	984,344,305	
Indebtedness to banks	EUR	183,481,837	245,192,351	236,468,415	219,469,011	222,513,663	
Total indebtedness	EUR	214,568,280	246,409,568	236,622,267	219,574,520	223,729,850	
Investments	EUR	461,632	853,639	1,746,764	1,247,046	899,352	
Electricity produced	GWh	6,763	7,778	7,034	7,320	7,155	
Electricity sold	GWh	29,131	30,483	37,799	31,158	34,538	
Employees at the end of the year	number	142	150	174	176	186	
Average number of employees	number	138	147	162	175	181	
EBITDA margin	%	4.1	5.2	3.2	3.7	4.0	

[2] Introduction of IFRS 16 – Leases. As a result of the transition to IFRS 16, in the financial statements of the HSE Company as at 31 December 2019, fixed assets from the right of use for leased assets were higher by EUR 1,122,914, long-term funding liabilities by EUR 1,135,522, and EBITDA was better by EUR 280,706 at the expense of lower service costs. The introduction of IFRS 16 also affects the following indicators: the level of capital investment, the degree of long-term investment, the coefficient of capital coverage of fixed assets, the coefficient of economy, the coefficient of net profitability of capital – ROE, the coefficient of net profitability of assets – ROA, coefficient of debt – equity ratio, total financial liability/EBITDA, EBITDA/financial expense from loans received, total financial liability/assets, net financial liabilities, net financial liability/EBITDA and net financial liability/capital, the impact is low. A more detailed overview of the impact of the adoption of IFRS 16 on the company's financial statements is contained in the HSE Financial Report – Accounting assumptions and quality characteristics of financial statements.

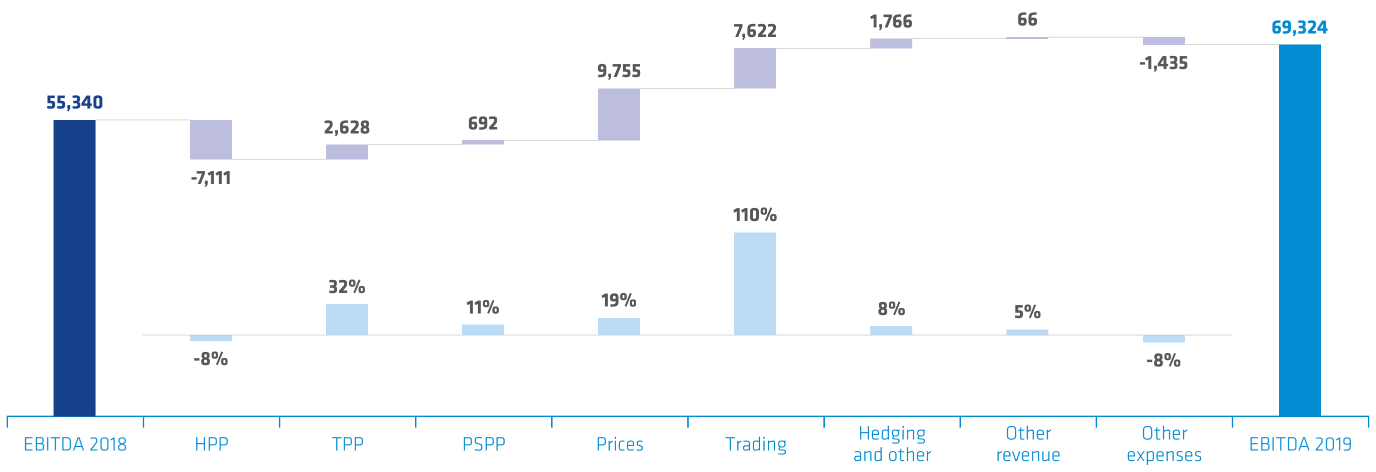
Key data	Unit of measure	2015	2016	2017	2018	2019
Equity financing rate		68.76	67.47	68.53	70.88	69.38
Long-term financing rate		74.67	85.73	85.20	84.94	84.46
Operating fixed assets rate		2.74	3.02	2.97	3.16	3.79
Long-term assets rate		81.79	85.98	84.68	81.93	83.68
Capital coverage ratio of fixed assets		25.10	22.37	23.06	22.44	18.31
Direct coverage of short-term liabilities ratio (quick ratio)		0.21	0.17	0.15	0.34	0.14
Accelerated coverage of short-term liabilities ratio (accelerated ratio)		0.68	0.91	0.99	1.17	1.03
Short-term coverage of short-term liabilities ratio (short-term ratio)		0.70	0.95	1.03	1.20	1.05
Operating efficiency ratio		1.04	1.05	1.03	1.04	1.04
Net ROA capital ratio	%	-32.6	5.2	2.2	1.0	6.1
Net ROA assets ratio	%	-24.8	3.5	1.5	0.7	4.3
Value added	EUR	60,861,977	73,116,212	60,913,790	65,840,152	80,736,259
Value added per employee	EUR	441,029	497,389	376,011	376,229	446,057
Debt to capital ratio		0.26	0.28	0.26	0.22	0.23
Total Financial Liabilities/EBITDA		4.02	3.79	4.64	3.97	3.23
EBITDA/Financial Expenses from loans received		9.66	5.83	6.38	7.08	10.81
Total Financial Liabilities/Assets		0.18	0.19	0.18	0.16	0.16
Net financial liabilities	EUR	157,411,348	217,458,121	209,894,393	151,815,272	196,133,069
Net financial liabilities/EBITDA		2.95	3.35	4.11	2.74	2.83
Net financial liabilities/Capital		0.19	0.25	0.23	0.16	0.20

2.6.2.2 Analysis of the profit and loss statement of the HSE Company

REVENUE GROWTH, HIGHEST EBITDA AND NET PROFIT IN THE LAST FIVE YEARS

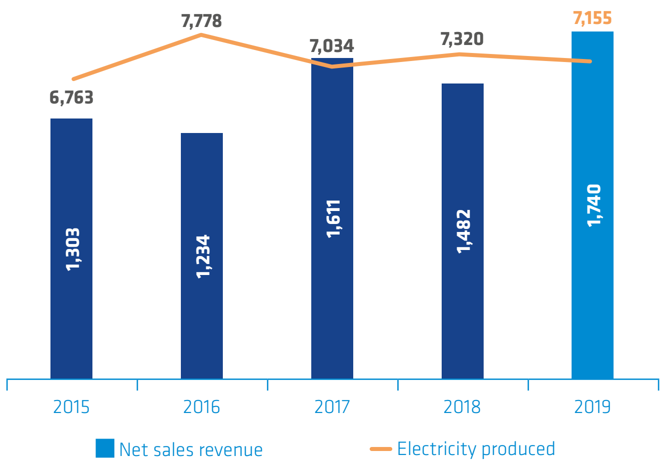
Production in 2019 was 2% lower compared to the previous year 2018 (more detailed in the analysis of HSE Group operations). Despite a lower production, the HSE Group successfully replaced the already sold lower hydro and thermo production with imports of electricity, ensuring a reliable supply of electricity, while increasing sales activities and delivering a better result from trade by almost EUR 8 million in comparison with 2018.

HSE GROUP EBITDA CHANGE IN 2019 RELATIVE TO 2018 IN EUR THOUSAND

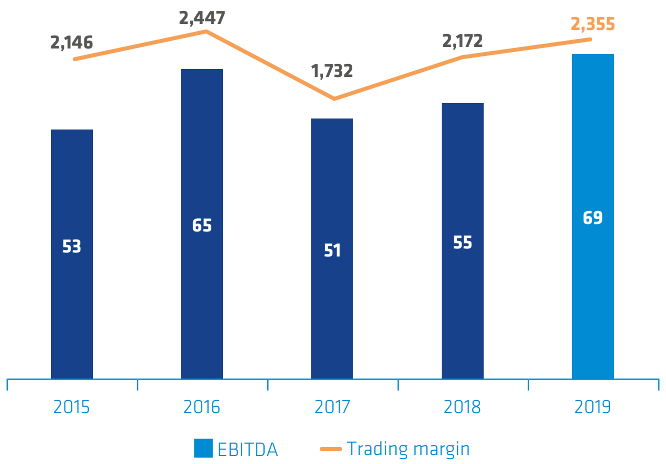


Revenue from electricity sales in 2019 was 18% higher compared to 2018, thanks to higher volume sales by 11% and higher average wholesale electricity prices by 6%. Revenue from the sale of electricity generated 99% of business revenue. The trading margin was higher by 8%. The bulk of the service revenue was generated by the HSE Company through electricity related revenues. Compared to the previous year, they were lower by 20%. Other operating income mainly covers the positive effects from the valuation of financial instruments and is higher by 70%.

NET SALES REVENUE IN EUR MILLION AND ELECTRICITY PRODUCED IN GWh

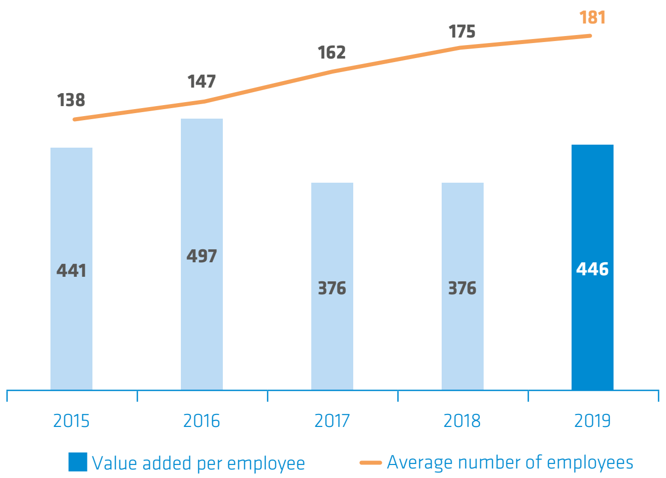


EBITDA IN EUR MILLION AND TRADING MARGIN IN EUR/GWh

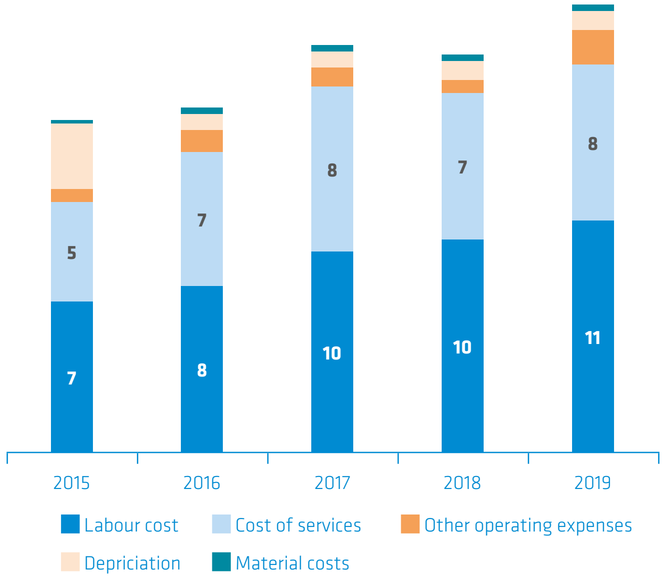


Costs in 2019 were 8% higher compared with the previous year. The average number of employees is higher by 6 workers, as a result, labour costs are higher by 9%, with value added per employee higher by 19%. Service costs were 5% higher due to higher bank fees and bank guarantees costs, as a result of increased trading volumes. The largest share of the service costs was the cost of other services (20% share), mainly related to the cost of re-invoiced IT services to subsidiaries. Compared to the previous year, they were higher by 262% (on the other hand, higher revenues, which are re-invoiced to subsidiaries). Following are bank costs and bank guarantees costs (19% share), which were 36% higher. Costs of legal, lawyer and notarial services (16% share) were 4% higher due to higher costs of arbitration. Costs of maintenance services (12% share) were 35% lower due to the partial transfer of the IT function to subsidiaries. Lower service costs were also caused by the transition to IFRS 16 - Leases, which led to lower rental costs and higher depreciation costs by 1%. Material costs were 26% higher compared to 2018 due to higher costs of professional literature (e-access), which represented a 78% share in the material cost structure. Other operating expenses were significantly higher than realised in the previous year due to reactive power costs of EUR 1 million (change in posting: in 2019, these costs are included in other operating expenses, in 2018, they were posted in costs of sold goods) and because of higher court costs. Operating profit or loss was 26% higher and EBITDA was 25% higher due to increased trading activities.

VALUE ADDED/EMPLOYEE IN EUR THOUSAND AND AVERAGE NUMBER OF EMPLOYEES

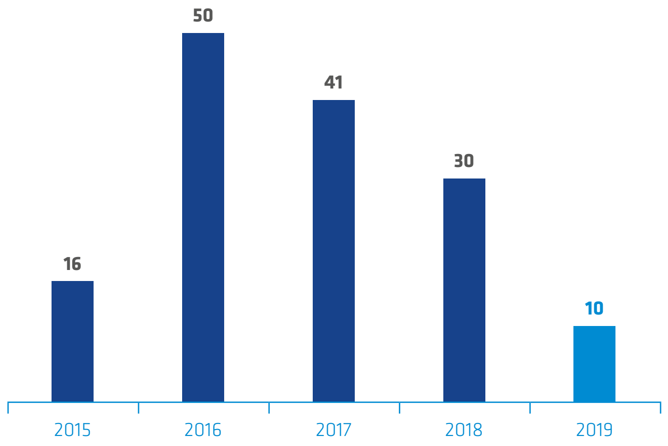


OPERATING EXPENSES (EXCLUDING COST) IN EUR MILLION

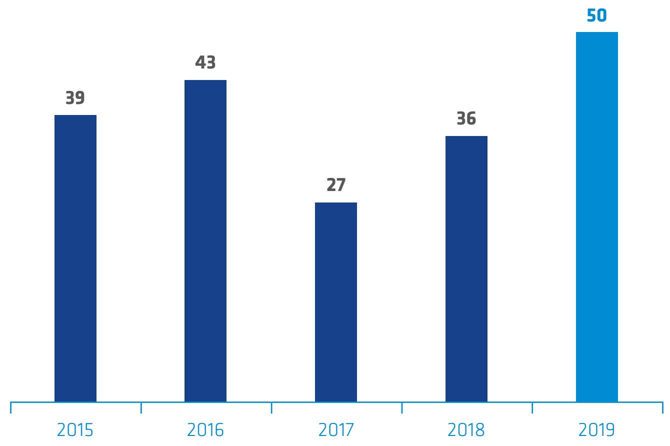


Financial performance was positive in 2019 for the first time in the last five years. Due to lower financial revenues from shareholdings in companies' profits, financial revenues were 54% lower. Financial expenses, however, were lower by 83% because an impairment of long-term investment of EUR 56,721,354 was recognised in 2018. In 2019, we successfully implemented refinancing (more in the analysis of the statement of financial position), resulting in 7% lower financial expenses.

FINANCIAL REVENUE FROM COMPANY SHARES IN EUR MILLION



NET PROFIT OR LOSS EXCLUDING EXTRAORDINARY EVENTS IN EUR MILLION

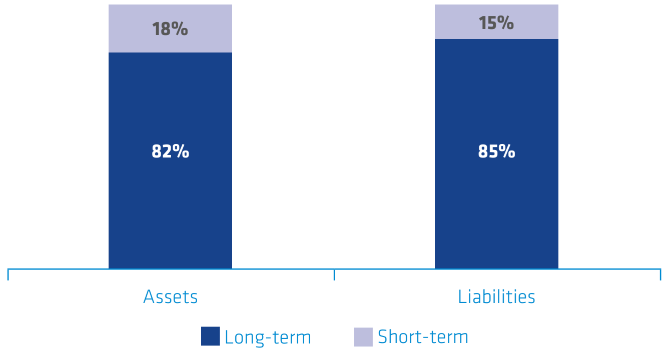


In 2019, we operated successfully, achieved a better EBITDA, a positive financial outcome and operated with a net profit of EUR 60,117,717, which is the best net result in the last five years, even if we eliminate the impact of emergencies (impairments in past years and income from shares in profits of companies).

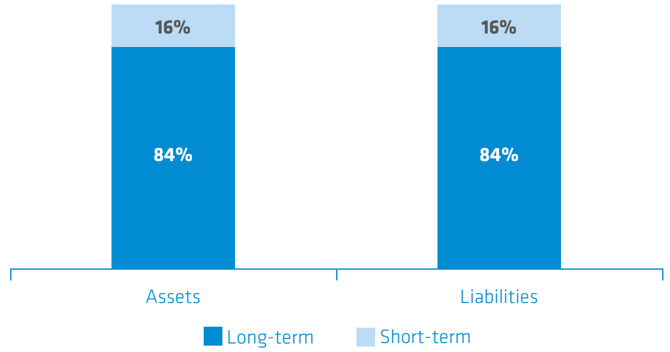
2.6.2.3 Analysis of financial position statement of the HSE Company

ASSET GROWTH, HIGHER SHARE OF LONG-TERM ASSETS AND FAVOURABLE CAPITAL STRUCTURE

STRUCTURE OF FINANCIAL POSITION OF THE HSE COMPANY AS AT 31 DECEMBER 2018



STRUCTURE OF FINANCIAL POSITION OF THE HSE COMPANY AS AT 31 DECEMBER 2019

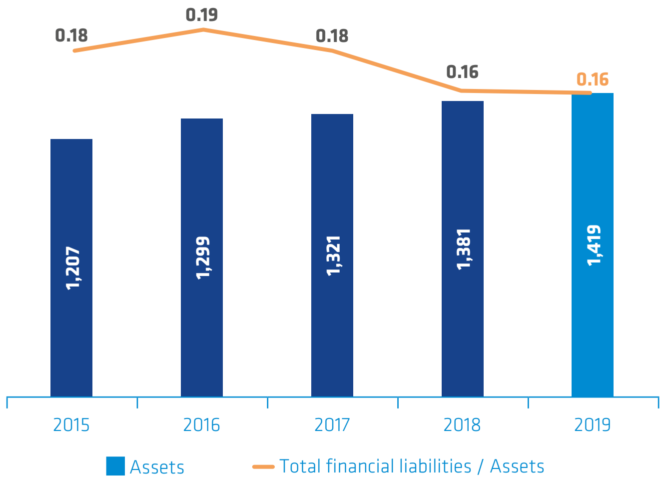


The structure of financial position remains favourable. Compared to the situation at the end of the previous year, the share of long-term assets in assets increased by 2 percentage points due to the higher position of long-term investments and long-term loans to companies in the group. Due to higher long-term assets, HSE's assets are higher by 3% at the end of 2019 compared to the situation at the end of December 2018. We fully cover all long-term liabilities with long-term assets.

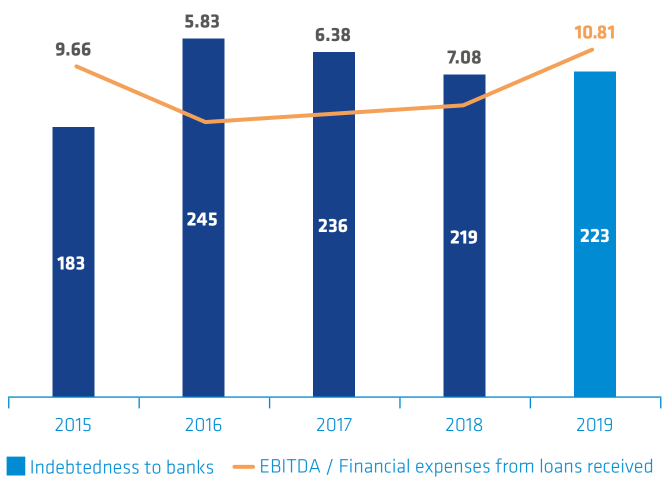
Regarding long-term assets, we are showing intangible assets higher by 29% due to higher stock of CO_2 emission coupons (higher prices), property, plant and equipment where assets are lower by 1% due to low investments, the right to use the leased assets under long-term leases, long-term investments in subsidiaries representing a 69% share, other long-term investments and loans (10% share) and long-term trade liabilities where financial coverage is provided for the purposes of electricity trading. Long-term investments in subsidiaries are higher by 3% since the conversion of long-term loans was carried out in December 2019, including the long-term financial investment of TEŠ (EUR 31,996,818). In 2019, HSE Company bought a 25% share in HSE Invest, which is 100% owned by HSE Group. In 2019, HSE Adria - in liquidation was finally liquidated. Other long-term financial investments and loans include shares in other companies where there is no change (15.4% share in associate HESS, 25% share in Soenergetika and 12.13% share in Stelkom), and long-term loans to subsidiaries that are in view of the past year 2018 higher by 17%. In 2019, the HSE Company also provided liquid assets to the subsidiary TEŠ – loans in the long term, which are higher by 4% due to interest (EUR 90,076,126 of principal plus interest). At the end of 2019, a long-term loan contract between HSE and PV of EUR 15,000,000 was concluded to provide PV group liquidity and a long-term loan agreement between HSE and HSE EDT of EUR 800,000 (the drawn-out part as of 31 December 2019 of EUR 433,500 is posted in long-term loans). A portion of long-term loans that fall due within one year is posted in short-term financial liabilities. Short-term financial investments are higher by 119%. The main part is the short-term portion of long-term loans.

Short-term assets are lower by 7% mainly due to lower cash (the change in cash is reflected in the cash flow statement in the accounting part of the HSE Company report). Short-term trade receivables (68% of short-term assets) were 15% higher due to higher turnover. Among other short-term assets, short-term trade liabilities from national and other institutions represent the main part. Compared to the situation at the end of the previous year, they are lower by 3% due to lower deferred dependent electricity costs. Contract assets represent short-term revenue not yet charged.

ASSETS IN EUR MILLION



INDEBTEDNESS TO BANKS IN EUR MILLION

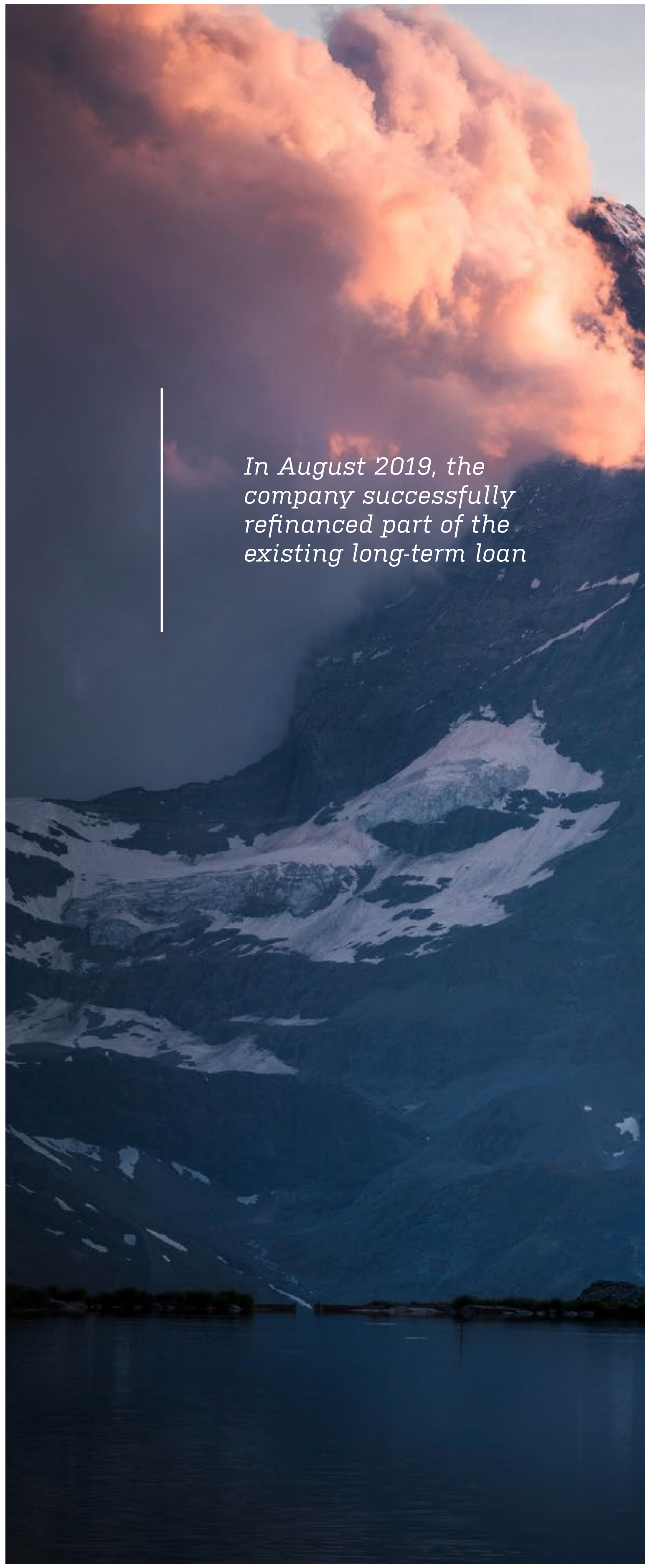


In the structure of liabilities to asset resources, the highest share was capital (69%). Capital increased by net profit of the current year (EUR 60,117,717) and was negatively affected by the risk hedging reserve, which was lower by EUR 55,140,078 due to the closure of contracts for the purchase of CO_2 emission coupons. Provisions for severance payments and jubilee prizes were 26% higher due to higher provisions for severance payments at retirement as a result of higher average number of employees. Other provisions refer to the provision for lawsuit. The increase of 7% refers to accrued interest. Group's other long-term liabilities include also co-financing assets received in connection with the European project Osmose. Due to the spent European funds (generated costs of this project), they are lower by 33%.

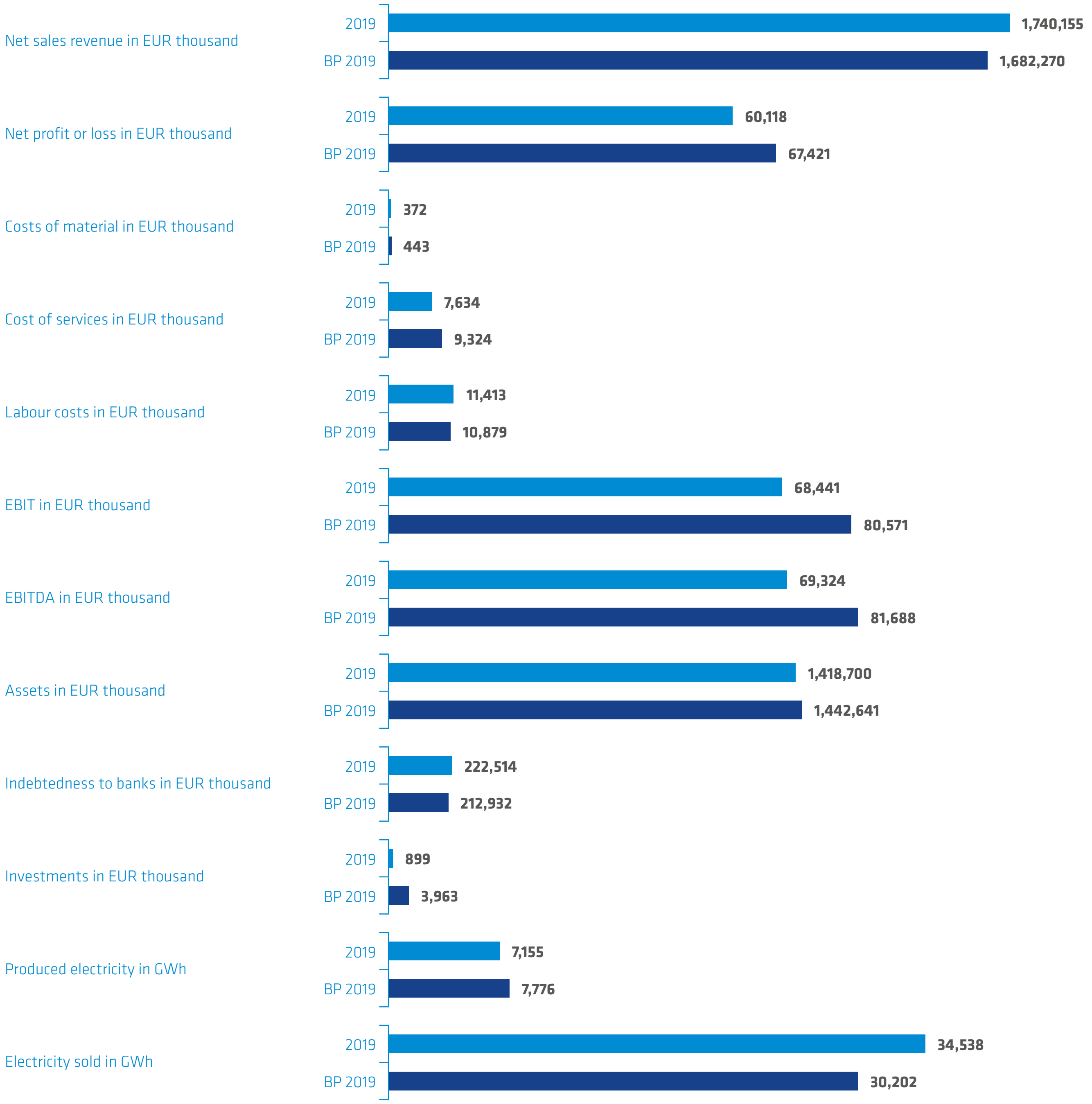
REFINANCING

In August 2019, the company successfully refinanced part of the existing long-term loan, amounting to EUR 160,000,000 fixed long-term loan with a maturity of 7 years and EUR 50,000,000 in a long-term revolving loan with a maturity of 3 years. Revolving loans were not drawn at the end of 2019. Total indebtedness is 2% higher compared to December 2018, namely loans to banks are higher by 1% and total indebtedness was also increased by financial liabilities from leases in the amount of EUR 1,135,522, which are higher due to the transition to IFRS 16 - Leases. Higher financial liabilities and lower cash make net indebtedness higher. As of 31 December 2019, the company fully complies with the financial commitments under long-term loan agreements.

Short-term liabilities are higher by 6% mainly due to higher short-term trade liabilities to suppliers, which are higher due to higher turnover. Among other short-term trade liabilities, the main part is posted as forward-accounted expenses.



2.6.2.4 Comparison of 2019 operations with the 2019 plan



Realized EBITDA and net profit or loss did not achieve the planned outcome due to lower production in hydroelectric power plants and thermal power plants and, consequently, lower sales of own production. Nevertheless, the HSE Company managed to increase sales activities and successfully compensate for the outage of already sold electricity production. Net sales revenue was higher than planned due to higher sales volumes of electricity on the foreign market. Due to the above-planned value of the trading result, individual and work performance were accounted for, and therefore labour costs are above planned. The cost of materials is below the plan due to lower e-access costs. Due to the delay in arbitration proceedings, the cost of services is also lower. The company's assets are lower than planned due to an unplanned impairment of the long-term financial investment in TEŠ in 2018. Indebtedness to banks is higher due to the refinancing carried out. Among the investments according to the plan, the implementation of the single software solutions SAP and DMS BC in the PV group, which has been transferred to 2020, is standing out.

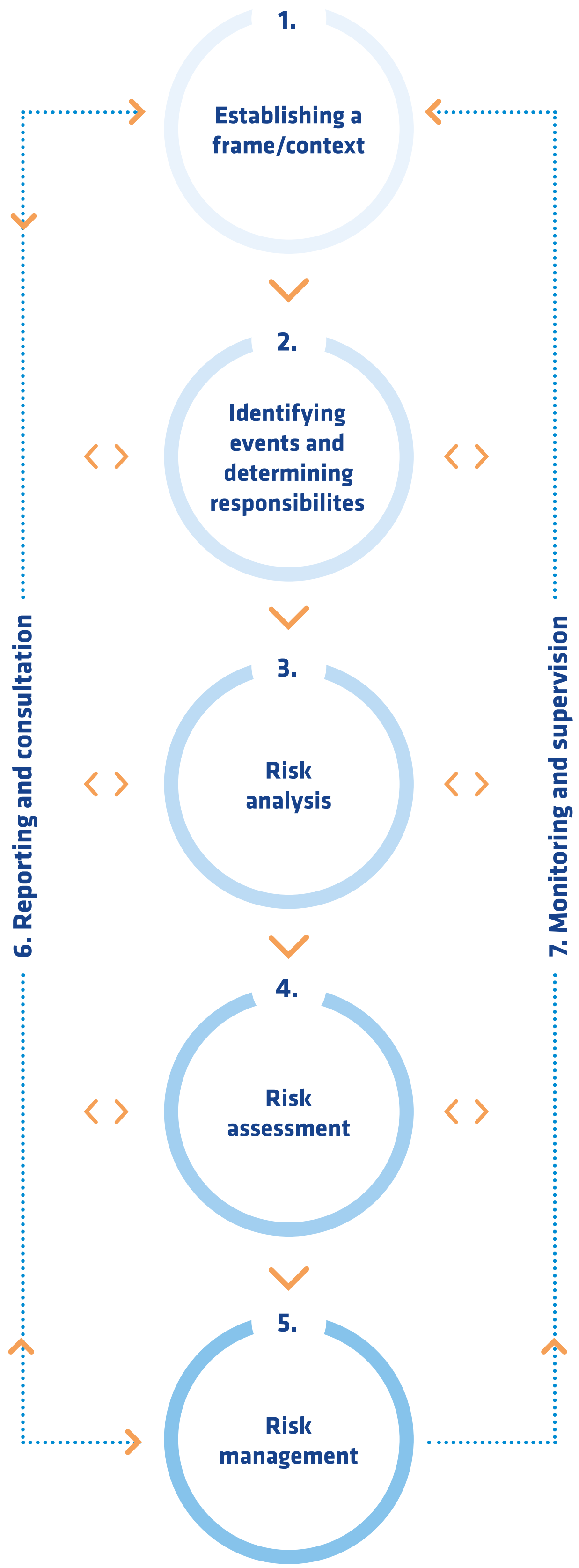
2.7 Risk management of the HSE Group

Risk management of the HSE Group has been based on the centralised risk management at the level of the entire HSE 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, and establish a way 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.

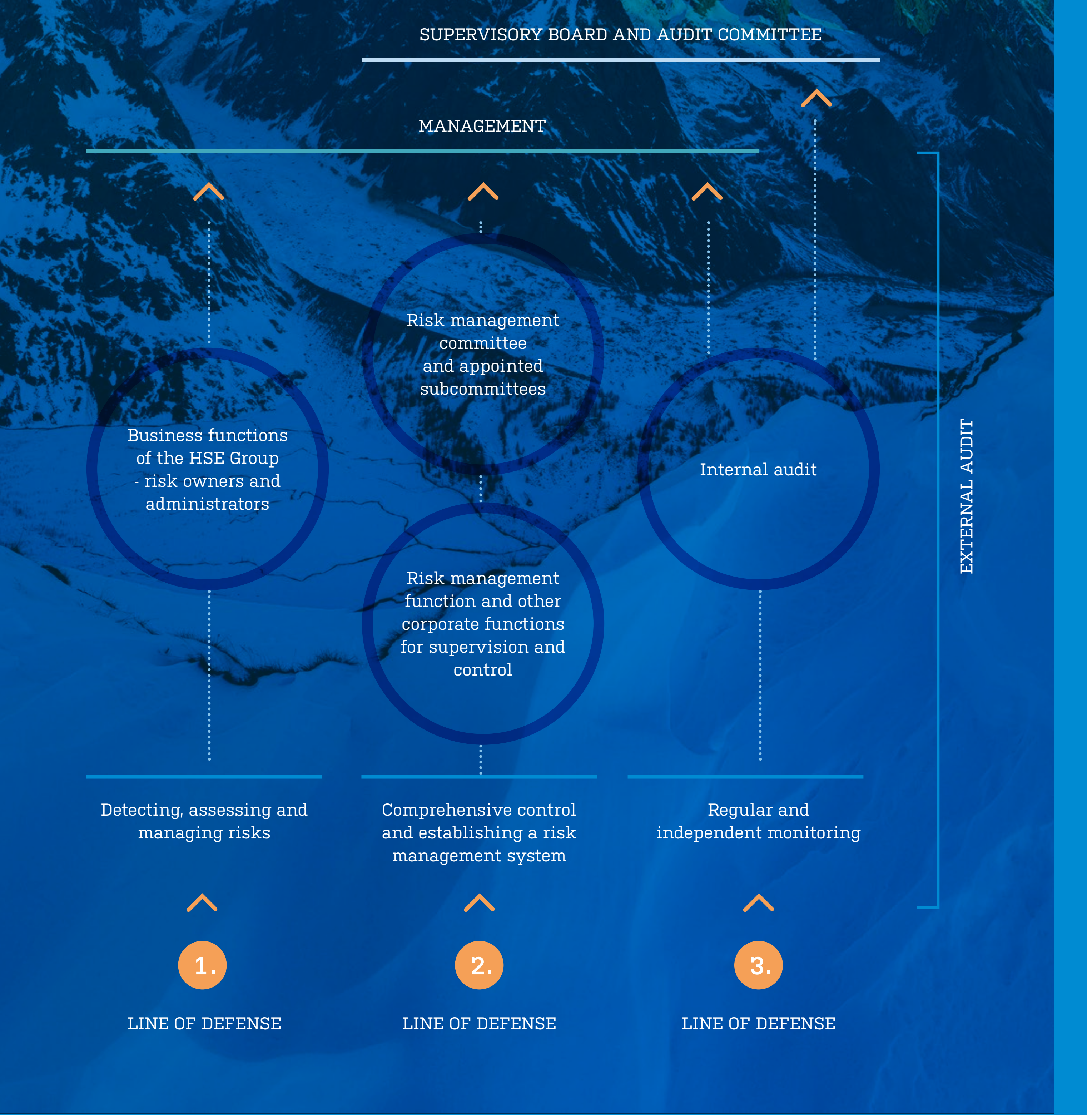
The key objective of risk management of the HSE Group is a proactive risk control that has an impact on the achievement of the objectives, determined in the strategic and business plans of individual companies and/or the HSE Group as a unit. Among others it includes also the ability to:

- 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



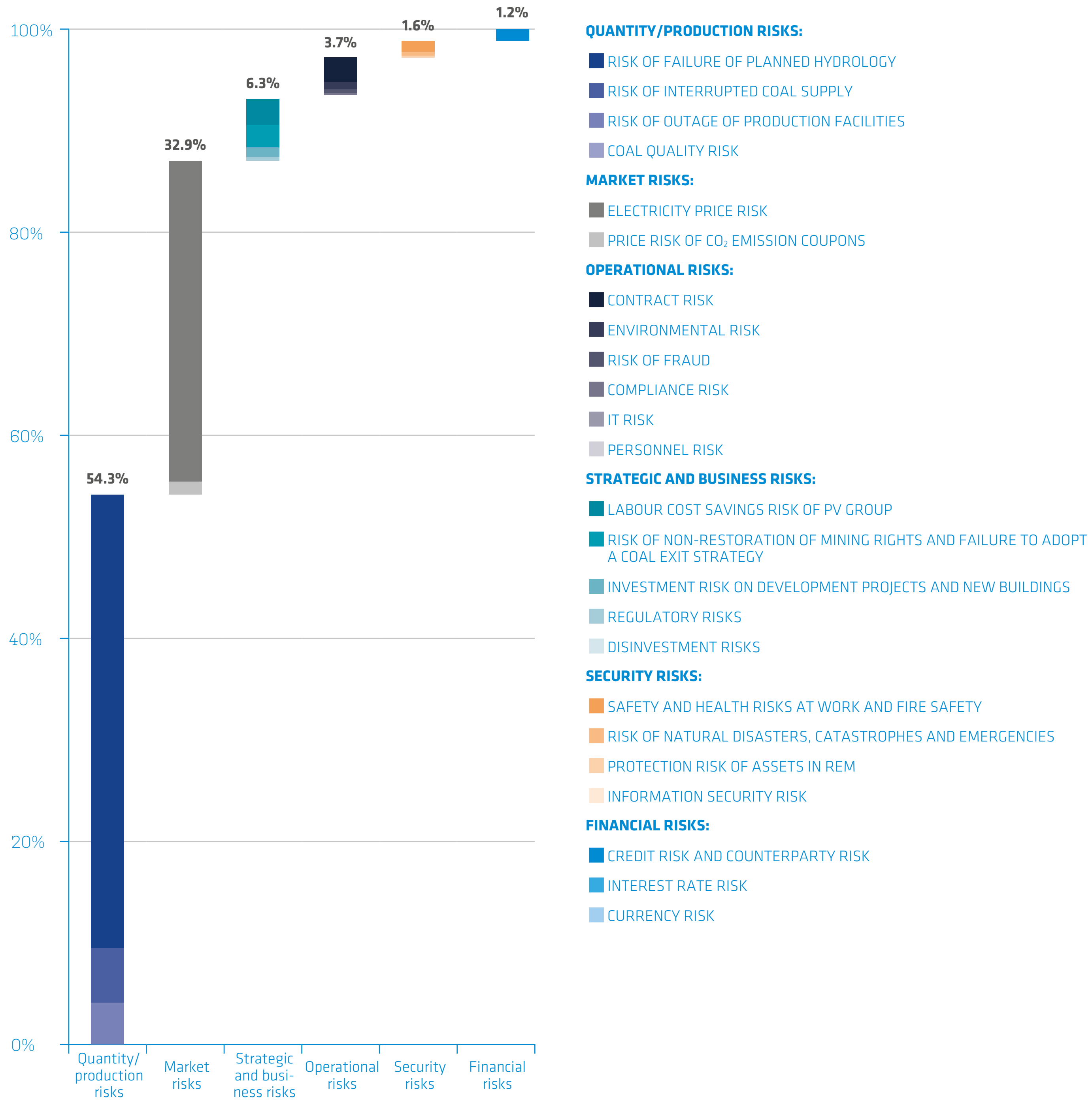
ORGANISATION OF RISK MANAGEMENT IN THE HSE GROUP

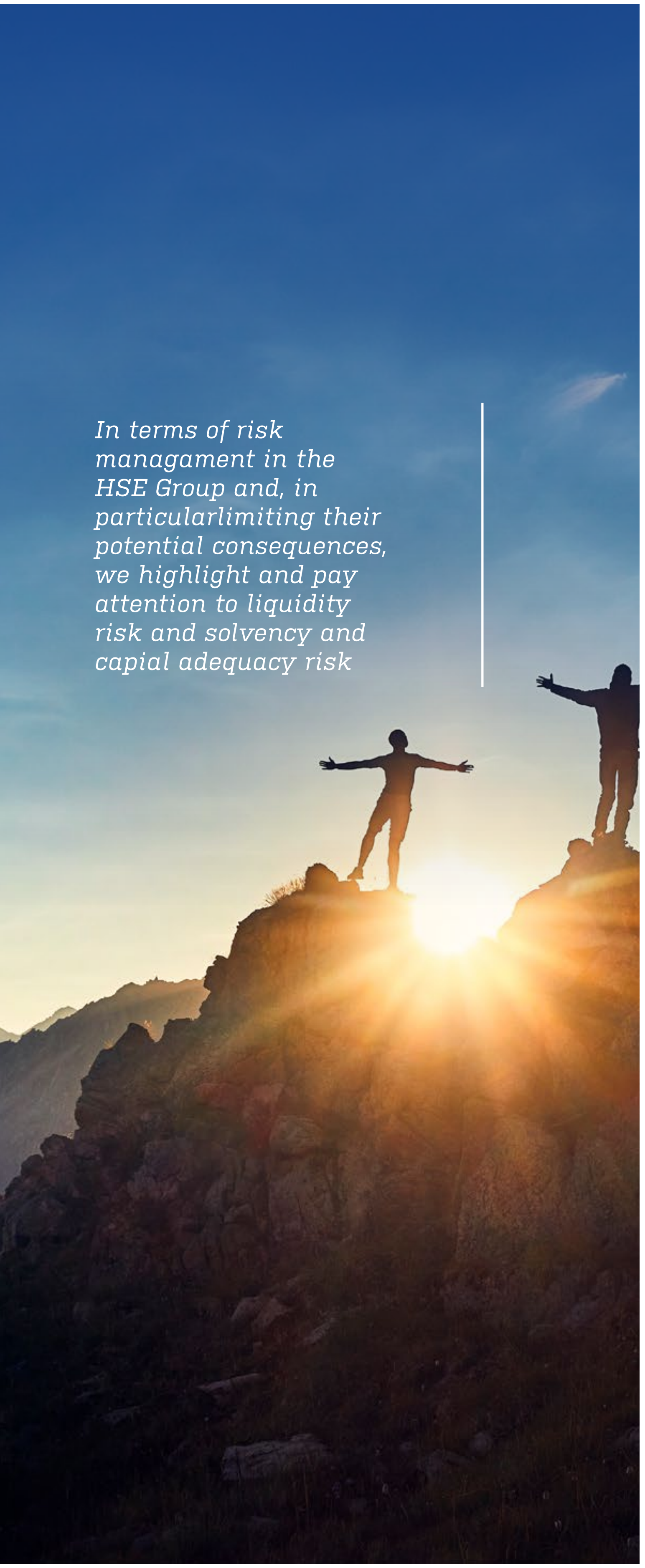


The established system of managing key risks enables the identification and recognition of negative trends and timely taking of adequate measures for risk control at the level of an individual company and the HSE Group as a unit. The HSE Group aims at constant upgrading of the risk management system 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.

At group level, we annually assess the risk profile of each company or HSE Group, which tells us what the contribution of each key risk is at the level of the total exposure in the business of each company or group as a unit. Risks shall be monitored regularly on the basis of objective indicators and, where this is not possible, on the basis of expert assessments. Individual risk exposure assessments reflect the risk management measures already in place.

ANNUAL RISK PROFILE OF THE HSE GROUP





In terms of risk managament in the HSE Group and, in particularlimiting their potential consequences, we highlight and pay attention to liquidity risk and solvency and capital adequacy risk

KEY RISKS OF THE HSE GROUP

As shown in the picture above, we combine risks into six categories, depending on the nature of the risks. Below, we summarize the risks or opportunities by category, which, according to the internal valuation methodology, may have the greatest potential impact on the planned EBITDA of the HSE Group in the future operating period.

In terms of risk management in the HSE Group and, in particular, limiting their potential consequences, we highlight and pay attention to two risks which are not particularly exposed in the risk profile due to their dependence on other risks. Liquidity risk in the framework of financial risks 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. As the liquidity risk is a common denominator to other risks, the control of this risk is a difficult, but a very important task that cannot be carried out individually, but 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.

Another risk to which particular attention is paid is the solvency and capital adequacy risk. 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.

2.7.1 Quantity/production risks

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.

We manage risks both at the level of individual subsidiaries and at the HSE parent company. The risks of production facilities are controlled on the basis of long-lasting 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). Our production units have modern monitoring systems in place, with which we regularly monitor the condition of key components, allowing us to quickly detect mechanical and electrical breakdowns on equipment. This way, we reduce the chances of realization of unplanned congestion or outages of production units.

Unification, optimization and modernisation of production unit maintenance strategies and approaches was further supported in 2019 by the implementation of the joint maintenance support information system - SAP PM (EAM). The integration of processes within the SAP system enables a unified inspection and more appropriate response to device management, thereby managing unplanned events in the field of production unit maintenance more efficiently. In 2019, we successfully managed production outages mainly by carrying out inspections and repairs and by replacing production from available units in the HSE Group. Additional measures in 2019 contribute to more efficient risk management in the field of management of production units and contribute to reducing HSE Group's exposure to these risks.

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. A major role in this is played by the Control Centre, which received a software and hardware upgrade in 2019. The upgrade has also improved cyber security and enabled the continued safe and reliable operation of our power plants.

We are introducing digitalization

to increase the reliability of operation of our production units and cyber security

The key factor of quantity/production risks is hydrology, which is controlled by production planning based on several annual average flows and the predicted probability of occurrence of hydrology. In 2019, the frequency of producing a hydrology estimate has been upgraded to a monthly level, based on the latest available meteorological data. The resulting production deviations are mainly controlled in the next step by redistribution of production in the HSE Group and electricity trading. Due to the importance of the impact of this risk, we are also working on projects to produce more accurate hydrological models on individual basins that will further improve the short and long-term hydrology assessments. Exposure to these risks remains at a similar level to the previous year, and from the perspective of the share in the overall risk profile of the HSE Group, these risks currently represent the highest risks of the HSE Group.

The risk of failure of planned quantities of coal from PV may be due to external factors such as pillar bursts, stoppings, water and gas leakage, i.e. factors not affected by PV and internal factors such as operational reliability depending on the condition of machinery and devices that are exposed to demanding conditions in the coal mine. We managed the risks in 2019 through the preparation of long-term excavation plans, monitoring and maintaining the appropriate strategic quantity of coal landfill stocks, equipment replacement measures, continuous maintenance of equipment and control over operations, optimising material costs for construction of excavation lines and in case of difficulties with the introduction of additional working days to compensate for the lost production. The risk is very important for the HSE Group as it also affects production in TEŠ.

2.7.2 Market risks

In its operations, the HSE Group is highly exposed to risks arising from fluctuations in electricity prices in the region and CO_2 emission coupons, as well as indirectly to fluctuations in the prices of the energy source group (coal, gas and oil), which constitute a key influencing factor on the trend electricity prices. Price risks are managed at the level of the HSE Group in the context of the activity of the parent company HSE. In addition to the trend and volatility of prices, the difference between the amount of electricity purchased and sold at a certain point of supply in the future, the so-called open position, and the correlation between the price trends between the individual markets where HSE carries out individual purchases and sales are also important factors.

As in previous years, the trend of increased volatility on the day-ahead markets continued in 2019, driven by the increasing presence of renewable sources in Europe's energy systems. A similar picture was shown by the long-term product market, where energy prices were key factors and where liquefied natural gas (LNG) played an important role in 2019, and in the political dimension the processes and uncertainties brought by BREXIT and trade war between the U.S. and China.

Due to the increased share of own production sales hedging against price risks, the exposure of the HSE Group's portfolio to price risks decreased in 2019.

Market risks in the sales segment of own production, which represents the largest and most important segment of the HSE Group's operations, were managed in 2019 in line with the set strategy of selling our own production and purchasing CO_2 emission coupons for the needs of our own production. In 2019, on the basis of market analyses, we dynamically adjusted the pace of implementation of the strategy, thereby successfully managing the price fluctuations that occurred on the electricity market and on the CO_2 emission coupons market in 2019. In the field of sale of hydro production, great emphasis in 2019 was placed mostly on the control of great market price dynamics during the year and the simultaneous intensive dynamics of the sale of quantities produced by hydro power plants at monthly levels when compared to the planned values.

In 2019, the trend of negative deviations in production quantities continued during the months, during which statistically as a rule, there was more rainfall. From the perspective of the risk profile of the HSE Group, the risks of own-production sales also represent the biggest shift relative to 2018, downgraded compared to 2018 due to a higher percentage of the year-ahead own-production price lock.

In the electricity trading segment, we managed market risks based on the set and limitation of the above values of parameters that we have been monitoring for this purpose in recent years. Having the key parameter VaR (5-day VaR with 95% confidence interval, "Value at Risk") also follows the venture capital parameter, and in addition we have protected the already achieved added value of the portfolio based on the moving profit loss limit parameter. We manage risks by actively managing portfolio positions to ensure that parameter values are within limits. Exposure to these risks remained at a similar level compared to 2018, but with the additional measures described, we are more effective and achieve higher added value.

The process of monitoring market risks is subject to continuous improvements and adjustments to new market conditions and at the same time to the new possibilities of implementing price protection offered by the market through its development. In this respect, the effectiveness of the implementation of the risk management system is constantly monitored and upgraded.

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

2.7.3 Strategic and business risks

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.

In order to manage the solvency and capital adequacy risks of individual HSE companies, the solvency indicators under the Financial Operations, Insolvency Proceedings, and Compulsory Dissolution Act shall be regularly monitored at HSE Group level and appropriate corrective measures taken in a timely manner. 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. For more information on the solvency and capital adequacy measures of the companies of the HSE Group, see the financial report of the HSE Company and Group.

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. In 2019, we have actively responded in public hearings related to changes in sectoral legislation, at the level of laws, by-laws and strategies with the aim of co-forming an appropriate regulatory environment for the operations of the HSE Group.

In 2019, as part of regulatory risk management measures, we continued activities to extend the PV Concession Contract - amendment of the Mining Act (ZRud), as well as activities to adopt the national coal abandonment strategy and the action plan for the restructuring of the Šaleška dolina region. Both documents will be ready by the end of 2020 and will determine, from the perspective of the HSE Group, the most appropriate year of abandoning coal and arrange funding for "closing works," including commitments from the concession-granting authority.

Both already taken and future decisions by government and non-governmental institutions in the field of closing production facilities using conventional sources also affect the costs associated with the extraction of lignite in PV. In this area, because of increased costs throughout the production chain from conventional sources and ensuring an adequate level of competitiveness of the energy source, both a proactive policy of reducing the cost of materials and services and a proactive cooperation with social partners are essential to reduce labor costs effectively, gradually and permanently. In 2019, both PV and HSE set very important and ambitious goals for the future period, which will ensure a satisfactory level of competitiveness of the HSE Group in the whole chain of supply of electricity from a conventional energy source.

The HSE Group regularly maintains and invests in highly technologically demanding and interrelated production facilities. In order to effectively manage the funds allocated for this purpose, in 2019 we started establishing appropriate uniform acts at the level of the HSE Group, on the basis of which the risks related to construction, investment maintenance and other investments in improving the business will be effectively monitored and unifiedly managed by individual groups of investments, especially in view of the increase in costs and delays that may occur.

2.7.4 Operational risks

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.

Compared to 2018, we reduced our exposure to contractual risks by successfully completing the refinancing of part of HSE's existing long-term debt in 2019 and attained a mitigation of certain commitments compared to the previous loan, thereby reducing the risk of early termination of the loan or additional costs associated with obtaining waivers.

€

By

refinancing financial obligations

in 2019 we successfully reduced our exposure to contract risk.

Environmental risks are associated with identified environmental aspects resulting from the implementation of the activities of individual companies of the HSE Group in the field of raw materials extraction and energy conversion. The HSE Group is aware that in taking advantage of business effects negative impacts such as emissions into the air, emissions of substances into water and soil, electromagnetic and ionising radiation, environmental noise, degradation and usurpation of space, environmental odors, and effects in the formation and management of waste occur. The HSE Group strictly follows the established environmental policy that defines important objectives in the field of environmental management system and also the key guidelines of implementing measures for the environmental management control (a detailed description is given in the section Sustainable development of the HSE Group). We managed the risks successfully in 2019.

We have improved IT risk management in 2019 by unifying and consolidating the IT field, upgrading the ERP SAP EHP8 source planning system, adding new functionality with the SAP PM maintenance module, and upgrading the eDMS document system. These measures have improved strategic management and risk management at group level, achieved a higher level of system performance and increased the level of automation and operation of internal controls. In the field of ensuring the functioning of ICT systems and business solutions, we fully transferred information solutions to a single platform based on two data centers (Šoštanj and Maribor) in 2019, thereby reducing risks while increasing capacity and reliability and security of the operation of HSE Group information systems.

This risk category includes personnel risks (mainly from the point of view of the leaving of some key employees as a consequence of the implementation of reorganisation processes in some companies of the HSE Group), fraud risks and compliance risks. These risks in 2019 did not detect significant changes in exposure compared to 2018 and were successfully managed.

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. These risks are successfully controlled by establishing and regular upgrading of 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. We provide safe working environment to our employees and external providers. For all of the job positions and technologies, we monitor the risks for the occurrence of accidents and health damage. 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. Emergency preparedness is increased by conducting various training courses and exercises. In 2019, the HSE Group organised and conducted over 80 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, coal mine rescue team exercices, etc.).

Information security risks are controlled at several levels by using different technological solutions (upgrade of the information system), carrying out procedures in scope of standard ISO 27001 (security policy and information security organization) 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. In 2019, we conducted a comprehensive review of the existing information security situation in the HSE Group for the purposes of planning, decision-making and upgrading of risk management in this area. In order to prevent risks, connected with cyber security in recent years, the HSE Group has approached the study for the establishment of the joint Security Operating Centre (SOC) of the HSE Group, which is indirectly provided for in the Information Security Act (ZinFV, OJ No. 30/2018) regarding the implementation of obligations to protect own information infrastructure. The aim of the introduction of local SOC within the HSE Group is to provide an efficient, advanced and intelligent security system that will respond effectively to security events and ensure full automation of information security and cyber processes.

Risks of asset protection are controlled by property insurance and establishing/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.

In 2019, the HSE Group organised and conducted over

80 exercises/ training courses

from the field of health and safety at work and fire safety

2.7.6 Financial risks

Liquidity is defined as accurate monitoring and planning of daily, monthly and annual cash flows at the level of the Company and at the consolidated level 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. In order to properly manage the liquidity risk, we also had sufficient levels of credit lines in the form of revolving loans at commercial banks in 2019.

The HSE Group operates to a greater extent in the **domestic currency of EUR** and therefore is exposed to the exchange rate risk only to a lesser extent.

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 the 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.

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. Given the strategy for managing interest risk and taking into account market forecasts regarding interest rate movements in 2019, there were no grounds after shielding against interest rate rises, so we did not conclude IRS contracts.

The HSE Group operates to a greater extent in the domestic currency of EUR and therefore is exposed to the exchange rate risk only to a lesser extent. In the case of the purchase of electricity in foreign currency, however, we enter into foreign currency forwards (FX Forward) to limit the risk.

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).

2.7.7 Influence of COVID-19 coronavirus on HSE Group operations

As early as 24 February 2020, the HSE Group immediately began preparing and setting up preventive measures to ensure the continued production and sale of electrical and thermal energy, with the first announcement that the COVID-19 epidemic had largely started in the immediate vicinity of Slovenia - Italy.

As a result, gradually and in line with the current situation in the country, we have started implementing measures in accordance with the business continuity plan and with the aim of securing the assets of the HSE Group. Given the current situation, the company started with a timely and appropriate implementation of measures and with limiting the possible consequences, as the business is running smoothly for the time being. Below, we give an assessment of the impact of the epidemic or measures to slow the epidemic on the business and results of the HSE Group by area.

2.7.7.1 Price risks

In line with the deteriorating health situation in China in January as well as in Europe in February and March 2020, we witnessed a gradual breakdown of a greater part of social and economic activities, with the exception of urgent services, followed by the prices of energy products – oil, gas, coal, as well as electricity and CO_2 emission coupons prices. From the point of view of the HSE Group, the decline in electricity prices mainly has an impact on the added value of the renewable sources production of our hydroelectric power plants, while the price ratios have not changed significantly from the standpoint of thermo production. The difference between electricity prices and CO_2 emission coupons is maintained. In the field of sales of its own production for 2020, the HSE Group has sold practically the entire volume of planned production, so we have already limited to a greater extent the impact of the absolute drop in electricity prices on hydro production added value, and some of it still depends on potential changes in the price ratio for the supply of electricity day and night, which is not insured. 66% of hydro production in 2021, 15% in 2022 and 4% in 2023 are already secured. However, from the point of view of trading activities which are not related to the sale of own production, the fall in prices on correctly placed market positions does not have a negative impact on the added value of the HSE Group and will not have it in view of current positions.

2.7.7.2 Credit risks

As a result of the current situation, we can also expect an increasing incidence of late payment of invoices within the contractual deadlines of our partners (in particular partial payments or late payments) to a certain extent. Such problems are expected mainly for partners who are also heavily involved in the distribution of electricity to final consumers, and for partners who are themselves end-users (large consumers of electricity). We have the largest share of partners belonging to such a group mainly in Slovenia and, due to the current situation, we also monitor them more closely. In this context, we are currently monitoring the implementation of all EU countries' crisis measures to mitigate the consequences of the pandemic and its impact on the economy. At the moment, most countries have already approached the rescuing of the economy (including, inter alia, the resolving of corporate liquidity problems), thus the initially expected effects of the pandemic will not be reflected in such a large scale (depending on the duration of the crisis situation), which is already reflected in the stock markets. We regularly monitor their exposure, payment habits and perform contractual payment netting with all partners, and we have appropriate insurances for key partners that could be cashed in, if necessary, in case of potential defaults or late payments. Also, if we find that current insurance for certain partners would not be sufficient or appropriate to the amount of transactions and the situation, we will approach individual partners with a claim for additional insurance.

2.7.7.3 Quantity/production risks

The impact on production under emergency conditions is not expected within a shorter period of time, but if the situation lasted for a longer period, the consequences could also be felt in this area. In the field of production, we are currently implementing all measures in accordance with emergency plans and instructions from state institutions. The consequences of the situation related to the deviation of actual production from the planned one could be mainly due to the lack of input materials and raw materials (mainly the thermal part of production), the inability to provide external services related to production (overhauls, emergency maintenance works, etc.) and as the consequence of other risks (e.g. increased levels of sick leaves of key personnel, failure to make urgent investments, restriction of people in workspaces, etc.). All risks are currently managed by the implementation of additional measures, but should there be a tightening of the situation (prolongation of the emergency situation, fall of sales prices below the threshold price of production, failure of part of the planned production, etc.), depending on the estimated consequences of individual scenarios, we are also preparing appropriate additional measures (for example, if prices on electricity markets fall below the limit prices of each part of production, we will begin with a gradual restriction of production throughout the production chain; in the thermal part this means both in PV and in TEŠ).

2.7.7.4 Other risks

From the perspective of other risks, we also highlight the regulation-related risks, as due to the extensive allocation of funds for the purpose of urgent economic measures at EU level, a partial delay in the implementation of the European Green Deal and the implementation of the Fair Transition Fund may also be expected, which would result in affect the delay in the implementation of fair transition measures at national levels. As a result of the above, it is possible to expect a delay in the preparation of the regulatory framework for the exit from coal (strategy, action plans, law), which could lead to a delay in the possibility of drawing funds to finance a fair transition for the needs of the gradual closure of PV and coal Units of TEŠ.

2.7.7.5 Liquidity of the HSE Group

In the short term, the liquidity of the HSE Group was most affected by the fall in prices on electricity and related products markets, which was successfully neutralised by the appropriate ratio of purchase and sales positions in these markets and by the drawing of revolving loans concluded for this purpose at commercial banks. To further reduce the liquidity risk, we will gain the necessary approvals for additional indebtedness in April and provide adequate credit lines with banks. This way, we will be able to provide the appropriate liquidity reserve necessary in the operations of the HSE Group in crisis situations.

The described consequences of the COVID-19 epidemic in the HSE Group will be the most visible at the parent company HSE, as it limits the risks of subsidiaries linked to both prices and electricity generation outages by contractual relationships. Nevertheless, we believe that if the situation is normalized within two months, the consequences of the epidemic do not represent a significant impact either on the company's operations or on the operations of HSE subsidiaries. However, if the emergency period lasted for a long period of time, the consequences described could also be expressed in PV, which represents the first link in the thermal production chain and could affect both the liquidity and solvency of the company. This would in turn activate the implementation of liquidity and solvency measures (short-term loans, maturity extentions, advances, etc.) and cost-effectiveness (reduction of costs of materials, services, labour, CAPEX). Among the other HSE subsidiaries, which are also linked to revenues outside the HSE Group, the consequences of the situation will be felt mainly by RGP and HSE Invest. However, in the light of the current estimates, we believe that the impacts will not be critical for the continued operations of the aforementioned companies or the HSE Group and will be controlled mainly in the context of liquidity management measures both at the company level and at the level of the HSE Group.

2.8 Development strategy of the HSE Group

The development of the HSE Group is set out in the HSE Group and Company business plan for 2020-2022 and in the Development Plan of the HSE Group and Company 2020-2024 with a view to 2030.

We have carried out a comprehensive restructuring of the HSE Group, improved credit rating, established appropriate relationships with banks and a sustainable structure of funding sources. We have provided the conditions for setting ambitious strategic objectives with a focus on strengthening production, research and development, investment, as well as sales, trading and development of new products or services to raise the competitive capacity, growth and development of the HSE Group.

2.8.1 Business policy of the HSE Group

MISSION

The HSE Group is the largest Slovenian producer and seller of electricity from its own, domestic sources.

We strive for safe, reliable, competitive and profitable generation of electricity, which we, with experienced and committed employees, carry out effectively and responsibly towards the environment in which we operate.

VISION

We will remain the leading national producer and seller of electricity and a key pillar of self-sufficiency and sustainable energy transition in Slovenia.

Our efforts will focus on growing electricity from renewable sources and expanding the content, scale and profitability of the business.

By monitoring trends in the business, market and technological environment, we will seek the best business answers to the upcoming challenges and continue to actively participate in the country's energy orientations.

VALUES

RESPONSIBILITY: We actively participate in the formation of business goals. We are responsible for the realization of goals, for our own development, to our colleagues, business partners, owners and the environment.

EFFICIENCY: We master our business. We optimize processes, simplify procedures. We're doing the right things.

INNOVATION AND CREATIVITY: We are looking for the best solutions. We have the courage to be original and the constant desire for improvement. We look at business challenges from different points of view. We are open-minded and express creativity at work.

POSITIVE ATTITUDE: We tackle tasks with optimism and positive energy. We are passionate. We are confident about our knowledge and abilities.

HONESTY AND CREDIBILITY: We stick to our agreements, we keep our promises. We are trustworthy, sincere, act ethically and transparently.

RESPECT AND COOPERATION: We nurture interpersonal relationships. We are respectful. We believe that together we can be more successful. We see the best in our coworkers, clients, business partners. We understand and respect diversity. We are open and trustworthy.

2.8.2 Environmental and competition analysis

2.8.2.1 Environmental analysis

EXTERNAL ENVIRONMENT

POLITICAL ASPECT
- decarbonisation and accelerated abandonment of coal,
- introduction of capacity mechanisms (emphasis on gas power plants),
- increasing need for regional system services and shortening of the maturity of contracts,
- shortening trading intervals (with 2021 15-minute trading and product portfolio balancing),
- maintaining support schemes after 2020; and
- raising environmental and concession duties.

BUSINESS ASPECT
- growth of use and limited production growth in Slovenia,
- growth in electricity prices and CO_2 emission coupons; and
- integration of markets and additional transmission links in the region of southeastern Europe.

TECHNOLOGICAL AND ENVIRONMENTAL ASPECT
- electrification of transport,
- digitisation of electricity consumption,
- increasing needs for energy storage capacity,
- make use of all available renewable energy sources; and
- raising environmental requirements for the construction of new production facilities.

INTERNAL ENVIRONMENT

ELECTRICITY GENERATION
- coal extraction conditions are becoming more and more demanding, coal reserves are getting smaller; and
- high availability of production capacities of the HSE Group.

SALES OF ELECTRICITY
- long position of the portfolio of the HSE Group in the southeastern European region,
- favourable situation in the area of balancing deviations, well-developed intraday trading; and
- access to the retail market and development of new products and services.

FINANCIAL AREA
- good access to financial markets and banking providers; and
- facing a high ratio of financial debt to EBITDA.

PERSONNEL MANAGEMENT
- high average age of employees, non-existent succession policy and outstanding high proportion of actively indifferent employees.

2.8.2.2 Comparative analysis of competing energy companies' strategies

We reviewed the strategies of energy companies in Europe. We analysed their existing production portfolio, objectives and strategies, and the consistency of their plans and objectives with the national energy policy orientations. After receiving all national energy climate plans from EU Member States, which will define the development of the energy sector until 2030 with a view to 2040, the European Commission will carry out their evaluation by the end of June 2020 and propose further action.

2.8.2.3 Key findings of the review of national energy policies

DECARBONISATION

Accelerated decarbonisation in electricity generation is also increasingly being talked about by state strategies that have a significant share of coal in their portfolio, and support for substantial portfolio change will be provided by gas or nuclear power plants and accelerated deployment of renewable energy sources (RES, mainly solar and wind energy) – Germany (38% coal share, abandonment by 2038), Greece (36% coal share, abandonment by 2028), Spain (22% coal share, abandonment by 2030), Hungary (16% coal share, abandonment by 2030).

COAL

It remains mainly in the energy strategies of those countries that have domestic coal and still receive, to a greater extent, free CO_2 emission coupons for electricity for domestic consumption – mainly non-member countries of the European Union (Bosnia and Herzegovina, North Macedonia, Serbia).

In the group of EU member states that receive free CO_2 emission coupons and have domestic coal, some have already announced an accelerated exit from coal - Slovakia by 2023, the Czech Republic will set an exit date in 2020. Exceptions in this group of countries are Poland (77% share), Bulgaria (48% share) and Romania (19% share), which do not intend to abandon coal in the medium term.

Slovenia, Greece, Hungary are the only countries in the group that no longer receive free CO_2 emission coupons. Both Greece and Hungary have already set an exit date from coal - Greece by 2028, Hungary by 2030.

GAS

Countries that have spent their RES potential in the greater part (hydro) will replace coal sources with gas (Austria, Hungary, Italy, Romania, Spain, Croatia).

2.8.2.4 Overview of energy strategies

2.8.2.5 Competitors in their strategies emphasize

- the importance of managing the whole chain from production to final customer (digitisation of solutions),
- developments in segments not linked to the wholesale market:
  - development of long-term bilateral contracts with the inclusion of measures for end-client processes electrification – carbon footprint reduction/efficient use measures,
  - development of new services in the field of energy efficiency and flexibility, as well as electrification of heating, cooling, e-mobility -> allows for less exposure to the wholesale market – utilising the possibilities of digitisation,
- the key role of optimising the existing production portfolio to ensure cost efficiency, reliability and flexibility,
- establishing a good base in the regulated activity, such as capacity mechanisms, renewable energy source support schemes, distribution, balancing market, ensuring stable, regulated revenue and reducing the risk of a liberalised part of the activity,
- conventional sources (gas) as necessary for the successful transition of the power system towards low-carbon,
- development in the field of renewable energy sources (mainly sun and wind energy due to subsidies), electrification and
- process of finding opportunities and innovation in the field of digitisation, end-customer services and decarbonisation as an integral part of the business.

In most cases, entrepreneurial strategies are aligned with national strategies, thus demonstrating the possible co-operation and support of European countries to national energy companies. Exiting from coal is part of national energy policy in countries where coal is not dominant in the energy mix, but if it will be part of the national energy policy despite a greater share in the energy mix (Germany, Greece, for example), it will be designed systematically, progressively, strategically at the country level.

2.8.3 Strategic policies of the HSE Group

The energy of the HSE Group will focus on three strategic areas, namely:

Existing production capacities

Strategic orientation: to increase cost efficiency and flexibility of existing production portfolio accompanied by a safe and reliable supply and to carry out a fair transition

Due to the limited increase in electricity production at existing locations we will;

- lower our own production price in order to improve competitiveness by
  - reducing fixed costs (labour, investments),
  - reducing variable costs (material, maintenance optimization),
  - reducing our own consumption of electricity at all production facilities including the Velenje Coal Mine and with energy efficiency measures at all the locations of the HSE Group,
- increase portfolio flexibility with the aim to become a leading vendor of all forms of systemic services (also abroad),
- prepare the necessary measures and bases for the implementation of a fair transition in the coal regions.

Development and investments

Strategic orientation: to increase the volume of production and reduce the average production price of the production portfolio

Focus on R&D in order to widen the array of acceptable investment opportunities with a goal to invest in production capacities that would reduce HSE Group's own portfolio price.

For this purpose we will:

- establish a new development process, access to competitive financial resources, European and national grants,
- actively seek investment opportunities, substantively harmonize them with the requirements of the National Energy and Climate Plan (NEPN) and successfully implement the best ones,
- complete the construction of the HPP on the lower Sava River and begin with the construction of the HPP on the middle Sava River and the HPP on the Mura River,
- build gas power plants to cover needs for electricity due to decarbonization and electrification of the society.

Trade and sale of electricity

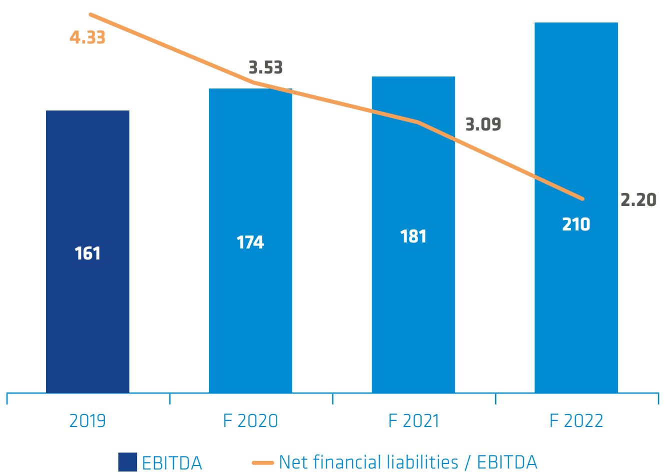
Strategic orientation: to reduce dependence on wholesale market and to increase the added value of the portfolio and the entire hse group with new energy products

The HSE Group will:

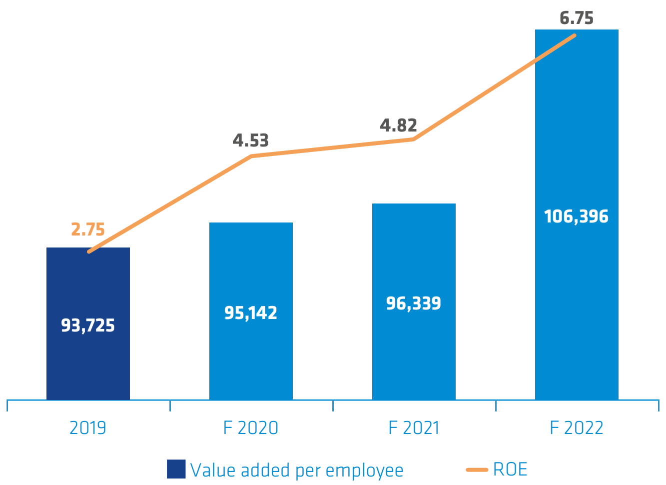
- rapidly reduce its dependencies on the wholesale market (focusing on end customers by concluding long-term supply contracts),
- introduce new products and services in the field of sales and trading to existing customers in the context of synergies of the HSE balance sheet group and to new customers by entering the retail market (including digitalization and energy contracting).

The realisation of the strategic objectives of the HSE Group is largely dependent on two key parameters: electricity prices and CO_2 emission coupons prices. In the calculation of the key strategic indicators of the HSE Group, we used for the not yet sold part of electricity and not yet purchased part of CO_2 emission coupons in the period 2020 - 2022 the closing prices for electricity forward agreements and CO_2 emission coupons as at 30 August 2019.

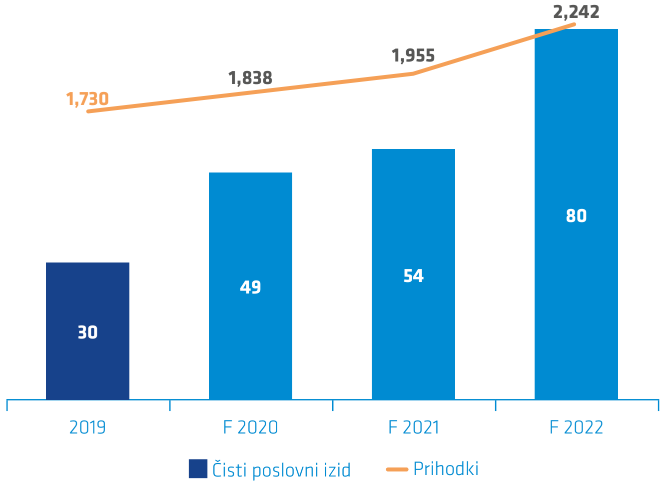
EBITDA IN EUR MILLION AND NET FINANCIAL LIABILITIES/EBITDA



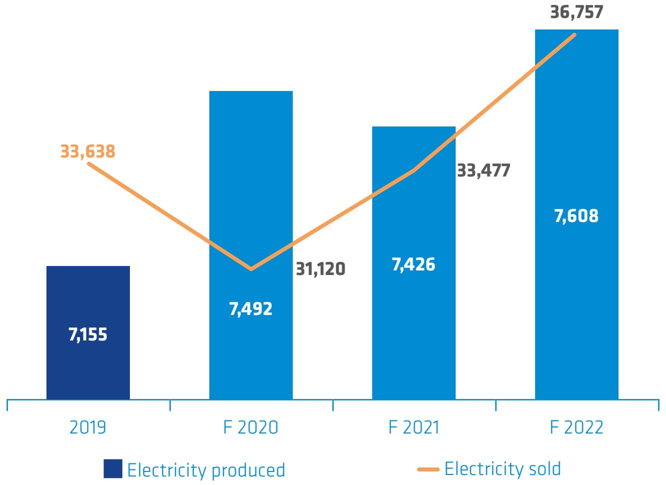
VALUE ADDED PER EMPLOYEE IN EUR AND ROE IN %



NET PROFIT OR LOSS AND REVENUE IN EUR MILLION



PRODUCTION AND SALE OF ELECTRICITY IN GWh



2.8.4 Energy policy and regulatory environment in 2019

In 2019, the energy and climate regulatory framework was dominated by topics that will have a significant impact on the operations of the HSE Group in the future, namely:

- ensuring stability of the power system at national level,
- placement of HSE hydropower plants and other development projects in key national strategic documents,
- abandoning coal use with a focus on the fair transition of coal regions.

Below, we highlight key 2019 milestones for the HSE Group.

2.8.4.1 Administrative direction of the placement of HPP on the Mura river and filing of a claim for compensation

At the end of May, the Government of the Republic of Slovenia adopted a decision to stop the process of preparing the State Spatial Plan (SSP) for the Hrastje – Mota HPP area. This prevented the continuation of the procedures for the construction of this hydro power plant on Mura River and deprived DEM as an investor of the right and the opportunity to prove that the construction of Hrastje – Mota HPP on the Mura River is possible by carrying out compensatory measures. On the basis of this fact, DEM filed a claim for damages to the State Attorney's Office in late December against the Republic of Slovenia amounting to EUR 6.5 million. The process is ongoing.

2.8.4.2 Amendment of the Energy Act and network charges act

The amendment of the Energy Act in June 2019 ensures the payability of all system services, including the provision of a frequency maintenance reserve (RVF or so-called primary frequency regulation), which we have been working on for a long time in the HSE Group. In November 2019, an amendment to the Legal Act on the methodology for determining the regulatory framework and network charges was adopted, which continues to exempt Avče PSPP from paying the network charge for electricity acquisition for energy storage purposes and its subsequent conversion to electric energy.

2.8.4.3 Beginning of the preparation of the National Energy and Climate Plan

In 2019, Slovenia had to prepare a National Energy and Climate Plan until 2030 (NEPN). The HSE Group took an active part in the preliminary consultation in March 2019 and in all subsequent preparation procedures with two key objectives:

- that NEPN recognizes the necessity of carrying out all planned projects of the HSE Group (HPP on the Central Sava River, HPP on the Mura River, gas-steam power plants) as key to achieving national climate and energy goals,
- that NEPN envisages the preparation of a long-term strategy for transition to a low-carbon society, including the preparation of a national coal abandonment programme for electricity generation and the Law on gradual closure of the Velenje Coal Mine and Law on the restructuring of the region, which will follow the principles of fair transition and correct sharing of the burden of transition to a low-carbon society between sectors and resolve the issue of restructuring financing.

NEPN, confirmed in February 2020, represents a major challenge in the field of HSE Group projects, but the HSE Group will, as a company, a strategic investment by the State, the largest producer of electricity in Slovenia both from renewable energy sources and domestic coal, and the holder of the concession for using the water potential of the HPP on the Central Sava River and Mura River responsibly, with all its capital potential and expertise, implement projects to raise our competitive capacity on the market.

At the same time, in line with our efforts to identify the importance of a fair transition in the context of the decarbonisation process of the economy and society, NEPN promises that by 2021 the State will adopt a precise timetable for coal abandonment and restructuring coal regions in accordance with the principle of fair transition, and in 2021 also prepare the Law on gradual closure of the Velenje Coal Mine and the Law on the restructuring of the region. In the HSE Group, we will endeavour to prepare the coal abandonment strategy and the two mentioned laws, taking into account the interests of PV and TEŠ companies and the HSE Group as a whole. By taking into account the interests and expectations of key stakeholders, businesses and employees, it will be possible to achieve successful preparation and implementation of the Coal Abandonment Strategy, which must provide the Šaleška dolina region, the power plant, the coal mine and their employees over the next decades with the necessary clarity regarding further development, financing and restructuring, which should not be a mere burden of the HSE Group, and a support framework that will ensure a fair, economically sustainable and socially balanced transition that will bring growth, development and jobs, while maintaining an adequate level of security of supply in Slovenia.

2.8.4.4 Accession of Slovenia to the EU Coal Platform and the creation of a Government Working Group on the Restructuring of Coal Regions

At the initiative of the HSE Group, Slovenia joined the EU Platform for Coal Regions in Transition with the joint pilot coal region of Šaleška dolina and Zasavje in March 2019. At the same time, at the end of May 2019, the Government of the Republic of Slovenia established a working group on the restructuring of coal regions, which is tasked with drawing up a timeline and a fair plan for early closure of the Velenje Coal Mine (PV) and the abandonment of the use of fossil fuels in the Šoštanj Thermal Power Plant (TEŠ) by the end of 2020. A working group of the Ministry of Infrastructure has also been established to assist the Government Working Group to prepare restructuring measures for coal regions, including representatives of HSE, PV and TEŠ. In autumn 2019, the Group successfully coordinated with the European Commission the implementation of a project to prepare a national coal phasing out strategy and restructuring action plans for the two coal regions. The project will be funded by non-reimbursable European funds, the contractor selected by the European Commission, and is expected to be completed in autumn 2020, when the contractor will prepare and submit a proposal for the strategy and both action plans to the Ministry of Infrastructure.

2.8.4.5 Adoption of the Green Deal - EU reference document on climate change

The year 2019 ended with the presentation of the so-called Green Deal by the European Commission. It is a document that will have a dominant impact on the creation of a regulatory framework in the field of energy over the next five years, representing a new EU development paradigm to achieve EU climate neutrality by 2050 and contains a detailed plan of legislative, strategic and other activities, with which the EU would achieve this objective. From the perspective of the HSE Group, the most crucial element of the Green Deal is the awareness that this objective will not be achieved without focusing on the fair transition of coal regions. The establishment of the Fair Transition Mechanism to support these regions will mobilise EUR 100 billion of the European funds in the period 2021-2027.

2.8.5 Investment policy of the HSE Group

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.

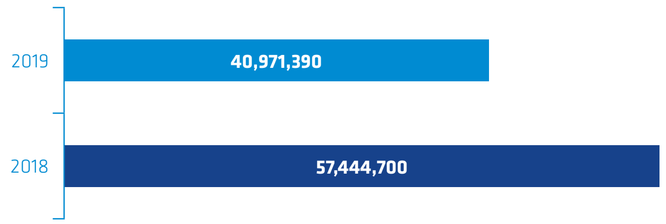
In 2019 the investments continued that were of key importance for the sustainable competitiveness of the HSE Group in the field of production and operation as well as the environment. The investments that prevailed were needed in order to be able to ensure the security of operation. A large share of 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.

We have completed investments in coal technologies, namely Unit 6 of TEŠ, which complies with international standards of best available technologies (BAT) with planned operation until 2054, and Unit 5 of TEŠ, which emits significantly less pollutants after ecological rehabilitation and revitalization (compared Unit 4 of TEŠ, permanently stopped in 2018, 60% lower nitrogen oxide emissions, 50% sulphur dioxide and 80% lower dust particulate emissions) and will operate until 2030 as a replacement Unit for Unit 6 of TEŠ during maintenance or overhaul or in case of favourable market conditions.

Over the last two years, we have again intensified activities mainly in the field of coordination of the concession contract for the construction of HPP on the Central Sava River. We are also carrying out the construction of sHPP on the Soča (in 2019, the new Kneža sHPP began to operate) and Drava basin, which have received operational support under the support scheme for RES, and continue the activities for the placement of Mura HPP.

In the future, investments are planned in development projects, renewable sources in the region (SPP, WPP, small HPP), development of energy storage tanks (battery storage, pumped-storage HPP, hydrogen), continuation of already started activities on renewable energy projects (large HPP, SOEN project) and projects of effective energy use, all in accordance with national and European orientations and adopted strategic documents.

INVESTMENTS IN THE HSE GROUP IN EUR



INVESTMENTS BY COMPANIES

in EUR	2019	2018
HSE	899,352	1,247,046
DEM	10,038,229	8,207,773
SENG	5,123,707	6,770,284
TEŠ	5,080,143	21,547,219
HSE EDT	10,055	1,241
PV	18,097,524	17,441,225
HTZ	268,763	566,805
SIPOTEH	43,883	29,185
PLP	3,566	0
PV INVEST	0	32,198
RGP	1,381,398	1,539,656
HSE Invest	24,118	61,147
HSE BH	652	921
Total	**40,971,390**	**57,444,700**

Major investments in HSE Group companies are presented below.

HSE

HPPs on the middle Sava river

In 2019, the negotiations regarding the concession agreement continued. In November 2019, the clean copy of the concession contract proposal was forwarded by the Ministry of the Environment and Spatial Planning as the final result of the working group. The Minister responsible for the field of waters will decide on further steps (interdepartmental coordination, coordination with the State Attorney's Office and intervention in the consideration of material to the Government of the Republic of Slovenia).

HSE Control Centre equipment update

The project started in 2018 and was successfully completed on 19 December 2019.

Digitisation of the maintenance process in the HSE Group

The SAP4PM project started on 30 August 2018 and was successfully completed on 25 October 2019, according to the schedule. Five companies with 210 users were included in the common business system. In 2019, the implementation of the project, the implementation of the live transition, the education of all end users of the SAP PM module, and support after the live transition have been completed.

DEM

sHPP (Otiški vrh, Dobrije, Ravne, Antonski potok, Čermernica, Vuhreščica, Vuzenica, Zamušani)

Under construction is the investment and project documentation for sHPP for which water permits have already been obtained, and we will continue only with those projects that can be positioned and demonstrate proper profitability.

WPP

Measurements of wind potential over Dravograd were carried out for the Ojstrica project and locations on Radl pass, Primož na Pohorju and Konjiška gora. Activities continued only in locations with recognized sufficient wind potential. For Ojstrica WPP, in 2018 the Government of the Republic of Slovenia adopted a decision on the commencement of the National Spatial Plan procedure. Professional bases for the preparation of the environmental report are being set. An initiative has been developed for WPP Paški Kozjak and WPP Rogatec to start the National Spatial Plan procedure.

Refurbishment of spillways and operating locks

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

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 River.

Refurbishment of bridges over supply and discharge channels of HPPs

With 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

sHPP Kneža

The construction of the sHPP Kneža was completed in December 2018, when an authorisation of use was obtained. At the end of June 2019, the asphalt paving of the roadway in which the pressure pipeline was dug was completed, and at the end of December 2019 a cleaning machine was installed on the grids before the inlet into the pressure pipeline. The investment is finished.

Overhaul of Avče PSPP and other primary equipment

The overhaul began in November 2018. By the end of 2018, turbine disassembly and all equipment and material procurement procedures have been carried out. From January to March 2019, turbine and generator assembly and dry tests were carried out. In early April 2019, all start-up tests and testing were successfully carried out before regular service again. The overhaul was completed on 19 April 2019.

Reconstruction of the Plave 1 HPP

Works are completed, a technical inspection was carried out in September 2018. The facility is in regular service. On 30 July 2019, the Ministry of the Environment and Spatial Planning issued an authorisation of use. The investment is finished.

Reconstruction of Plave transformer substation

Reconstruction of 110 kV of Plave transformer substation is technically completed and operational. Elimination of defects took place in 2019, an authorisation of use was obtained in December.

Reconstruction of Hubelj sHPP

Preparation of the necessary investment and project documentation is underway. Additional geological surveys and geological-geomechanical report were carried out. The building permit was obtained at the end of December 2019.

TEŠ

Revitalisation of Unit 5

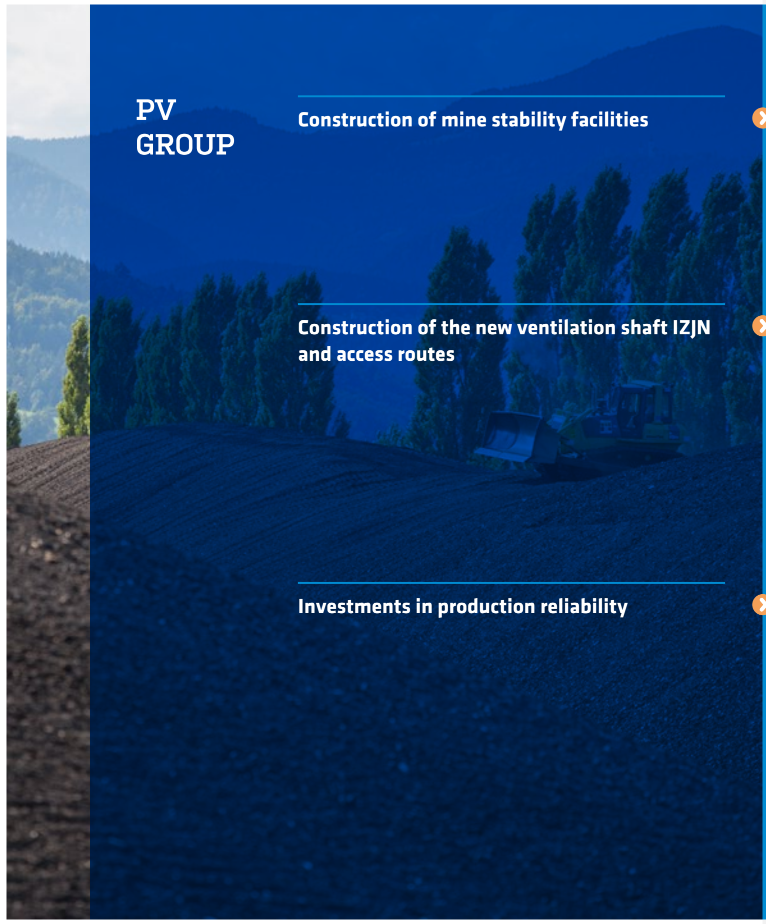
Contract test operation successfully completed on the NOx reduction package, guarantee measurements were realized for lowering NO_x and CO_2 emissions, while block efficiency measurements were carried out. The results of the measurements showed that the revitalization of the Unit was successfully carried out and all contractual guarantee conditions are met. The efficiency of the Unit did not change significantly compared with the situation prior to the revitalization of the Unit.

Replacement of high voltage and low voltage power supplies on coal transport

Existing electrical equipment on coal transport was obsolete, service life expired, spare parts can no longer be ordered. In order to ensure the safe and reliable operation of all thermo Units, reconstruction and upgrading of the power supply of coal transport was carried out, which consisted of the replacement of high voltage 6.3 kV and 10.5 kV and low voltage 0.4 kV electrical equipment.

Replacement of spray nozzles on flue-gas desulfurization (FGD 5)

To ensure adequate SO_2 emissions of flue gases on Unit 5, it was necessary to upgrade the flue-gas washing system with new spray nozzles in the flue-gas desulphurisation washer - FGD5.



PV GROUP

Construction of mine stability facilities	A spare water route was built; it will be used for the needs of drainage of the northern pit part. Coal mine connecting routes have also been built, which will serve to continue the excavation of the G area in the Preloge coal mine, and a coal mine pumping station that will serve to supply the Preloge coal mine with ash mixes.
Construction of the new ventilation shaft IZJN and access routes	The shaft has been constructed and connected to the coal mine routes. Construction of access coal mine routes is underway. In 2019, we continued the construction of the coal mine connection routes and connected the mineshaft to the floors at k.-110 in the footwall part of the Pesje coal mine. Technical-technological and design documentation was prepared, which will contain technical solutions for ventilation or ventnilation stations at the location of the NOPII minehole.
Investments in production reliability	The largest investments have been made for the purpose of modernising excavation equipment and equipment for the construction of coal mine routes and structures. In particular, the components of the new hydraulic support, which we produce on our own, and electrical machinery replacement parts for the maintenance of chain conveyors, collection machines, belt conveyors, progression machines and infrastructure equipment were procured. Part of the funds were spent on the procurement of equipment for separation, classification and crushing of coal and for the purposes of carrying out logistical processes.

2.8.6 Development research projects

OSMOSE

OSMOSE is an acronym for Optimal System-Mix Of flexibility Solutions for European electricity. It is a project where partners address the problem of flexibility in the existing electricity system (ES). The issue is comprehensively addressed by 33 partners involved in 8 working groups. Working groups range from a review of current regulatory frameworks and a proposal for changes that would allow for more flexibility in the ES, to four demonstration groups that will implement pilot projects. Demonstration groups will show the establishment of ES with hybrid storage tanks, the provision of system services in the coordination of large consumers and distributed energy sources, the provision of system services through the coordination of storage tanks and FACTS devices, and cross-border trading near the moment of delivery. The results of the demonstration groups will be analysed and the result of the analysis will be a proposal for regulatory changes in order to bring solutions into practice at the Pan-European level. HSE and HSE Invest are involved in the project. The project was presented at the EEM19 Conference.

FARCROSS

The purpose of the project Farcross (Facilitating regional CROSS-border electricity transmission through innovation) is to optimize the use of cross-border transmission capacity for electricity transmission. In order to achieve energy objectives and security of electricity supply, the EU needs to create a better functioning internal market, and one of the main obstacles to this is currently suboptimal cross-border connections. The Farcross project will develop new machine and programme solutions, and the project will also try to eliminate possible regulatory obstacles. This would increase the transmission capacity of existing transmission infrastructure and facilitate the transfer of energy between EU countries. HSE is involved in the project.

CROSS-BORDER NATURE PARK ISONZO - SOČA

The aim of the project is the integrated arrangement of the banks of the Soča River in the municipalities of Nova Gorica, Šempeter – Vrtojba and Gorizia (IT). The project is managed by EGTC GO, which is responsible for coordinating funding, coordinating the different phases of the design and execution of procurement and preparing a joint strategy for communication and promotion. The company SENG participates in the project, that also submitted a proposal to include the connecting route from the kayak center Solkan to the Solkan HPP and the public route via the Solkan HPP facility on the right bank of the Soča River.

SPARE-ASP170

The purpose of the project, in accordance with regulations and strategic guidelines for water management and nature conservation, is to support methodologically and procedurally the decision-making on priorities for the conservation or restoration of river ecosystems, as well as justification of deviations from environmental goals due to the use of water and water space or protection against the adverse effects of water. SENG is involved in the project.

LIFE AND ARRS

The LIFE for Drava project aims to improve the flow capacity of existing riverbeds and have a positive impact on bird nesting sites and the conservation of other areas. Great emphasis is also placed on environmental issues, where we continue to manage and use sediments in the area of the Ptuj Lake. For this purpose, we are currently working with ZAG Ljubljana on the application of the project to ARRS regarding the possibility of using silt (products) for further use. DEM is involved in projects.

CE-HEAT

Within the framework of the international project Interreg CENTRAL EUROPE, we participated in the development of systems for the utilization of excess heat in the industry and an online calculator in the field of utilization of excess heat, which can be used for preliminary economic and technical calculations. We set up a pilot system for exploiting excess heat of the generator on the Fala HPP, which is used to heat the museum building, consistent with the group's goals in the field of energy efficiency increase. DEM participated in the project.

DEVELOPMENT OF A MICRO WIND POWER PLANT

Together with the Faculty of Energy Technology, as part of the project, we developed a new geometry of wind power plants wings that is suitable for Slovenian wind conditions. DEM participated in the project.

2.9 Sustainable development of the HSE Group

In the HSE Group, we recognise the need to adapt to climate change, which has become a global environmental challenge. We support the guidelines of Slovenia and of the European Union for achieving carbon neutrality by 2050 and fulfilling the Paris Agreement commitments in a way that will enable sustainable development and secure, reliable and competitive energy supply.

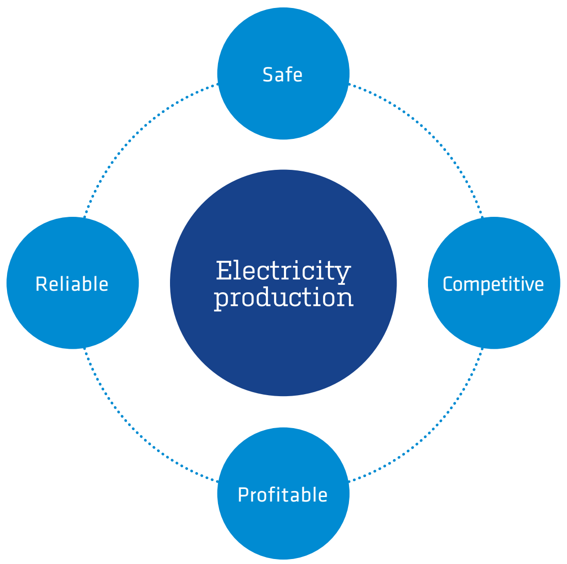
For the HSE Group, which is the largest Slovenian producer of electricity from renewable energy sources, adaptation to climate change represents a development challenge and a potential for further growth of the business in the field of low-carbon sources and technologies. It also represents responsibility in relation to the abandonment of the use of coal in the production of electricity, which provided Slovenia with a good third of the reliable supply of electricity from a domestic energy source.

Sustainable development within the HSE Group is achieved through continuous improvement of the integrated management system based on the process approach. At HSE level, we have the following policies in place:

- quality policy of the HSE Group,
- environmental policy of the HSE Group,
- health and safety at work and fire safety policy of the HSE Group,
- information security management policy of the HSE Group,
- HSE Group and Company management policy; and
- social responsibility policy of the HSE Group.

2.9.1 Environmental policy

As noted in the mission of the HSE Group, we strive for safe, reliable, competitive and profitable generation of electricity, which we, with experienced and committed employees, carry out effectively and responsibly towards the environment in which we operate.



The environmental policy in the HSE Group is based on the principles of caution, identification and prevention of environmental impacts. As part of our activities of renovation and new production facilities, which also enable the use of renewable sources, environmental care is included already at the planning stage. When operating conventional production sources, we operate in accordance with environmental permits, taking into account the best available techniques (BAT). We inform about our environmental policy both employees and our business partners, suppliers, local community and individuals acting on behalf 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.

- respect of the legislation and all recommendations,
- establishment of an environmental management system in all companies of the HSE Group (monitoring and analysis of all environmental impacts),
- taking into account the best available techniques and reference documents at the project planning stage,
- energy saving and the efficient use of energy,
- increase in the share of production from renewable energy sources,
- identification of important environmental aspects,
- prevention of environmental emergency,
- 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,
- concluding partnership relations with local communities, joint solving of environmental problems and planning sustainable development of electricity generation,
- regular monitoring of environmental impacts (air, water, soil),
- regular maintenance of water storage basins (removal of deposits),
- regular maintenance of the PV extraction area and the area of repairment of depressions (repariment of surface depressions and of the embankments between Velenje and Šoštanj lake) and monitoring of wells at the PSU, monitoring and monitoring of surface movements, implementation of measures to limit the effects of stabilisation on ecological parameters in waterways,
- 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	2019	2018
Drinking water consumption (in m^3)	9,521,223	10,490,957
Wastewater (refrigerant/technological in m^3)	4,030,295	4,520,750
Electricity consumption from the network (in MWh)	65,005	63,346
Non-hazardous waste (in t)	686,149	793,158
Hazardous waste (in t)	267	542
Processed waste (in t)	675,648	732,453
Air emissions (in t)	3,824,665	3,936,227
- of which CO_2 emissions	3,817,347	3,927,162
- other emissions	7,318	9,065
Fines and non-monetary sanctions for non-compliance with environmental rules (4-EN29) (in T EUR)	0	0
Environmental protection costs (in T EUR)	53,183	45,031

All companies of the HSE Group have the international quality certificate ISO 9001. They have implemented the ISO 14001 environmental management system, the exception is only PLP. International environmental certificate ISO 14001 is held by companies producing electricity and PV, HTZ and RGP. By consistently complying with the aforementioned certificates, we ensure the safe and environmentally-friendly production of electricity in all power plant facilities.

CERTIFICATES OBTAINED IN COMPANIES OF THE HSE GROUP

	ISO 9001 Quality management	**ISO 14001** Environmental management	**OHSAS 18001** Occupational health and safety	**ISO 27001** Information security management	**ISO/IEC 17025:2005** General requirements for the competence 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	■	■	■	□					
PLP	■								
RGP	■	■	■	□					
HSE Invest	■	□	■	□					

■ certification □ observance of obligatory controls

The companies HSE EDT and Sipoteh hold no certificates.

2.9.1.1 HSE Group's participation in the redesign of strategic documents

The HSE Group is actively involved in the redesign of key strategic documents and the legislative framework in the field of energy and environment, as well as the legislative framework in the field of climate change. We are committed to adopting a national regulatory framework that will enable the energy sector to be decarbonised according to the principles of fair transition. We stress the need to prepare a national decarbonisation strategy, which will form the basis for an economically, socially and environmentally fair energy transition while maintaining the global competitiveness of the Slovenian economy.

As part of the preparation of the National Energy Climate Plan (NEPN), which is a key national document for achieving Slovenia's energy climate objectives and its contribution to the EU's common objectives until 2030 and afterwards, we are committed to integrating measures in the field of environmentally acceptable exploitation of hydropower and other renewable energy sources and measures in the field of decarbonisation strategy. The Government of the Republic of Slovenia adopted on 27 February 2020 a comprehensive NEPN that will present a major challenge for the HSE Group in the effective implementation of renewable energy development goals, in the construction of new gas steam plants to replace electricity from coal Units, as well as in the sense of achieving the appropriate exit dynamics from domestic-use coal for the production of electricity, while providing sources for PV closure works outside the electricity price.

In the HSE Group, we will discuss the implementation of measures and the realisation of investments under the so-called Green Deal, at the heart of which is the energy transition and the restructuring of coal and carbon-intensive industrial regions, seek access to financial resources under the Just Transition Fund and other European Union financial mechanisms for a fair transition in the next multiannual financial framework 2021-2027.

The HSE Group was also among the first signatories to the Declaration on Electrification in 2019. With EUELECTRIC, key stakeholders in the European electricity economy support reducing carbon intensity and increasing investment in clean technologies and promoting the integration of the electricity sector with the cooling, heating and transport sectors.

2.9.1.2 Energy savings and energy efficiency

Companies in the HSE Group improve the energy efficiency of production facilities in the context of regular rebuilding and investment maintenance. In the past period, we carried out a extensive reconstruction of generators at some major hydro power plants (Doblar 1, Plave 1, etc.) at the end of their service life, thereby significantly improving the efficiency of the conversion of water potential into electricity. As part of the investment maintenance, we also carry out energy rehabilitation of buildings with the renovation of insulation coats, the installation of more energy-efficient windows and doors and the installation of more energy-efficient equipment (lighting, technological equipment,…). We also implement projects in the area of utilization of excess heat on generators/turbines, thereby increasing the overall efficiency of the HPP. We carried out such a pilot project in 2019 at the Fala HPP, where we use the excess heat of the generator for heating the museum building, as well as the HPP business premises. The project was co-financed by EU funds and the Eco Fund. Particular attention is paid to the annual disposal of gravel and silt from accumulation pools, thereby preserving the energy potential of reservoirs and flood safety.

2.9.1.3 Responsibility to the natural environment

Nature along the rivers and their basins is biotically very diverse. As a renewable electricity producer, we are directly related to nature and its laws. Responsibility to nature and the environment and respect for nature are present in all areas of activity, in particular in our environmental policy, where, in addition to statutory regulations, we also implement internal environmental programmes that direct and define activities and, consequently, responsibilities in the field of environmental protection.

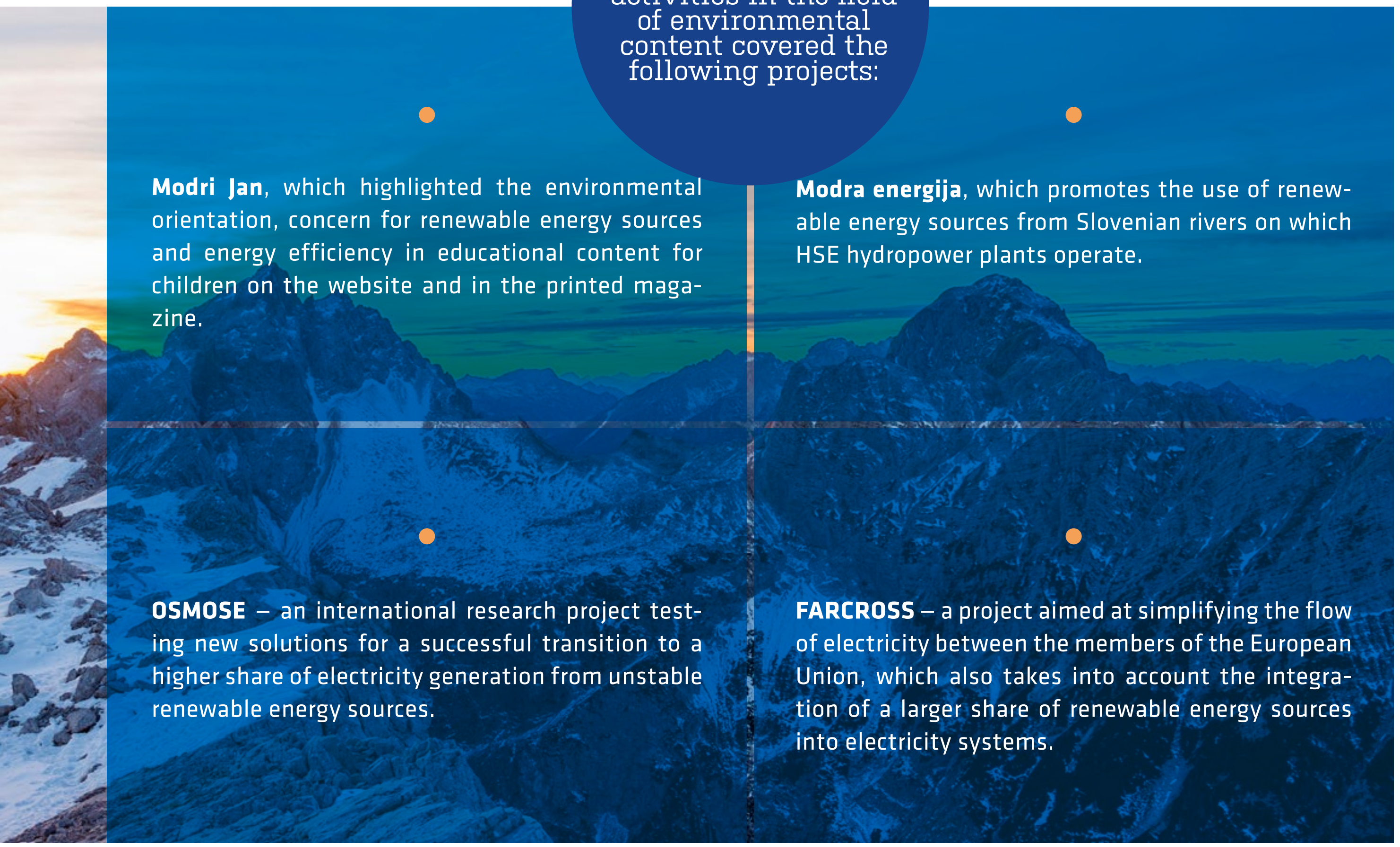
In order for the HSE Group to fulfil its commitment to implementing the principles of sustainable development and unobtrusive integration of energy into the natural beauty of the riverside world, we respect international environmental standards, concession obligations and comprehensive environmental management systems, public opinion and cost consequences. Much attention is paid to long-term stable partnership relations with the environment and multifunctional exploitation of facilities. Great emphasis is also placed on other environmental issues, not forgetting about the accelerated electrification of traffic and heating.

2.9.1.4 Environmental Programme

In the HSE Group, we implement programmes for the disposal of deposits and debris in the concession area of the HPP on the Soča and Drava rivers, programs for the multi-use of space along the banks of reservoirs, environmental monitoring to reduce environmental impacts due to water abstraction, water permits as compensation for concession contracts in accordance with the legislation and the programme for rinsing/cleaning of the reservoirs of the HPP.

2.9.1.5 Activities in the field of public communication relating to the relationship with the environment in the HSE Group

In the HSE Group, due to the involvement of our production facilities in local environments, we pay special attention to environmental communication. Among the more exposed environmental topics in 2019, co-incineration of alternative fuel from non-hazardous waste in TEŠ, temporary storage of ash from Energetika Ljubljana in Trbovlje, purchase of hydrogen buses and construction of construction of a filling station and a production unit for hydrogen at the TEŠ site, and construction of alternative sources of electricity (solar and wind power plants).



In 2019, communication activities in the field of environmental content covered the following projects:

Modri Jan, which highlighted the environmental orientation, concern for renewable energy sources and energy efficiency in educational content for children on the website and in the printed magazine.

Modra energija, which promotes the use of renewable energy sources from Slovenian rivers on which HSE hydropower plants operate.

OSMOSE – an international research project testing new solutions for a successful transition to a higher share of electricity generation from unstable renewable energy sources.

FARCROSS – a project aimed at simplifying the flow of electricity between the members of the European Union, which also takes into account the integration of a larger share of renewable energy sources into electricity systems.

2.9.2 Social policy

Social responsibility is not understood only as acting for the benefit of the company and its external and internal stakeholders, these are also voluntary policies that confirm our responsible and ethical attitude to fellow human beings, partners, local communities, the state and its bodies and especially the environment.

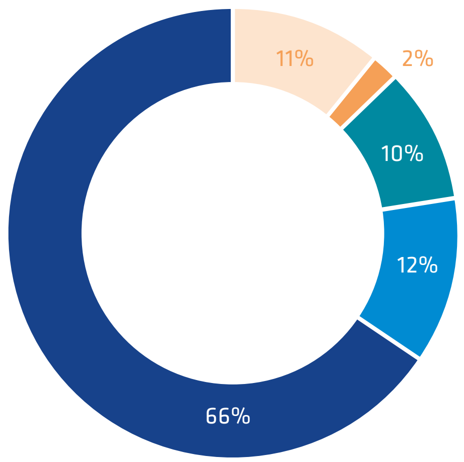
Sponsorships, donations and humanitarian projects are an integral part of our mission and the basis of coexistence in and with the environment where our production facilities operate. In our conduct, we are guided by eight key values, among which responsibility is the one that also describes our relationship with the wider social environment. HSE Group companies financially assist sports, cultural, educational, philanthropic and other organisations in the environments where our power plants operate. Thus, we contribute to the development of talent, the implementation of programs and the sharing of knowledge.

In 2019, we dedicated most of our sponsorship and donor funds to support sports and recreation. We are proud patrons of the Olympic Committee of Slovenia and a long-time sponsor of the Canoe Federation of Slovenia, and in 2019 we also devoted some of the sports funds to volleyball and basketball.

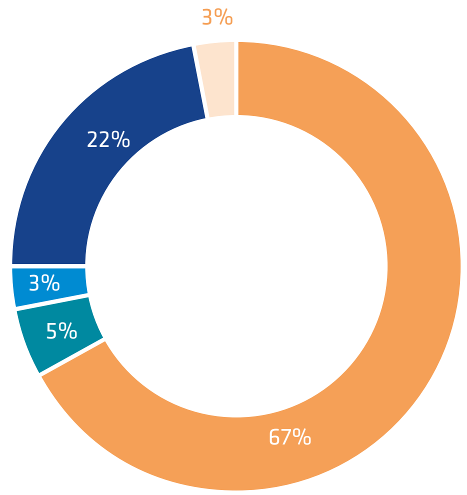
Investing in science and education is paid off mostly in sponsorships of professional events, which are also attended by our experts of the HSE Group and thus provide for the transfer of knowledge and experience to the wider Slovenian energy industry. We have to mention DEM's cooperation with the Municipality of Maribor and Borzen; energy-coloured playgrounds have been set up in the city, which inform users about renewable energy sources and efficient use of energy.

In the HSE Group, we also support cultural events, such as the well-known festival Lent, and we are also active in the humanitarian field: with the New Year's donation to the Dr Franc Derganc General Hospital, SENG helped equip a therapy room in the Department for Disabled Youth and Rehabilitation, which serves children as an additional therapeutic space to gain new sensory experiences. The PV group helped the Topolšica Hospital to purchase new hospital beds. Last but not least, the whole of Slovenia and also our company Sipoteh responded to a fundraising campaign for Kris, a boy who received a cure for his illness in the United States. Thankfully, he is recovering well, at least for now. We are especially proud of such stories!

2019

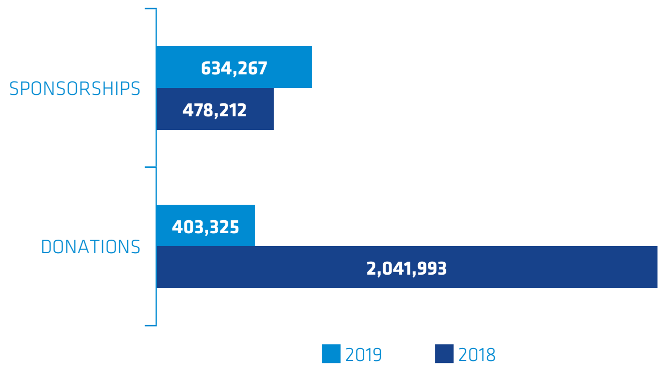


2018



LEGEND:
- Sport and recreation
- Education and science
- Humanitarian purpose
- Environmental protection
- Culture

SPONSORSHIPS AND DONATIONS IN EUR



In 2019, the HSE Group contributed over EUR 600 thousand to local environments in the form of sponsorships and EUR 400 thousand in the form of donations.

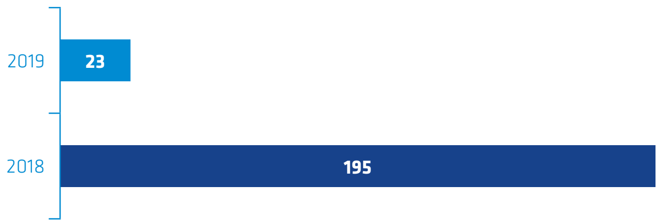
In accordance with the Public Information Access Act, all recipients of sponsorships and donations are published by the companies of the HSE Group on their websites.

Trade Unions and Works Councils 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 are regular meetings of the social partners with the management board and the annual Works Council meeting where the employees are informed about the reporting results, plans for the future and the strategy of HSE Group development and other topical information.

The HSE Group has organised a Joint Works Council of the HSE Group, where Works Councils of the companies in the HSE Group participate, with the exception of 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.

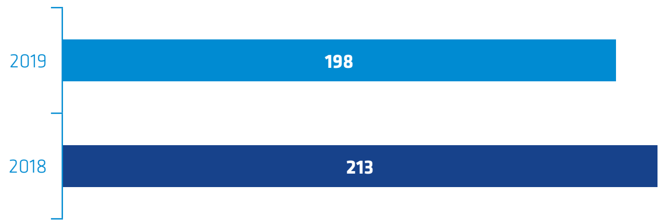
For the tenth year in a row, we have been spreading the culture of a family-friendly company with our employees. The full Family-Friendly Company Certificate is another proof that we take the responsibility to our employees seriously and want to further improve the quality of the working environment to better coordinate the work and family life of our employees. As part of the certification ceremony, we received special recognition for the renewal of the full Family-Friendly Company Certificate. Through a number of measures within the framework of the certificate, we facilitate the coordination of family and work life for employees and in this way strengthen the organizational culture and organisational climate.

NUMBER OF SOLIDARITY AIDS PAID OUT



The reduction in the number of solidarity aid paid out is due to the revised eligibility criteria for the payment of solidarity aid in the PV group, which, in the case of a longer continuous sick leave, are linked to income per family member.

EMPLOYEES ON PARENTAL LEAVE



In the HSE Group, 15 employees less than in the year before benefited from parental leave in 2019.

2.9.3 Personnel policy

2.9.3.1 Responsibility towards employees and HR management policy

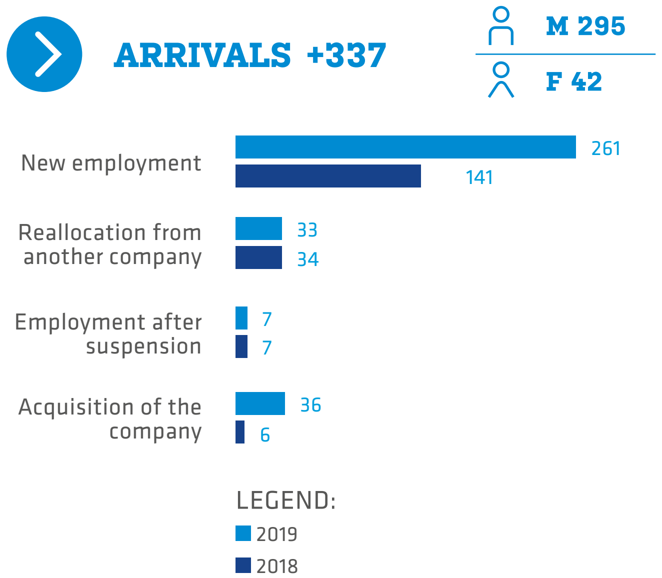
Responsibility, fairness and credibility, respect and cooperation, efficiency and positive orientation guide us in setting goals, achieving results, and working with employees. We actively participate in the establishment of business goals, we are responsible for the realization of goals and our own development in order to achieve the strategic objectives of the HSE Group. Together, we build a culture of mutual trust, respect, collaboration and teamwork, continuous learning and responsible and effective work. In our work, we are looking for the best solutions, we are developmentally oriented with a constant desire for improvement.

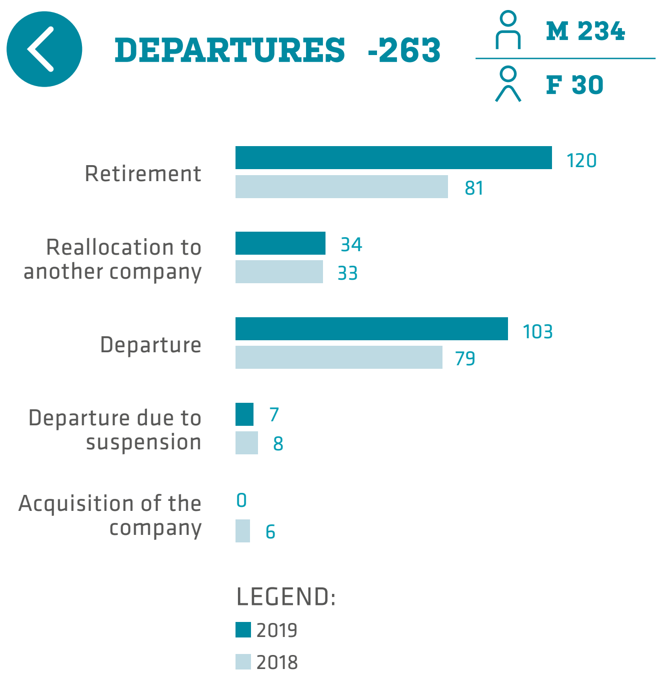
NUMBER OF EMPLOYEES IN THE HSE GROUP

COMPANY	2019	2018
HSE	186	176
HSE EDT	17	17
DEM	236	238
SENG	127	121
TEŠ	319	312
PV	1.193	1.231
HTZ	813	783
Sipoteh	37	35
PLP	37	0
RGP	130	107
HSE Invest	49	51
HSE BH	1	1
HSE MAK	0	0
HSE BE	2	2
Total	**3,147**	**3,074**

NOTE: The company PLP was in 2018 not included in the consolidation procedure due to its planned sale in early 2019. In the absence of sales, PLP is consolidated in 2019.

PERSONNEL TURNOVER IN THE HSE GROUP

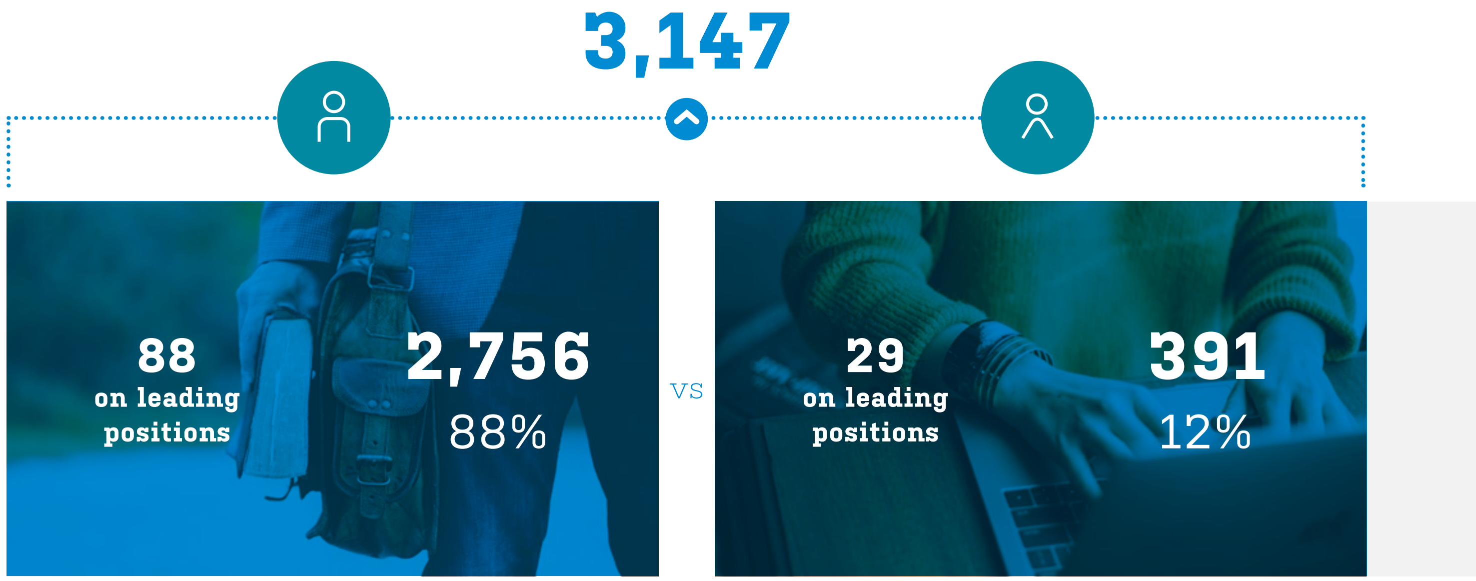




EMPLOYEES BY AGE

	2019			2018			Δ according to 2018		
age class	number of employees	male	female	number of employees	male	female	number of employees	male	female
to 30 years	380	373	7	348	344	4	+ 32	+ 29	+ 3
from 31 to 40 years	813	739	74	798	716	82	+ 15	+ 23	- 8
from 41 to 50 years	1,118	984	134	1,104	974	130	+ 14	+ 10	+ 4
from 51 to 60 years	788	619	169	780	623	157	+ 8	- 4	+ 12
over 61 years	48	41	7	44	38	6	+ 4	+ 3	+ 1
Σ	3,147	2,756	391	3,074	2,695	379	+ 73	+ 61	+ 12

EMPLOYEES BY GENDER IN THE HSE GROUP



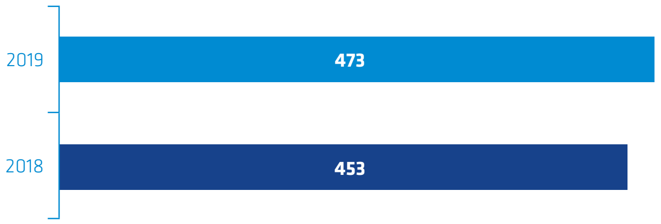
2.9.3.2 Persons with disabilities

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.

Part of the HSE Group is also HTZ, which employs disabled persons. It is the largest company for disabled people in Slovenia as it employs almost 800 people and is also 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



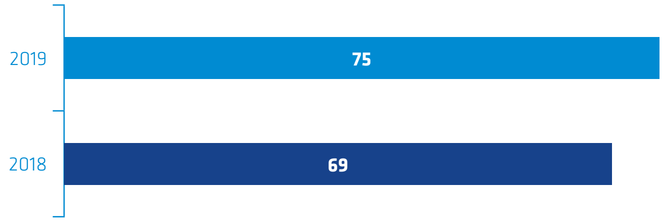
2.9.3.3 Voluntary supplementary pension insurance of the employees

In the HSE Group voluntary supplementary pension insurance of the employees is an integral part of the salary policy. It includes the employees of the parent company all subsidiaries in the HSE Group. By doing so, as an informed employer, we take care of increased financial security for our employees even after they retire.

2.9.3.4 We share knowledge and experience with the younger generation (mentoring)

We also share our knowledge and experience to younger generations. Already during their schooling, as a socially responsible group, we are systematically working with young potential personnel before they enter the labour market. We actively cooperate with secondary schools, higher education institutions and faculties in the preparation of educational programs, compulsory practice programs and promotion of various professions, especially occupations in deficit. We give out scholarships to young and promising students to ensure their first contact with the working environment.

NUMBER OF SCHOLARSHIP RECIPIENTS



We enable students, under the mentorship of our experts, to do their mandatory practice and student work and participate in the preparation of seminar assignments and final works.

We also use the mentoring system for new employees and those who take on new, more responsible tasks. This enables the exchange of experiences and the upgrading of acquired skills.

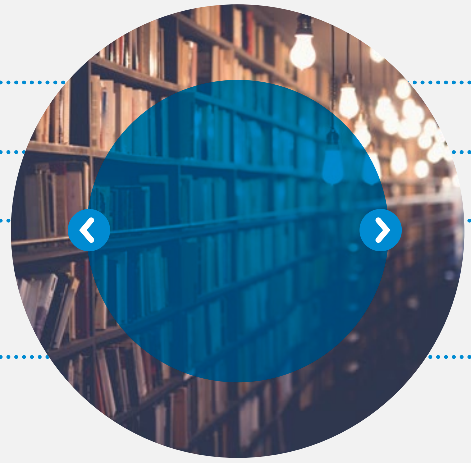
2.9.3.5 Development and training of employees

Special attention is paid to training, education, instruction and development of employees. In order to strengthen the leadership skills of managers, we conducted leadership competences assessment, coaching for managers and improvement of management skills, primarily with a view to enhancing knowledge in the field of targeted management and delegation of tasks, transfer of information and communication with coworkers, motivating and conflict resolution, understanding mutual relations, promoting cooperation, innovating and promoting change, and managing the work performance and development of coworkers.

We recognise the performance of employees and their well-performed work and motivate them through different forms of reward for further work. In this way, we would like to encourage commitment and loyalty and award productivity and excellence. Last year, we started the Renewal of rewarding project with the method of 6 hats and active participation of employees in the project.

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

2019 | **Δ 2018**

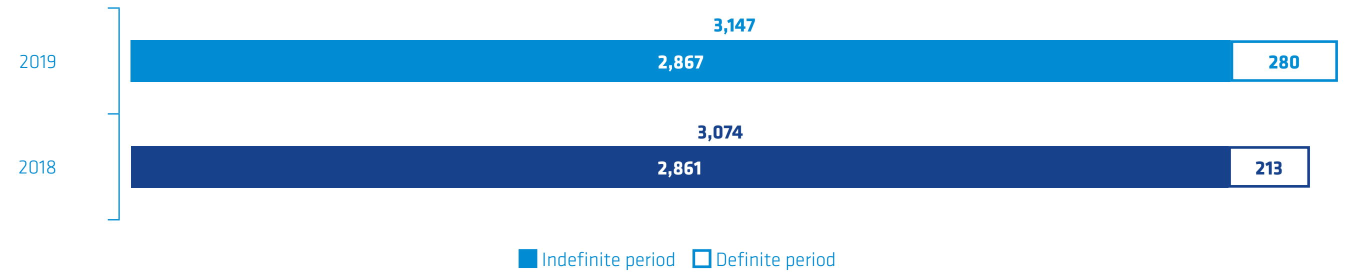


2019	Δ 2018
77,248 hours of training	**+ 12,527**
232 internal training courses	**+ 57**
18 group workshops at the level of the HSE Group	**- 8**
25 hours of training/employee	**+3**

STATUS OF EMPLOYEES BY EDUCATIONAL STRUCTURE

	31.12.2019		31.12.2018		Δ according to 2018	
EDUCATION	HSE	HSE GROUP	HSE	HSE GROUP	HSE	HSE GROUP
8/2	3	14	2	12	+ 1	+ 2
8/1	29	72	26	70	+ 3	+ 2
7	78	271	75	268	+ 3	+ 3
6/2	46	211	42	205	+ 4	+ 6
6/1	19	336	20	338	- 1	- 2
5	11	837	11	813	+ 0	+ 24
4		1,068		1,070	+ 0	- 2
3		53		56	+ 0	- 3
2		106		94	+ 0	+ 12
1		179		148	+ 0	+ 31
Total	**186**	**3,147**	**176**	**3,074**	**+ 10**	**+ 73**

EMPLOYEES EMPLOYED FOR A DEFINITE/ INDEFINITE PERIOD OF TIME



2.9.3.6 Year-end reviews

With regular year-end reviews, we have introduced targeted management into practice while opening a new communication channel between managers and employees, giving feedback on achieving the goals set. We use year-end reviews to monitor employee development, which serve us as an excellent tool for reviewing individual development plans and analyzing educational needs. They also serve us as an overview of career change desires and a plan for developing competences. Year-end reviews enable us to better implement the education and training plan in the field of management and expertise. They allow us to create homogeneous groups for the implementation of language education. adapted by content and difficulty, and education in the field of computer science.

2.9.3.7 Employee satisfaction and commitment

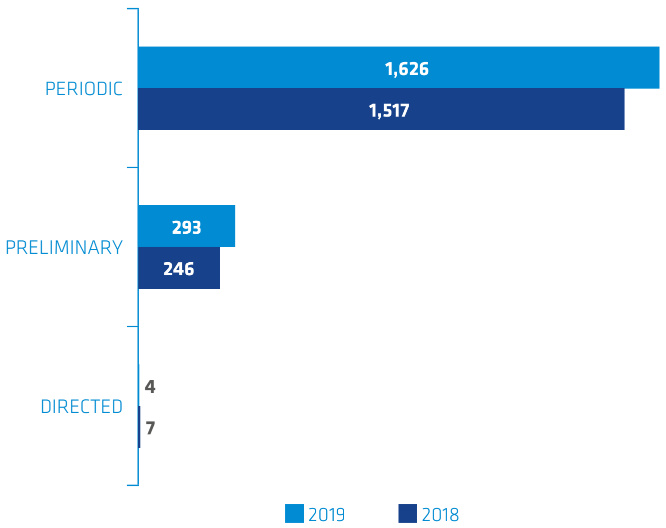
We started measuring the organisational climate, satisfaction and commitment of employees in HSE as early as 2012. Every two years, we measure the organisational climate, satisfaction and commitment of employees, which serves as a tool for preparing improvement measures that contribute to creating an efficient and creative working environment and employee engagement, and last but not least to better business results. We want our coworkers to be highly motivated and committed, so we pursue the goal that apart from excellent business results, satisfaction of all shareholders and positive impact on the wider environment, our employees are satisfied, well-informed, adequately rewarded and have wide possibilities of further development. Through various measures, we have achieved an improvement in the organizational climate, satisfaction and commitment of employees compared to the measurement from two years ago, which we are very proud of.

2.9.3.8 Health and Safety at Work

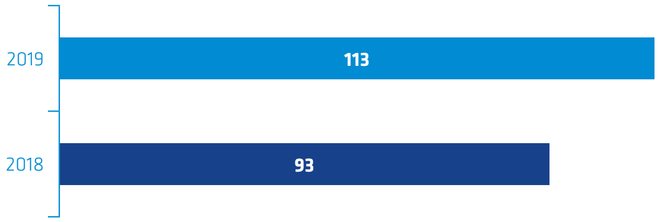
We provide safe working environment to our employees and external providers. For all of the job positions and technologies, we monitor the risks for the occurrence of accidents and health damage. We periodically assess the risks and maintain them at a suitable level with appropriate health measures. This affects the ongoing improvement of working conditions in the long-term. With different preventive measures, we manage to reduce the opportunities for the occurrence of handicaps and health limitations. The system for managing health and safety at work complies with the standard BS OHSAS 18001:2007 and is included in the integrated management system. Taking care of health of our employees is a joint responsibility of all employees, their managers, professional services and specialists from the field of occupational medicine. Workers' Councils are also involved in these activities.

HSE Group companies coordinate safety and health at work and fire safety activities at safety meetings, which are conducted quarterly. In 2019, a common catalogue of personal protective equipment was produced, which defines technical requirements for personal protective equipment. As the HSE Group, we also organised periodic training for managers and executives in 2019.

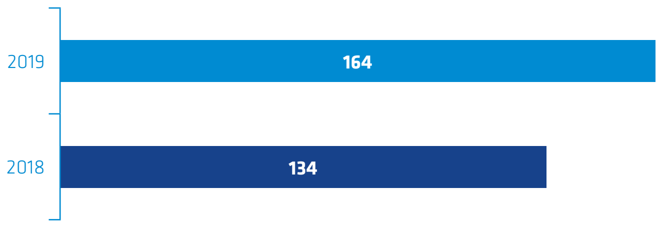
PREVENTIVE MEDICAL EXAMINATIONS



NUMBER OF EXERCISES FOR BETTER EMERGENCY PREPAREDNESS



NUMBER OF ACCIDENTS AT WORK



The number of accidents at work is higher in 2019 compared to 2018 due to the increased number of accidents in the PV group.

SICK LEAVES

YEAR/WORKING HOURS	2019	2018
Sickness benefits at the expense of the Company	248,675	229,520
Sickness benefits at the expense of the Health Insurance Institue of Slovenia	313,374	310,240
Total	**562,049**	**539,760**

ABSENTEEISM

ABSENTEEISM	2019	2018
Number of days lost in a certain period	67,409	65,964
Average number of employees	3,128	3,078
Number of all working days (per employee)	261	261
Absenteeism (health) in%	8%	8%

In the HSE Group, 562,049 working hours were lost due to sick leave in 2019, representing 9% of the total fund of hours of regular work. When compared to the year 2018, the number of working hours lost decreased by 1% due to sick-leave absenteeism.

2.9.3.9 Spending of high-quality free time

With a wide range of activities that can be attended through sports, cultural and other associations we provide quality leisure time for employees. Last year, we organized sports games of the HSE Group, which were a good basis for strengthening social ties between the employees of all companies of the group. The employees can also spend their annual leave in holiday facilities, propriety of subsidiaries, at various locations in Slovenia and Croatia. Every year, a New Year celebration is organised for the employees and Santa Claus visits children in December. We don't forget about our retired coworkers, for whom we organize a special meeting every year. Employees are active participants in various organised voluntary, charitable and other campaigns to show responsibility towards the wider society. Employees of the HSE Group have the opportunity to benefit from a medically preventive active vacation. In 2019, 216 employees attended it, most of them in PV and TEŠ.

2.9.4 Human rights

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. We respect human rights covered by internationally recognised principles and guidelines, including the United Nations Declaration of Human Rights. The Code of Ethics of the HSE Group obliges us to follow the ethical and professional standards of work and conduct. They ensure the employees equal possibilities regardless of gender, race, religion, nationality or other cultural differences.

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. In the HSE Group, we work with all regulators, agencies and other supervisory institutions proactively, timely and transparently.

2.9.4.1 The Code of Ethics of the HSE Group

The Code of Ethics of the HSE Group obliges us to follow the ethical and professional standards of work and conduct. They 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 have appointed internal bodies whose primary tasks are the evaluation and judgement of reported cases of mobbing, including reports on discriminatory conduct. The established internal bodies in 2019 did not receive any reports of discriminatory conduct, countermeasures, sexual harassment and other harassment or ill-treatment at work.

2.9.4.2 Protection of privacy and personal data and information security

We respect the General Data Protection Regulation, so we have defined the types of personal data that we process and regulated data flows, thus we can carefully monitor the processing of personal data.

We process personal data only with an appropriate legal basis and in accordance with the purpose of processing. We provide individuals with all necessary information about the processing of their personal data in accordance with the General Data Protection Regulation, and also inform them of their right to become aware of personal data, to delete personal data and to limit and object to processing.

We take care of information security through constant updates and various measures. The use of software that provides access to the personal data register is limited to authorised persons. Access is protected by a system for authorization and identification of users.

With regard to the protection of privacy and personal data and software and hardware, we have adopted internal acts regulating and laying down rules for the processing of personal data and software and hardware.

2.9.4.3 Temporary work

The HSE Group is committed to reducing the use of temporary 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.

2.9.4.4 Prevention and detection of fraud

The Fraud Prevention and Detection Service carried out tasks in 2019 in accordance with the adopted Rules for the Implementation of Fraud Prevention, Detection and Investigation Tasks in the HSE Group. It received five reports of alleged wrongdoing in 2019. Three very extensive forensic investigations in several HSE Group companies were completed in mid-2019, and four partial and three comprehensive reports were produced. Several proposals for measures were issued, including to correct irregularities and to strengthen corporate integrity or compliance with legislation, other rules, applicable recommendations, internal regulations and good business practices and ethical principles. As part of these, individual companies were also given instructions, explanations (education), including for strengthening corporate integrity. With regard to the findings in the reports issued, the management of HSE also took several decisions to implement the proposed measures.

2.9.4.5 Corporate security

Corporate security is also very important for the HSE Group, because the functioning of each company is influenced by various threat factors, such as various safety occurences in the world, natural disasters and various negative deviations in society in our country.

Corporate security is concerned by the Corporate Security Service of the HSE Group. It is authorised to implement/manage and provide all activities in HSE Group companies that define and implement the necessary security and systemic measures to manage security risks and ensure the safety of people and property and information security and combines organisational, technical, legal, functional and personnel measures in order to maintain order, respect for laws, regulations and administrative provisions and internal general and individual acts in the HSE Group.

In accordance with the decision of the Government of the Republic of Slovenia, TEŠ and PV are obligated to organise security. The corporate security service of the HSE Group, in cooperation with TEŠ and PV, organizes and implements security and safety measures in accordance with the regulations and standards of the profession, thereby ensuring the safety of employees, facilities and enabling the continuous operation of key systems.

In 2019, we conducted a comprehensive review of the existing state of overall information security in the HSE Group and continued to upgrade the equipment of technical security systems in HSE Group companies, where, through the unified design of technical security systems in group companies, a step-by-step joint HSE Group Security-operational Centre (SOC), which will be directly linked to the National Crisis Management Centre (NCMC) after launch. The aim of the introduction of SOC within the HSE Group is to provide an efficient, advanced and intelligent security system that will respond effectively to security events and ensure full automation of information security and cyber processes.

Functioning of each company is influenced by various threat factors, such as various **safety occurences in the world, natural disasters** and various **negative deviations in society in our country**.

In 2019, we conducted a **comprehensive review of the information security** and upgraded **technical security systems**

Accounting Report of the HSE Group

We do not dream
big dreams,
we reach them

03

3.1 Independent Auditor's Report for the HSE Group

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
to the owners of HOLDING SLOVENSKE ELEKTRARNE d.o.o.

Opinion

We have audited the consolidated financial statements of the HOLDING SLOVENSKE ELEKTRARNE d.o.o. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRS').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other matter paragraph

The financial statements of the company for the year ended December 31, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on May 17, 2019.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess 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. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- Other information are, in all material respects, consistent with the consolidated financial statements;
- Other information are prepared in compliance with applicable law or regulation; and
- Based on our knowledge and understanding of the Group and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 of the Group, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using 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 and for approving audited annual report.

Auditor's Responsibilities for the Audit of the 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 auditor's 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 auditing rules 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 auditing rules, we exercise professional judgment and maintain professional scepticism 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 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.
- 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 controls.
- 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 auditor's 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 auditor's report. However, future events or conditions may cause the organization 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 concerning the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With those charged with governance we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

DELOITTE REVIZIJA d.o.o.

Tina Kolenc Praznik
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, April 10, 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

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 reasonably expects that in the foreseeable future the HSE Group will have sufficient assets to continue its operations; therefore, the consolidated financial statements are prepared on a going concern basis.

The responsibility of Management in preparation of consolidated financial statements includes the following:

- accounting policies are appropriately selected and consistently used;
- judgements and assessments 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 safeguarding the HSE Group's assets and preventing and detecting fraud and other irregularities.

The management confirms that the consolidated financial statements for 2019 have been prepared in accordance with the provisions of the International Financial Reporting Standards, as adopted by the European Union.

On 10 April 2020, the management adopted the consolidated financial statements of the HSE Group for the business year which ended on 31 December 2020.

Ljubljana, 10 April 2020

Stojan Nikolić, M.Sc.
Managing Director of HSE

Viktor Vračar, Ph.D.
Business Director of HSE

Mirko Marinčič, M.Sc.
Business Director of HSE

3.3 Introductory notes to the preparation 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 then 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 firm Deloitte revizija d.o.o. has audited the consolidated financial statements with explanatory notes and prepared the Independent Auditor's Report included in the beginning of the section.

3.4 Consolidated financial statements

3.4.1 Consolidated statement of financial position

in EUR	Explanation	31.12.2019	31.12.2018
ASSETS		**2,073,747,513**	**2,134,733,707**
A. LONG-TERM ASSETS		**1,791,601,320**	**1,822,951,151**
I. Intangible assets	1	24,798,588	23,780,085
II. Property, plant and equipment	2	1,601,008,874	1,636,937,210
III. Right to use leased assets	21	4,678,163	0
IV. Investment property	3	17,557,518	17,183,899
V. Long-term investments in subsidiaries		0	510,445
VI. Other long-term investments and loans	4	140,660,755	139,480,575
VII. Long-term trade receivables		1,012,879	3,690,818
VIII. Other long-term assets		1,163,178	650,703
IX. Deferred Tax Assets Liabilities	5	721,365	717,416
B. SHORT-TERM ASSETS		**282,146,193**	**311,782,556**
I. Assets included in the disposal group		215,722	793,856
II. Inventories	7	33,092,936	30,435,378
III. Short-term investments and loans	8	12,602,021	13,013,546
IV. Short-term trade receivables from customers	9	142,196,584	135,127,685
V. Contract assets	10	457,771	1,014,437
VI. Current tax assets		691,240	26,772
VII. Other short-term assets	11	50,372,320	47,860,353
VIII. Cash and cash equivalents	12	42,517,599	83,510,529
CAPITAL AND LIABILITIES		**2,073,747,513**	**2,134,733,707**
A. CAPITAL	13	**1,064,640,823**	**1,091,245,475**
I. Called-up capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Profit reserves		413,856,350	413,856,350
IV. Risk hedging reserve		20,452,278	75,592,356
V. Fair value reserve		-2,195,785	-958,415
VI. Retained earnings or losses		42,105,069	12,620,282
VII. Foreign currency translation reserve		-617,401	-1,055,099
VIII. Capital of owners of non-controlling shares		238,338	388,027
B. LONG-TERM LIABILITIES		**745,967,743**	**764,028,047**
I. Provisions for severance payments upon retirement and jubilee bonuses	14	19,988,568	14,621,657
II. Other provisions	15	54,193,524	46,282,925
III. Other long-term liabilities	16	1,639,156	1,884,226
IV. Long-term financial liabilities	17	666,419,394	701,130,810
V. Long-term financial liabilities from leases	21	3,452,707	0
VI. Long-term trade liabilities		258,785	89,640
VII. Deferred tax liabilities	6	15,609	18,789
C. SHORT-TERM LIABILITIES		**263,138,947**	**279,460,185**
II. Short-term financial liabilities	18	65,935,349	83,006,503
III. Short-term financial liabilities from leases	21	1,748,662	0
IV. Short-term trade liabilities	19	137,975,629	141,184,257
V. Contractual obligations		0	13,800
VI. Current tax assets		4,268,719	2,072,212
VII. Other short-term liabilities	20	53,210,588	53,183,413

* Explanations to the financial statements are part of the financial statements and must be read in conjunction with them.

3.4.2 Consolidated income statement

in EUR	Explanation	2019	2018
OPERATING INCOME		**1,728,616,033**	**1,489,591,259**
1. Net sales revenue	23	1,710,574,972	1,471,965,221
2. Other operating income	24	18,041,061	17,626,038
OPERATING EXPENSES		**1,654,515,725**	**1,459,148,470**
3. Costs of goods, material and services	25	1,376,079,482	1,185,855,448
4. Labour costs	26	131,729,583	124,519,622
5. Value write-downs	27	86,517,293	97,686,938
6. Change in value of stocks of products and production in progress		-814,422	-1,221,885
7. Capitalised own products and services	28	-14,224,268	-15,395,195
8. Other operating expenses	29	75,228,057	67,703,542
EARNINGS BEFORE INTEREST AND TAX		**74,100,308**	**30,442,789**
9. Financial revenue		7,079	162,871
10. Financial expenses		32,230,827	33,367,602
FINANCIAL RESULT	30	**-32,223,748**	**-33,204,731**
11. Share in profit or loss of associates and jointly-controlled companies		1,349,462	1,915,087
PROFIT OR LOSS BEFORE TAXES		**43,226,022**	**-846,855**
TAX	31	**13,498,042**	**10,955,748**
12. Current tax		13,501,990	10,847,119
13. Deferred tax		-3,948	108,629
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	32	**29,727,980**	**-11,802,603**
Owner of the parent company		29,730,397	-11,567,589
Non-controlling share		-2,417	-235,014

* Explanations to the financial statements are part of the financial statements and must be read in conjunction with them.

3.4.3 Consolidated statement of other comprehensive income

in EUR	Explanation	2019	2018
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	33	**29,727,980**	**-11,802,603**
Change in the fair value reserve of property, plant and equipment	13	-43,000	0
Actuarial revenues and losses of programmes with defined employee benefits	14	-1,451,375	-172,529
Revenues and losses arising from the conversion of financial statements of foreign companies		-137,915	17,282
Items that will not subsequently be reclassified to profit or loss		**-1,632,290**	**-155,247**
Net effective part of change in the fair value of cash flow hedging instruments	13	-55,123,646	64,734,631
Net effective part of change in the fair value of cash flow hedging instruments transferred to profit or loss	13	-16,433	104,346
Change in the fair value reserve of financial assets available for sale	13	2,878	1,342
Items that may later be reclassified to profit or loss		**-55,137,201**	**64,840,319**
TOTAL COMPREHENSIVE INCOME IN THE REPORTING PERIOD		**-27,041,511**	**52,882,469**
Owner of the parent company		-27,039,094	53,110,300
Non-controlling share		-2,417	-227,831

* Explanations to the financial statements are part of the financial statements and must be read in conjunction with them.

3.4.4 Consolidated cash flow statement

in EUR	2019	2018
CASH FLOWS FROM OPERATING		
Net profit of loss	29,727,979	-11,802,603
Adjustments for:		
Amortisation of property, plant and equipment, intangible assets, investment property and right to use assets	79,764,137	76,945,954
Impairments/write-offs/sales of property, plant and equipment, intangible assets and investment property	6,169,589	20,079,193
Write-offs of inventories	544,915	222,833
Write-offs of operating receivables	38,652	65,638
Reversal of write-off/impairment of operating receivables	-45,741	-407,866
Loss in the sale of property, plant and equipment	0	373,320
Financial revenue	-7,079	-162,871
Financial expenses	32,230,828	33,367,602
Share in profit or loss of associates and jointly-controlled companies	-1,349,462	-1,915,087
Revenue in the sale of property, plant and equipment	-734,688	-1,371,075
Taxes	13,498,042	10,955,748
Operating profit before changes in net short-term assets and taxes	**159,837,172**	**126,350,786**
Changes in net short-term assets and provisions		
Change in:		
Inventories	-3,202,473	-6,235,355
Trade receivables and other assets	-8,330,817	-12,593,116
Assets intended for sale	578,134	318,961
Operating liabilities to suppliers and other liabilities	-20,187,048	105,103,927
Provisions	12,080,263	-2,529,498
Profit tax paid	-11,969,951	-4,564,221
Cash from operations	**128,805,280**	**205,851,484**
CASH FLOWS FROM INVESTMENTS		
Interest received	3,755	3,006
Remuneration from other financing	364	52,865
Dividends received	2,960	107,000
Remuneration from the sale of property, plant and equipment	1,109,818	1,835,506
Remuneration from the sale of investment property	323,795	1,816,582
Remuneration from reduction of short-term loans given	12,899,641	0
Remuneration from the reduction of long-term loans given	10,000	0
Remuneration from the reduction of other short-term financial investments	0	13,469,817
Expenses for the purchase of property, plant and equipment	-48,245,566	-56,633,163
Expenses for the purchase of intangible assets	-37,342,409	-31,253,025
Expenses for the purchase of investment property	-691,574	-108,092
Expenses for the purchase of subsidiaries	0	-350,001
Expenses for leases	-5,757,168	0
Expenses for the increase of short-term loans given	-12,508,326	0
Expenses for the increase of long-term loans given	-7,443	0
Expenses for the increase of other short-term financial investments	0	-12,887,971
Cash from investment	**-90,202,153**	**-83,947,476**

CONTINUES ON NEXT PAGE

in EUR	2019	2018
CASH FLOWS FROM FINANCING		
Remuneration from leases	4,325,113	0
Remuneration from long-term loans received	181,440,000	4,606,183
Remuneration from short-term loans received	42,514,000	22,441,793
Remuneration from other long-term financial liabilities received	669,780	508,421
Remuneration from other short-term financial liabilities received	7,208,705	0
Expenses for loan interest	-23,235,612	-26,097,136
Expenses for other financial liabilities	-8,865,320	-6,262,882
Expenses for repayment of long-term loans	-233,248,613	-72,570,275
Expenses for repayment of short-term loans	-42,893,838	-22,596,955
Expenses for repayment of other short-term financial liabilities	-7,233,758	-116,070
Expenses for repayment of other long-term financial liabilities	-276,515	0
Cash from financing	**-79,596,058**	**-100,086,921**
INITIAL BALANCE OF CASH AND CASH EQUIVALENTS	**83,510,529**	**61,693,442**
Profit or loss for the period	**-40,992,931**	**21,817,087**
FINAL BALANCE OF CASH AND CASH EQUIVALENTS	**42,517,598**	**83,510,529**

* Explanations to the financial statements are part of the financial statements and must be read in conjunction with them.

3.4.5 Consolidated statement of changes in capital

	CALLED-UP CAPITAL		REVENUE RESERVES			RETAINED EARNINGS OR LOSSES				
in EUR	**Share capital**	**Capital surplus**	**Other profit reserves**	**Risk hedging reserve**	**Fair value reserve**	**Profit or loss brought forward**	**Net profit of the financial year**	**Foreign currency translation reserve**	**Capital of minority owners**	**Total**
Balance as at 31.12.2017	**29,558,789**	**561,243,185**	**413,856,350**	**10,753,380**	**-1,294,792**	**16,377,674**	**8,268,978**	**-1,072,381**	**615,858**	**1,038,307,041**
Effect of change in valuation method in the transfer from property, plant and equipment to investment property						-338,831				-338,831
Balance as at 1.1.2018	**29,558,789**	**561,243,185**	**413,856,350**	**10,753,380**	**-1,294,792**	**16,038,843**	**8,268,978**	**-1,072,381**	**615,858**	**1,037,968,210**
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**64,838,976**	**-91,603**	**-86,767**	**-11,567,588**	**17,282**	**-227,831**	**52,882,469**
Entry of net profit or loss of the reporting period							**-11,567,588**		**-235,015**	**-11,802,603**
Items that will not subsequently be reclassified to profit or loss	**0**	**0**	**0**	**0**	**-92,946**	**-86,767**	**0**	**17,282**	**7,184**	**-155,247**
Actuarial revenues and losses of programmes with defined employee benefits					-92,946	-86,767			7,184	-172,529
Revenues and losses arising from the conversion of financial statements of foreign companies								17,282		17,282
Items that may later be reclassified to profit or loss	**0**	**0**	**0**	**64,838,976**	**1,343**	**0**	**0**	**0**	**0**	**64,840,319**
Net effective part of change in the fair value of cash flow hedging instruments				64,734,630						64,734,630
Net effective part of change in the fair value of cash flow hedging instruments transferred to profit or loss				104,346				0		104,346
Change in the fair value reserve of financial assets available for sale					1,343					1,343
B.3. Changes in capital	**0**	**0**	**0**	**0**	**427,980**	**8,235,792**	**-8,268,978**	**0**	**0**	**394,793**
Distribution of the remainder of the net profit of the comparative reporting period to other components of capital		0				8,268,978	-8,268,978			0
Effect of change in valuation method in the transfer from property, plant and equipment to investment property					430,447					430,447
Other changes in capital	0	0			-2,467	-33,186	0			-35,653
Balance as at 31.12.2018	**29,558,789**	**561,243,185**	**413,856,350**	**75,592,356**	**-958,415**	**24,187,868**	**-11,567,588**	**-1,055,099**	**388,027**	**1,091,245,473**
Balance as at 1.1.2019	**29,558,789**	**561,243,185**	**413,856,350**	**75,592,356**	**-958,415**	**24,187,870**	**-11,567,588**	**-1,055,099**	**388,027**	**1,091,245,473**
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**-55,140,078**	**-1,237,370**	**-254,128**	**29,730,396**	**-137,915**	**-2,417**	**-27,041,512**
Entry of net profit or loss of the reporting period							**29,730,396**		**-2,417**	**29,727,979**
Items that will not subsequently be reclassified to profit or loss	**0**	**0**	**0**	**0**	**-1,240,247**	**-254,128**	**0**	**-137,915**	**0**	**-1,632,290**
Change in surplus from revaluation of property, plant and equipment					-43,000					-43,000
Actuarial revenues and losses of programmes with defined employee benefits					-1,197,247	-254,128				-1,451,375
Revenues and losses arising from the conversion of financial statements of foreign companies								-137,915		-137,915
Items that may later be reclassified to profit or loss	**0**	**0**	**0**	**-55,140,078**	**2,877**	**0**	**0**	**0**	**0**	**-55,137,201**
Net effective part of change in the fair value of cash flow hedging instruments				-55,123,645	-1			0		-55,123,646
Net effective part of change in the fair value of cash flow hedging instruments transferred to profit or loss				-16,433						-16,433
Change in the fair value reserve of financial assets available for sale					2,878					2,878
B.3. Changes in capital	**0**	**0**	**0**	**0**	**0**	**-11,559,069**	**11,567,588**	**575,613**	**-147,272**	**436,860**
Distribution of the remainder of the net profit of the comparative reporting period to other components of capital			0			-11,567,588	11,567,588			0
Other changes in capital	0	0	0		0	8,516		575,613	-147,272	436,857
Balance as at 31.12.2019	**29,558,789**	**561,243,185**	**413,856,350**	**20,452,278**	**-2,195,785**	**12,374,673**	**29,730,396**	**-617,401**	**238,338**	**1,064,640,823**

* Explanations to the financial statements are part of the financial statements and must be read in conjunction with them.

3.5 Notes to the consolidated financial statements

3.5.1 Reporting entity

The consolidated financial statements for the HSE Group are prepared by the controlling company Holding Slovenske elektrarne d.o.o. 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 represent 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 (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. Below are the consolidated financial statements for the business year which ended on 31 December 2019.

HSE GROUP AS AT 31 DECEMBER 2019

Company	% ownership 31.12.2019	% ownership 31.12.2018	Country of the company's registered office
HSE d.o.o.	100.0%	100.0%	Slovenia
DEM d.o.o.	100.0%	100.0%	Slovenia
SENG d.o.o.	100.0%	100.0%	Slovenia
TEŠ d.o.o.	100.0%	100.0%	Slovenia
PV d.d.o.	100.0%	100.0%	Slovenia
HTZ IP d.o.o.	100.0%	100.0%	Slovenia
RGP d.o.o.	100.0%	100.0%	Slovenia
SIPOTEH d.o.o.	100.0%	100.0%	Slovenia
PLP d.o.o.	100.0%	100.0%	Slovenia
HSE EDT d.o.o.	100.0%	100.0%	Slovenia
HSE Invest d.o.o.	100.0%	75.0%	Slovenia
SRESA d.o.o.	60.0%	60.0%	Slovenia
sHPP LOBNICA d.o.o.	65.0%	65.0%	Slovenia
ELPROM d.o.o.	100.0%	100.0%	Slovenia
HSE MAK Enery DOOEL	100.0%	100.0%	North Macedonia
HSE ADRIA d.o.o. - in liquidation	0.0%	100.0%	Croatia
HSE BH d.o.o.	100.0%	100.0%	Bosnia and Herzegovina
HSE Balkan Energy d.o.o.	100.0%	100.0%	Serbia

In May 2019, HSE d.o.o. bought a 25% share in HSE Invest d.o.o. In December 2019, the liquidation procedure of HSE Adria d.o.o was concluded with the removal from the register of economic operators.

The intention to sell PLP d.o.o. was abandoned in 2019, so in 2019 the company is included in the consolidated financial statements.

With the entry of PLP d.o.o., the assets of the HSE Group increased by EUR 1,143 thousand, of which long-term assets by EUR 368 thousand and liabilities of the Group by EUR 840 thousand.

ACQUIRED ASSETS AND ASSUMED LIABILITIES OF THE GROUP

in EUR	2019
Assets	1,142,811
Liabilities	840,186
Net value of assets acquired	302,625

The subsidiary TET Novi materiali d.o.o. is currently not operating or was due to its insignificance not 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 honest presentation of the operations of the Group.

SIGNIFICANT AMOUNTS IN THE FINANCIAL STATEMENTS OF SUBSIDIARIES

in EUR	Assets	Liabilities (excluding capital)	Revenue	Net profit or loss for the financial year	Amount of total capital
TEŠ	1,016,196,704	651,659,677	227,201,572	-19,582,324	364,537,027
PV	139,920,428	103,610,691	112,725,689	-6,584,420	36,309,737
DEM	453,346,543	13,131,228	67,679,679	5,126,119	440,215,315
HSE BH	9,694,678	8,662,157	53,347,080	278,893	1,032,521
SENG	225,002,840	21,132,726	37,715,283	4,980,024	203,870,114
HTZ I.P.	16,158,442	14,275,061	32,521,790	-1,542,243	1,883,381
HSE MAK Energy	6,404,842	6,063,733	29,566,177	205,029	341,109
RGP	9,958,998	6,991,260	18,107,350	703,937	2,967,738
HSE Invest	2,034,631	1,688,589	3,830,532	-232,382	346,042
PLP	1,701,396	884,159	3,104,376	169,876	817,237
SIPOTEH	1,341,749	614,416	2,755,297	271,007	727,333
HSE Balkan Energy	1,104,100	177,245	1,207,202	37,699	926,855
HSE EDT	3,265,047	1,806,176	1,012,679	-708,656	1,458,871
sHPP Lobnica	617,439	2,514	28,951	-978	614,925
SRESA	57,793	11	0	-5,187	57,782
HSE Adria - in liquidation	0	0	0	-5,663	0
ELPROM	51,443	16	0	-253	51,427
Total	1,886,857,073	830,699,659	590,803,657	-16,889,522	1,056,157,414

ASSOCIATES

Company name	Co-owner	Country of the company's registered office	% of co-ownership	% of ownership of the HSE Group
RCE d.o.o. - in liquidation	TEŠ d.o.o.	Slovenia	8.0%	24.5%
	PV d.d.	Slovenia	11.0%	
	HTZ IP d.o.o.	Slovenia	1.0%	
	PV INVEST d.o.o.	Slovenia	4.5%	
HESS d.o.o.	DEM d.o.o.	Slovenia	30.8%	49.0%
	HSE d.o.o.	Slovenia	15.4%	
	SENG d.o.o.	Slovenia	2.8%	

DATA ON ASSOCIATES AS AT 31 DECEMBER 2019

Company	Address	Activity
HESS	Cesta bratov Cerjakov 33a, Brežice	electricity production in hydroelectric power plants
RCE d.o.o. - in liquidation	Preloška cesta 1, Velenje	research and development activities in other fields of science and technology

JOINTLY-CONTROLLED COMPANIES

Company	Address	Activity	% ownership
SOENERGETIKA d.o.o.	Stara cesta 3, 4000 Kranj	production of electricity and thermal energy	25%

BRANCHES

The Group has a branch in the Czech Republic and Macedonia. No business operations were conducted through the Czech branch in 2019, 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 preparation

A) STATEMENT OF COMPLIANCE

When preparing the consolidated financial statements on 31 December 2019, the Group took into consideration the following:

- International Financial Reporting Standards (IFRS), which include the International Accounting Standards (IAS), Interpretations from the Standing Interpretations Committee (SIC) and Interpretations from the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union,
- Companies Act,
- Energy Act,
- Corporate Income Tax Act,
- Rules on the implementing the Corporate Income Tax Act and its implementing regulations,
- Accounting Manual of the HSE Group,
- other relevant 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 impacts of transactions and other business events are recognised when they occur, not when they are paid, and are recorded and reported for the periods to which they apply. 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 AND COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS: the consolidated financial statements fairly represent the financial position, financial performance and cash flows of the Group.
- PRESENTATION CONSISTENCY: For the sake of comparability of data, the presentation and classification of items in financial statements is the same from period to period.
- MATERIALITY AND AGGREGATION: each material group which comprises similar items is presented separately in the consolidated financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.
- OFFSETTING: assets and liabilities, and income and expenses, are not offset unless this is required or permitted by a standard or an interpretation.
- COMPARATIVE INFOMRATION: unless the standard or the interpretation 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 valuation and recognition principles were observed while compiling the consolidated financial statements as for the year 2018, except for the changes stated below.

As of 1 January 2019, the Group started applying the new **IFRS 16 - Leases standard**.

In 2019, the Group complemented the applicable accounting policies and management of business events and their posting in financial statements, namely in line with the requirements of IFRS 16, which entered into force on 1 January 2019.

IFRS 16 replaces the International Accounting Standard IAS 17 - Leases and equates the treatment of operating and financial leases with lessees. On the basis of lease agreements, the lessees shall, in the statement of financial position, post the funds leased among fixed assets as right-of-use assets, in connection with the lease liabilities. The value of the leased assets is transferred to costs through amortisation, and the cost of financing is borne by financial expenses. The standard provides lessees with two exceptions to recognition, namely in the case of leases of low-value assets and short-term leases. The treatment of leases with the lessor does not differ significantly from that of IAS 17.

The Group reviewed and analysed lease agreements concluded with a duration of more than one year. Based on lease costs and the duration of the lease agreements, the Group assessed the value of the right to use the leased assets and lease liabilities and recognised them on 1 January 2019 in the statement of financial position for a period of five years. In the case of agreements with indefinite duration with the right to terminate the agreement by the Group companies' management, in accordance with item 18 of IFRS 16, it is quite certain that the lease will not be terminated for at least another five years, while the estimate of a longer lease agreement cannot be given with considerable certainty. Therefore, in the case of agreements with indefinite duration, the lease period is set at five years.

The Group made use of an exemption for the recognition of the right to use assets for low-value leases.

Interest rates accepted at the conclusion of leases are not disclosed in the agreements. IFRS 16 in item 26 refers the lessee to the utilisation of the incremental borrowing rate, i.e. the borrowing rate that the Group would pay if they bought the asset and were in debt for the purchase. The Group does not have such interest rates, as following from the analysis of sources of financing, it has financed the working capital with the existing sources.

If the lessee cannot obtain information on the amount of the borrowing interest rate from a financial institution or from other sources, the lessee shall apply the average rates of the loan agreements concluded with non-financial corporations in credit institutions during the month of the lease, which Banka Slovenije published in its Bulletin. The values of the right to use the leased assets and the lease liabilities are estimated on the basis of discounting future cash flows for the duration of the lease. In case of leases, the Group used an interest rate calculated as the average of interest rates for 2018, published in the Bulletin of Banka Slovenije, for maturity over 1 to 5 years separately for amounts up to 1 million and for amounts above 1 million. The average interest rate thus calculated for amounts up to 1 million is 2,69% and 1,96% for amounts above 1 million.

EFFECTS OF THE ADOPTION OF IFRS 16

in EUR	IFRS 16		
	31.12.2018	Transition	1.1.2019
ASSETS			
Long-term assets	**0**	**5,757,168**	**5,757,168**
Right to use leased assets	0	5,757,168	5,757,168
TOTAL ASSETS	**0**	**5,757,168**	**5,757,168**
CAPITAL AND LIABILITIES			
Long-term liabilities	**0**	**4,325,116**	**4,325,116**
Lease liabilities	0	4,325,116	4,325,116
Short-term liabilities	**0**	**1,432,052**	**1,432,052**
Lease liabilities	0	1,432,052	1,432,052
TOTAL LIABILITIES	**0**	**5,757,168**	**5,757,168**

in EUR	IFRS 16
Amortization of rights of use	**1,475,460**
Lease costs	-1,563,939
Earnings before interest and tax	**88,479**
Financing expenses	108,038
Profit or loss before taxes	**-19,559**

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.

D) FUNCTIONAL AND PRESENTATION CURRENCY

In this report, the consolidated financial statements are presented in EUR (excluding cents), which represents the functional and representational currency of the Group. Due to the rounding of amounts, minor but insignificant deviations exist in the tables.

E) USE OF ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires the companies' 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 least in 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),
- assessment of the liquid amount of receivables (disclosure Credit risk)
- 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 (severance payments at retirement) (Note 14 of the consolidated statement of financial position),
- assessment of other provisions (Note 14 of the consolidated statement of financial position); and
- assessment of contingent liabilities and assets (disclosure Note 22).

Further assessments of management in preparing the financial statements on 31 December 2019 are as follows:

1. HSE has the right to buy back 35.6% of the shareholding in HESS, which it has sold (redemption right), and the purchaser/acquirer are obliged to sell their shares at any time between 1.6.2023 and 31.12.2023. The redemption right relates to the redemption of the total shareholding in the amount of 35.6%, representing SEL's total business share of 14.7% of the share capital in HESS and GEN's total business share of 20.9% of the share capital in HESS. HSE must exercise the redemption right from both companies/acquirers at the same time.

2. The obligation of dismantling power plants relates solely to the replacement of Block 6 of TEŠ, as indicated in the Energy licence for this building. The environmental permits for other production facilities do not include the obligation of dismantling.
   In the case of hydropower plants, regular maintenance is required during the period of the concession right. Costs of dismantling are not anticipated for the concession operator after the expiry of the concession.

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 experts. In December 2017, PV also received an external valuation assessment on the closing works, prepared by the Institute for Mining, Geotechnics and the Environment. 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.

4. The parent company concludes the sales and purchase transactions (except for transactions with derivative financial instruments) in order to trade with electricity, i.e. physical supply. According to IFRS 9, those transactions are not included in 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 CO_2 emission coupons, prepared by an external independent institution, are limited to a period of 8 years (2023-2030 period), and with the latter to a period of 32 years (2023-2054 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 impairment testing, 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 above-mentioned accounting policies are used for both years presented, unless otherwise indicated. When necessary, the comparative data is adjusted so that it is in accordance with the presentation of data in the current year.

FOREIGN CURRENCY CONVERSION

Transactions expressed in foreign currency are translated into the relevant functional currency at the exchange rate applicable on the date of transaction.

Cash and liabilities expressed in a foreign currency at the end of the reporting period are converted into functional currency at then applicable exchange rate.

Positive or negative foreign exchange differences are differences between amortised cost in the functional currency at the beginning of the period, which is repaired for the amount of effective interest and payments during the period, as well as amortised cost in foreign currency converted at the exchange rate at the end of the period.

Foreign exchange differences are recognised in the income statement, namely in net amounts.

In conversion of financial statements of subsidiaries abroad, whose functional value is not equal to presentation value of the Group, the following exchange rates are used:

- assets and liabilities (except capital) translated at the exchange rate on the reporting date,
- capital at initial exchange rate, and
- revenue and expenses at average exchange rate in the reporting year.

BASIS FOR CONSOLIDATION

Consolidated financial statements comprise financial statements of the controlling company and subsidiaries. Subsidiaries are entities controlled by the Group. This means that the Group is able to decide on financial and business orientations of the company for obtaining benefits from its operations. Financial statements of subsidiaries are included in consolidated financial statements from the date when the controlling begins to the date when it stops.

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

Financial statements of companies from the Group are consolidated into the consolidated financial statements on the basis of full consolidation. The financial statements are merged item by item by adding up similar items of assets, liabilities, capital, revenue and expenses. When preparing the consolidated financial statements, the statuses of receivables and liabilities between the companies in the Group, revenues and expenditures, as well as realised profits and losses arising from the transactions within the Group, are excluded.

Exchange rate differences from the translation of financial statements of dependent companies (whose function currency is not the same as the presentation currency of the Group) are recognised in the translated reserve of the capital or in the statement of other all-inclusive yield.

INTANGIBLE ASSETS

Intangible assets are classified as long-term assets and enable realisation of activities of the Group, but do not exist in any physical form. An item of intangible assets comprises long-term property rights and 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 attributed to the purchase of an intangible qualifying asset (until its capitalisation) are recognised as a part of cost of such 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 was old enough and if its state reflected the end of its useful life. The Group has no intangible assets, for which it would record the residual value when purchased.

Goodwill appears in consolidation and represents a surplus of cost over the acquirer's share in fair value of acquired recognisable assets, liabilities and contingent liabilities of the subsidiary on the date of acquisition. Goodwill is recognised as an asset and is examined at least once per year due to impairment. Each impairment is immediately recognised in the consolidated income statement and is not subsequently reversed. Upon disposal of the subsidary, the appropriate amount of goodwill is included into establishing the profit or loss at the time of sale and affects the profit and loss account of the Group. Amortisation is accounted for on a straight-line basis, taking into account the useful life of each individual (integral) part of an intangible asset. Amortisation is measured at cost when an asset is available for use. Emission coupons are not amortised, since they are purchased for individual periods in which they are used.

ESTIMATED USEFUL LIFE - INTANGIBLE ASSETS

	2019	2018
Computer software	2-20 years	2-20 years
Licenses	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

Useful lives of groups of intangible assets are examined at the end of each financial year and adapted, if needed. In the event their useful life is extended, the cost of amortisation in the current year is decreased. If useful life is shortened, amortisation costs increase. The adjustment of useful life has to be calculated in a manner that the asset will be amortised in the new predicted useful life. The change 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 exempted 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 added to other business revenues or write-offs of value.

PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment are carried at cost less accumulated amortisation 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 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 amortised 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. They include repairs that are usually carried out every few years (periodically) and require substantial resources.

The cost of 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 or production which can be attributed thereto.

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

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 remaining value would be determined.

Amortisation is calculated using the straight-line amortisation method, taking into account the useful life of an individual (integral) part of property, plant and equipment. Amortisation begins when an asset is available for use. Land, quarries and assets in construction or production are not amortised.

Assets acquired free-of-charge are not amortised, while at the same time a part of long-term deferred revenue is transferred to other operating revenue. This part equals the value of calculated amortisation.

ESTIMATED USEFUL LIFE - PROPERTY, PLANT AND EQUIPMENT

	2019	2018
Buildings	10-70 years	10-70 years
Parts of buildings	5-70 years	5-70 years
Production equipment	4-50 years	4-50 years
Parts of production equipment	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
Passenger 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 their useful life is extended, the cost of amortisation in the current year is decreased. If useful life is shortened, amortisation costs increase. The adjustment of the useful life must be recalculated in a manner which allows the property, plant and equipment to be finally amortised in the new envisaged 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 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.

Revenues 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 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 and
- 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.

LONG-TERM INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED COMPANIES

Investments in associated companies are those in which the Group has an important influence, but as a rule, the sharing in such companies is 20 - 50%.

Investments in jointly-controlled companies are those in which the Group, together with other owners, jointly controls the operations of these companies on the basis of the contractually agreed sharing of control.

Investments in associates and in jointly-controlled companies 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

Financial assets include cash and cash equivalents, receivables and loans, as well as financial investments. Among financial investments, the Group posts investments in jointly-controlled companies, investments in associates and investments in financial instruments.

The Group initially recognises loans and receivables and deposits on the date of their formation. Other financial assets are initially recognised at the exchange date or when the Group becomes a party to the instrument's contractual terms.

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

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

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

The classification depends on the business model selected for asset management and whether the Group 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 MEASURED 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 fair value are recognised in the statement of other comprehensive income. Upon derecognition, the cumulative change in fair value, recognised in other comprehensive income, is reclassified to the income statement.

C) 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.

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

D) FINANCIAL ASSETS AT AMORTIZED COST

Financial assets at amortized cost include financial assets held by the Group 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. Revenues 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 expired.

DERIVATIVE FINANCIAL INSTRUMENTS

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.

Derivative financial instruments are initially recognised at fair value by applying the net principle, which means that the value of the concluded transaction is not disclosed in the financial statements.

Following the initial recognition, the derivative financial instruments are measured at fair value, whilst the pertaining changes are treated differently with regard to the fact whether the derivative financial instruments fulfil the conditions for 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. The unsuccessful part of changes in the fair value of financial instrument is directly recognised in the income statement. The Group shall prospectively discontinue the hedge accounting if the hedge no longer meets the criteria for hedge accounting or 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 risk 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 item, subject of hedging, affects the profit or loss.

Effects of other derivative financial instruments, not defined as risk hedging in the case of cash flow variability exposure or attribution to an individual risk, associated with a recognised asset or liability, shall be recognised in profit or loss among other operating income or other net operating expenses.

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. This occurs in the case when the following conditions are met:

- physical supply is part of all such contracts,
- energy volume, purchased or sold under the contracts, corresponds to the operational needs of the Group,
- contracts cannot be considered as an option, as defined in the standard. In the case of electricity sales contracts, the contract is equivalent to the fixed forward sales or can be considered as sales of capacity.

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

The value of finished products and work in progress includes total production costs in a narrow sense, which comprise direct costs of materials, direct costs of services, direct labour costs, direct amortisation costs and general production costs. General production costs are costs of materials, services, salaries and amortisation, 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 amortisation) is established once per year on the basis of data from the previous year.

The net realisable value is assessed based on the sale price in ordinary operations, reduced for the assessed costs of finishing and the assessed costs of selling. 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

FINANCIAL ASSETS

Pursuant to IFRS 9, the Group on 1 January 2018 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 this assets that can be reliably measured have been decreased.

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

Impairment of receivables and loans

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

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

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.

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 in court,
- the decision on beginning of enforced 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 receivables and in case that due to the amount of receivables, it would not be economic for the Group to enter the collection procedure through court, receivables are finally written-off 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 a 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 consolidated income statement among operating costs.

NON-FINANCIAL ASSETS

On each date of reporting, companies from the Group check the book value of important non-financial assets in order to establish whether any signs of impairment are present or not. If such signs exist, the recoverable amount of the asset is assessed based on impairment testing. Non-financial assets 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 either value in use or fair value less costs of sale, whichever is higher. 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 testing, 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.

Companies from the Group may assess the losses due to impairment in past periods at the end of the reporting period and therefore establish whether the loss has been reduced or even eliminated. 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 after the amortisation write-off deduction, had no impairment loss been recognised for the asset in prior periods. Loss due to impairment of goodwill is not derecognised.

CAPITAL

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

On 31 December 2002, the general recalculation allowances for capital (in accordance with the then applicable Slovenian Accounting Standards) included revalorisation of the share capital before 2002. The adjustment due to the transfer to new SAS has been transferred to capital surplus.

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

The risk 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.

The 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 (severance payments upon retirement).

In the deferred profit and loss account, the profit and loss accounts of companies from the Group for the current and previous years are disclosed.

In the converted capital reserve, the exchange rate from the recalculations of items in financial statements of companies from the Group which operate abroad are presented, where different reporting currencies are used for reporting.

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

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

In accordance with legal regulations, collective agreements and internal rules, the Group companies are obliged to pay jubilee bonuses to employees and severance payments upon their retirement for which long-term provisions are created. There are no other existing pension liabilities.

Provisions are created in the amount of the assessed future payments for severance pay upon retirement and jubilee bonuses, discounted at the end of the business year. The calculation is prepared for each employee by taking into account the costs of severance payments upon retirement and costs of all expected jubilee bonuses until retirement. The actuary prepares the calculation for companies from the Group by using the projected unit. Payments for severance payments upon retirement and jubilee bonuses decrease the created provisions.

Labour costs and interest costs are recognised in the income statement, while the restatement of post-employment benefits or of unrealised actuarial revenues or losses arising on severance payments 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. 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, if the Group has legal or indirect commitments due to past events which can be reliably assessed and for which it is likely that with the settlement of the commitment an outflow of factors would be necessary to enable economic benefits.

The amount of the provision must be equal to the present value of the expenses, expected to be required to settle the liability. Since provisions are intended for covering probable, but not certain liabilities, the amount recognised as a provision is merely the best estimate of the expenses needed for the settlement of liabilites 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 reduced directly for costs and expenses for which they were created. 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.

Provisions are reduced directly for costs and expenses for which they were created. This means that in the financial year such costs or expenses do not appear in the consolidated income statement anymore. The effects of discounting are recognised within the framework of financial expenses.

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 with 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 Block 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 decommissioning 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 conditions for these kinds of works (environmental conditions, conditions for protecting health, handling 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.

With the introduction of IFRS 15, unaccounted revenue associated with sales contracts with customers is no longer part of other assets but is posted under Contract Assets.

Other liabilities include advances received, liabilities to employees, liabilities to the 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.

With the introduction of IFRS 15, deferred income from sales contracts with customers is no longer part of other liabilities but is posted under 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 compensation, which the Group believes to be entitled to receive in return for these goods or services. Revenue from contracts with customers is recognised at fair value of received repayment or receivable arising thereunder.

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 receivables 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 also includes the sale of emission coupons arising on trading, and sale of other merchandise and material.

In case the Group has more positive than negative operating foreign exchange differences, they are recorded as net revenue from the sales of merchandise at net principle.

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 the sale of services relates to electricity and construction, mining and maintenance services.

Unaccounted revenue 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 FINANCIAL INCOME

Revenue arising from default interest charges and related receivables are recognised upon occurrence if it is probable that economic benefits, related to the transaction, will flow into 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 business expenses, which are connected with business effects, include revenues from removing provisions, except in the case of provisions for severance pay upon retirement and jubilee bonuses, revenues from drawing deferred revenues, profits from selling fixed assets, removing bad liabilities, compensations and contractual penalties and similar revenues received (e.g. government grants).

Financial revenue 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 FINANCIAL EXPENSES

Expenses are recognised if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt and this decrease can be reliably measured. Business expenses are recognised, if the costs are no longer deferred in the value of the inventories, products or unfinished production, or once the commercial goods are sold. Costs that cannot be held in inventories of products and production in progress are recognised as operating expenses upon their occurrence.

In the purchase value of the sold goods, we recognise the expenses, connected with the sale of electricity, and dependent costs of electricity. In the event the Group has more negative than positive exchange rate differences from the operations, the latter are recognised in the purchase value of the sold goods.

Costs of materials are historical costs of materials purchased that are directly used for creating products and services (direct costs of material), as well as costs of material that do not have such 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 costs related to consistent transfer of value of amortisable intangible assets and amortisable 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.

Labour costs are historical costs related to accrued wages and similar amounts into gross amounts, as well as the duties charged on that basis and are not 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.

Financial 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 base for the business year. The taxable profit defers from net profit 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 decrease 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.

The deferred liability for tax represents the amount of the calculated tax from the corporate tax of deductible temporary differences, which means higher payment of tax in the future.

CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flows statement 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).

Cash assets of the Group include cash, cash in bank accounts, deposits with agreed maturity date and time deposits for the period up to 3 months.

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.

INITIAL APPLICATION OF NEW AMENDMENTS TO EXISTING STANDARDS IN FORCE DURING THE CURRENT REPORTING PERIOD

In the current reporting period, the following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are applied:

IFRS 16 — Leases accepted by the EU on 31 October 2017 (valid for annual periods beginning on or after 1 January 2019).

IFRS 16 - Leases, published by the IASC on 13 January 2016. The lessee shall recognise the right to use the asset and lease liabilities in accordance with IFRS 16. The right to use the asset is treated in a similar manner to other non-financial assets and is accordingly amortised. The lease liability is initially valued at the present value of the rents paid during the lease period, discounted at the implied interest rate, if it can be determined immediately. If this rate cannot be determined immediately, the lessee must use the assumed borrowing rate. As with IAS 17, which was replaced by IFRS 16, the lessor defines the lease as business or financial according to the nature of the lease. A lease is classified as a financial lease, if almost all the risks and benefits associated with the ownership of the asset are transferred to it. Otherwise, it's a business lease. In the case of a financial lease, the lessor shall recognise the financial income during the lease period on the basis of a sample reflecting the fixed period of return on the net investment. Payments from business leases shall be recognised by the lessor as income on the basis of a steady time method, or if the sample reflects the earlier reduction of the benefit from the use of that asset, using another systematic method.

Amendments to IFRS 9 Financial Instruments — Prepayment Features with Negative Compensation (apply to annual periods beginning on or after 1 January 2019).

Amendments to IFRS 9 - Financial Instruments – Prepayment Features with Negative Compensation issued by the IASC on 12 October 2017. The existing requirements of IFRS 9 on the right to terminate the agreement are amended to allow measurement at amortised value (or fair value via other comprehensive income depending on the business model), even in the case of negative compensation payments. According to the changes, the signature of the amount of the advance is irrelevant – in view of the prevailing interest rate, the payment may also be made for the benefit of the contracting party making the early payment. The calculation of compensation must be the same in the case of penalties for early repayment and in the case of an early repayment reward. The changes also include explanations regarding accounting for changes in financial liabilities that do not result in derecognition. In this case, the carrying amount shall be adjusted to the result recognised in comprehensive income. The effective interest rate shall not be recalculated.

Amendments to IAS 19 - Employee Benefits — Plan Amendment, Curtailment or Settlement, adopted by the EU on 13 March 2019 (apply to annual periods beginning on or after 1 January 2019).

Amendments to IAS 19 Employee Benefits – Plan Amendment, Curtailment or Settlement by the IASC on February 7, 2018. The amendments require the use of updated remeasurement assumptions to determine current service costs and net interest for the remainder of the reporting period following the change of the plan.

Amendments to IAS 28 - Investments in Associates and Joint Ventures — Long-term Interests in Associates and Joint Ventures adopted by the EU on 8 February 2019 (apply for annual periods beginning on or after 1 January 2019).

Amendments to IAS 28 - Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures, published by the IASC on 12 October 2017. The amendments aim to clarify that an entity applies IFRS 9, including impairment requirements, to long-term interests in an associate or joint venture that are part of a net investment in an associate or joint venture and to which the equity method does not apply. The amendments also eliminate paragraph 41, as the Committee considers it merely repeated requirements in IFRS 9 and caused confusion about the accounting of long-term shareholdings.

Amendments to the various standards due to Improvements to IFRS (2015-2017) resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23), in particular with a view to addressing inconsistencies and interpreting texts adopted by the EU on 14 March 2019 (valid for annual periods starting on or after 1 January 2019).

Amendments to various standards due to Improvements to IFRS (period 2015-2017) published by the IASC on 12 December 2017. Amendments to the various standards result from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) and are primarily aimed at correcting non-compliance and interpreting the text. The amendments include the following explanations: An entity remeasures its previous share in the joint activity when it acquires control of an entity (IFRS 3); if an entity gains joint control over a business entity, it does not remeasure its previous stake in the joint activity (IFRS) 11); the entity accounts for all consequences of the payment of dividends on income tax in the same way (IAS 12); and the entity treats as part of general loans all loans originally intended to develop an asset such as an asset qualified for intended use or sale (IAS 23).

IFRIC 23 — Uncertainty over income tax treatments accepted by the EU on 23 October 2018 (applicable for annual periods beginning on or after 1 January 2019).

IFRIC 23 - Uncertainty over income tax treatments issued by the IASC on 7 June 2017. There may be some confusion as to how the tax legislation applies to a particular transaction or circumstance, or whether the tax authority will accept the treatment of the tax in the company. IAS 12 Income Tax sets out how current and deferred tax should be accounted for, rather than how the effects of uncertainty should be reflected. IFRIC 23 complements the requirements of IAS 12 by specifying how the effect of uncertainty must be reflected in the accounting of income tax.

The adoption of these new standards, changes to existing standards and explanations did not lead to significant changes in the group's financial statements, except for the introduction of IFRS 16, the transition effects of which were shown above among significant changes in accounting policies.

STANDARDS AND AMENDMENTS TO EXISTING STANDARDS ISSUED BY THE IASC AND ADOPTED BY THE EU BUT NOT YET ADOPTED

The following standards, changes to existing standards and new clarifications have been issued at the date of approval of these financial statements, but have not yet entered into force:

Amendments to IAS 1- Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors — Definition Essential (applicable to annual periods beginning on or after 1 January 2020).

Amendments to IAS 1- Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors – Definition Essential published by the IASC on 31 October 31 2018. The amendments explain the definition of the term essential and how it should be included in the definition guidance.

Amendments to IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures — Interest Rate Benchmark Reform (applicable for annual periods beginning on or after 1 January 2020).

Amendments to IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures – Interest Rate Benchmark Reform issued by the IASC on 26 September 2019. Changes to Interest Rate Benchmark Reform:

a) amend the specific hedge accounting requirements in such a way that undertakings can account for hedging on the assumption that the reference rate on which hedged cash flows and cash flows from the hedging instrument are based due to the interest rate benchmark reform will not change;
b) are mandatory for all hedging ratios directly affected by the interest rate benchmark reform;
c) are not intended to facilitate other consequences of the interest rate benchmark reform (if the hedging ratio no longer meets the requirements for hedging accounting for reasons other than those mentioned in the changes, hedging accounting should be terminated) and
d) require specific disclosures on the extent to which changes of the reform affect hedging ratios among companies.

Amendments to the Conceptual Framework References in IFRS (apply to annual periods beginning on or after 1 January 2020).

Amendments to the Conceptual Framework References in IFRS issued by the IASC on 29 March 2018. In order to revise the Conceptual Framework for IFRS, the IASC updated the reference to it in IFRS standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. The amendments aim to support the transition to a revised conceptual framework for companies that develop their accounting policies through this framework when no IFRS standard applies to a specific transaction.

NEW STANDARDS AND CHANGES TO EXISTING STANDARDS ISSUED BY THE IASC BUT NOT YET ADOPTED BY THE EU

Currently, IFRS as adopted by the EU do not differ significantly from those adopted by the International Accounting Standards Committee (IASC) with the exception of the following new standards and amendments to existing standards as of 31 December 2019 (dates of entry into force below for IFRS as issued by the IASC):

IFRS 14 — Regulatory Deferral Accounts (applicable for annual periods beginning on or after 1 January 2016) — The European Commission has decided not to initiate the validation process of this intermediate standard and to await the release of its final version.

IFRS 14 – Regulatory Deferral Accounts published by the IASC on 30 January 2014. The aim of the standard is to enable companies, that use IFRS for the first time and that recognise regulatory deferral accounts in compliance with the previous GAAP, to continue with such recognition when transitioning to IFRS.

IFRS 17 Insurance Contracts (valid for annual periods beginning on or after 1 January 2021).

IFRS 17 Insurance Contracts published by the IASC on 18 May 2017. The new standard requires the measurement of insurance liabilities at the current value of fulfilment and brings a more uniform method of measurement and presentation for all insurance contracts. The purpose of the requirements is to ensure consistent and principle-based accounting for insurance contracts. IFRS 17 replaces IFRS 4 - Insurance Contracts and related Interpretations.

Amendments to IFRS 3 — Business Combinations — Definition of a business (in effect for business combinations where the acquisition date is equal to the beginning date of the first annual reporting period beginning on or after 1 January 2020 and the acquisition of assets occurring at the beginning of this period or after it).

Amendments to IFRS 3 - Business Combinations – Definition of a business issued by the IASC on 22 October 2018. Changes have been introduced to improve the definition of a business. The amended definition highlights that the business entity's business purpose is to provide goods and services to customers, while the previous definition highlighted returns in the form of dividends, lower costs and other economic benefits to investors and other shareholders. In addition to the amended wording, the Committee provided further guidance on the definition.

Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures — Sale or contribution of assets between an investor and his associate or joint venture, and subsequent amendments (the effective date is postponed indefinitely until the completion of the research project related to the equity method).

Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures – Sale or contribution of assets between an investor and his associate or joint venture, published by the IASC on 11 September 2014. The amendments relate to the divergence of the requirements under IAS 28 and IFRS 10 and explain that the extent of recognition of profit or loss in the business with an associate or in a joint venture depends on whether the assets sold or contributed constitute a business entity.

The Group foresees that the introduction of these new standards and changes to existing standards during the period of initial application will not have a significant impact on the financial statements of the Group.

Hedge accounting for a portfolio of financial assets and liabilities of which the EU has not adopted principles remains unregulated.

3.5.4 Fair value measurement

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 the 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 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 2019

COMPANY'S INCLUSION INTO THE GROUP

The PLP company was not included in the consolidation procedure in 2018 due to its planned sale at the beginning of 2019. This was abandoned in 2019, so in 2019 the company is included in the consolidated financial statements.

With the entry of PLP d.o.o., the assets of the HSE Group increased by EUR 1,143 thousand, of which long-term assets by EUR 368 thousand and liabilities of the Group by EUR 840 thousand.

ACQUIRED ASSETS AND ASSUMED LIABILITIES OF THE GROUP

in EUR	2019
Assets	1,142,811
Liabilities	840,186
Net value of assets acquired	302,625

3.5.7 Notes to consolidated financial statements

3.5.7.1 Consolidated statement of financial position

On 31 December 2019, the Group's assets amount to EUR 2,076,156,260.

INTANGIBLE ASSETS (1)

in EUR	31.12.2019	31.12.2018
Emmission coupons	7,920,430	7,375,403
Other long-term property rights	4,054,904	3,581,428
Goodwill	12,823,254	12,823,254
Total	**24,798,588**	**23,780,085**

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).

MOVEMENT OF INTANGIBLE ASSETS

in EUR	Emmission coupons	Other long-term property rights	Goodwill	Other intangible assets	Total
Cost 1.1.2019	**7,375,403**	**16,998,969**	**12,823,254**	**4,980**	**37,202,606**
Acquisitions	36,885,817	1,028,376	0	0	37,914,193
Disposals - write-offs, sales	-36,340,790	-298,628	0	0	-36,639,418
Transfers - re-posting	0	158,768	0	0	158,768
Group change	0	0	0	24,078	24,078
Write-offs	0	-497,930	0	0	-497,930
Cost 31.12.2019	**7,920,430**	**17,389,555**	**12,823,254**	**29,058**	**38,162,297**
Depreciable amount 1.1.2019	**0**	**13,417,541**	**0**	**4,980**	**13,422,521**
Disposals - write-offs, sales	0	-298,628	0	0	-298,628
Group change	0	0	0	24,078	24,078
Amortisation	0	713,012	0	0	713,012
Write-offs	0	-497,274	0	0	-497,274
Depreciable amount 31.12.2019		**13,334,651**	**0**	**29,058**	**13,363,709**
Book value 1.1.2019	**7,375,403**	**3,581,428**	**12,823,254**	**0**	**23,780,085**
Book value 31.12.2019	**7,920,430**	**4,054,904**	**12,823,254**	**0**	**24,798,588**

in EUR	Emmission coupons	Other long-term property rights	Goodwill	Other intangible assets	Total
Cost 1.1.2018	**3,089,569**	**16,003,634**	**12,823,254**	**4,980**	**31,921,437**
Acquisitions	30,617,038	765,220	0	0	31,382,258
Disposals - write-offs, sales	-26,331,204	-340,476	0	0	-26,671,680
Transfers - re-posting	0	666,860	0	0	666,860
Write-offs	0	-96,269	0	0	-96,269
Cost 31.12.2018	**7,375,403**	**16,998,969**	**12,823,254**	**4,980**	**37,202,606**
Depreciable amount 1.1.2018	**0**	**12,809,150**	**0**	**4,980**	**12,814,130**
Disposals - write-offs, sales	0	-230,661	0	0	-230,661
Transfers - re-posting	0	137,539	0	0	137,539
Amortisation	0	797,782	0	0	797,782
Write-offs	0	-96,269	0	0	-96,269
Depreciable amount 31.12.2018	**0**	**13,417,541**	**0**	**4,980**	**13,422,521**
Book value 1.1.2018	**3,089,569**	**3,194,484**	**12,823,254**	**0**	**19,107,307**
Book value 31.12.2018	**7,375,403**	**3,581,428**	**12,823,254**	**0**	**23,780,085**

The Group purchases emission coupons for the purpose of electricity production within the Group. Due to the change of legislation, since 2013 all thermal power plants have had to buy emission allowances on the market. The initial balance of Group emission coupons is 4,190,421 coupons, 4,160,428 coupons in the amount of EUR 36,885,817 were purchased in 2019 and 4,233,328 coupons in the amount of EUR 36,340,790 were sold or spent. Thus, the group has 4,117,521 emission coupons at the end of 2019.

Among other long-term property rights, licensed software used by the Group for informational support has the highest value. In 2019, there were EUR 1,028,376 in new purchases, EUR 796,558 write-downs and disposals with a current value of EUR 656 and EUR 158,768 transfers and transfers, which in principal represent the transfer of assets from property, plant and equipment to intangible assets.

Increase in intangible assets includes in 2019 the upgrade of the software in the Control Centre and the SAP software ERP module PM.

The amortisation of other long-term property rights in 2019 amounted to EUR 713,012. The useful lives of more important software have been reviewed in 2019. It is established that the useful lives remain unchanged and are correctly assessed in the light of current assumptions about the usefulness of these assets.

In 2019, impairments of long-term property rights were not carried out.

In 2019, the companies of the Group did not enter interest rates against the purchase value of intangible assets prior to bringing them to working condition because the intangible assets purchased in 2019 had not been brought to working condition for a long time.

The Group has no pledged intangible assets.

On 31 December 2019, the Group had EUR 766,058 of contracts concluded for the purchase of intangible assets in future years.

Goodwill refers to SENG in the amount of EUR 12,387,056 and to Sipoteh in the amount of EUR 436,198.

As at 30 September 2019, impairment testing of the cash generating unit SENG and Sipoteh was carried out from which goodwill arises.

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

GOODWILL SENG

2019	2018
Method used for the definition of the recoverable amount in the impairment testing	
Value in use (present value of expected free cash flow)	Value in use (present value of expected free cash flow)
Date of performance of the impairment testing	
30.09.2019	30.09.2018
Important assumptions used in the performance of the impairment testing	
The company's operations until 2030.	The company's operations until 2030.
The discount rate at a nominal amount of 6.89% adjusted to the real level of 4.80%, which was taken into account throughout the period until 2030.	Discount rate at a nominal amount of 7.43% adjusted to the real level: 5.27% in October-December 2018 and 5.30% until and including 2019.
Stock exchange prices for electricity forward contracts on HUPX for the period 2020 - 2022, with an initial price of 54.67 EUR/MWh and a price change over the period of 3.03%.	Stock exchange prices for electricity forward contracts on HUPX for the period 2020 - 2021, with an initial price of 40.39 EUR/MWh and a price change over the period of 26.32%.
Long-term forecasts of trends in market prices for electricity (Poyry Management Consulting) for the period 2023 - 2030, with an initial price of 60.87 EUR/MWh and and a price change over the period of 16.98%.	Long-term forecasts of trends in market prices for electricity (Poyry Management Consulting) for the period 2022 - 2030, with an initial price of 55.85 EUR/MWh and and a price change over the period of 23.31%.
The average annual growth rate of normalized real free cash flow is 0%.	The average annual growth rate of normalized real free cash flow is 0%.
The average production of 744 GWh/year has been taken into account. The average production of hydroelectric power stations on the Soča River was determined on the basis of statistical data about the average hydrology of the Soča River. 70% probability is taken into account. In 2027 (lower by 134 GWh), lower electricity production is envisaged due to the overhaul of the Avče PSPP.	The average production of 786 GWh/year has been taken into account. The average production of hydroelectric power stations on the Soča River was determined on the basis of statistical data about the average hydrology of the Soča River. A decrease in the production of electricity is expected for 2019 (90 GWh decrease) and 2025 (90 GWh decrease), due to the overhauling of the Avče PSPP, and in 2028 - 2030, due to the expected renovation of the Solkan HPP (8 GWh decrease).
CAPEX over the projection period of EUR 38,546,000.	CAPEX over the projection period of EUR 56,584,000.
Results of impairment testing carried out	
The book value of goodwill before the impairment testing amounts to EUR 218,223,000.	The book value of goodwill before the impairment testing amounts to EUR 221,782,000.
Recoverable amount of EUR 348,056,000.	Recoverable amount of EUR 369,013,000.
Revaluation expenses due to impairment of EUR 0.	Revaluation expenses due to impairment of EUR 0.

SENSITIVITY ANALYSIS - IMPAIRMENT TESTING OF GOODWILL

Goodwill	Recoverable amount in EUR	Sensitivity (change) of recoverable value in EUR Change in discount rate (WACC) in % points	
		-0.5	0.5
IN SENG	348,056,000	35,545,000	-29,058,000

Sipoteh also does not need a goodwill impairment on the basis of impairment testing.

PROPERTY, PLANT AND EQUIPMENT (2)

in EUR	31.12.2019	31.12.2018
Land	25,506,351	24,868,027
Buildings	388,361,583	387,762,512
Production equipment	1,134,646,090	1,165,711,053
Other equipment	5,582,134	6,336,466
Property, plant and equipment in acquisition	46,912,716	52,259,152
Total	**1,601,008,874**	**1,636,937,210**

Most of the Group's companies produce electric energy or raw materials for its production, which requires special equipment; due to their activity, the values of structures are important, too. Property, plant, and equipment thus present the major part of the Group's assets.

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT

in EUR	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment in acquisition	Total
Cost 31.12.2018	**30,527,370**	**1,237,427,390**	**3,227,455,484**	**85,706,474**	**60,276,441**	**4,641,393,159**
Reclassification financial leases IFRS 16	0	0	-523,724	0	0	-523,724
Cost 1.1.2019	**30,527,370**	**1,237,427,390**	**3,226,931,760**	**85,706,474**	**60,276,441**	**4,640,869,435**
Acquisitions	18,900	0	3,566		48,245,566	48,268,032
Disposals	-532,134	0	-5,962,612	-18,832,011		-25,326,757
Transfers from investments	720,476	8,222,124	29,136,484	810,685	-38,889,769	0
Transfers - re-posting	0	0	-6,097	16,152	-166,621	-156,566
Change in discounting of decommissioning assets	0	6,927,000	1,636,178	0	-8,563,178	0
Group change - PLP d.o.o.	0	411,452	3,220,834	52,486	0	3,684,772
Exchange differences	0	-1	-1	196	0	194
Write-offs	-6,358	-83,173	-5,842,212	-2,649,849	-5,972,434	-14,554,026
Cost 31.12.2019	**30,728,254**	**1,252,904,792**	**3,249,117,900**	**65,104,133**	**54,930,005**	**4,652,785,084**
Depreciable amount 31.12.2018	**5,659,343**	**849,664,878**	**2,061,744,431**	**79,370,008**	**8,017,289**	**3,004,455,949**
Reclassification financial leases IFRS 16	0	0	-22,524	0	0	-22,524
Depreciable amount 1.1.2019	**5,659,343**	**849,664,878**	**2,061,721,907**	**79,370,008**	**8,017,289**	**3,004,433,425**
Disposals	-446,387	0	-5,955,365	-18,549,875	0	-24,951,627
Transfers - re-posting	0	7,062	0	-1	0	7,061
Group change - PLP d.o.o.	0	226,334	2,964,377	49,292	0	3,240,003
Amortisation	5,948	14,715,043	61,454,799	1,295,130	0	77,470,920
Exchange differences	0	0	0	191	0	191
Impairments	2,999	0	0	0	0	2,999
Write-offs	0	-70,108	-5,713,908	-2,642,746	0	-8,426,762
Depreciable amount 31.12.2019	**5,221,903**	**864,543,209**	**2,114,471,810**	**59,521,999**	**8,017,289**	**3,051,776,210**
Book value 1.1.2019	**24,868,027**	**387,762,512**	**1,165,711,053**	**6,336,466**	**52,259,152**	**1,636,937,210**
Book value 31.12.2019	**25,506,351**	**388,361,583**	**1,134,646,090**	**5,582,134**	**46,912,716**	**1,601,008,874**

in EUR	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment in acquisition	Total
Cost 1.1.2018	**31,011,325**	**1,162,673,695**	**3,186,294,617**	**70,300,174**	**46,132,958**	**4,496,412,769**
Acquisitions	0	0	0	0	55,877,682	55,877,682
Disposals	-253,774	-588,358	-1,354,382	-15,887,085	0	-18,083,599
Transfers from investments	296,209	5,701,966	58,522,275	1,327,318	-65,879,966	-32,198
Transfers - re-posting	-159,999	101,615	-5,224,694	-121,226	203,709	-5,200,595
Transfers - transfer from NNO to NN	-481,461	-2,409,859	0	0	0	-2,891,320
Transfers - HSE EDT inclusion	116,626	74,408,069	22,138,425	52,775,808	0	149,438,928
Transfers - category reorganisation	0	0	-2,480,764	-21,513,612	23,994,376	0
Change in discounting of decommissioning	0	-2,318,000	-755,481	0	0	-3,073,481
Write-offs	-1,556	-141,738	-29,684,512	-1,174,903	-52,318	-31,055,027
Cost 31.12.2018	**30,527,370**	**1,237,427,390**	**3,227,455,484**	**85,706,474**	**60,276,441**	**4,641,393,159**
Depreciable amount 1.1.2018	**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	0	-16,873,891
Transfers - re-posting	-101,760	151,583	-4,659,058	-62,021	0	-4,671,256
Transfers - transfer from NNO to NN	-269,167	-2,322,899	0	0	0	-2,592,066
Transfers - HSE EDT inclusion	116,626	74,408,069	22,136,563	52,780,074	0	149,441,332
Amortisation	5,948	14,443,845	60,195,464	1,502,969	0	76,148,226
Impairments	216,555	0	18,489,038	0	0	18,705,593
Write-offs		-137,637	-28,557,002	-1,079,790	-52,318	-29,826,747
Depreciable amount 31.12.2018	**5,659,343**	**849,664,878**	**2,061,744,431**	**79,370,008**	**8,017,289**	**3,004,455,949**
Book value 1.1.2018	**25,120,616**	**398,966,321**	**1,191,030,607**	**29,107,116**	**38,063,351**	**1,682,288,011**
Book value 31.12.2018	**24,868,027**	**387,762,512**	**1,165,711,053**	**6,336,466**	**52,259,152**	**1,636,937,210**

The most significant among investments in property, plant and equipment of Group companies in 2019 are the investments made in the reconstruction of production facilities and purchasing equipment for conducting the core activity in the total amount of EUR 48,245,566.

Group's property, plant and equipment being acquired primarily comprises investments in the middle Sava HPP, Kozjak PSPP 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 difficult situation on the electricity market as well as in the HSE Group, projects are taking place in order to prevent long-lasting space placement processes being stopped. All the documentation compiled so far together with 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. As a result of the Government's decision to stop the preparation of the State Spatial Plan for the Hrastje-Mota hydro power plant area on Mura, a write-off of the investment in progress of EUR 5,960,636 was carried out on 31.12.2019.

The item transfers - accounting transfer deals with a transfer to intangible fixed assets.

The write-offs are mainly represented by write-offs of the production equipment due to the modernisation of the production equipment.

In 2019, the useful lifes of major fixed assets were reviewed and were found to be properly assessed in the light of current assumptions about the usefulness of these assets.

The Group has registered loan insurance mortgages of EUR 94,191,419 in book value (EUR 90,192,060 in 2018).

At the end of 2019, the Group's concluded contracts for the purchase of immovable property, plant, and equipment amounted to EUR 8,883,931.

As at 30 September 2019, the Group performed impairment testing of property, plant and equipment in cash generating units (CGUs), which recorded losses. Among these, the most important cash generating unit is the unit which includes production of electricity at TEŠ and procurement of the energy product for this production at PV (coal mining). Accredited company valuers valued the recoverable value of assets.

The tables below show the assumptions applied in the impairment testing and the relevant result for fixed assets of the cash generating units TEŠ, PV and HTZ.

ASSETS IN TEŠ

2019	2018
Method used for the definition of the recoverable amount in the impairment testing	
Value in use (present value of expected free cash flow)	Value in use (present value of expected free cash flow)
Date of performance of the impairment testing	
30.09.2019	30.09.2018
Important assumptions used in the performance of the impairment testing	
The company's operations until 2054.	The company's operations until 2054.
The discount rate at a nominal amount of 8.72% adjusted to the real level of 4.97%, which was taken into account throughout the period until 2054.	Discount rate at a nominal amount of 7.71% adjusted to the real level: 5.54% in October-December 2018 and 5.57% to 2019 included.
Stock exchange prices for electricity forward contracts on HUPX for the period 2020 - 2022, with an initial price of 54.67 EUR/MWh and a price change over the period of 3.03%.	Stock exchange prices for electricity forward contracts on HUPX for the period 2020 - 2021, with an initial price of 40.39 EUR/MWh and a price change over the period of 26.32%.
Stock exchange prices for CO_2 emission coupons on EEX for the period 2020 - 2022, with an initial price of 20.32 EUR/t and a price change over the period of 37.23%.	Stock exchange prices for CO_2 emission coupons on EEX for the period 2019 - 2021, with an initial price of 6.45 EUR/t and a price change over the period of 230.95%.
Long-term forecasts of trends in market prices for electricity (Poyry Management Consulting) for the period 2023 - 2054, with an initial price of 60.87 EUR/MWh and a price change over the period of 19.65%.	Long-term forecasts of trends in market prices for electricity (Poyry Management Consulting) for the period 2022 - 2040, with an initial price of 55.85 EUR/MWh and a price change over the period of 32.14%.
Long-term forecasts of trends in market prices for CO_2 emission coupons (Poyry Management Consulting) for the period 2023 - 2030, with an initial price of 19.00 EUR/t and a price change over the period of 15.79%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is maintained at 33%.	Long-term forecasts of trends in market prices for CO_2 emission coupons (Poyry Management Consulting) for the period 2022 - 2030, with an initial price of 15.09 EUR/t and a price change over the period of 50.10%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is maintained at 33%.
In the period 2041 - 2054, long-term forecasts of trends in market prices for electricity (Poyry Management Consulting) are taken into account.	During the period 2041 - 2054, the prices of electricity and CO_2 emission coupons from 2040 are taken into account.
Average annual production of electricity from coal-fired power plants of 3,7 TWh over the period 2020 - 2030, 2,5 TWh over the period 2031 - 2040 and 2.0 TWh over the period 2041 - 2054.	Average annual production of electricity from coal-fired power plants of 3.7 TWh over the period 2019 - 2030, 2,5 TWh over the period 2031 - 2040 and 2.0 TWh over the period 2041 - 2054.
Value of other income (i.e. income on providing system services, thermal energy, income on sale of ash and gypsum) in the amount of EUR 23,668,000 in 2020 up to EUR 44,090,000 in 2054.	Value of other income (i.e. income on providing system services, thermal energy, income on sale of ash and gypsum) in the amount of EUR 27,926,000 in 2018 up to EUR 18,475,000 in 2054.
CAPEX over the projection period of EUR 164,768,000.	CAPEX over the projection period of EUR 151,221,000.
Results of impairment testing carried out	
The book value of assets before the impairment testing amounts to EUR 933,963,000.	The book value of assets before the impairment testing amounts to EUR 981,900,000.
Recoverable amount of EUR 1,036,978,000.	Recoverable amount of EUR 963,411, 000.
Revaluation expenses due to impairment of EUR 0.	Revaluation expenses due to impairment of EUR 18,489,000.

ASSETS IN PV

2019	2018
Method used for the definition of the recoverable amount in the impairment testing	
Value in use (present value of expected free cash flow)	Value in use (present value of expected free cash flow)
Date of performance of the impairment testing	
30.09.2019	30.09.2018
Important assumptions used in the performance of the impairment testing	
The company's operations until 2054.	The company's operations until 2054.
The discount rate at a nominal amount of 8.72% adjusted to the real level of 6.59%, which was taken into account throughout the period until 2054.	The discount rate at a nominal amount of 9.18% adjusted to the real level of 7.04%, which was taken into account throughout the period until 2054.
Coal sales price of EUR 2.75/GJ over the whole period until 2054.	Coal sales price of EUR 2.75/GJ over the whole period until 2054.
Expenses for the closure of the coal mine after the end of operation of an estimated amount of EUR 40,928,000 (discounted to the present value of EUR 4,460,000).	Expenses for the closure of the coal mine after the end of the operation of the coal mine in an estimated amount of EUR 43,299,000.
Average annual coal production of 34,914 TJ per year in the period 2020 - 2030, a drop in operating volume in the period 2030 - 2040 due to the planned gradual closure of the coal mine, a constant production and sales of coal of 19,168 TJ per year is projected after 2040.	Average annual coal production of 35,367 TJ per year in the period 2019 - 2030, a drop in operating volume in the period 2030 - 2040 due to the planned gradual closure of the coal mine, a constant production and sales of coal of 19,168 TJ per year is projected after 2040.
CAPEX in the projection period 2020 - 2054 of EUR 310,513,000.	CAPEX over the projection period of EUR 328,047,445.
The recoverable value of investments in subsidiaries and other companies of EUR 20,817,000.	Recoverable value of investments in subsidiaries and other companies of EUR 21,248,000.
Recoverable value of business unnecessary assets of EUR 17,509,000.	Recoverable value of business unnecessary assets of EUR 2,658,000.
We provide the assumption that the company will not be required to fulfill obligations that are not explicitly stated in the current concession contract.	We provide the assumption that the company will not be required to fulfill obligations that are not explicitly stated in the current concession contract.
Results of impairment testing carried out	
The book value of assets before the impairment testing amounts to EUR 82,647,000.	The book value of assets before the impairment testing amounts to EUR 79,769,000.
Recoverable amount of EUR 92,326,000.	Recoverable amount of EUR 82,719,000.
Revaluation expenses due to impairment of EUR 0.	Revaluation expenses due to impairment of EUR 0.

ASSETS IN HTZ

2019	2018
Method used for the definition of the recoverable amount in the impairment testing	
Value in use (present value of expected free cash flow)	Value in use (present value of expected free cash flow)
Date of performance of the impairment testing	
30.09.2019	30.09.2018
Important assumptions used in the performance of the impairment testing	
The company's operations until 2054.	The company's operations until 2054.
The discount rate at a nominal amount of 8.72% adjusted to the real level of 6.59%, which was taken into account throughout the period until 2054.	Discount rate at a nominal amount of 7.96% adjusted to the real level: 5.79% in October-December 2018 and 5.82% from 2019 included.
Average annual net sales revenue in the period 2020-2030 of EUR 22,829,070, EUR 17,400,649 for the period 2031-2040, EUR 14,206,124 from 2041 onwards.	Average annual net sales revenue in the period 2019-2030 of EUR 21,026,908, EUR 14,722,389 for the period 2031-2040, EUR 12,019,557 from 2041 onwards.
Average annual other operating income in the period 2020-2030 of EUR 6,878,067, EUR 4,944,146 in the period 2031-2040, EUR 4,036,467 from 2041 onwards.	Average annual other operating income in the period 2019-2030 of EUR 6,203,156, EUR 4,283,010 in the period 2031-2040, EUR 3,496,707 from 2041 onwards.
Average annual labour costs in the period 2020-2030 of EUR 22,631,211, EUR 16,880,653 for the period 2031-2040, EUR 13,781,592 from 2041 onwards.	Average annual labour costs in the period 2019-2030 of EUR 20,681,849, EUR 14,251,905 for the period 2031-2040, EUR 11,635,447 from 2041 onwards.
Average annual service costs in the period 2020-2030 of EUR 2,992,206, EUR 2,373,392 in the period 2031-2040, EUR 1,937,669 from 2041 onwards.	Average annual service costs in the period 2019-2030 of EUR 2,820,638, EUR 1,966,696 in the period 2031-2040, EUR 1,605,637 from 2041 onwards.
Average annual costs of material in the period 2020-2030 of EUR 2,509,214, EUR 1,953,790 for the period 2031-2040, EUR 1,595,100 from 2041 onwards.	Average annual costs of material in the period 2019-2030 of EUR 1,999,091, EUR 1,420,837 for the period 2031-2040, EUR 1,159,991 from 2041 onwards.
Recoverable value of surplus assets of EUR 1,819,375.	Recoverable value of surplus assets of EUR 1,788,500.
CAPEX over the projection period of EUR 18,935,803.	CAPEX over the projection period of EUR 21,446,647.
Cost of closing the company in 2054 of EUR 8,039,262 (discounted to the present value of EUR 876,037).	Costs of closing the company in 2054 of EUR 11,958,436.
Results of impairment testing carried out	
The book value of assets before the impairment testing amounts to EUR 10,510,346.	The book value of assets before the impairment testing amounts to EUR 10,925,451.
Recoverable amount of EUR 11,480,319.	Recoverable amount of EUR 12,171,120.
Revaluation expenses due to impairment of EUR 0.	Revaluation expenses due to impairment of EUR 0.

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

Long-term fixed assets	Recoverable amount in EUR	Sensitivity (change) of recoverable value in EUR Change in discount rate (WACC) in % points	
		-0.5	0.5
IN TEŠ	1,036,978,000	79,839,000	-72,132,000
IN PV	92,326,000	3,667,000	-3,354,000
IN HTZ	11,480,319	225,951	-217,957

Given the valuation of property, plant and equipment as at 31 December 2019 and the fact that the impairment tests were carried out as at the balance of 30 September 2019, the Group assessed the changed circumstances of CGU's business operations in the last month of the fiscal year 2019. It was established that relevant circumstances of business operations have not significantly changed in the last quarter of 2019, showing that the valuation of property, plant and equipment as at 31 December 2019 remains unchanged in view of the balance as at 30 September 2019.

INVESTMENT PROPERTY (3)

in EUR	31.12.2019	31.12.2018
Land	2,424,461	2,263,524
Buildings	15,133,057	14,920,375
Total	**17,557,518**	**17,183,899**

The main part of investment property are apartments. In 2019, the group generated revenues of EUR 770,808 and costs worth EUR 120,774 by leasing investment properties.

Investment property under mortgage are recorded at EUR 4,275,051.

The assessment of the fair value of the investment properties held by PV Group as part of the capital assessment by the authorised value of the investment property owned by PV was carried out on 30. 9. 2019. Fair value is calculated using the method of market comparisons and using the method of capitalization of returns (a yield-based method).

MOVEMENT OF INVESTMENT PROPERTIES

in EUR	Land	Buildings	Total
Fair value 1.1.2018	**1,644,836**	**16,383,642**	**18,028,478**
Acquisitions	0	108,092	108,092
Transfers - redistribution of property, plant and equipment to investment property	266,294	185,482	451,776
Disposals	-57,852	-1,777,042	-1,834,894
Impact of the valuation change of reassigned property, plant and equipment to investment property according to fair value	410,246	20,201	430,447
Fair value 31.12.2018	**2,263,524**	**14,920,375**	**17,183,899**
Fair value 1.1.2019	**2,263,524**	**14,920,375**	**17,183,899**
Acquisitions	172,937	518,637	691,574
Transfers - redistribution of investment property to property, plant and equipment	0	7,062	7,062
Disposals	-12,000	-311,795	-323,795
Impairments	0	-1,222	-1,222
Fair value 31.12.2019	**2,424,461**	**15,133,057**	**17,557,518**

OTHER LONG-TERM INVESTMENTS AND LOANS (4)

in EUR	31.12.2019	31.12.2018
Long-term investments in associates	139,999,792	138,823,264
Long-term investments in jointly-controlled entities	440,384	437,659
Available-for-sale long-term financial assets	163,958	160,406
Other long-term investments	14,690	14,690
Long-term financial receivables and loans	41,931	44,556
Total	**140,660,755**	**139,480,575**

A) INVESTMENTS IN ASSOCIATES

in EUR	31.12.2019	31.12.2018
HESS	139,999,792	138,823,264
Total	**139,999,792**	**138,823,264**

MOVEMENT OF OTHER LONG-TERM INVESTMENTS IN ASSOCIATES

in EUR	2019	2018
Balance 1.1.	**138,823,264**	**137,272,000**
Recognised income by capital method	1,176,528	1,744,895
Transfer of PLP to subsidiary	0	-193,631
Balance 31.12.	**139,999,792**	**138,823,264**

SIGNIFICANT AMOUNTS FROM THE FINANCIAL STATEMENTS OF ASSOCIATES FOR 2019

in EUR	Assets	Liabilities (excluding capital)	Revenue	Net profit or loss for the financial year	Amount of total capital
HESS	342,524,469	57,996,282	20,022,166	2,401,078	284,528,187

B) INVESTMENTS IN JOINTLY-CONTROLLED ENTITY

in EUR	31.12.2019	31.12.2018
SOENERGETIKA d.o.o.	440,384	437,659
Total	**440,384**	**437,659**

MOVEMENT OF LONG-TERM FINANCIAL INVESTMENTS INTO JOINTLY-CONTROLLED COMPANIES

v EUR	2019	2018
Balance 1.1.	**437,659**	**443,368**
Profit disbursement	-170,209	-175,901
Recognised income by capital method	172,934	170,192
Balance 31.12.	**440,384**	**437,659**

SIGNIFICANT AMOUNTS IN THE FINANCIAL STATEMENTS OF THE JOINTLY-CONTROLLED COMPANIES FOR 2019

in EUR	Assets	Liabilities (excluding capital)	Revenue	Net profit or loss for the financial year	Amount of total capital
SOENERGETIKA	2,748,088	926,028	3,817,482	691,738	1,822,060

DEFERRED TAX ASSETS (5)

in EUR	31.12.2019	31.12.2018
Provisions	439,594	481,283
Impairments	281,763	236,062
Amortisation	7	71
Total	721,364	717,416

Deferred tax assets amount to EUR 721,364 and are recalculated using a 19% tax rate. They were formed from the expenses that affect profit or loss of each year, but are not fully or partially tax deductible in this year (provisions for jubilee bonuses and severance payments upon retirement, the business amortisation over tax recognised impairment of investments and receivables). When forming deferred tax receivables, the Group takes into account the possibility of their recovery in the future in relation to future operations.

MOVEMENT OF DEFERRED TAX ASSETS

in EUR	Provisions	Impairment	Amortisation	Other	Total
Balance as at 1.1.2019	481,283	236,062	71	0	717,416
Charged or credited to profit or loss	-41,689	45,701	-64	0	3,948
Balance as at 31.12.2019	439,594	281,763	7	0	721,364
Balance as at 1.1.2018	482,339	233,932	201	121,151	837,623
Charged or credited to profit or loss	-1,056	2,130	-130	-109,573	-108,629
Charged or credited to other comprehensive income	0	0	0	-11,578	-11,578
Balance as at 31.12.2018	481,283	236,062	71	0	717,416

Changes in deferred tax assets from provisions refer to changes in provisions for jubilee bonuses, severance payments upon retirement, and changes in other provisions.

Changes in deferred tax assets related to impairment relate to the adjustment of the value of the assets.

Changes in deferred tax asstes relating to amortisation and amortisation arise from differences established between the operating and tax amortisation in 2019.

LIABILITIES FOR DEFERRED TAXES (6)

in EUR	31.12.2019	31.12.2018
Financial assets	6,566	5,891
Other	9,043	12,898
Total	15,609	18,789

Deferred tax liabilities amount to EUR 15,609. Deferred tax liabilities result from a change in the value of financial investments available for sale, for which fair value and changes in fair value of foreign exchange swaps can be measured reliably.

MOVEMENT OF DEFERRED TAX LIABILITIES

in EUR	Financial assets	Other	Total
Balance 1.1.2019	5,891	12,898	18,789
Charged or credited to profit or loss	0	(3,855)	(3,855)
Charged or credited to other comprehensive income	675	0	675
Balance 31.12.2019	6,566	9,043	15,609
Balance 1.1.2018	5,576	0	5,576
Charged or credited to profit or loss	315	0	315
Charged or credited to other comprehensive income	0	12,898	12,898
Balance 31.12.2018	5,891	12,898	18,789

INVENTORIES (7)

in EUR	31.12.2019	31.12.2018
Material	27,998,838	26,454,484
Unfinished production	10,134	5,838
Products and trade goods	5,083,964	3,975,056
Total	33,092,936	30,435,378

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.

The Group has no pledged inventory.

In the course of the inventory, the Group identified the following differences between the actual and the carrying amount of inventory:

INVENTORY SURPLUSES AND DEFICITS

in EUR	31.12.2019	31.12.2018
Surpluses in inventories	11,465	14,672
Shortages in inventories	-30,124	-16,759

In order to adjust the value of inventories to net realizable value, the Group established an inventory correction of EUR 534,899. The largest share, amounting to EUR 382,129, relates to the adjustment of the value of the spare parts invenotries in TEŠ and, in the value of EUR 122,517, to the correction of the value of the goods in DEM.

Due to their non-current status, the Group has written off and excluded from use EUR 7,115 of inventories.

SHORT-TERM INVESTMENTS AND LOANS (8)

in EUR	31.12.2019	31.12.2018
Short-term investments for financial instruments at fair value through capital	47,597	67,885
Short-term financial receivables and loans to others without interest	51	0
Short-term deposits given to others	12,554,373	12,945,661
Total	**12,602,021**	**13,013,546**

The majority of deposits granted to others in the amount of EUR 12,508,240 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 in 2020. The deposit must not be used to regulate current liquidity.

SHORT-TERM TRADE RECEIVABLES (9)

in EUR	31.12.2019	31.12.2018
Short-term trade receivables from associates	69,194	175,056
Short-term trade receivables from jointly-controlled companies	146	
Short-term trade receivables from customers	142,127,244	134,952,629
Total	**142,196,584**	**135,127,685**

Most of the short-term trade receivables relates to receivables arising from the sale of electricity.

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 (10)

in EUR	31.12.2019	31.12.2018
Unaccounted revenue	457,771	1,014,437
Total	**457,771**	**1,014,437**

Unaccounted revenue is revenue that is taken into account in profit or loss, although it has not yet been charged and constitutes a right to compensation in exchange for goods or services transferred to the buyer.

OTHER SHORT-TERM ASSETS (11)

in EUR	31.12.2019	31.12.2018
Short-term advances given	3,024,621	1,551,533
Short-term trade receivables from state and other institutions	30,035,899	25,818,824
Short-term trade receivables from others	14,697,156	16,620,623
Short-term deferred costs and expenses	2,614,644	3,869,373
Total	**50,372,320**	**47,860,353**

The majority of receivables among other short-term assets are receivables from state and other institutions where receivables mainly refer to the input value-added tax.

Most of short-term operating receivables due from others refer 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 (12)

in EUR	31.12.2019	31.12.2018
Cash in the cash register and cheques received	3,732	3,342
Cash at the bank	26,060,779	56,132,612
Cash items in the process of collection	-1,950,939	
Deposits held at call	17,151,315	23,354,237
Deposits for a fixed term up to 3 months	1,252,711	4,020,338
Total	**42,517,598**	**83,510,529**

In its operations, the Group uses transaction accounts open in Slovenia as well as abroad (particularly the parent company).

CAPITAL (13)

in EUR	31.12.2019	31.12.2018
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Other profit reserves	413,856,350	413,856,350
Risk hedging reserve	20,452,278	75,592,356
Fair value reserve	-2,195,785	-958,415
Retained earnings or losses	42,105,069	12,620,282
Foreign currency translation reserve	-617,401	-1,055,099
Capital of owners of non-controlling shares	238,338	388,027
Total	**1,064,640,823**	**1,091,245,475**

CAPITAL SURPLUS

in EUR	31.12.2019	31.12.2018
Capital surplus paid-up	561,243,070	561,243,070
Amounts resulting from the reversal of the general revaluation adjustment of capital	113	113
Total	**561,243,185**	**561,243,185**

The value of share capital, capital surplus and revenue reserves remained unchanged in 2019.

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 revenue reserves in the consolidated financial statements remain recorded under retained earnings or losses.

Among the hedge reserves on 31 December 2019 in the value of EUR 20,452,278, the Group discloses:

- results of standardised forward contracts for electricity (forward contracts) amounting to EUR -499,816,
- results of standardised forward contracts for emission coupons (forward contracts) amounting to EUR 20,913,540, and
- fair value of currency swaps in the amount of EUR 38,554.

MOVEMENT OF THE RISK HEDGING RESERVE

in EUR	Standardised forward contracts for electricity	Forward contracts for emission coupons	Currency swaps	Total
Balance as at 1.1.2019	**-1,678,240**	**77,215,610**	**54,986**	**75,592,356**
Decrease	-287,757	-56,302,070	-16,432	-56,606,259
Transfer into expenses	1,466,181	0	0	1,466,181
Balance as at 31.12.2019	**-499,816**	**20,913,540**	**38,554**	**20,452,278**
Balance as at 1.1.2018	**1,177,938**	**9,624,800**	**-49,358**	**10,753,380**
Forming, increase	4,736,726	67,590,810	104,344	72,431,880
Decrease	-783,950	0	0	-783,950
Transfer into expenses	-6,808,954	0	0	-6,808,954
Balance as at 31.12.2018	**-1,678,240**	**77,215,610**	**54,986**	**75,592,356**

The risk hedging reserve fell by EUR 55,140,078 in 2019 compared to the previous year. This decrease is mainly at the expense of closing contracts to buy emission coupons for December 2019. The risk hedging reserve includes the trading with standard futures on the electricity markets and emission coupons.

Electricity futures contracts refer to concluding deals on purchase of electricity on foreign electricity stock exchanges for the period from 2020 to 2021, thus securing the already concluded deals for the sale of electricity in the same period. In the case of standardised forward contracts for emission coupons, it is about concluded transactions for purchases and sales of emission coupons in foreign exchange for the period from 2020 to 2022. No deferred taxes were accounted in this relation, as the company will pay an agreed-upon price during the deal's realisation.

In 2019, the Company closed the currency swaps, whose positive fair value amounted as at 31 December 2018 (inclusive of deferred taxes) to EUR 54,986. In 2019, it concluded new transactions and also partly closed some of them. The overall change in the fair value is negative and recorded at EUR 16,432. The positive fair value of open currency swaps at the end of 2019 amounts to EUR 47,597, from which the Company charged EUR 9,043 of deferred tax liabilities. The final amount with the deferred tax taken into account is thus EUR 38,554.

MOVEMENT OF FAIR VALUE

in EUR	Revaluation of investment property	Financial assets measured at fair value through other comprehensive income	Actuarial revenues/losses on severance payments upon retirement	Other	Total
Balance as at 1.1.2019	**430,447**	**41,514**	**-1,441,940**	**11,565**	**-958,414**
Forming, increase		2,877	-1,305,824		-1,302,947
Decrease	-43,000		61,308		18,308
Transfer to profit or loss brought forward			47,269		47,269
Balance as at 31.12.2019	**387,447**	**44,391**	**-2,639,187**	**11,565**	**-2,195,784**
Balance as at 1.1.2018	**0**	**37,534**	**-1,343,891**	**11,565**	**-1,294,792**
Forming, increase	430,447	3,980	-116,403		318,024
Decrease			-68,416		-68,416
Transfer to profit or loss brought forward			86,769		86,769
Balance as at 31.12.2018	**430,447**	**41,514**	**-1,441,940**	**11,565**	**-958,415**

At the end of 2019, the Group holds the following in the fair value reserve:

- effects of revaluation of investment property at fair value
- change in the value of financial assets available for sale,
- actuarial losses on severance payments upon retirement, and
- revaluation of land.

RETAINED EARNINGS

in EUR	2019	2018
Net profit or loss for the financial year	29,730,396	-11,567,589
Retained earnings or losses	12,374,673	24,187,870
Total	**42,105,069**	**12,620,281**

The Group generated EUR 29,730,396 in net profit or loss in 2019.

Capital of the non-controlling interest represents the value of owners holding non-controlling interests in subsidiaries and is posted at EUR 238,337.

NON-CONTROLLING INTERESTS

in EUR	31.12.2019 Non-controlling interests	1-12/2019 Interest in profit or loss	31.12.2018 Non-controlling interests	1-12/2018 Interest in profit or loss
HSE Invest d.o.o.			147,272	-231,563
SRESA d.o.o.	23,113	-2,075	25,188	-2,078
sHPP LOBNICA d.o.o.	215,224	-342	215,566	-1,373
Total	**238,337**	**-2,417**	**388,026**	**-235,014**

The balance operating outturn is not established for the group.

PROVISIONS FOR SEVERANCE PAYMENTS UPON RETIREMENT AND JUBILEE BONUSES (14)

in EUR	31.12.2019	31.12.2018
Provisions for severance payments upon retirement	16,922,977	11,223,161
Provisions for jubilee bonuses	3,065,591	3,398,496
Total	**19,988,568**	**14,621,657**

The Group posts provisions for severance payments upon retirement and jubilee bonuses, which have been allocated on the basis of the actuarial calculation on 31 December 2019.

MOVEMENT OF PROVISIONS FOR SEVERANCE PAYMENTS AND JUBILEE BONUSES

in EUR	Provisions for severance payments	Provisions for jubilee bonuses	Total
Balance as at 1.1.2019	**11,223,161**	**3,398,496**	**14,621,657**
Forming, increase	9,394,013	1,597,013	10,991,026
Decrease, drawing	-2,000,304	-199,850	-2,200,154
Decrease, elimination	-1,693,893	-1,730,068	-3,423,961
Balance as at 31.12.2019	**16,922,977**	**3,065,591**	**19,988,568**
Balance as at 1.1.2018	**10,619,802**	**3,299,053**	**13,918,855**
Forming, increase	2,242,816	640,673	2,883,489
Decrease, drawing	-1,001,409	-360,352	-1,361,761
Decrease, elimination	-638,048	-180,878	-818,926
Balance as at 31.12.2018	**11,223,161**	**3,398,496**	**14,621,657**

The actuarial calculation was based on:

- data on employees (gender, date of birth, date of first employment in the Group, employment for an indefinite or definite period, years of pensionable service on 31. 12. 2019, years of service up to first employment in the Group, type of contract, average gross salary, etc.);
- employee turnover by age category,
- demographic assumptions (mortality tables, employee fluctuation, retirement),
- for 2020 and 2021, the rates of increase in average salaries from the autumn forecast of economic trends 2019 (Institute of Macroeconomic Analysis and Development) are taken into account. From 2022 onwards, average salaries in the Republic of Slovenia are projected to increase annually by 2.0% inflation and for real growth by 1.0%,
- the discount rate is set in the range of 0.4% -0.7%, based on the published profitability of Slovenian government bonds as at 31.12.2019; and
- provisions of the new corporate collective agreement, adopted in April 2019, which redefine the rights to jubilee bonuses and severance payments and their amount.

Analysis of the sensitivity of the change in discounted interest rate and salary growth to provisions for severance payments and jubilee bonuses in 2019:

SENSITIVITY ANALYSIS FOR PROVISIONS FOR SEVERANCE PAYMENTS UPON RETIREMENT AND JUBILEE BONUSES

	Discount rate		Salary growth	
in EUR	Decrease of 0.5%	Increase of 0.5%	Decrease of 0.5%	Increase of 0.5%
Provisions for severance payments upon retirement	305,684	-351,724	-299,121	314,038
Provisions for jubilee bonuses	37,807	-44,660	-39,846	41,163
Total 2019	**343,491**	**-396,384**	**-338,967**	**355,201**
Provisions for severance payments upon retirement	231,809	-213,964	-215,963	234,121
Provisions for jubilee bonuses	87,381	-81,069	-85,481	90,426
Total 2018	**319,190**	**-295,033**	**-301,444**	**324,547**

OTHER PROVISIONS (15)

in EUR	31.12.2019	31.12.2018
For lawsuits	661,523	1,361,675
For the closing works of coal mines	36,468,052	29,205,052
For decommissioning	12,489,398	10,729,721
For compensations	1,645,920	1,920,748
Other provisions	2,928,631	3,065,728
Total	54,193,524	46,282,924

The increase in provisions mainly relates to the increase in provisions related to the closing works of coal mines and to the decommissioning of block 6 resulting from the effect of the change in the discount rate in relation to the previous year.

MOVEMENT OF OTHER PROVISIONS

in EUR	For lawsuits	For the closing works of coal mines	For decomissioning	For compensations	Other provisions	Total
Balance as at 1.1.2019	1,361,675	29,205,052	10,729,721	1,920,748	3,065,728	46,282,924
Forming, increase	49,848	7,263,000	1,759,677	0	220,434	9,292,959
Decrease, drawing	0	0	0	-139,428	-291,629	-431,057
Decrease, elimination	-750,000	0	0	-135,400	-65,902	-951,302
Balance as at 31.12.2019	661,523	36,468,052	12,489,398	1,645,920	2,928,631	54,193,524
Balance as at 1.1.2018	4,363,077	31,224,052	11,375,992	1,647,362	3,885,277	52,495,760
Forming - increase	361,675	0	0	422,875	269,931	1,054,481
Decrease - drawing	-930,000	0	0	-149,489	-594,540	-1,674,029
Decrease - elimination	-2,433,077	-2,019,000	-646,271	0	-494,940	-5,593,288
Balance as at 31.12.2018	1,361,675	29,205,052	10,729,721	1,920,748	3,065,728	46,282,924

Provisions for lawsuits were allocated on the basis of the estimation of liability from lawsuits where the group appears as 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. The reduction of provisions in the amount of EUR 750,000 from lawsuits is due to the reversal of provisions for compensation to the Municipality of Velenje.

For 2019, PV reassessed the activity valuation and the value of closing works in December 2019, and on this basis further formulated provisions for closing works in the amount of EUR 1,592,000. The effect of the harmonisation of discounting of stated provisions increases by EUR 336,000 in 2019, and the provisions increased further through the increase in the value of cave buildings due to the expected closing works of EUR 5,335,000, which is due to the effect of the change in the discount rate applied in relation to the previous year.

Based on the Energy licence and assessment of costs for dismantling the Block 6 upon the expiry of the useful life, the company TEŠ additionally formed provisions in the amount of EUR 1,759,677. The increase of provisions for dismantling the Block 6 includes EUR 123,499 of finance costs (discounting due to expiry), while EUR 1,636,178 refers to the effect of the changed discount rate, which is disclosed through the changed value of investments in construction works.

OTHER LONG-TERM LIABILITIES (16)

in EUR	31.12.2019	31.12.2018
Emmission coupons	32,041	148,159
Other government grants received	1,154,756	1,250,317
Other long-term liabilities	452,359	485,750
Total	1,639,156	1,884,226

The majority of other long-term liabilities includes 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. The 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	Emmission coupons	Other government grants received	Other	Total
Balance as at 1.1.2019	70,008	1,328,468	485,750	1,884,226
Acquisitions	0	7,152,635	351,488	7,504,123
Disposals	0	-7,326,347	-384,898	-7,711,245
Exchange differences	0	0	19	19
Release	-37,967	0	0	-37,967
Balance as at 31.12.2019	32,041	1,154,756	452,359	1,639,156
Balance as at 1.1.2018	115,343	1,619,446	0	1,734,789
Acquisitions	0	6,915,970	485,750	7,401,720
Disposals	-45,335	-7,206,948	0	-7,252,283
Balance as at 31.12.2018	70,008	1,328,468	485,750	1,884,226

LONG-TERM FINANCIAL LIABILITIES (17)

in EUR	31.12.2019	31.12.2018
Long-term financial liabilities to banks	666,419,394	700,788,733
Other long-term financial liabilities	0	342,077
Total	666,419,394	701,130,810

Long-term financial liabilities to banks include long-term borrowings that were granted by Slovenian and foreign banks. Interest rates are fixed and variable, with variable interest rates based on 1-, 3- and 6-month Euribor, respectively, and a markup ranging from 0.91% to 4.9%. In the case of negative Euribor, some loans are only remunerated by taking into account the markup. The fixed rate is 5,46%.

The values of loan principals due in 2020 are recorded as short-term liabilities to banks in the amount of EUR 65,736,824.

In 2019, the Group successfully refinanced part of the existing long-term loan, amounting to EUR 160,000,000 of fixed long-term loan with a maturity of seven years and EUR 50,000,000 of a long-term revolving loan with a maturity of three years, and agreed for some new loans lower interest rates.

Moreover, the Group regularly monitors the movement of Euribor market interest rates and accordingly compiles periodical Strategies of interest rate management of the company. The objective of interest rate risk management is to limit and reduce the risk associated with changes in interest rates and in this way to stabilise cash flows. No new contracts were concluded for interest-rate risk insurance in 2019.

MOVEMENT OF LONG-TERM FINANCIAL LIABILITIES

in EUR	Long-term financial liabilities to banks	Other long-term financial liabilities	Total
Balance as at 31.12.2018	700,788,733	342,077	701,130,810
Reclassification financial leases IFRS 16	0	-342,077	-342,077
Balance as at 1.1.2019	700,788,733	0	700,788,733
Acquisitions	181,440,000	0	181,440,000
Transfers to short-term liabilities	-65,829,820	0	-65,829,820
Repayments	-150,909,096		-150,909,096
Other	929,577		929,577
Balance as at 31.12.2019	666,419,394	0	666,419,394
Balance as at 1.1.2018	779,479,756	63,165	779,542,921
Acquisitions	4,606,183	508,421	5,114,604
Transfers to short-term liabilities	-82,784,706	-229,509	-83,014,215
Repayments	-512,500	0	-512,500
Balance as at 31.12.2018	700,788,733	342,077	701,130,810

All Group's long-term loans are collateralised with mortgages on properties, assignment of receivables, pledge of accounts, cash and shareholding interests, and a guarantee of the parent company, a guarantee of a subsidiary, and a guarantee of the Republic of Slovenia and with bills of exchange.

The Group's contracts on long-term loans include bank covenants, which were fully met as at 31 December 2019. Maturities of long-term liabilities by period are disclosed within the section on liquidity risk.

SHORT-TERM FINANCIAL LIABILITIES (18)

in EUR	31.12.2019	31.12.2018
Short-term financial liabilities to banks without interest	65,736,820	82,626,356
Short-term financial liabilities to banks with interest	117,742	133,445
Other short-term financial liabilities	80,787	246,702
Total	65,935,349	83,006,503

The bulk of short-term financial liabilities are represented by loan liabilities to banks, namely part of the Group's long-term loans due within a year following the date of the consolidated statement of financial position.

MOVEMENT OF SHORT-TERM FINANCIAL LIABILITIES

in EUR	Short-term financial liabilities to banks without interest	Short-term financial liabilities to banks with interest	Short-term derivatives	Other short-term financial liabilities	Total
Balance as at 31.12.2018	82,626,356	133,445	0	246,702	83,006,503
Reclassification financial leases IFRS 16	0	0	0	-140,912	-140,912
Balance as at 1.1.2019	82,626,356	133,445	0	105,790	82,865,591
Increase	42,514,000	23,410,134	0	7,208,705	73,132,839
Transfers from long-term liabilities	65,829,820	0	0	0	65,829,820
Short-term repayments	-42,893,838	-23,425,837	0	-7,233,758	-73,553,433
Long-term repayments	-82,339,517	0	0	0	-82,339,517
Other		0	0	50	50
Balance as at 31.12.2019	65,736,821	117,742	0	80,787	65,935,350
Balance as at 1.1.2018	71,556,466	138,838	60,937	140,055	71,835,359
Increase	22,441,793	26,581,923	0	2,033,165	51,056,881
Transfers from long-term liabilities	82,784,706	0	0	229,509	83,014,215
Short-term repayments	-22,596,955	-26,587,316	0	-2,039,957	-51,224,228
Long-term repayments	-72,057,775	0	0	-116,070	-72,173,845
Other	498,121	0	-60,937	0	498,121
Balance as at 31.12.2018	82,626,356	133,445	0	246,702	83,006,503

SHORT-TERM TRADE LIABILITIES TO SUPPLIERS (19)

in EUR	31.12.2019	31.12.2018
Short-term trade liabilities to associates	1,635,480	1,940,758
Short-term trade liabilities to jointly-controlled companies	78,938	62,918
Short-term trade liabilities to suppliers	136,261,211	139,180,581
Total	**137,975,629**	**141,184,257**

Disclosures regarding the maturity of trade liabilities to suppliers are provided in the section discussing liquidity risk.

OTHER SHORT-TERM LIABILITIES (20)

in EUR	31.12.2019	31.12.2018
Short-term trade liabilities on the basis of advances	305,215	86,810
Short-term trade liabilities to employees	13,088,357	14,199,050
Short-term trade liabilities to state and other institutions	28,947,982	26,818,171
Short-term trade liabilities to others	2,432,103	3,520,520
Short-term accrued costs and expenses	8,436,932	8,558,865
Total	**53,210,589**	**53,183,416**

Liabilities 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 liabilities to employees, refer to December earnings paid out in January 2019. The Group hereunder discloses also liabilities in connection with unused days of holiday leave in the amount of EUR 1,379,481 (2018: EUR 1,554,785). Short-term accrued costs largely refer to costs for accounted interest and bank guarantees, costs for damages and costs relating to electricity purchases.

LEASES - MSRP 16 (21)

When moving to IFRS 16, the Group chose a modified retrospective approach where assets representing the right of use are measured as an amount equal to the lease liabilities. The introduction of IFRS 16 did not have a significant impact on the financial statements of the Group. As a result of the transition to IFRS 16, the Company's fixed assets under the right of use increased by EUR 5,757,169 on 1 January 2019 and funding liabilities increased by the same amount. Due to the chosen transition method, there were no effects on retained profits.

In order to recognise liabilities arising from short-term leases and leases of smaller value, the Group applies the exception permitted by the standard. The value of short-term leases was EUR 172,076 in 2019 and the value of leases of smaller value was EUR 45,161.

RIGHT TO USE LEASED ASSETS

in EUR	31.12.2019	31.12.2018
Right to use leased assets	4,678,163	0
Total	**4,678,163**	**0**

MOVEMENT OF THE RIGHT TO USE ASSETS

in EUR	Land	Buildings	Production equipment	Other equipment	Total
Cost 1.1.2019	**3,302,724**	**1,364,004**	**930,343**	**160,097**	**5,757,168**
Reclassification financial leases IFRS 16	0	0	523,724	0	523,724
Cost 1.1.2019	**3,302,724**	**1,364,004**	**1,454,067**	**160,097**	**6,280,892**
Acquisitions	0	0	0	0	0
Cost 31.12.2019	**3,302,725**	**1,364,004**	**1,454,067**	**160,097**	**6,280,893**
Depreciable amount 1.1.2019	**0**	**0**	**0**	**0**	**0**
Reclassification financial leases IFRS 16			22,524		22,524
Depreciable amount 1.1.2019	**0**	**0**	**22,524**	**0**	**22,524**
Amortisation	660,545	287,158	569,917	62,586	1,580,206
Depreciable amount 31.12.2019	**660,545**	**287,158**	**592,441**	**62,586**	**1,602,730**
Book value 1.1.2019	**3,302,724**	**1,364,004**	**1,431,543**	**160,097**	**6,258,368**
Book value 31.12.2019	**2,642,180**	**1,076,846**	**861,626**	**97,511**	**4,678,163**

FINANCIAL LIABILITIES FROM LEASES

in EUR	31.12.2019	31.12.2018
Long-term financial liabilities from leases	3,452,707	0
Short-term financial liabilities from leases	1,748,662	0
Total	5,201,369	0

MOVEMENT OF FINANCIAL LIABILITIES FROM LEASES

in EUR	Long-term financial liabilities from leases	Short-term financial liabilities from leases	Total
Balance as at 1.1.2019	4,325,116	1,432,052	5,757,168
Reclassification financial leases IFRS 16	342,077	140,912	482,989
Balance as at 1.1.2019	4,667,193	1,572,964	6,240,157
Acquisitions	669,780		669,780
Transfers to short-term liabilities	-1,884,265	0	-1,884,265
Transfers from long-term liabilities	0	1,884,265	1,884,265
Repayments		-1,708,568	-1,708,568
Balance as at 31.12.2019	3,452,708	1,748,661	5,201,369

CONTINGENT LIABILITIES (22)

in EUR	31.12.2019	31.12.2018
Guarantees for a good performance of work/correcting errors	816,296	1,124,430
Other	0	250,000
Total	816,296	1,374,430

Performance/deficiency rectification guarantees include the Group's guarantees to third parties from executed transactions.

3.5.7.2 Consolidated income statement

NET SALES REVENUE (23)

in EUR	2019	2018
On the domestic market	604,861,463	538,683,506
Electricity	582,756,501	521,860,433
Thermal energy	6,700,411	5,985,749
Other products	564,355	463,168
Other trade goods and materials	1,562,056	1,464,444
Other services	13,278,140	8,909,712
On a foreign market	1,105,713,512	933,281,715
Electricity	1,091,470,545	915,601,745
Other products	371,802	6,077
Other trade goods and materials	76,002	125,731
Other services	13,795,163	17,548,162
Total	1,710,574,975	1,471,965,221

Most of the revenue refers to the revenue generated through the sale of electricity by the parent 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, mining and maintenance services, rents and other services.

OTHER OPERATING INCOME (24)

in EUR	2019	2018
Revenues from the reversal of provisions	967,934	2,928,333
Drawing of deferred revenue	7,334,718	7,219,970
Reversal of impairment of receivables	45,741	407,866
Income from compensations and contractual penalties	1,021,096	871,067
Default interest	164,418	67,225
Profit in the sale of fixed assets	539,461	1,371,075
Other	7,967,693	4,760,502
Total	18,041,061	17,626,038

Among other operating revenue, the drawing up of deferred revenue represents the largest part and mainly refers to the utilisation of contributions assigned to disabled employees.

Most of other operating revenue refers to profits generated on trading with standardized futures contracts in relation to electricity and emission coupons.

COSTS OF GOODS, MATERIALS AND SERVICES (25)

in EUR	2019	2018
Cost of goods sold	1,258,820,543	1,078,719,619
Dependent cost of goods sold	42,104,635	35,706,938
Total cost of goods sold	**1,300,925,178**	**1,114,426,557**
Cost of material	24,286,974	22,132,953
Cost of auxiliary material	2,791,855	2,535,016
Energy costs	2,046,660	1,835,147
Cost of spare parts	5,523,649	7,061,006
Cost of small tools	403,817	385,338
Office supplies	171,630	206,406
Professional literature	16,130	40,752
Harmonization of costs of material and small tools	35,213	2,034
Cost of fire prevention	0	3,696
Cost of material to eliminate damage	0	1,056
Other	1,234,714	1,138,401
Total cost of material	**36,510,642**	**35,341,805**
Cost of services when creating products	8,637,803	4,811,150
Cost of transport services	844,447	885,451
Maintenance services	10,741,694	9,232,931
Lease costs	845,540	2,895,803
Employee reimbursements costs related to work	327,154	260,989
Insurance and banking costs	5,854,928	5,392,942
Intellectual and personal service costs	4,728,926	4,990,656
Research and development costs	0	126,442
Cost of fairs, commercials and representation	945,910	766,065
Cost of services of natural persons	875,844	860,392
Utilities	3,289,152	3,828,028
Costs of mining damages	141,758	0
Security and control costs	39,759	192,784
Cleaning services	9,361	187,697
Coal sorting	0	21,627
Membership fees	198,452	180,294
Property management	229,715	113,175
Forwarding costs	2,990	3,902
Cost of arranging landfill	110,328	450,511
Formation of annual reports and journals	0	1,983
Costs of copying and plotting	12,087	10,764
Other	807,814	873,500
Total cost of services	**38,643,662**	**36,087,086**
Total	**1,376,079,482**	**1,185,855,448**

Costs of goods sold include mainly costs of purchasing electricity and accompanying expenses thereof.

Costs of materials 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.

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. The increase in the cost of services when creating products is due to the increased volume of operations.

AUDITOR COSTS

in EUR	2019	2018
Auditing of the annual report	98,711	123,074
Other assurance services	5,300	9,108
Total	**104,011**	**132,182**

The financial statements of the HSE Group companies in Slovenia were in 2019 audited by the audit firm Deloitte revizija d.o.o., which also carried out 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.

LABOUR COSTS (26)

in EUR	2019	2018
Salaries	91,185,131	89,864,875
Costs of the pension insurance scheme	15,674,309	15,301,567
Costs of other insurance	6,675,669	6,538,015
Other labour costs	18,194,474	12,815,165
Total	131,729,583	124,519,622

Labour costs comprise salaries and compensations, social insurance contributions, additional pension insurance and other labour costs (meal allowance, commuting allowance, annual leave allowance, financial support, provisions for jubilee bonuses and severance payment upon retirement, etc.). Costs of compensations for unused holiday leave in 2019, which can be utilised by 30 June 2020, are accounted as well.

NUMBER OF EMPLOYEES AND AVERAGE NUMBER OF EMPLOYEES BY EDUCATIONAL STRUCTURE

Educational class	1.1.2019	31.12.2019	Average number of employees
1	157	179	168
2	106	106	106
3	53	53	53
4	1,077	1,068	1,073
5	820	837	829
6/1	338	336	337
6/2	206	211	209
7	269	271	270
8/1	70	72	71
8/2	12	14	13
Total	3,108	3,147	3,128

WRITE-DOWNS IN VALUE (27)

in EUR	2019	2018
Amortisation of intangible assets	713,011	797,781
Amortisation of property, plant and equipment	77,470,921	76,148,173
Amortisation of leased assets	1,580,206	0
Impairments/write-offs of receivables	38,652	65,638
Impairments/write-offs of inventories	544,915	222,833
Impairment in property, plant and equipment and intangible assets	4,221	18,705,593
Write-offs in property, plant and equipment	6,127,922	1,373,600
Sales in property, plant and equipment and investment property	37,445	373,320
Total	86,517,293	97,686,938

The majority of write-downs in value made in 2019 relates to the impairment of property, plant and equipment, as well as investment property.

In order to adjust the value of inventories to net realizable value, the Group established an inventory correction of EUR 534,899.

The largest share of write-down of property, plant and equipment relates to the write-down of the investment in course of the Hrastje-Mota hydro power plant on the Mura River in the amount of EUR 5,960,636, due to the adopted Government decision to stop the preparation of the national spatial plan for the Hrastje-Mota hydro power plant on the Mura River.

Amortisation of fixed assets acquired through government grants or free of charge is accounted for separately. For the amount of accumulated amortisation, long-term deferred income is utilised, and other operating income is recorded.

Among the value adjustments of trade receivables, doubtful receivables from operating activities are recognised, which is disclosed in the credit risk in this report.

CAPITALISED OWN PRODUCTS (28)

in EUR	2019	2018
Capitalised own products and services	-14,224,268	-15,395,195
Total	-14,224,268	-15,395,195

Capitalised own products and services largely comprise:

- engineering services rendered during the construction and reconstruction of HPP,
- works related to cave sites.

OTHER OPERATING EXPENSES (29)

in EUR	2019	2018
Forming of provisions	223,910	1,054,479
Compensation for use of building land	9,878,716	11,689,755
Concessions	16,009,266	14,223,216
Environmental protection expenses	45,365,336	35,971,004
Donations	392,096	2,042,048
Other operating expenses	3,358,733	2,723,040
Total	75,228,057	67,703,542

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. The reason for the increase in environmental protection costs is the higher price of emission coupons in 2019.

FINANCIAL RESULT (30)

The Group incurred in 2019 a negative financial result in the amount of EUR 30,874,287.

FINANCIAL REVENUE

in EUR	2019	2018
Financial revenue from dividends and other profit shares	2,960	106,959
Financial revenue from loans and deposits given	3,755	3,006
Financial revenue from sales of financial investments	0	52,697
Other financial revenue	364	209
Total	7,079	162,871

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 of profit or loss of associates and joint ventures for the year 2019 amounted to EUR 1,273,673.

FINANCIAL EXPENSES

in EUR	2019	2018
Financial expenses for interest	23,219,909	26,091,743
Financial expenses from the sale of financial investments	26,684	0
Other financial expenses	8,984,234	7,275,859
Total	32,230,827	33,367,602

Other finance expenses largely refer to costs associated with loans taken.

Financial expenses from the sale of investments relates to the realised loss at the time of the liquidation of HSE Adria.

Other finance costs largely include costs and collaterals related to the borrowings raised.

TAXES (31)

in EUR	2019	2018
Current tax	13,501,990	10,847,119
Deferred taxes	-3,948	108,629
Total tax from profit recognised in the income statement	13,498,042	10,955,748
Deferred tax recognised in capital	-9,043	-12,584

Companies of the Group are liable for corporation tax, value-added tax, financial services and excise tax.

In 2019, four out of fourteen Group companies in Slovenia were liable to pay corporate income tax, as well as all three companies abroad. Other companies did not establish a basis for the payment due to tax relief, drawing tax losses and negative operating results.

Current tax of Group companies in 2019 amounted to EUR 13,501,990. On the basis of current tax at the end of 2019, Group companies disclose EUR 691,240 of current tax assets and EUR 4,268,719 of current tax liabilities.

Deferred taxes relate to deferred tax assets recognised in the amount of probable profits against which tax can be offset 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.

Among deferred taxes, the Group recorded deferred tax assets in the amount of EUR 721,364 and EUR 15,609 in 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 2019, the Group companies have unused tax losses in the amount of EUR 902,467,194, for which they did not create deferred tax assets.

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 table below.

CALCULATION OF THE EFFECTIVE TAX RATE

in EUR	2019	2018
Profit or loss before taxes	29,720,235	-846,855
Calculated tax at the applicable tax rate	8,403,543	-165,730
Tax on revenues that lower the tax base	-265,666	589,443
Tax on tax deductions	-1,114,431	-885,960
Tax on expenses that lower the tax base	-81,626	-1,060,815
Tax on unrecognised expenses	1,040,661	963,386
Tax from other changes in the tax balance sheet	123,154	377,621
Tax effect of unrecognised deferred tax losses	5,396,355	11,029,174
Tax levied	13,501,990	10,847,119
Deferred taxes	-3,948	108,629
Total taxes	13,498,042	10,955,748
Effective tax rate	45.00%	/

NET PROFIT OR LOSS FOR THE PERIOD (32)

in EUR	2019	2018
Gross return from operations	1,743,654,723	1,489,591,259
Earnings before interest and tax	74,100,308	30,442,789
Financial result	-32,223,748	-33,204,731
Profit or loss before taxes	43,226,022	-846,855
Net profit or loss for the financial year	**29,727,980**	**-11,802,603**

In 2019, the HSE Group generated a positive net profit or loss of EUR 29,727,980.

3.5.7.3 Related companies

Related companies are entities in which the Group has a significant influence and companies in which the Group jointly controls with other owners the operations of this entity, and of the entities where the government owns the majority equity interest.

The Group operated with related parties based on sale/purchase contracts. The turnover of all transactions (excluding VAT) including financial revenues is recorded between sales and purchases. 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 the 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 2019 exceed EUR 2,000,000), except banks where all transactions are disclosed. Transactions relate mostly to electricity trading and the funding of the HSE Group.

The parent company is 100% owned by the Republic of Slovenia. Dividends were not paid in 2019.

DATA ON TRANSACTIONS WITH RELATED COMPANIES

in EUR	Sales	Purchases	Receivables as at 31.12.2019	Liabilities as at 31.12.2019
Associates	1,737,180	9,566,334	69,194	1,635,480
Jointly-controlled companies	173,054	863,151	146	78,938
Total	**1,910,234**	**10,429,485**	**69,340**	**1,714,418**

TRANSACTIONS WITH THE REPUBLIC OF SLOVENIA AND LEGAL ENTITIES DIRECTLY OWNED BY THE REPUBLIC OF SLOVENIA

in EUR	Open receivables as at 31.12.2019	Open liabilities as at 31.12.2019	Revenue 1-12 2019	Expenses 1-12 2019
BORZEN d.o.o.	369,233	271,728	9,126,222	8,790,496
BSP d.o.o.	311,588	496,306	70,062,092	51,901,194
ECE d.o.o.	12,619,128	713,177	130,333,078	7,499,171
ELES d.o.o.	2,558,041	711,577	24,588,632	3,594,162
ELEKTRO MARIBOR ENERGIJA PLUS d.o.o.	6,294,139	8,214	65,340,119	1,869,978
E3 d.o.o.	7,818,403	349,683	69,491,472	4,586,671
GEN ENERIGJA d.o.o.	83,919	21,784	818,346	383,091
GEN-I d.o.o.	10,329,928	13,319,357	83,396,706	93,706,703
PETROL d.d.	5,955,726	8,451,634	47,036,264	49,907,224
Energy companies - total	**46,340,105**	**24,343,460**	**500,192,931**	**222,238,690**
TALUM d.d.	1,699,743	269,902	16,605,665	925,843
Aluminium production	**1,699,743**	**269,902**	**16,605,665**	**925,843**
AVTENTA d.o.o.	0	36,997	0	137,838
VGP DRAVA Ptuj d.o.o.	0	211,724	0	643,426
Other - total	**0**	**248,721**	**0**	**781,264**
NLB d.d.	0	57,000,014	1,533	1,396,555
SID d.d.	0	55,532,386	0	1,395,009
ABANKA d.d.	0	1,634	0	23,443
Gorenjska banka d.d.	0	2,934	0	46,991
Nova KBM d.d.	0	17,409	0	200,504
SKB d.d.	0	228	0	46,207
BKS BANK AG	0	13,490	0	74,340
Banks - total	**0**	**112,568,095**	**1,533**	**3,183,049**
Total	**48,039,848**	**137,430,178**	**516,800,129**	**227,128,846**

3.5.7.4 Remuneration

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement includes:

- gross compensation included in the income tax return statement,
- other allowances (meals, transportation, daily allowances, untaxed portion of jubilee bonuses), and
- premiums paid for voluntary supplementary pension insurance.

Remuneration of Supervisory Board members includes gross attendance fees of all members (composition of the Supervisory Board changed during the year), including travel expenses related to the performance of tasks in the Supervisory Boards and their Committees.

Board members and managerial staff, employees that are not subject to the tariff part of collective agreements and the members of the supervisory boards of group companies did not receive profit shares from the Assembly, nor did companies granted advances, new loans or guarantees in 2019 by HSE Group companies.

REMUNERATION

in EUR	Gross salary	Other remuneration	Bonus	Reimbursement of costs	Attendance fees	Total
Management board members	1,239,599	142,256	47,772	23,766		1,453,393
Members of Supervisory Boards and Committees of the Supervisory Board	0	0	456	3,022	243,263	246,741
Employees not subject to the tariff part of the collective agreement	1,232,973	121,291	39,917	24,116	0	1,418,297
Total 2019	**2,472,572**	**263,547**	**88,145**	**50,904**	**243,263**	**3,118,431**
Management board members	1,126,507	45,947	41,776	20,667	7,867	1,242,764
Members of Supervisory Boards and Committees of the Supervisory Board	0	0	1,950	2,293	233,359	237,602
Employees not subject to the tariff part of the collective agreement	1,104,468	122,740	34,308	21,554	0	1,283,070
Total 2018	**2,230,975**	**168,687**	**78,034**	**44,514**	**241,226**	**2,763,436**

REMUNERATION OF THE MANAGEMENT OF COMPANIES

in EUR	Gross salary	Other remuneration	Bonuses	Reimbursement of costs	Gross attendance fees	Total
Stojan Nikolić- HSE	130,137	4,724	2,445	2,623	7,544	147,473
Viktor Vračar-HSE, TEŠ	75,247	8,014	3,778	783	440	88,262
Matjaž Marovt - HSE	42,723	33,906	2,740	349	1,954	81,672
Marjan Pintar - SENG	8,417		112	118		8,647
Arman Koritnik - TEŠ	31,967	787	2,253	239		35,246
Ludvik Golob - PV	90,322	4,246	875	991		96,434
Mojca Letnik - PV	102,600	3,959	3,780	1,493		111,832
Suzana Koželjnik- HTZ	69,211	3,982	28	2,836		76,057
Andrej Tumpej - DEM	107,058	4,725	7,830	1,921		121,534
Miha Pečovnik - HSE Invest	86,263	1,905	7,096	1,880		97,144
Anton Žagar - RGP	68,400	3,982	2,842	1,267		76,491
Iztok Kikec - SIPOTEH	48,000	3,268	28	2,032		53,328
Damijan Kanduti - PLP	68,257	4,078	1,605	1,462		75,402
Marko Mavec - PV	12,513	966		428		13,907
Gregor Uranjek - PV	77,038	12,890	1,560	1,860		93,348
Radovan Jereb - SENG	85,985	1,905	1,837	1,481		91,208
Mitja Tašler -TEŠ	72,959	4,020	6,298	1,207		84,484
Mirko Marinčič - HSE	48,845	2,128	2,665	640		54,278
Bogdan Makovšek - PV	13,657	42,771		156		56,584
Total	**1,239,599**	**142,256**	**47,772**	**23,766**	**9,938**	**1,463,331**

REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD

in EUR	Gross attendance fees	Travel expenses	Bonuses	Total
Stojan Nikolić - Chairman of the PV SB	7,392		152	7,544
Boštjan Jančar - Member of the HSE SB	15,370			15,370
Boštjan Markoli - Member of the HSE SB and Deputy Chairperson of the PV SB	18,775	93		18,868
Jernej Otič - Member of the HSE SB	15,920	1,719		17,639
Miloš Pantoš - Member of the HSE SB	15,509	25		15,534
Milan Perović - Chairman of the HSE SB	6,788	53		6,841
Viktor Vračar - Member of the HSE SB	5,215	12		5,227
Matjaž Marovt - Chairman of the PV SB	2,088		152	2,240
Barbara Gorjup - Deputy Chairperson of the HSE SB	14,935			14,935
Drago Polak - Deputy Chairperson of the HSE Invest SB	220			220
Danilo Rednjak - Member of the PV SB	6,006		152	6,158
Alida Rejec - Member of the HSE Invest SB	660			660
Andrej Tumpej Member of the HSE Invest SB	660			660
Katja Rejec - Member of HSE Invest SB	660			660
Gregor Mikelj - Member of the HSE Invest SB	660			660
Vesna Cukrov - Member of the HSE SB	15,590	354		15,944
Petja Rijavec - Member of the HSE SB	14,849	69		14,918
Tomaž Besek - Chairman of the HSE SB	11,777	131		11,908
Goran Branković - Member of the HSE SB	10,814			10,814
Total	**163,888**	**2,456**	**456**	**166,800**

REMUNERATION OF MEMBERS OF THE AUDIT COMMITTEE

in EUR	Gross attendance fees	Travel expenses	Total
Boštjan Jančar - Member of the Audit Committee	4,504	126	4,630
Boštjan Markoli - Member of the Audit Committee	4,101	19	4,120
Barbara Gorjup - Chairperson of the Audit Committee	5,711	51	5,762
Maja Zaman Groff - External Member of the Audit Committee	13,851	87	13,938
Total	**28,167**	**283**	**28,450**

REMUNERATION OF MEMBERS OF THE PERSONNEL COMMITTEE

in EUR	Gross attendance fees	Travel expenses	Total
Boštjan Markoli- Member of the Personnel Committee	4,981	21	5,002
Miloš Pantoš - Chairman of the Personnel Committee from 5.4.2019	3,867	10	3,877
Milan Perović - Chairman of the Personnel Committee to 28.3.2019	2,214	27	2,241
Barbara Gorjup - Member of the Personnel Committee	4,981	52	5,033
Petja Rijavec - Member of the Personnel Committee	5,201	0	5,201
Alenka Erker Lozinšek - PV Personnel Committee	1,320	0	1,320
Total	**22,564**	**110**	**22,674**

REMUNERATION OF THE MEMBERS OF THE RESTRUCTURING COMMITTEE

in EUR	Gross attendance fees	Travel expenses	Total
Jernej Otič - Member of the Restructuring Committee	3,353	135	3,488
Miloš Pantoš - Member of the Restructuring Committee	3,265	5	3,270
Viktor Vračar - Chairman of the Restructuring Committee to 28.3.2019	1,598	3	1,601
Vesna Cukrov - Member of the Restructuring Committee	2,825	19	2,844
Goran Branković - Chairman of the Restructuring Committee from 8.4.2019	3,391		3,391
Total	**14,432**	**162**	**14,594**

REMUNERATIONS OF MEMBERS OF THE MARKETING AND INVESTMENT COMMITTEE

in EUR	Gross attendance fees	Travel expenses	Total
Boštjan Jančar - Member of the Marketing and Investment Committee	3,221		3,221
Boštjan Markoli - Member of the Marketing and Investment Committee	2,825	6	2,831
Miloš Pantoš - Chairman of the Marketing and Investment Committee	4,634	5	4,639
Viktor Vračar - Member of the Marketing and Investment Committee	1,095		1,095
Goran Branković - Member of the Marketing and Investment Committee	2,437		2,437
Total	**14,212**	**11**	**14,223**

3.5.7.5 Financial instruments and risks

This section is related to the chapter Financial Risk Management and the chapter on financial risks in the operations part.

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. The 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. Group companies have insured approximately 79% of short-term trade receivables, which represent the majority of all group receivables.

In the case of a delay of payment, the purchasers in Slovenia and abroad are charged with contractually agreed late payment interests.

LONG-TERM TRADE AND FINANCIAL RECEIVABLES ACCORDING TO THEIR MATURITY DATE

in EUR	Maturity date: up to 2 years after the date of SFP	Maturity date: 3 to 5 years after the date of SFP	Maturity date: over 5 years after the date of SFP	Total
Long-term deposits given to others	17,564	7,756	16,611	41,931
Long-term trade receivables	0	168,646	0	168,646
Long-term advances given	10,147	27,440	9,145	46,732
Long-term trade receivables from others	0	0	797,501	797,501
Total 31.12.2019	**27,711**	**203,842**	**823,257**	**1,054,810**
Long-term deposits given to others	10,000	21,437	13,119	44,556
Long-term trade receivables	583,035	0	0	583,035
Long-term advances given	10,147	28,440	18,292	56,879
Long-term trade receivables from others	0	0	3,050,904	3,050,904
Total 31.12.2018	**603,182**	**49,877**	**3,082,315**	**3,735,374**

SHORT-TERM TRADE AND FINANCIAL RECEIVABLES ACCORDING TO THEIR MATURITY DATE

in EUR	Maturity date						Total
	Not past due	Up to 3 months past due (up to 90 days)	From 3 to 6 months past due (from 91 to 180 days)	From 6 to 9 months past due (from 181 to 272 days)	From 9 to 12 months past due (from 271 to 360 days)	Over a year past due (from 361 days onwards)	
Short-term financial receivables and loans given to others	51	0	0	0	0	0	51
Short-term deposits given to others	12,554,373	0	0	0	0	0	12,554,373
Short-term trade receivables from associates	69,194	0	0	0	0	0	69,194
Short-term trade receivables from jointly-controlled companies	146	0	0	0	0	0	146
Short-term trade receivables from customers	137,345,293	4,413,022	26,682	10,177	11,320	6,677,348	148,483,842
Short-term advances given	3,024,621	0	0	0	0	206,731	3,231,352
Short-term trade receivables from state and other institutions	30,035,899	0	0	0	0	0	30,035,899
Short-term trade receivables from others	14,697,156	0	0	0	0	559,151	15,256,307
Total 31.12.2019	**197,726,733**	**4,413,022**	**26,682**	**10,177**	**11,320**	**7,443,230**	**209,631,164**
Short-term deposits given to others	12,935,641	0	0	0	10,020	0	12,945,661
Short-term trade receivables from associates	166,362	8,694	0	0	0	0	175,056
Short-term trade receivables from customers	127,429,575	7,198,251	33,940	61,426	27,333	6,595,417	141,345,942
Short-term advances given	1,551,533	0	0	0	0	206,731	1,758,264
Short-term trade receivables from state and other institutions	25,818,824	0	0	0	0	0	25,818,824
Short-term trade receivables from others	16,620,623	0	0	0	0	1,068,191	17,688,814
Total 31.12.2018	**184,522,558**	**7,206,945**	**33,940**	**61,426**	**37,353**	**7,870,339**	**199,732,561**

MOVEMENT OF VALUE ADJUSTMENTS OF SHORT-TERM TRADE RECEIVABLES

in EUR	2019	2018
Balance as at 1.1.	**7,668,235**	**7,806,090**
Recovered written-off receivables	-28,766	-387,257
Formation of adjustments to the value of receivables	31,480	367,612
Definitive write-off of receivables	-548,469	-118,210
Balance as at 31.12.	**7,122,480**	**7,668,235**

At the end of 2019, the Group has a total of EUR 7,122,480 of value allowances for doubtful and disputable short-term operating receivables.

In 2019, the Group formed allowances for short-term receivables pursuant to provisions of IFRS 9. Accordingly, the Group applied the new impairment model already in 2018, 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 2019.

The value of the pledged receivables for loans on 31 December 2018 amounts to EUR 2,302,483.

LIQUIDITY RISK

Liquidity risk or insufficient solvency risk is the risk associated with the lack of available financial resources and the inability of the group to meets its obligations in due time.

In order to manage liquidity risk, the Group's cash flow was regularly monitored and planned at the parent company at a daily, monthly and annual level. Much of attention is 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 solvency has been successfully controlled by the ongoing reconciliation of the maturity of receivables and liabilities, consistent recovery of receivables and the provision of adequate available credit lines with commercial banks.

Based on the centralized cash flow planning, implemented measures for restructuring and optimizing debt's maturity, proper liquidity reserve provided, and an active attitude towards the financial markets, the Group's liquidity reserve was under control and ensured in 2019 and thus the liquidity reserve appropriately managed.

Liquidity risk management is monitored by individual categories of business groups, namely:

MANAGEMENT OF LIQUIDITY RISK ARISING ON OPERATING ACTIVITIES, which is closely linked to the credit risk. Liquidity risk from operations is controlled mainly by harmonising payment deadlines of receivables and liabilities arising from the core activity - trading with electricity, as well as payment deadlines of other obligations in such a way that the companies in the group settle their trade payables on time. The 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. Measures include up-to-date monitoring of supplier settlements, extension of payment deadlines, delay arrangements and provision of sufficient liquidity resources to cover basic and flexible margins on electricity exchanges and with the clearing bank. Liquidity risk from operation in 2019 is estimated as adequately controlled.

MANAGEMENT OF LIQUIDITY RISK ARISING ON INVESTMENT ACTIVITIES, which is 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 in investing in 2019 is estimated as adequately controlled.

MANAGEMENT OF LIQUIDITY RISK ARISING ON FINANCING ACTIVITIES is 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 short-term loans 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. Liquidity risk arising from financing was adequately managed in 2016, because the group has managed to provide a sufficient amount of credit and guarantee lines for smooth operation.

Based on deleveraging according to the plan and maintaining the credit ratings ''Ba2 positive'' (Moody's) and ''BB positive'' (Standard & Poor's), both with a positive outlook, the Company and the Group additionally disclose business stability. The credit rating agency Moody's improved the future outlook from stable to positive, mainly due to meeting planned deleveraging and creating sufficient free cash flow.

The maturity of Group's long-term and short-term liabilities is outlined in following tables.

LONG-TERM TRADE AND FINANCIAL RECEIVABLES ACCORDING TO THEIR MATURITY DATE

in EUR	Maturity date			Total
	up to 2 years after the date of SFP	3 to 5 years after the date of SFP	over 5 years after the date of SFP	
Long-term financial liabilities to banks	69,171,172	219,159,007	378,089,215	666,419,394
Long-term financial liabilities from leases	600,205	2,852,502	0	3,452,707
Long-term trade liabilities to suppliers	0	164,236	0	164,236
Long-term trade liabilities on the basis of advances	0	0	42,296	42,296
Other long-term trade liabilities	29,192	0	23,062	52,254
Total 31.12.2019	**69,800,569**	**222,175,745**	**378,154,573**	**670,130,887**
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	0	342,077
Long-term trade liabilities on the basis of advances	0	0	39,096	39,096
Other long-term trade liabilities	26,518	0	24,026	50,544
Total 31.12.2018	**80,427,778**	**273,904,871**	**346,887,801**	**701,220,450**

SHORT-TERM TRADE AND FINANCIAL LIABILITIES ACCORDING TO THERI MATURITY DATE

in EUR	Maturity date						Total
	not past due	up to 3 months past due (up to 90 days)	from 3 to 6 months past due (from 91 to 180 days)	from 6 to 9 months past due (from 181 to 272 days)	from 9 to 12 months past due (from 271 to 360 days)	over a year past due (from 361 days onwards)	
Short-term financial liabilities to banks	65,854,562	0	0	0	0	0	65,854,562
Other short-term financial liabilities	80,787	0	0	0	0	0	80,787
Short-term financial liabilities from leases	1,748,662	0	0	0	0	0	1,748,662
Short-term trade liabilities to associates	1,635,481	0	0	0	0	0	1,635,481
Short-term trade liabilities to jointly-controlled companies	78,938	0	0	0	0	0	78,938
Short-term trade liabilities to suppliers	135,210,783	1,050,339	0	0	0	87	136,261,209
Short-term trade liabilities on the basis of advances	305,215	0	0	0	0	0	305,215
Short-term trade liabilities to employees	11,708,876	0	0	0	0	0	11,708,876
Short-term trade liabilities to state and other institutions	28,947,982	0	0	0	0	0	28,947,982
Other short-term trade liabilities	2,428,878	3,225	0	0	0	0	2,432,103
Total 31.12.2019	**248,000,164**	**1,053,564**	**0**	**0**	**0**	**87**	**249,053,815**
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	0	0	0	0	0	246,702
Short-term trade liabilities to associates	1,776,790	163,968	0	0	0	0	1,940,758
Short-term trade liabilities to jointly-controlled companies	62,918	0	0	0	0	0	62,918
Short-term trade liabilities to suppliers	136,243,853	2,882,926	51,451		479	1,870	139,180,579
Short-term trade liabilities on the basis of advances	86,810	0	0	0	0	0	86,810
Short-term trade liabilities to employees	14,199,050	0	0	0	0	0	14,199,050
Short-term trade liabilities to state and other institutions	26,818,171	0	0	0	0	0	26,818,171
Other short-term trade liabilities	3,520,520	0	0	0	0	0	3,520,520
Total 31.12.2018	**238,679,662**	**4,839,423**	**11,551,451**	**2,242,424**	**11,500,479**	**1,870**	**268,815,309**

The liquidity risk exposure due to financial liabilities to banks on 31 December 2019 is shown in the table below. The amounts presented are not discounted and include contractually anticipated interest rates. The group has sufficient financial resources to repay liabilities to banks, which shall be due in 2020. The source is operating revenue, while at the same time the Group has a liquidity reserve in the form of cash of EUR 42,517,598 and long-term revolving loans of EUR 50,300,000, which were wholly unused as at 31.12.2019.

EXPOSURE TO LIQUIDITY RISK ARISING ON FINANCIAL LIABILITIES TO BANKS

in EUR	Estimated cash flows					Total
	Up to 2 months after the date of SFP	From 2 to 12 months after the date of SFP	From 1 to 2 years after the date of SFP	From 2 to 5 years after the date of SFP	Over 5 years after the date of SFP	
Financial liabilities to banks without interest rate hedging						
short-term loans	-40,000	-339,838				-339,838
long-term loans	-1,209,419	-64,527,405	-69,444,066	-218,886,126	-378,089,204	-732,156,219
TOTAL	**-1,249,419**	**-64,667,242**	**-69,444,066**	**-218,886,126**	**-378,089,204**	**-732,496,057**

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.

The foreign exchange risk of the group was adequately controlled in 2019. While hedging against currency risk, the company acts in compliance with the Group's internal rules. The parent company is primarily faced with the exchange rate risk for electricity trade in foreign currencies on foreign markets, where exposure is protected through the use of derivatives as needed. The latter applies mainly in the case of auctions for the purchase of electricity in Hungary, when payments are made in the HUF currency and we are insured against the exchange rate risk by means of a forward purchase of that currency.

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.

As other currencies in transactions are present to a lesser extent, the group does not prepare a sensitivity analysis to change exchange rates of other currencies, as the change in these rates would not have any significant impact on the Group's profit.

To convert the Group's assets and liabilities on 31 December 2019, the following exchange rates were used:

EXCHANGE RATES

Country	Currency code	Closing EUR rate for 2019	Closing EUR rate for 2018
Czech Republic	CZK	25.4080	25.7240
Hungary	HUF	330.5300	320.9800
Romania	RON	4.7830	4.6635
USA	USD	1.1234	1.1450
United Kingdom	GBP	0.8508	0.8945
Bulgaria	BGN	1.9558	1.9558
Croatia	HRK	7.4395	7.4125
Serbia	RSD	117.3800	118.4300

EXPOSURE TO RISK OF CHANGE OF EXCHANGE RATES

in EUR	EUR	HUF	Ostale valute	Skupaj
Long-term financial receivables and loans	41,931			41,931
Long-term trade receivables	769,045		243,834	1,012,879
Short-term financial receivables and loans	12,554,424			12,554,424
Short-term trade receivables	189,566,206		388,055	189,954,261
Long-term financial liabilities	-669,872,100			-669,872,100
Long-term trade liabilities	-258,640		-146	-258,786
Short-term financial liabilities	-67,684,011			-67,684,011
Short-term trade liabilities	-180,961,344	-103,709	-304,752	-181,369,805
Net exposure of the SFP 31.12.2019	**-715,844,489**	**-103,709**	**326,991**	**-715,621,207**
Long-term financial receivables and loans	34,556		10,000	44,556
Long-term trade receivables	3,193,579		497,239	3,690,818
Short-term financial receivables and loans	12,945,661			12,945,661
Short-term trade receivables	176,364,024	485	2,754,156	179,118,665
Long-term financial liabilities	-701,130,810			-701,130,810
Long-term trade liabilities	-89,640			-89,640
Short-term financial liabilities	-83,006,503			-83,006,503
Short-term trade liabilities	-182,109,052	-904,757	-1,240,214	-184,254,023
Net exposure of the SFP 31.12.2018	**-773,798,185**	**-904,272**	**2,021,181**	**-772,681,276**

CONCLUDED CONTRACTS FOR CURRENCY SWAPS ACCORDING TO THE MATURITY DATE

in EUR	31.12.2019	31.12.2018
Currency swap contracts by maturity - up to 12 months	10,774,892	5,982,329
Total	**10,774,892**	**5,982,329**

CURRENCY SWAP EFFECT

in EUR	2019	2018
Unrealised profit of effective transactions	38,554	54,987
Realized profit of effective transactions	27,103	32,773
Realized loss of effective transactions	-117,172	-178,938

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 adequately managed in 2019, with limited and reduced risks associated with interest rate changes and thus stabilised cash flows.

As at 31 December 2019, EUR 421 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 risk is regularly monitored and reported by the group's companies. We also regularly monitor developments on the money market, interest rate developments and the value of interest rate shielding deals and adopt appropriate interest-rate risk strategies in this context. As in many past years, we have not entered into deals of shielding interest rate rises in 2019 and we have no so-called IRS contracts concluded.

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. Analysis prepared for both years 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 markup of + 0.50 b.p. to the average Euribor value in 2019 was taken into account (average value of the 3-month Euribor -0.356%; average value of 6-month Euribor -0.302%). 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 with +/- 50 b.p. change in interest rate.

FINANCIAL INSTRUMENTS BEARING THE VARIABLE INTEREST RATE

in EUR	Net profit or loss 2019		Net profit or loss 2018	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial instruments bearing the variable interest rate	-802,829	529,900	-1,142,137	674,205
Financial liabilities	-802,829	529,900	-1,142,137	674,205

PRICE RISK

The price risk derives from the 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 the 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 2019, 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 a 95% 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 risked capital 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 purchase of emission coupons relating to own production is managed on the basis of the relevant Strategy of selling own production and purchase of emission coupons for Group's own production. The respective strategy aims to disperse the price risk over a longer trading period. The parent company reduces the risk associated with the price of electricity to the partial sale volumes of its own production and purchases of emission allowances in the 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 through the following activities and methods:

- daily monitoring of market positions on a group level as well as parent company by countries and by individual groups of transactions,
- 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 of investment decisions in the energy sector in European Union and growth of leading countries;
- daily monitoring and analysing the value of the parameter VaR and MtM (Mark-to-Market) in terms of individual groups of transactions 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.

FORWARD CONTRACTS FOR ELECTRICITY

The Group 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 Group 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. This way, the Group 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 the Group is used as the platform for implementing the price insurance strategy for the planned quantities of own production. Thus, the Group is already now selling electricity of subsidiaries for several years ahead, while the main objective of the strategy is to maximise profit and provide stable revenue from electricity sales.

In this relation, the Group recorded at the year-end forward contracts in the amount of EUR 43,890,631. Related disclosures are provided in the section Capital.

CONCLUDED STANDARDISED FORWARD CONTRACTS FOR HEDGING PUPOSES

in EUR	31.12.2019	31.12.2018
For electricity - to insure the purchase	67,870,597	22,389,291
For electricity - to insure sales	90,042,732	21,501,340
Total	157,913,329	43,890,631

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 Group 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 forward contracts or physical contracts. Disclosures of respective transactions are provided in section Capital. At the end of the year, the Group recorded EUR 100,426,110 of open future contracts held for trading.

CONCLUDED STANDARDISED FORWARD CONTRACTS FOR TRADING

in EUR	31.12.2019	31.12.2018
For electricity - trading - purpose of purchase	59,478,153	40,162,709
For electricity - trading - purpose of sale	40,947,957	17,952,306
Total	100,426,110	58,115,015

EMMISSION COUPONS

The Group concluded forward contracts in 2019 for the purchase and sale of emission coupons in order to insure quantities of emission coupons, relating to own production requirements; the Group concluded also forward contracts in a limited scope also in connection with the trading activity, which was not linked to own production. At the end of 2019, the Group recorded in this respect EUR 118,223,740 of open contracts for insuring the purchase and sale of emission coupons. Related disclosures are provided in the section Capital.

CONCLUDED STANDARDISED FORWARD CONTRACTS FOR HEDGING PUPOSES

in EUR	31.12.2019	31.12.2018
For emission coupons - to insure the purchase	112,080,880	63,567,160
For emission coupons - to insure the sales	6,142,860	3,516,970
Total	118,223,740	67,084,130

CAPITAL MANAGEMENT

in EUR	31.12.2019	31.12.2018
Long-term financial liabilities	669,872,101	701,130,810
Short-term financial liabilities	67,684,011	83,006,503
Total financial liabilities	737,556,112	784,137,313
Capital	1,064,640,821	1,091,245,472
Financial liabilities/Capital	0.69	0.72
Cash and cash equivalents	42,517,598	83,510,529
Net financial liability	695,038,514	700,626,784
Net debt/Capital	0.65	0.64

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 Group the trust of creditors, partners and potential investors as well as maintains the future development of activities.

The Group monitors changes in capital using the financial leverage ratio, which is calculated by dividing total net liabilities by total capital. Net liabilities of the Group include loans received and other financial liabilities less cash.

The ratio shows the relationship between the Group's indebtedness and capital. The financial leverage ratio at the end of 2019 was higher than in 2018.

FAIR VALUES

The Group estimates that the book value of financial instruments is a reasonable approximation for their fair value, except for derivatives, which are recorded at fair value.

BOOK VALUES AND FAIR VALUES OF FINANCIAL INSTRUMENTS

in EUR	31.12.2019		31.12.2018	
	Book value	Fair value	Book value	Fair value
Non-derivative financial assets at fair value	178,648	178,648	175,096	175,096
Available-for-sale financial assets	178,648	178,648	175,096	175,096
Derivative financial assets at fair value	47,597	47,597	67,885	67,885
Derivative Financial Instruments (receivables)	47,597	47,597	67,885	67,885
Non-derivative financial assets at amortised cost	248,537,436	248,537,436	279,310,229	279,310,229
Financial receivables	12,643,952	12,643,952	12,990,217	12,990,217
Trade and other receivables	190,967,139	190,967,139	182,809,483	182,809,483
Cash	42,517,598	42,517,598	83,510,529	83,510,529
Total	248,763,681	248,763,681	279,553,210	279,553,210
Non-derivative financial liabilities at amortised cost	921,286,299	921,286,299	970,035,761	970,035,761
Bank loans	732,273,956	732,273,956	783,548,534	783,548,534
Other financial liabilities	80,787	80,787	588,779	588,779
Trade liabilities and other liabilities	188,931,556	188,931,556	185,898,448	185,898,448
Total	921,286,299	921,286,299	970,035,761	970,035,761

Group financial assets valued at fair value are classified into three levels. First-level assets of EUR 39,427 relate to Triglav shares, second-level financial assets of EUR 47,597 relate to unrealised revenue in effective foreign exchange swap transactions and third-level assets represent available for sale in the amount of EUR 139,221 EUR.

3.5.8 Events after the balance sheet date

After the date of the statement of financial position in the Group, there were no corporate events that could affect the financial statements in 2019.

On 12.3.2020, the COVID-19 epidemic was declared, which changed the circumstances of the business, to which the Group has adapted accordingly.

As early as 24 February 2020, the HSE Group immediately began preparing and setting up preventive measures to ensure the continued production and sale of electrical and thermal energy, with the first announcement that the COVID-19 epidemic had largely started in the immediate vicinity of Slovenia - Italy. As a result, gradually and in line with the current situation in the country, we have started implementing measures in accordance with the business continuity plan and with the aim of securing the assets of the HSE Group. Given the current situation, the Group started with a timely and appropriate implementation of measures and with limiting the possible consequences, as the business is running smoothly for the time being. Below, we give an assessment of the impact of the epidemic or measures to slow the epidemic on the business and results of the HSE Group by area.

PRICE RISKS

In line with the deteriorating health situation in China in January as well as in Europe in February and March 2020, we witnessed a gradual breakdown of a greater part of social and economic activities, with the exception of urgent services, followed by the prices of energy products – oil, gas, coal, as well as electricity and CO 2 emission coupons prices. From the point of view of the HSE Group, the decline in electricity prices mainly has an impact on the added value of the renewable sources production of our hydroelectric power plants, while the price ratios have not changed significantly from the standpoint of thermo production. The difference between electricity prices and CO_2 emission coupons is maintained. In the field of sales of its own production for 2020, the HSE Group has sold practically the entire volume of planned production, so we have already limited to a greater extent the impact of the absolute drop in electricity prices on hydro production added value, and some of it still depends on potential changes in the price ratio for the supply of electricity day and night, which is not insured. 66% of hydro production in 2021, 15% in 2022 and 4% in 2023 are already secured. However, from the point of view of trading activities which are not related to the sale of own production, the fall in prices on correctly placed market positions does not have a negative impact on the added value of the HSE Group and will not have it in view of current positions.

CREDIT RISKS

As a result of the current situation, we can also expect an increasing incidence of late payment of invoices within the contractual deadlines of our partners (in particular partial payments or late payments) to a certain extent. Such problems are expected mainly for partners who are also heavily involved in the distribution of electricity to final consumers, and for partners who are themselves end-users (large consumers of electricity). We have the largest share of partners belonging to such a group mainly in Slovenia and, due to the current situation, we also monitor them more closely. In this context, we are currently monitoring the implementation of all EU countries' crisis measures to mitigate the consequences of the pandemic and its impact on the economy. At the moment, most countries have already approached the rescuing of the economy (including, inter alia, the resolving of corporate liquidity problems), thus the initially expected effects of the pandemic will not be reflected in such a large scale (depending on the duration of the crisis situation), which is already reflected in the stock markets. We regularly monitor their exposure, payment habits and perform contractual payment netting with all partners, and we have appropriate insurances for key partners that could be cashed in, if necessary, in case of potential defaults or late payments. Also, if we find that current insurance for certain partners would not be sufficient or appropriate to the amount of transactions and the situation, we will approach individual partners with a claim for additional insurance.

QUANTITY/PRODUCTION RISKS

The impact on production under emergency conditions is not expected within a shorter period of time, but if the situation lasted for a longer period, the consequences could also be felt in this area. In the field of production, we are currently implementing all measures in accordance with emergency plans and instructions from state institutions. The consequences of the situation related to the deviation of actual production from the planned one could be mainly due to the lack of input materials and raw materials (mainly the thermal part of production), the inability to provide external services related to production (overhauls, emergency maintenance works, etc.) and as the consequence of other risks (e.g. increased levels of sick leaves of key personnel, failure to make urgent investments, restriction of people in workspaces, etc.). All risks are currently managed by the implementation of additional measures, but should there be a tightening of the situation (prolongation of the emergency situation, fall of sales prices below the threshold price of production, failure of part of the planned production, etc.), depending on the estimated consequences of individual scenarios, we are also preparing appropriate additional measures (for example, if prices on electricity markets fall below the limit prices of each part of production, we will begin with a gradual restriction of production throughout the production chain; in the thermal part this means both in PV and in TEŠ).

OTHER RISKS

From the perspective of other risks, we also highlight the regulation-related risks, as due to the extensive allocation of funds for the purpose of urgent economic measures at EU level, a partial delay in the implementation of the European Green Deal and the implementation of the Fair Transition Fund may also be expected, which would result in affect the delay in the implementation of fair transition measures at national levels. As a result of the above, it is possible to expect a delay in the preparation of the regulatory framework for the exit from coal (strategy, action plans, law), which could lead to a delay in the possibility of drawing funds to finance a fair transition for the needs of the gradual closure of PV and coal blocks of TEŠ.

LIQUIDITY OF THE HSE GROUP

In the short term, the liquidity of the HSE group was most affected by the fall in prices on electricity and related products markets, which was successfully neutralised by the appropriate ratio of purchase and sales positions in these markets and by the drawing of revolving loans concluded for this purpose at commercial banks. To further reduce the liquidity risk, we will gain the necessary approvals for additional indebtedness in April and provide adequate credit lines with banks. This way, we will be able to provide the appropriate liquidity reserve necessary in the operations of the HSE Group in crisis situations.

The described consequences of the COVID-19 epidemic in the HSE Group will be the most visible at the parent company HSE, as it limits the risks of subsidiaries linked to both prices and electricity generation outages by contractual relationships. Nevertheless, we believe that if the situation is normalized within two months, the consequences of the epidemic do not represent a significant impact either on the company's operations or on the operations of HSE subsidiaries. However, if the emergency period lasted for a long period of time, the consequences described could also be expressed in PV, which represents the first link in the thermal production chain and could affect both the liquidity and solvency of the company. In addition to implementing measures in the field of liquidity/solvency (short-term borrowing, deferrals, advances, etc.), it will be necessary to approach measures that will affect the reduction of the company's costs (materials, services, labour, CAPEX). Among the other HSE subsidiaries, which are also linked to revenues outside the HSE group, the consequences of the situation will be felt mainly by RGP and HSE Invest. However, in the light of the current estimates, we believe that the impacts will not be critical for the continued operations of the aforementioned companies or the HSE Group and will be controlled mainly in the context of liquidity management measures both at the company level and at the level of the HSE Group.

Accounting Report of the HSE Company

With a clear vision and hard work we move mountains

04

4.1 Independent Auditor's Report of the HSE Company

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INDEPENDENT AUDITOR'S REPORT
to the owners of HOLDING SLOVENSKE ELEKTRARNE d.o.o.

Opinion

We have audited the financial statements of the company HOLDING SLOVENSKE ELEKTRARNE d.o.o. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2019, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRS').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other matter paragraph

The financial statements of the company for the year ended December 31, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on May 17, 2019.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.
Our opinion on the financial statements does not cover the other information and we express no assurance thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.
In relation to this and based on our procedures performed, we report that:

- Other information are, in all material respects, consistent with the financial statements;
- Other information are prepared in compliance with applicable law or regulation; and
- Based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements of the Company, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using 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 and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 auditing rules 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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.
- 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 controls.
- 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 auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With those charged with governance we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

Report on Other Legal and Regulatory Requirements

The Company disclosed its financial statements by activity, with explanations in the chapter Additional disclosures under the Energy Act, which include the statement of financial position by activity as at December 31, 2019, the income statement by activity, and a statement of cash flows by activity for the year then completed.
The management of the company is responsible for keeping separate accounting records by activity, using the criteria in accordance with the Law on Transparency of Financial Relations and Separate Registration of Different Activities (ZPFOLERD-1) and in compliance with the provisions of the Energy Act (EZ-1).
It is our responsibility to verify the appropriateness of the criteria and the correctness of their use in accordance with the requirements of ZPFOLERD-1, and whether the Company has complied with the provisions of EZ-1 regarding the disclosure of financial statements by activity.
Based on the procedures we have performed in auditing the financial statements, we report that the Company has disclosed its financial statements by activity and that the criteria used by the company are appropriate and that the company has correctly used separate accounting records for individual activities.

DELOITTE REVIZIJA d.o.o.

Tina Kolenc Praznik
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, April 10, 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

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

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

- accounting policies are appropriately selected and consistently used,
- judgements and assessments are reasonable and 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 Company's assets and preventing and detecting 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.

The financial accounts of Holding Slovenske Elektrarne d.o.o. for the financial year that ended on 31 December 2019, were accepted by the management on 10 April 2020.

Ljubljana, 10 April 2020

Stojan Nikolić, M.Sc.
Managing Director of HSE

Viktor Vračar, Ph.D.
Business Director of HSE

Mirko Marinčič, M.Sc.
Business Director of HSE

4.3 Introductory notes to the preparation of financial statements

The financial report of the company Holding Slovenske Elektrarne d.o.o. represents the financial statements with 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 auditing company Deloitte revizija d.o.o. audited the financial statements with notes and an independent auditor prepared the report, which is included at the beginning of the chapter.

4.4 Financial statements of the HSE Company

4.4.1 Statement of financial position of the HSE Company

in EUR	Explanation	31.12.2019	31.12.2018
ASSETS		**1,418,699,514**	**1,381,683,132**
A. LONG-TERM ASSETS		**1,187,486,164**	**1,132,223,499**
I. Intangible assets	1	40,826,749	31,725,965
II. Property, plant and equipment	2	11,816,615	11,917,946
III. Right to use leased assets	21	1,122,914	0
V. Long-term investments in subsidiaries	3	985,825,813	953,851,547
VI. Other long-term investments and loans	4	146,759,633	131,409,249
VII. Long-term trade receivables	5	797,501	3,050,904
IX. Deferred Tax Assets Liabilities	6	336,939	267,888
B. SHORT-TERM ASSETS		**231,213,350**	**249,459,633**
II. Inventories		0	2,594
III. Short-term investments and loans	7	4,288,633	1,956,229
IV. Short-term trade receivables from customers	8	156,432,704	135,490,797
V. Contract assets	9	3,042,090	3,016,725
VII. Other short-term assets	10	39,853,143	41,234,040
VIII. Cash and cash equivalents	11	27,596,780	67,759,248
CAPITAL AND LIABILITIES		**1,418,699,514**	**1,381,683,132**
A. CAPITAL	12	**984,344,305**	**979,389,150**
I. Called-up capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Profit reserves		562,744,824	562,744,824
IV. Risk hedging reserve		20,452,278	75,592,355
V. Fair value reserve		-74,525	-26,773
VI. Retained earnings or losses		-189,580,246	-249,723,230
B. LONG-TERM LIABILITIES		**213,876,626**	**194,193,846**
I. Provisions for severance payments upon retirement and jubilee bonuses	13	1,195,929	949,464
II. Other provisions	14	334,875	311,675
III. Other long-term liabilities	15	324,006	485,750
IV. Long-term financial liabilities	16	211,151,515	192,434,059
V. Long-term financial liabilities from leases	21	861,258	0
VII. Deferred tax liabilities		9,043	12,898
C. SHORT-TERM LIABILITIES		**220,478,583**	**208,100,136**
II. Short-term financial liabilities	17	11,442,813	27,140,461
III. Short-term financial liabilities from leases	21	274,264	
IV. Short-term trade liabilities	18	146,594,106	132,676,890
VI. Current tax assets	30	3,742,590	1,490,042
VII. Other short-term liabilities	19	58,424,810	46,792,743

* Explanations to the financial statements are part of the financial statements and must be read in conjunction with them.

4.4.2 Income statement of the HSE Company

in EUR	Explanation	2019	2018
OPERATING INCOME		**1,746,883,338**	**1,485,894,248**
1. Net sales revenue	22	1,740,154,682	1,481,938,763
2. Other operating income	23	6,728,656	3,955,485
OPERATING EXPENSES		**1,678,442,008**	**1,431,439,881**
3. Costs of goods, material, and services	24	1,664,392,762	1,419,386,924
4. Labour costs	25	11,412,626	10,499,858
5. Value write-downs	26	882,302	885,927
8. Other operating expenses	27	1,754,318	667,172
EARNINGS BEFORE INTEREST AND TAX		**68,441,330**	**54,454,367**
9. Financial revenue	28	15,235,001	33,283,502
10. Financial expenses	29	11,813,585	69,458,334
FINANCIAL RESULT		**3,421,416**	**-36,174,832**
PROFIT OR LOSS BEFORE TAXES		**71,862,746**	**18,279,535**
TAX	30	**11,745,030**	**8,793,266**
12. Current tax		11,814,081	8,805,263
13. Deferred tax		-69,051	-11,997
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	31	**60,117,716**	**9,486,269**
Owner of the parent company		60,117,716	9,486,269

* Explanations to the financial statements are part of the financial statements and must be read in conjunction with them.

4.4.3 Statement of other comprehensive income of the HSE Company

in EUR	Explanation	2019	2018
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	31	**60,117,716**	**9,486,269**
Actuarial revenues and losses of programmes with defined employee benefits		-22,483	-65,168
Items that will not subsequently be reclassified to profit or loss		**-22,483**	**-65,168**
Net effective part of change in the fair value of cash flow hedging instruments	12	-55,123,645	64,734,630
Net effective part of change in the fair value of cash flow hedging instruments transferred to profit or loss	12	-16,433	104,346
Items that may later be reclassified to profit or loss		**-55,140,078**	**64,838,976**
TOTAL COMPREHENSIVE INCOME IN THE REPORTING PERIOD		**4,955,155**	**74,260,077**

* Explanations to the financial statements are part of the financial statements and must be read in conjunction with them.

4.4.4 Statement of cash flows of the HSE Company

in EUR	2019	2018
CASH FLOWS FROM OPERATING		
Net profit of loss	60,117,717	9,486,269
Adjustments for:		
Amortisation of intangible assets	246,699	376,643
Amortisation of property, plant and equipment	351,809	492,274
Amortisation leases	280,706	
Write-offs of property, plant and equipment	2,407	
Write-offs of operating receivables	660	16,973
Reversal of write-off/impairment of operating receivables	-43	
Loss in the sale of property, plant and equipment	20	37
Financial revenue	-15,235,001	-33,283,502
Financial expenses	11,813,586	69,458,334
Revenue in the sale of property, plant and equipment	-4,552	-53,817
Profit on sale of intangible assets		-4,628
Taxes	11,745,030	8,793,267
Operating profit before changes in net short-term assets and taxes	**69,319,038**	**55,281,850**
Changes in net short-term assets and provisions		
Change in:		
Inventories	2,594	-2,594
Trade receivables and other assets	-18,314,725	-7,677,928
Operating liabilities to suppliers and other liabilities	-27,172,140	65,932,704
Advances received	-161,744	485,750
Provisions	317,416	126,800
Profit tax paid	-9,561,533	-6,045,392
Cash from operations	**14,428,906**	**108,101,190**
CASH FLOWS FROM INVESTMENTS		
Interest received	929,490	210,867
Dividends received	10,170,209	30,353,648
Remuneration from other financing	882,228	1,000,733
Remuneration from the sale of property, plant and equipment	5,813	755,071
Remuneration from the sale of intangible assets	27,412,664	25,850,491
Remuneration from reduction of short-term loans given		560,000
Remuneration from the reduction of long-term loans given	32,235,500	1,000,000
Expenses for the purchase of property, plant and equipment	-254,166	-685,017
Expenses for the purchase of intangible assets	-36,760,147	-31,109,465
Expenses for leases	-1,403,620	
Expenses for the purchase of subsidiaries	-32,076,763	
Expenses for the increase of long-term loans given	-46,685,500	-64,791,457
Cash from investment	**-45,544,292**	**-36,855,129**
CASH FLOWS FROM FINANCING		
Leases	1,135,522	
Remuneration from long-term loans received	180,000,000	
Remuneration from short-term loans received	36,000,000	15,000,000
Expenses for loan interest	-6,401,271	-7,823,799
Expenses for other financial liabilities	-5,387,395	-4,906,040
Expenses for repayment of long-term loans	-178,393,938	-17,484,848
Expenses for repayment of short-term loans	-36,000,000	-15,000,000
Cash from financing	**-9,047,082**	**-30,214,687**
INITIAL BALANCE OF CASH AND CASH EQUIVALENTS	**67,759,248**	**26,727,874**
Profit or loss for the period	**-40,162,468**	**41,031,374**
FINAL BALANCE OF CASH AND CASH EQUIVALENTS	**27,596,780**	**67,759,248**

CONTINUES ON NEXT PAGE

* Explanations to the financial statements are part of the financial statements and must be read in conjunction with them.

4.4.5 Statement of changes in equity of the HSE Company

	CALLED-UP CAPITAL		PROFIT RESERVES			RETAINED EARNINGS OR LOSSES		
in EUR	Share capital	Capital surplus	Other profit reserves	Risk hedging reserve	Fair value reserve	Profit or loss brought forward	Net profit or loss for the financial year	Total
Balance as at 1.1.2018	**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**
Input of the net profit or loss for the reporting period							**9,486,269**	**9,486,269**
Items that will not later be reclassified to profit or loss	**0**	**0**	**0**	**0**	**-78,000**	**12,830**	**0**	**-65,170**
Actuarial gains and losses of programmes on defined employee benefit plans					-78,000	12,830		-65,170
Items that will be later reclassified to profit or loss	**0**	**0**	**0**	**64,838,976**	**0**	**0**	**0**	**64,838,976**
Net effective part of fair value change of instruments for hedging against cash flow variability				64,734,630				64,734,630
Net effective part of fair value change of instruments for hedging against cash flow variability transferred to profit or loss				104,346				104,346
B.3. Changes in 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 as at 31.12.2018	**29,558,789**	**561,243,185**	**562,744,824**	**75,592,356**	**-26,773**	**-249,723,231**	**0**	**979,389,150**
Balance as at 1.1.2019	**29,558,789**	**561,243,185**	**562,744,824**	**75,592,356**	**-26,773**	**-249,723,231**	**0**	**979,389,150**
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**-55,140,078**	**-47,752**	**25,269**	**60,117,716**	**4,955,155**
Input of the net profit or loss for the reporting period							**60,117,716**	**60,117,716**
Items that will not later be reclassified to profit or loss	**0**	**0**	**0**	**0**	**-47,752**	**25,269**	**0**	**-22,483**
Actuarial gains and losses of programmes on defined employee benefit plans					-47,752	25,269		-22,483
Items that will be later reclassified to profit or loss	**0**	**0**	**0**	**-55,140,078**	**0**	**0**	**0**	**-55,140,078**
Net effective part of fair value change of instruments for hedging against cash flow variability				-55,123,645				-55,123,645
Net effective part of fair value change of instruments for hedging against cash flow variability transferred to profit or loss				-16,433				-16,433
B.3. Changes in equity	**0**	**0**	**0**	**0**	**0**	**60,117,716**	**-60,117,716**	**0**
Settlement of loss as a deductible equity component						60,117,716	-60,117,716	0
Balance as at 31.12.2019	**29,558,789**	**561,243,185**	**562,744,824**	**20,452,278**	**-74,525**	**-189,580,246**	**0**	**984,344,305**

* Explanations to the financial statements are part of the financial statements and must be read in conjunction with them.

4.5 Notes to the financial statements of the HSE Company

4.5.1 Reporting entity

Holding Slovenske elektrarne d.o.o. (v nadaljevanju "družba") je družba, registrirana s sedežem v Sloveniji in je obvladujoča družba skupine HSE. Naslov registriranega sedeža je Koprska ulica 92, 1000 Ljubljana. Glavna dejavnost družbe je trgovanje z električno energijo.

Poslovno leto družbe je enako koledarskemu letu. V nadaljevanju so predstavljeni ločeni računovodski izkazi družbe za leto, ki se je končalo dne 31. decembra 2019.

4.5.2 Basis for preparation

A) STATEMENT OF COMPLIANCE

In the preparation of the financial statements on December 2019, the Company took into account the following:

- 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,
- Companies Act,
- Energy Act,
- Corporate Income Tax Act,
- Rules on the implementing the Corporate Income Tax Act and its implementing regulations,
- Company's Accounting Rules, and
- other relevant legislation.

B) ACCOUNTING ASSUMPTIONS AND QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

The impacts of transactions and other business events are recognised when they occur, not when they are paid, and are recorded and reported for the periods to which they apply. 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 are based also on the assumption that the Company will not considerably shrink the volume of its operations or even terminate them, thus that it will continue to operate in the foreseeable future.

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

- FAIR PRESENTATION IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS: the financial statements fairly represent 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.
- MATERIALITY AND AGGREGATION: each material group which comprises similar items is presented separately in the consolidated financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.
- OFFSETTING: assets and liabilities, and income and expenses, are not offset unless required or permitted by a standard or an interpretation.
- COMPARATIVE INFORMATION: 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 for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.
- CHANGES TO SIGNIFICANT ACCOUNTING POLICIES: the same accounting bases, policies and valuation and recognition principles were observed while compiling the consolidated financial statements as for the year 2018, except for the changes stated below.

As of 1 January 2019, the Company began to apply a new standard, **IFRS 16: Leases**.

In 2019, the Company complemented the applicable accounting policies and management of business events and their posting in financial statements, in line with the requirements of IFRS 16, which entered into force on 1 January 2019.

IFRS 16 replaces the International Accounting Standard IAS 17 - Leases and equates the treatment of operating and financial leases with lessees. On the basis of lease agreements, the lessees shall, in the statement of financial position, post the funds leased among fixed assets as right-of-use assets, in connection with the lease liabilities. The value of the leased assets is transferred to costs through amortisation, and the cost of financing is borne by financial expenses. The standard provides lessees with two exceptions to recognition, namely in the case of leases of low-value assets and short-term leases. The treatment of leases with the lessor does not differ significantly from that of IAS 17.

The Company reviewed and analysed lease agreements concluded with a duration of more than one year. Based on lease costs and the duration of the lease agreements, the Company assessed the value of the right to use the leased assets and lease liabilities and recognised them on 1 January 2019 in the statement of financial position for a period of five years. In the case of agreements with indefinite duration with the right to terminate the agreement, the management, in accordance with item 18 of IFRS 16, is quite certain that the lease will not be terminated for at least another five years, while the estimate of a longer lease agreement cannot be given with considerable certainty. Therefore, in the case of agreements with indefinite duration, the lease period is set at five years.

The Company applied the exemption for the recognition of the right to use assets for short-term leases for up to one year in accordance with item 5 of IFRS 16.

Interest rates accepted at the conclusion of leases are not disclosed in the agreements. IFRS 16 in item 26 refers the lessee to the application of the incremental borrowing rate, i.e. the borrowing rate that HSE would pay if they bought the asset and were in debt for the purchase. HSE does not have such interest rates, as it follows from the analysis of sources of financing that HSE financed investments in subsidiaries and partly working capital through existing sources.

If the lessee cannot obtain information on the amount of the borrowing interest rate from a financial institution or from other sources, the lessee shall apply the average rates of the loan agreements concluded with non-financial corporations in credit institutions during the month of the lease, which Banka Slovenije published in its Bulletin.

The values of the right to use the leased assets and the lease liabilities are estimated on the basis of discounting future cash flows for the duration of the lease. In the case of leases, the Company used an interest rate calculated as the average of interest rates for 2018, published in the Bulletin of Banka Slovenije, for maturity over 1 to 5 years separately for amounts up to EUR 1 million and for amounts above EUR 1 million. The average interest rate thus calculated for amounts up to EUR 1 million is 2.69% and 1.96% for amounts above EUR 1 million.

IMPACT OF THE ADOPTION OF IFRS 16 ON THE STATEMENT OF FINANCIAL POSITION OF THE HSE COMPANY AS AT 1 JANUARY 2019

in EUR	31.12.2018	Amendment to IFRS 16	1.1.2019
ASSETS			
Long-term assets	**0**	**1,403,620**	**1,403,620**
Right to use leased assets	0	1,403,620	1,403,620
TOTAL ASSETS	**0**	**1,403,620**	**1,403,620**
CAPITAL AND LIABILITIES			
Long-term liabilities	**0**	**1,135,522**	**1,135,522**
Long-term financial liabilities from leases	0	1,135,522	1,135,522
Short-term liabilities	**0**	**268,098**	**268,098**
Short-term financial liabilities from leases		268,098	268,098
TOTAL LIABILITIES	**0**	**1,403,620**	**1,403,620**

EFFECT OF THE ADOPTION OF IFRS 16 ON THE INCOME STATEMENT OF THE HSE COMPANY OVER THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

in EUR	MSRP 16
Amortization of rights of use	**280,706**
Lease costs	-297,288
Earnings before interest and tax	**16,582**
Financing expenses	29,189
Profit or loss before taxes	**-12,607**

C) BASIS FOR MEASUREMENT

The 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 or amortised cost.

D) FUNCTIONAL AND PRESENTATION CURRENCY

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

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:

- in assessing the useful life of amortisable assets,
  When assessing the useful life of assets, the Company takes into account expected physical exploitation, technical ageing, economic ageing and expected legal and other usage restrictions. In the case of major assets, the Company shall verify the useful life and determine whether there have been any changes in the circumstances that led to a change in the useful life.
- in the impairment testing of non-financial assets,
  At least once a year, the Company verifies whether there are any impairment indicators for each cash-generating unit, where the recoverable value of non-financial assets is determined on the basis of the present value of cash flows, based on an estimate of expected cash flows from cash-generating units as well as setting an appropriate discount rate. In assessing whether there is a need to be an impairment of property, the Company takes into account that the individual property as a whole generates cash inflows depending on the rest of the property.
- in assessing the liquid amount of receivables and assets arising from contracts with buyers,
  When the financial statements are drawn up, the Company estimates the value adjustments based on the expected credit loss model, according to which the expected losses to be incurred in the future are estimated.
- when assessing provisions for post-employment and other long-term employee benefits (severance payments upon retirement),
  Under employment benefit obligations, the present value of severance payments upon retirement is recorded. It is recognised on the basis of an actuarial calculation based on the assumptions and estimates in force at the time of the calculation, which may differ from the actual assumptions that will apply at the time due to future changes. This mainly concerns the determination of the discount rate, estimates of employee fluctuations, mortality estimates and estimates of wage growth. Due to the completedness of actuarial calculation and long-term character, the obligations for the post-employment benefit of employees are sensitive to changes in those estimates.
- in recognition of provisions for lawsuits and contingent liabilities,
  Provisions are recognised when the Company has legal or constructive liabilities arising from a past event, which can be reliably assessed, and when it is likely that that an outflow of resources embodying economic benefits will be required to settle the liability. The management of the Company shall regularly check whether an outflow of funds allowing economic benefits is likely to be fulfilled in order to settle a possible liability. If it becomes fulfilled, the possible liability shall be redistributed by forming a provision in the financial statements at the time when the probability rate changes.

Further assessments of management in preparing the financial statements on 31 December 2019 are as follows:

1. HSE has the right to buy back 35.6% of the shareholding in HESS, which it has sold (redemption right), and the purchaser/acquirer are obliged to sell their shares at any time between 1 June 2023 and 31 December 2023. The redemption right relates to the redemption of the total shareholding in the amount of 35.6%, representing SEL's total business share of 14.7% of the share capital in HESS and GEN's total business share of 20.9% of the share capital in HESS. HSE must exercise the redemption right from both companies/acquirers at the same time.
2. The Company makes its transactions of sale and purchase of electricity (excluding transactions in derivatives) with the goal of trading with electricity. This is therefore physical delivery. According to IFRS 9, those transactions are not included in the transactions within the scope of financial instruments.
3. In the case of impairment testing for a cash-generating unit with assets for limited useful life (TEŠ), business projections for its entire useful life are used. With the former, the used price projections for price fluctuations of electricity and CO_2 emission coupons, prepared by an external independent institution, are limited to a period of 8 years (2023-2030 period), and with the latter to a period of 32 years (2032-2054 period). Reasons for using long-term projections during impairment testing comprise following: nature of the activity that required long-term investment cycles, adoption of investment-related decisions based on observing long-term market projections, existence of long-term projections on price fluctuations for the most significant input data used in impairment testing, uneven posting of investments in maintaining capacities throughout the period of anticipated business operation of energy facilities and adjusting the production volume to the energy product's availability.

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 Czech branch office in 2019 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 above-mentioned 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 CONVERSION

Transactions expressed in foreign currency are translated into the relevant functional currency at the exchange rate applicable on the date of transaction.

Cash and liabilities expressed in a foreign currency at the end of the reporting period are converted into functional currency at then applicable exchange rate.

Positive or negative foreign exchange differences are differences between amortised cost in the functional currency at the beginning of the period, which is repaired for the amount of effective interest and payments during the period, as well as amortised cost in foreign currency converted at the exchange rate at the end of the period.

Foreign exchange differences are recognised in the income statement, namely in net amounts.

INTANGIBLE ASSETS

Intangible assets are long-term assets enabling performance of the Company's registered activities, whereas physically they do not exist. Among the Company's intangible assets are the long-term property rights and allowances for the purpose 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 loan costs.

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. Amortisation is measured at cost when an asset is available for use. Emission coupons are not amortised, since they are purchased for individual periods in which they are used.

Methods of amortisation and useful life of groups of assets are examined at the end of each financial year and adapted if needed. In the event their useful life is extended, the cost of amortisation in the current year is decreased. If useful life is shortened, amortisation cost increases. The adjustment of useful life has to be calculated in a manner that the asset will be amortised in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

ESTIMATED USEFUL LIFE OF INTANGIBLE ASSETS

	2019	2018
Computer 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 are posted at cost less accumulated amortisation. 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. Loan 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 had no loans for the acquisition of fixed assets, so that loan costs and assets under construction are non-attributed. For subsequent measurement of property, plant and equipment, the cost model is used.

The Company has no property, plant and equipment for which it would record the residual value when purchased. Amortisation is calculated using the straight-line amortisation method, taking into account the useful life of an individual (integral) part of property, plant and equipment. Amortisation 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.

ESTIMATED USEFUL LIFE - PROPERTY, PLANT AND EQUIPMENT

	2019	2018
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	5 years	3-5 years
Passenger vehicles	5 years	5 years
Other plant and equipment	3-10 years	3-10 years

Amortisation 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 amortisation 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 amortised in the new predicted useful life.

The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

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 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.

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.

In the event of the liquidation of a subsidiary, the difference between the book value and the liquidation value of the investment is recorded under financial revenue or expense.

In the event of a sale of a share in a subsidiary, the difference between the book value and the contractual value of the investment is recorded under financial revenue or expense.

LONG-TERM INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED COMPANIES

Investments in associate companies are those in which the Company has significant influence, its share in these 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.

In the Company's financial statements, investments in associates as well investments in jointly-controlled companies are carried at cost.

FINANCIAL ASSETS

Financial assets include cash and cash equivalents, receivables and loans, as well as financial investments. Among financial investments, the Company posts investments in jointly-controlled companies, investments in associates and investments in financial instruments.

The Company initially recognises loans and receivables and deposits on the date of their formation. Other financial assets are initially recognised at the exchange date or when the Company becomes a party to the instrument's contractual terms.

The Group derecognises a financial asset when contractual rights to contractual cash flows from the financial asset are transferred on the basis of a transaction in which all risks and benefits from the ownership of financial asset are transferred.

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 a significant component of financing shall be measured at the transaction price determined in accordance with the provisions of IFRS 15.

A) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in the cash register, bank deposits of up to three months and other short-term quickly realisable investments with original maturity of three months or less.

For the conversion of cash from foreign currency, the Company uses the reference rate of the European Central Bank (ECB) published by the Banka Slovenije, summarised by the exchange rate of the ECB, except for those currencies for which the ECB does not publish reference rates on a daily basis and are subject to a monthly exchange rate.

B) FINANCIAL ASSETS MEASURED 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.

C) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CAPITAL 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.

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

D) FINANCIAL LOANS AT AMORTISED VALUE

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. Revenues 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.

DERIVATIVE FINANCIAL INSTRUMENTS

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.

Derivative financial instruments are initially recognised at fair value by applying the net principle, which means that the value of the concluded transaction is not disclosed in the financial statements.

Following the initial recognition, the derivative financial instruments are measured at fair value, whilst the pertaining changes are treated differently with regard to the fact whether the derivative financial instruments fulfil the conditions for 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. The unsuccessful part of changes in the fair value of financial instrument is directly recognised in the income statement. The Company shall prospectively discontinue 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 risk 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 item, subject of hedging, 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. This occurs in the case when the following conditions are met:

- physical supply is part of all such contracts,
- energy volume, purchased or sold under the contracts, corresponds to the operational needs of the Group,
- contracts cannot be considered as an option, as defined in the standard. In the case of electricity sales contracts, the contract is equivalent to the fixed forward sales or can be considered as sales of capacity.

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 on 1 January 2018 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 this assets that can be reliably measured have been decreased.

Objective evidence on the impairment of financial assets can be: non-compliance or violation by the debtor, 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

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

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

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 in court,
- the decision on beginning of enforced 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 Company 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 the event all actions have been carried out with due diligence to achieve the repayment of certain outstanding receivables and in the event that, due to the amount of receivables it would be uneconomical for the company to go in the recovery process through the court, the receivable in whole is finally written down, based on the decision of the management.

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

Loss due to impairment, related to a 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 among operating expenses in profit or loss.

II. NON-FINANCIAL ASSETS

On each reporting date, the Company verifies the carrying amount of significant non-financial assets with the purpose of establishing 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 either value in use or fair value less costs of sale, whichever is higher. 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 testing, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from further use and are mostly independent from receipts of other assets and groups of assets (cash-generating unit).

The impairment of an asset or 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. 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 after the amortisation write-off deduction, had no impairment loss been recognised for the asset in prior periods.

Impairment losses that occurred in previous years are not eliminated in case of investments in subsidiaries, associates and jointly-controlled entities.

CAPITAL

Total capital of the Company represents its liability to owners which falls due if the company ceases to operate, whereby the amount of capital 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.

General capital revaluation adjustments on 31 December 2002 in accordance with the then applicable Slovenian Accounting Standards include the revaluation of the share capital prior to 2002. The adjustment due to the transfer to new SAS has been transferred to capital surplus. The amount can only be used for increase in share capital.

Other reserves are purposely retained earnings from the previous years. They are designed on the basis of a decision of the appropriate authority or the control of the owner.

The risk 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.

The fair value reserve includes actuarial gains or losses related to provisions for post-employment and other long-term employee benefits (severance payments upon retirement).

Retained earnings include unallocated profit or loss 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 bonuses to employees and severance payments upon retirement, for which long-term provisions are created. There are no other existing pension liabilities.

Provisions are created in the amount of the assessed future payments for severance pay upon retirement and jubilee bonuses, discounted at the end of the business year. The calculation is prepared for each employee by taking into account the costs of severance payments upon retirement and costs of all expected jubilee bonuses until retirement. The calculation with the use of projected unit is prepared by an actuary. Severance pay upon retirement and jubilee bonuses in the current year reduce the formed provisions.

Labour costs and interest costs are recognised in the income statement, while the restatement of post-employment benefits or of unrealised actuarial revenues or losses arising on severance payments 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. Liabilities are recognized in the amount expected to be paid in the form of short-term benefits if the Company has a present legal or indirect obligation to make such payments because of the employee's past work performed and the liability can be measured reliably.

OTHER PROVISIONS

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

The amount of the provision must be equal to the present value of the expenses, expected to be required to settle the liability. Since provisions are intended for covering probable, but not certain liabilities, the amount recognised as a provision is merely the best estimate of the expenses needed for the settlement of liabilities 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 reduced directly for costs and expenses for which they were created. This means that in the financial year or such costs no longer appear in the income statement.

If the expected liabilities do not occur, the amount of created provisions is reversed and recognised under other operating revenue.

OTHER ASSETS AND OTHER LIABILITIES

Other assets include advances, receivables from state and other institutions, and short-term deferred costs and accrued revenues, which represent deferred costs and non-accrued revenue that is not related to sales contracts. Deferred costs represent the amounts incurred but not yet charged against the profit or loss.

With the introduction of IFRS 15, non-accrued revenue is no longer part of other assets, but non-accrued income from sales contracts with customers is recognized under Contract assets.

Other liabilities include advances, liabilities to employees, state and other institutions, and long-term and short-term accrued costs and deferred revenues, which represent accrued costs and deferred revenue that is not related to sales contracts. Accrued costs are amounts that have not occurred yet, but they will in the future and are already influencing the profit or loss.

By introducing IFRS 15, deferred revenue is no longer part of other liabilities: Instead, deferred revenue arising from sales contracts with customers are recognised under Contract liabilities.

CONTINGENT LIABILITIES

Contingent liability is:

- a possible liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not controlled by the company as a whole, 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 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 compensation, which the Company believes to be entitled to receive in return for these goods or services. Revenue from contracts with customers is recognised at fair value of received repayment or receivable arising thereunder.

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 receivables 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.

In case the Company has more positive than negative operating foreign exchange differences, they are recorded as net revenue from the sales of merchandise at net principle.

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.

Unaccounted revenue is revenue that is taken into account in the profit or loss, although it has not been charged yet. 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.

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 FINANCIAL INCOME

Other operating income relating to operating effects includes income from interest of 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 is 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), 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 FINANCIAL EXPENSES

Expenses are recognised if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt and this decrease can be reliably measured.

Operating expenses are recognised once the merchandise has been sold.

The cost of sold goods discloses expenses related to the sale of electricity, emission coupons for trading and their dependent costs. In case the Company has more negative than positive operating 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.

Cost of materials for the original cost of purchased services, namely services for maintenance of computer programs, buildings and equipment, advertising services, entertainment, insurance premiums, payment and other banking services (excluding interest), lease advisory services, missions and similar services.

Write-downs in value include amortisation costs related to consistent transfer of value of amortisable intangible assets and property, plant and equipment. The write-downs recorded write-downs and losses on disposal of intangible assets and property, plant and equipment and write-downs of trade receivables.

Labour costs are historical costs related to accrued wages and similar amounts into gross amounts, as well as the duties charged on that basis and are not part of gross amounts.

Other operating expenses occur in connection with provisions, grants and other duties, as well as contractual penalties for unsupplied electricity.

Financial expenses comprise loan 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 base for the business year. The taxable profit defers from net profit 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 tax rate that is applicable on the reporting date. Current tax liabilities decrease 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.

The deferred liability for tax represents the amount of the calculated tax from the corporate tax of deductible temporary differences, which means higher payment of tax in the future.

In 2019, the applicable tax rate for corporate income tax amounted to 19%, 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. The cash flow statement is prepared by using the indirect method and data from the statement of financial position and the income statement, pursuant to International Financial Reporting Standards (IFRS).

The 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 equity or debt instruments are traded in the public market, and companies which are issuing equity or debt instrument in public markets.

INITIAL APPLICATION OF NEW AMENDMENTS TO EXISTING STANDARDS IN FORCE DURING THE CURRENT REPORTING PERIOD

In the current reporting period, the following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are applied:

IFRS 16 — Leases accepted by the EU on 31 October 2017 (valid for annual periods beginning on or after 1 January 2019).

IFRS 16 - Leases, published by the IASC on 13 January 2016. The lessee shall recognise the right to use the asset and lease liabilities in accordance with IFRS 16. The right to use the asset is treated in a similar manner to other non-financial assets and is accordingly amortised. The lease liability is initially valued at the present value of the rents paid during the lease period, discounted at the implied interest rate, if it can be determined immediately. If this rate cannot be determined immediately, the lessee must use the assumed borrowing rate. As with IAS 17, which was replaced by IFRS 16, the lessor defines the lease as business or financial according to the nature of the lease. A lease is classified as a financial lease, if almost all the risks and benefits associated with the ownership of the asset are transferred to it. Otherwise, it's a business lease. In the case of a financial lease, the lessor shall recognise the financial income during the lease period on the basis of a sample reflecting the fixed period of return on the net investment. Payments from business leases shall be recognised by the lessor as income on the basis of a steady time method, or if the sample reflects the earlier reduction of the benefit from the use of that asset, using another systematic method.

Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation (apply to annual periods beginning on or after 1 January 2019).

Amendments to IFRS 9 - Financial Instruments - Prepayment Features with Negative Compensation issued by the IASC on 12 October 2017. The existing requirements of IFRS 9 on the right to terminate the agreement are amended to allow measurement at amortised value (or fair value via other comprehensive income depending on the business model), even in the case of negative compensation payments. According to the changes, the signature of the amount of the advance is irrelevant - in view of the prevailing interest rate, the payment may also be made for the benefit of the contracting party making the early payment. The calculation of compensation must be the same in the case of penalties for early repayment and in the case of an early repayment reward. The changes also include explanations regarding accounting for changes in financial liabilities that do not result in derecognition. In this case, the carrying amount shall be adjusted to the result recognised in comprehensive income. The effective interest rate shall not be recalculated.

Amendments to IAS 19 - Employee Benefits - Plan Amendment, Curtailment or Settlement, adopted by the EU on 13 March 2019 (apply to annual periods beginning on or after 1 January 2019).

Amendments to IAS 19 Employee Benefits - Plan Amendment, Curtailment or Settlement by the IASC on 7 February 2018. The amendments require the use of updated remeasurement assumptions to determine current service costs and net interest for the remainder of the reporting period following the change of the plan.

Amendments to IAS 28 - Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures adopted by the EU on 8 February 2019 (apply for annual periods beginning on or after 1 January 2019).

Amendments to IAS 28 - Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures, published by the IASC on 12 October 2017. The amendments aim to clarify that an entity applies IFRS 9, including impairment requirements, to long-term interests in an associate or joint venture that are part of a net investment in an associate or joint venture and to which the equity method does not apply. The amendments also eliminate paragraph 41, as the Committee considers it merely repeated requirements in IFRS 9 and caused confusion about the accounting of long-term shareholdings.

Amendments to the various standards due to Improvements to IFRS (2015-2017) resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23), in particular with a view to addressing inconsistencies and interpreting texts adopted by the EU on 14 March 2019 (valid for annual periods starting on or after 1 January 2019).

Amendments to various standards due to Improvements to IFRS (period 2015-2017) published by the IASC on 12 December 2017. Amendments to the various standards result from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) and are primarily aimed at correcting non-compliance and interpreting the text. The amendments include the following explanations: an entity remeasures its previous share in the joint activity when it acquires control of an entity (IFRS 3); if an entity gains joint control over a business entity, it does not remeasure its previous stake in the joint activity (IFRS) 11); the entity accounts for all consequences of the payment of dividends on income tax in the same way (IAS 12); and the entity treats as part of general loans all loans originally intended to develop an asset such as an asset qualified for intended use or sale (IAS 23).

IFRIC 23 - Uncertainty over income tax treatments accepted by the EU on 23 October 2018 (applicable for annual periods beginning on or after 1 January 2019).

IFRIC 23 - Uncertainty over income tax treatments issued by the IASC on 7 June 2017. There may be some confusion as to how the tax legislation applies to a particular transaction or circumstance, or whether the tax authority will accept the treatment of the tax in the company. IAS 12 Income Tax sets out how current and deferred tax should be accounted for, rather than how the effects of uncertainty should be reflected. IFRIC 23 complements the requirements of IAS 12 by specifying how the effect of uncertainty must be reflected in the accounting of income tax.

The adoption of these new standards, changes to existing standards and interpretations did not lead to significant changes in the Company's financial statements, except for the introduction of IFRS 16, the transition effects of which were shown above among significant changes in accounting policies.

STANDARDS AND AMENDMENTS TO EXISTING STNDARDS ISSUED BY THE IASC AND ADOPTED BY THE EU BUT NOT YET ADOPTED

The following standards, changes to existing standards and new interpretations have been issued at the date of approval of these financial statements, which have not yet entered into force:

Amendments to IAS 1- Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors - Definition Essential (applicable to annual periods beginning on or after 1 January 2020).

Amendments to IAS 1- Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors – Definition Essential published by the IASC on 31 October 2018. The amendments explain the definition of the term essential and how it should be included in the definition guidance.

Amendments to IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures — Interest Rate Benchmark Reform (applicable for annual periods beginning on or after 1 January 2020).

Amendments to IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures – Interest Rate Benchmark Reform issued by the IASC on 26 September 2019. Changes to Interest Rate Benchmark Reform:

a) amend the specific hedge accounting requirements in such a way that undertakings can account for hedging on the assumption that the reference rate on which hedged cash flows and cash flows from the hedging instrument are based due to the interest rate benchmark reform will not change;
b) are mandatory for all hedging ratios directly affected by the interest rate benchmark reform;
c) are not intended to facilitate other consequences of the interest rate benchmark reform (if the hedging ratio no longer meets the requirements for hedging accounting for reasons other than those mentioned in the changes, hedging accounting should be terminated) and
d) require specific disclosures on the extent to which changes of the reform affect hedging ratios among companies.

Amendments to the Conceptual Framework References in IFRS (apply to annual periods beginning on or after 1 January 2020).

Amendments to the Conceptual Framework References in IFRS issued by the IASC on 29 March 2018. In order to revise the Conceptual Framework for IFRS, the IASC updated the reference to it in IFRS standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. The amendments aim to support the transition to a revised conceptual framework for companies that develop their accounting policies through this framework when no IFRS standard applies to a specific transaction.

NEW STANDARDS AND CHANGES TO EXISTING STANDARDS ISSUED BY THE IASC BUT NOT YET ADOPTED BY THE EU

Currently, IFRS as adopted by the EU do not differ significantly from those adopted by the International Accounting Standards Committee (IASC) with the exception of the following new standards and amendments to existing standards as of 31 December 2019 (dates of entry into force below for IFRS as issued by the IASC):

IFRS 14 - Regulatory Deferral Accounts (applicable for annual periods beginning on or after 1 January 2016) - The European Commission has decided not to initiate the validation process of this intermediate standard and to await the release of its final version.

IFRS 14 - Regulatory Deferral Accounts published by the IASC on 30 January 2014. The aim of the standard is to enable companies, that use IFRS for the first time and that recognise regulatory deferral accounts in compliance with the previous GAAP, to continue with such recognition when transitioning to IFRS.

IFRS 17 Insurance Contracts (valid for annual periods beginning on or after 1 January 2021).

IFRS 17 Insurance Contracts published by the IASC on 18 May 2017. The new standard requires the measurement of insurance liabilities at the current value of fulfilment and brings a more uniform method of measurement and presentation for all insurance contracts. The purpose of the requirements is to ensure consistent and principle-based accounting for insurance contracts. IFRS 17 replaces IFRS 4 - Insurance Contracts and related Interpretations.

Amendments to IFRS 3 - Business Combinations - Definition of a business (in effect for business combinations where the acquisition date is equal to the beginning date of the first annual reporting period beginning on or after 1 January 2020 and the acquisition of assets occurring at the beginning of this period or after it).

Amendments to IFRS 3 - Business Combinations – Definition of a business issued by the IASC on 22 October 2018. Changes have been introduced to improve the definition of a business. The amended definition highlights that the business entity's business purpose is to provide goods and services to customers, while the previous definition highlighted returns in the form of dividends, lower costs and other economic benefits to investors and other shareholders. In addition to the amended wording, the Committee provided further guidance on the definition.

Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures - Sale or contribution of assets between an investor and his associate or joint venture, and subsequent amendments (the effective date is postponed indefinitely until the completion of the research project related to the equity method).

Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures – Sale or contribution of assets between an investor and his associate or joint venture, published by the IASC on 11 September 2014. The amendments relate to the divergence of the requirements under IAS 28 and IFRS 10 and explain that the extent of recognition of profit or loss in the business with an associate or in a joint venture depends on whether the assets sold or contributed constitute a business entity.

The Company foresees that the introduction of these new standards and changes to existing standards during the period of initial application will not have a significant impact on the financial statements of the Company.

Hedge accounting for a portfolio of financial assets and liabilities of which the EU has not adopted principles remains unregulated.

The Company estimates that the use of hedging accounting for financial assets and liabilities in accordance with **IAS 39 - Financial Instruments: Recognition and Measurement** would not have a significant impact on the Company's financial statements if it were applied at the balance sheet date.

4.5.5 Fair value measurement

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 on active markets for equal assets or liabilities;
- second level covers values not equal to the quoted prices in terms of the first level but can nevertheless be obtained directly (i.e. as prices) or indirectly (i.e. as derived from prices) on the basis of comparable market data,
- 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 the 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 financial position statement date.

4.5.6 Financial risk management

Detection and management of risks is defined in the business part of the annual reporting, in the 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 Notes to the financial statements

4.5.7.1 Statement of financial position

INTANGIBLE ASSETS (1)

in EUR	31.12.2019	31.12.2018
Emmission coupons	38,239,692	29,537,397
Other long-term property rights	2,587,057	2,188,568
Total	**40,826,749**	**31,725,965**

Among intangible assets, emission coupons for the purpose of electricity production in the HSE Group and software are posted.

MOVEMENT OF INTANGIBLE ASSETS

in EUR	Emmission coupons	Other long-term property rights	Total
Purchase cost 1.1.2019	**29,537,397**	**6,986,011**	**36,523,408**
Acquisitions	36,686,730	73,417	36,760,147
Disposals - write-offs, sales	-27,984,435	273,135	-27,711,300
Purchase cost 31.12.2019	**38,239,692**	**7,332,563**	**45,572,255**
Write-off value 1.1.2019		**4,797,443**	**4,797,443**
Disposals - write-offs, sales		-298,636	-298,636
Depreciation		246,699	246,699
Write-off value 31.12.2019		**4,745,506**	**4,745,506**
Book value 1.1.2019	**29,537,397**	**2,188,568**	**31,725,965**
Book value 31.12.2019	**38,239,692**	**2,587,057**	**40,826,749**

in EUR	Emmission coupons	Other long-term property rights	Total
Purchase cost 1.1.2018	**24,726,009**	**6,764,458**	**31,490,467**
Acquisitions	30,547,436	562,029	31,109,465
Disposals - write-offs, sales	-25,736,048	-340,476	-26,076,524
Purchase cost 31.12.2018	**29,537,397**	**6,986,011**	**36,523,408**
Write-off value 1.1.2018		**4,651,461**	**4,651,461**
Disposals - write-offs, sales		-230,661	-230,661
Depreciation		376,643	376,643
Write-off value 31.12.2018		**4,797,443**	**4,797,443**
Book value 1.1.2018	**24,726,009**	**2,112,997**	**26,839,006**
Book value 31.12.2018	**29,537,397**	**2,188,568**	**31,725,965**

The Company posts emission coupons among intangible assets for the purpose of covering the needs of its own electricity generation in subsidiaries TEŠ and HSE EDT, under the Emission Coupons Portfolio Management Agreement, from which it follows that the Company manages emission coupons of subsidiaries. The Company purchased the necessary number of allowances several years in advance (depending on the quantities of electricity sold for this period). 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. All effects from the sale are already included in the Company's profit or loss of the current year.

At the beginning of 2019, the Company had 4,096,165 emission coupons in order to satisfy the needs of its own electricity production subsidiaries. For this purpose, in 2019 the Company bought 3,827,000 and sold 4,011,744 coupons, the stock as at 31 December 2019 is 3,911,421 coupons. The sale of emission coupons to subsidiaries indicates profit for the Company as at 31 December 2018 in the amount of EUR 382,551.

A more significant value of long-term property rights is represented by SAP software and eDMS document system.

Increase in intangible assets includes in 2019 the upgrade of the software in the Control Centre and the SAP software ERP module PM.

The Company assessed the useful lives of significant software and established they can remain unchanged.

As at 31 December 2019, the Company recorded EUR 673,691 obligations relating to software upgrade, the Control Centre simulator, and the SAP software ERP module PM.

No pledges , financial leases or other ownership-related limitations referring to intangible assets exist.

PROPERTY, PLANT AND EQUIPMENT (2)

in EUR	31.12.2019	31.12.2018
Buildings	1,208,220	1,224,594
Production equipment	81,286	86,367
Other equipment	705,572	872,794
Property, plant and equipment in acquisition	9,821,536	9,734,192
Total	**11,816,614**	**11,917,947**

The buildings include a portion of the Company's premises in Ljubljana. The Company has the remaining part of the business premises in Ljubljana, premises in Šoštanj, Maribor and Nova Gorica in lease. Among the production equipment, a solar power plant is posted. Among other machinery and equipment, the Company posts software equipment.

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT

in EUR	Buildings	Production equipment	Other equipment	Property, plant and equipment in acquisition	Total
Purchase cost 1.1.2019	**1,733,285**	**127,009**	**4,903,552**	**9,734,192**	**16,498,038**
Acquisitions				254,166	254,166
Disposals			-42,081		-42,081
Transfers from investments	18,852		147,970	-166,822	0
Write-offs			-1,997,008		-1,997,008
Purchase cost 31.12.2019	**1,752,137**	**127,009**	**3,012,433**	**9,821,536**	**14,713,115**
Write-off value 1.1.2019	**508,692**	**40,642**	**4,030,758**		**4,580,092**
Disposals			-40,800		-40,800
Depreciation	35,226	5,081	311,504		351,811
Write-offs			-1,994,601		-1,994,601
Write-off value 31.12.2019	**543,918**	**45,723**	**2,306,861**	**0**	**2,896,502**
Book value 1.1.2019	**1,224,593**	**86,367**	**872,794**	**9,734,192**	**11,917,946**
Book value 31.12.2019	**1,208,219**	**81,286**	**705,572**	**9,821,536**	**11,816,613**

in EUR	Buildings	Production equipment	Other equipment	Property, plant and equipment in acquisition	Total
Purchase cost 1.1.2018	**1,733,285**	**127,009**	**9,440,736**	**9,576,750**	**20,877,780**
Acquisitions				685,017	685,017
Disposals			-5,058,804		-5,058,804
Transfers from investments			527,575	-527,575	0
Write-offs			-5,955		-5,955
Purchase cost 31.12.2018	**1,733,285**	**127,009**	**4,903,552**	**9,734,192**	**16,498,038**
Write-off value 1.1.2018	**473,694**	**35,562**	**7,942,029**		**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-off value 31.12.2018	**508,692**	**40,642**	**4,030,758**	**0**	**4,580,092**
Book value 1.1.2018	**1,259,591**	**91,447**	**1,498,707**	**9,576,750**	**12,426,495**
Book value 31.12.2018	**1,224,593**	**86,367**	**872,794**	**9,734,192**	**11,917,946**

The bulk of the Company's property, plant and equipment under construction demonstrates an investment in hydro power plants on the Middle Sava River in the amount of EUR 9,476,826. This relates to the preparation of pre-investment, investment and other documentation necessary for the procedure of placing hydroelectric power plants in the area. In 2019, the investment in hydro power plants on the Middle Sava River has not changed. Due to the difficult situation on the electricity market as well as the HSE Group, the project's activities are limited to prevent lengthy procedures of placement in the area. All the documentation compiled so far together with 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 not at risk. Circumstances that could indicate the need for impairment have not occurred in 2019.

The investment in Slovenia-Italy commercial water increased as well, namely in the amount of EUR 47,553.

The useful lives of significant equipment were assessed in 2019 and the Company established that they remain unchanged.

The Company does not have any item of property, plant and equipment under mortgage. As of 31 December 2019, the Company has EUR 83,815 of obligations to acquire buildings and other equipment.

Plant and equipment were not impaired in 2019 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 2019 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.

Disclosures on the right to use leased assets are in section LEASES – IFRS 16 (21).

INVESTMENTS IN SUBSIDIARIES (3)

LONG-TERM INVESTMENTS IN SUBSIDIARIES

in EUR	31.12.2019	31.12.2018
DEM	387,058,979	387,058,979
SENG	152,692,249	152,692,249
TEŠ	399,314,819	367,318,000
HSE EDT	2,153,668	2,153,669
PV	42,989,329	42,989,329
HSE Invest	160,000	80,000
SRESA	60,000	60,000
HSE Balkan Energy	856,001	856,000
HSE Adria - in liquidation	0	102,553
HSE MAK Energy	26,778	26,778
HSE BH	513,990	513,990
Total	**985,825,813**	**953,851,547**

A large part of the Company's assets is comprised of long-term investments in subsidiaries. They include investments in companies, in which the Company - directly or indirectly through other owners - owns a controlling interest and prepares consolidated financial statements for this group of companies.

DATA ON SUBSIDIARIES

Company	Address	Country	Activity	% Ownership	% Voting rights
DEM	Obrežna ulica 170, 2000 Maribor	Slovenia	Electricity production in hydroelectric power plants	100.0%	100.0%
SENG	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Electricity production in hydroelectric power plants	100.0%	100.0%
TEŠ	Cesta Lole Ribarja 18, 3325 Šoštanj	Slovenia	Electricity production in thermal power plants	100.0%	100.0%
PV	Partizanska 78, 3320 Velenje	Slovenia	Excavation of brown coal and lignite	100.0%	100.0%
HSE EDT	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production in thermal power plants	100.0%	100.0%
HSE Balkan Energy	Bulevar Mihaila Pupina 117, Belgrade	Serbia	Electricity trading	100.0%	100.0%
HSE MAK Energy	Belasica no. 2, 1000 Skopje	North Macedonia	Electricity trading	100.0%	100.0%
HSE Adria - in liquidation	Miramarska24,10000 Zagreb	Croatia	Electricity trading	0.0%	0.0%
HSE BH	Ul. Alije Isakovića br.1, Sarajevo	Bosnia and Herzegovina	Electricity trading	100.0%	100.0%
***ELPROM**	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Electricity production in hydroelectric power plants	100.0%	100.0%
***HTZ I.P.**	Partizanska 78, 3320 Velenje	Slovenia	Repair of machinery and equipment	100.0%	100.0%
***SIPOTEH**	Partizanska cesta 78, 3320 Velenje	Slovenia	Manufacture of metal structures	100.0%	100.0%
***RGP**	Rudarska cesta 6,3320 Velenje	Slovenia	Specialised construction work	100.0%	100.0%
***sHPP Lobnica**	Obrežna ulica 170, Maribor	Slovenia	Electricity production in hydroelectric power plants	65.0%	65.0%
***PLP**	Partizanska cesta 78, 3320 Velenje	Slovenia	Sawmilling, planing and impregnation of wood	100.0%	100.0%
SRESA	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production in hydroelectric power plants	60.0%	60.0%
HSE Invest	Obrežna ulica 170 a, 2000 Maribor	Slovenia	Other project engineering and technical consulting	50.0%	50.0%

* HSE recognises indirect ownership in these companies

SIGNIFICANT AMOUNTS IN THE FINANCIAL STATEMENTS OF SUBSIDIARIES

in EUR	Assets	Liabilities (excluding capital)	Revenue	Net profit or loss for the financial year	Amount of total capital
TEŠ	1,016,196,704	651,659,677	227,201,572	-19,582,324	364,537,027
DEM	453,346,543	13,131,228	67,679,679	5,126,119	440,215,315
SENG	225,002,840	21,132,726	37,715,283	4,980,024	203,870,114
PV	139,920,428	103,610,691	112,725,689	-6,584,420	36,309,737
HTZ I.P.	16,158,442	14,275,061	32,521,790	-1,542,243	1,883,381
RGP	9,958,998	6,991,260	18,107,350	703,937	2,967,738
HSE BH	9,694,678	8,662,157	53,347,080	278,893	1,032,521
HSE MAK Energy	6,404,842	6,063,733	29,566,177	205,029	341,109
HSE EDT	3,265,047	1,806,176	1,012,679	-708,656	1,458,871
HSE Invest	2,034,631	1,688,589	3,830,532	-232,382	346,042
PLP	1,701,396	884,159	3,104,376	169,876	817,237
SIPOTEH	1,341,749	614,416	2,755,297	271,007	727,333
HSE Balkan Energy	1,104,100	177,245	1,207,202	37,699	926,855
sHPP Lobnica	617,439	2,514	28,951	-978	614,925
SRESA	57,793	11	0	-5,187	57,782
ELPROM	51,443	16		-253	51,427
HSE Adria - in liquidation				-5,663	0
Total	**1,886,857,073**	**830,699,659**	**590,803,657**	**-16,889,522**	**1,056,157,414**

CHANGES IN LONG-TERM FINANCIAL INVESTMENTS IN SUBSIDIARIES

in EUR	2019	2018
Recapitalisation of TEŠ	31,996,818	0
Acquisition of a share in HSE Invest	80,000	0
Liquidation of HSE Adria - in liquidation	-102,553	0
Impairment of TEŠ investment	0	56,721,354
Total	**31,974,265**	**56,721,354**

MOVEMENT OF LONG-TERM FINANCIAL INVESTMENTS IN SUBSIDIARIES

in EUR	2019	2018
Cost 1.1.	**1,684,472,759**	**1,684,472,759**
Acquisitions	32,076,818	0
Liquidation of HSE Adria	-102,552	0
Cost 31.12.	**1,716,447,025**	**1,684,472,759**
Depreciable amount 1.1.	**-730,621,212**	**-673,899,858**
Impairments	0	-56,721,354
Depreciable amount 31.12.	**-730,621,212**	**-730,621,212**
Book value 1.1.	**953,851,547**	**1,010,572,901**
Book value 31.12.	**985,825,813**	**953,851,547**

The subsidiary HSE Adria was liquidated in 2019. As part of the voluntary liquidation process, HSE Adria - in liquidation on 10 December 2019, prepared the final financial statements and closed the business operations. The liquidation proceedings were formally concluded on 10 December 2019, when the company was deleted from the business register. In relation to this, the Company posted EUR 26,684 of financial expenses in 2019.

In May, the Company bought back its business share in HSE Invest, amounting to 25%. Thus HSE Invest is 100% owned by HSE Group.

In 2019, TEŠ was recapitalised in the amount of EUR 31,996,818.

None of its subsidiaries or comparable companies is listed on a stock exchange, so the reasons for potential impairment could not be determined on the basis of 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 capital. The carrying amounts of the total capital of subsidiaries are, in case of all subsidiaries, 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. None of the companies were subject to any impairment.

The tables below show the assumptions applied in the impairment testing and the relevant result.

LONG-TERM FINANCIAL INVESTMENTS IN TEŠ

	2019	2018
Method used for the definition of the recoverable amount in the impairment testing	Value in use (present value of expected free cash flow)	Value in use (present value of expected free cash flow)
Date of performance of the impairment testing	30.09.2019	30.09.2018
Important assumptions used in the performance of the impairment testing	The company's operations until 2054.	The company's operations until 2054.
	The discount rate at a nominal amount of 8.72% adjusted to the real level of 4.97%, which was taken into account throughout the period until 2054.	Discount rate at a nominal amount of 7.71% adjusted to the real level: 5.54% in October-December 2018 and 5.57% to 2019 included.
	Stock exchange prices for electricity forward contracts on HUPX for the period 2020 - 2022, with an initial price of 54.67 EUR/MWh and a price change over the period of 3.03%.	Stock exchange prices for electricity forward contracts on HUPX for the period 2020 - 2021, with an initial price of 40.39 EUR/MWh and a price change over the period of 26.32%.
	Stock exchange prices for CO_2 emission coupons on EEX for the period 2020 - 2022, with an initial price of 20.32 EUR/t and a price change over the period of 37.23%.	Stock exchange prices for CO_2 emission coupons on EEX for the period 2019 - 2021, with an initial price of 6.45 EUR/t and a price change over the period of 230.95%.
	Long-term forecasts of trends in market prices for electricity (Poyry Management Consulting) for the period 2023 - 2054, with an initial price of 60.87 EUR/MWh and a price change over the period of 19.65%.	Long-term forecasts of trends in market prices for electricity (Poyry Management Consulting) for the period 2022 - 2040, with an initial price of 55.85 EUR/MWh and a price change over the period of 32.14%.
	Long-term forecasts of trends in market prices for CO_2 emission coupons (Poyry Management Consulting) for the period 2023 - 2030, with an initial price of 19.00 EUR/t and a price change over the period of 15.79%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is maintained at 33%.	Long-term forecasts of trends in market prices for CO_2 emission coupons (Poyry Management Consulting) for the period 2022 - 2030, with an initial price of 15.09 EUR/t and a price change over the period of 50.10%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is maintained at 33%.
	In the period 2041 - 2054, long-term forecasts of trends in market prices for electricity (Poyry Management Consulting) are taken into account.	During the period 2041 - 2054, the prices of electricity and CO_2 emission coupons from 2040 are taken into account.
	Average annual production of electricity from coal-fired power plants of 3.7 TWh over the period 2020 - 2030, 2.5 TWh over the period 2031 - 2040 and 2.0 TWh over the period 2041 - 2054.	Average annual production of electricity from coal-fired power plants of 3.7 TWh over the period 2019 - 2030, 2.5 TWh over the period 2031 - 2040 and 2.0 TWh over the period 2041 - 2054.
	Value of other income (i.e. income on providing system services, thermal energy, income on sale of ash and gypsum) in the amount of EUR 23,668,000 in 2020 up to EUR 44,090,000 in 2054.	Value of other income (i.e. income on providing system services, thermal energy, income on sale of ash and gypsum) in the amount of EUR 27,926,000 in 2018 up to EUR 18,475,000 in 2054.
	CAPEX over the projection period of EUR 164,768,000.	CAPEX over the projection period of EUR 151,221,000.
Results of impairment testing carried out	The book value of the financial investment before the impairment testing amounts to EUR 367,318,000.	The book value of the financial investment before the impairment testing amounts to EUR 424,039,354.
	Recoverable amount of EUR 443,293,000.	Recoverable amount of EUR 367,318,000.
	Revaluation expenses due to impairment of EUR 0.	Revaluation expenses due to impairment of EUR 56,721,354.

LONG-TERM FINANCIAL INVESTMENTS IN PV

	2019	2018
Method used for the definition of the recoverable amount in the impairment testing	Value in use (present value of expected free cash flow)	Value in use (present value of expected free cash flow)
Date of performance of the impairment testing	30.09.2019	30.09.2018
Important assumptions used in the performance of the impairment testing	The company's operations until 2054.	The company's operations until 2054.
	The discount rate at a nominal amount of 8.72% adjusted to the real level of 6.59%, which was taken into account throughout the period until 2054.	The discount rate at a nominal amount of 9.18% adjusted to the real level of 7.04%, which was taken into account throughout the period until 2054.
	Coal sales price of 2.75 EUR/GJ over the whole period until 2054.	Coal sales price of 2.75 EUR/GJ over the whole period until 2054.
	Expenses for the closure of the coal mine after the end of operation of an estimated amount of EUR 40,928,000 (discounted to the present value of EUR 4,460,000).	Expenses for the closure of the coal mine after the end of the operation of the coal mine in an estimated amount of EUR 43,299,000.
	Average annual coal production of 34,914 TJ per year in the period 2020 - 2030, a drop in operating volume in the period 2030 - 2040 due to the planned gradual closure of the coal mine, a constant production and sales of coal of 19,168 TJ per year is projected after 2040.	Average annual coal production of 35,367 TJ per year in the period 2019 - 2030, a drop in operating volume in the period 2030 - 2040 due to the planned gradual closure of the coal mine, a constant production and sales of coal of 19,168 TJ per year is projected after 2040.
	CAPEX in the projection period 2020 - 2054 of EUR 310,513,000.	CAPEX over the projection period of EUR 328,047,445.
	The recoverable value of investments in subsidiaries and other companies of EUR 20,817,000.	Recoverable value of investments in subsidiaries and other companies of EUR 21,248,000.
	Recoverable value of business unnecessary assets of EUR 17,509,000.	Recoverable value of business unnecessary assets of EUR 2,658,000.
	We provide the assumption that the company will not be required to fulfill obligations that are not explicitly stated in the current concession contract.	We provide the assumption that the company will not be required to fulfill obligations that are not explicitly stated in the current concession contract.
Results of impairment testing carried out	The book value of the financial investment before the impairment testing amounts to EUR 42,989,329.	The book value of the financial investment before the impairment testing amounts to EUR 42,989,329.
	Recoverable amount of EUR 63,139,000.	Recoverable amount of EUR 47,947,000.
	Revaluation expenses due to impairment of EUR 0.	Revaluation expenses due to impairment of EUR 0.

SENSITIVITY ANALYSIS FOR THE PERFORMED IMPAIRMENT TESTING OF LONG-TERM FINANCIAL INVESTMENTS

Long-term financial investment	Recoverable amount in EUR	Sensitivity (change) of recoverable value in EUR Change in discount rate (WACC) in % points	
		-0.5	0.5
IN TERMOELEKTRARNA ŠOŠTANJ	443,293,000	79,839,000	-72,132,000
IN PREMOGOVNIK VELENJE	63,139,000	3,667,000	-3,354,000

OTHER LONG-TERM INVESTMENTS AND LOANS (4)

in EUR	31.12.2019	31.12.2018
Long-term investments in associates	40,513,942	40,513,942
Long-term investments in jointly-controlled entities	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	105,879,190	90,528,807
Total	146,759,632	131,409,249

Among other long-term investments, the largest share is represented by long-term investments in associated companies and long-term loans with interest, to the companies in the Group.

MOVEMENT OF OTHER LONG-TERM FINANCIAL INVESTMENTS AND LOANS

in EUR	Long-term investments in associates	Long-term investments in jointly-controlled entities	Available-for-sale long-term assets	Other long-term investments	Long-term financial loans to group companies	Total
Balance as at 1.1.2019	40,513,942	255,000	111,000	500	90,528,807	131,409,249
Acquisitions					50,863,646	50,863,646
Transfers to short-term receivables					-3,516,500	-3,516,500
Recapitalisation in TEŠ					-31,996,763	-31,996,763
Balance as at 31.12.2019	40,513,942	255,000	111,000	500	105,879,190	146,759,632
Balance as at 1.1.2018	40,513,942	255,000	111,000	500	24,883,567	65,764,009
Acquisitions					66,645,240	66,645,240
Transfers to short-term receivables					-1,000,000	-1,000,000
Balance as at 31.12.2018	40,513,942	255,000	111,000	500	90,528,807	131,409,249

a) Long-term investments in associates

In 2019, there were no changes in investments in associated 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 FROM THE FINANCIAL STATEMENTS OF ASSOCIATES FOR 2019

in EUR	Assets	Liabilities (excluding capital)	Revenue	Net profit or loss for the financial year	Amount of total capital
HESS	342,524,469	57,996,282	20,022,166	2,401,078	284,528,187

DATA ON ASSOCIATES

in EUR	Naslov	Dejavnost	% lastništva
HESS	Cesta bratov Cerjakov 33a, 8250 Brežice	electricity production in hydroelectric power plants	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 2019.

SIGNIFICANT AMOUNTS IN THE FINANCIAL STATEMENTS OF THE JOINTLY-CONTROLLED COMPANIES FOR 2019

in EUR	Assets	Liabilities (excluding capital)	Revenue	Net profit or loss for the financial year	Amount of total capital
SOENERGETIKA	2,748,088	926,028	3,817,482	691,738	1,822,060

DATA ON JOINTLY-CONTROLLED COMPANIES

in EUR	Address	Activity	% ownership	% voting rights
SOENERGETIKA	Stara cesta 3, 4000 Kranj	production of electricity and thermal energy	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 and the contribution in Zavod CO NOT in the amount of EUR 500. No changes were recorded with these investments in 2019.

D) Long-term financial loans to group companies

LONG-TERM FINANCIAL RECEIVABLES AND LOANS TO COMPANIES IN THE GROUP

in EUR	31.12.2019	31.12.2018
Long-term financial receivables and loans to companies in the group	97,216,456	85,282,956
Long-term financial receivables and loans to companies in the group for interest	8,662,734	5,245,851
Total	105,879,190	90,528,807

MOVEMENT OF LONG-TERM FINANCIAL RECEIVABLES AND LOANS

in EUR	2019	2018
Balance 1.1.	90,528,807	24,883,567
Acquisitions	50,863,646	66,645,240
Transfers to short-term receivables	-3,516,500	-1,000,000
Recapitalisation of TEŠ	-31,996,763	0
Balance 31.12.	105,879,190	90,528,807

Long-term financial receivables and loans include loans to Group companies and related interest. The principal to PV amounts to EUR 15,350,000, to HSE-EDT EUR 433,500 and to TEŠ EUR 81,432,956. The value of long-term loans' principal amounts that mature in 2019 is disclosed among short-term loans to companies in the group in the amount of EUR 3,516,500. The interest rate on long-term loans is determined in accordance with the transfer pricing 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 HSE Group companies.

LONG-TERM OPERATING RECEIVABLES (5)

in EUR	31.12.2019	31.12.2018
Long-term trade receivables from others	797,501	3,050,903
Total	797,501	3,050,903

The Company's long-term operating receivables from others include financial coverages extended for the purpose of electricity trading.

DEFERRED TAX ASSETS (6)

in EUR	31.12.2019	31.12.2018
Provisions	113,613	90,199
Impairments	223,319	177,618
Amortisation	7	71
Total	336,939	267,888

Deferred tax assets amount to EUR 336,969 and are calculated by applying the tax rate of 19%. They were formed from the expenses that affect profit or loss of each year, but are not fully or partially tax deductible in this year (provisions for jubilee bonuses and severance payments upon retirement, the business amortisation over tax recognised impairment of investments and receivables). They are formed from the fair value of derivative financial instruments, recorded in the risk hedging reserve and do not affect profit or loss.

MOVEMENT OF DEFERRED TAX ASSETS

in EUR	Provisions	Impairment	Amortisation	Other	Total
Balance as at 1.1.2019	90,199	177,618	71	0	267,888
To debit/credit of profit or loss	23,414	45,701	-64		69,051
Balance as at 31.12.2019	113,613	223,319	7	0	336,939
Balance as at 1.1.2018	78,080	177,610	201	11,578	267,469
To debit/credit of profit or loss	12,119	8	-130	-11,578	419
Balance as at 31.12.2018	90,199	177,618	71	0	267,888

The bulk of the changes in deferred tax assets in 2019 is the formation of deferred taxes on actuarial items and write-off of receivables.

SHORT-TERM INVESTMENTS AND LOANS (7)

in EUR	31.12.2019	31.12.2018
Short-term financial receivables from group companies	711,120	872,874
Short-term loans to Group companies given	3,516,500	1,000,000
Short-term financial receivables from group companies for interest	13,415	15,470
Fair value of currency futures	47,597	67,885
Total	4,288,632	1,956,229

Short-term financial receivables from Group companies comprise receivables for repaying allowances for securities and guarantees to Group companies given, and the value of the principal amount of the loans given to the subsidiaries HSE EDT and PV, that falls due in 2020.

MOVEMENT OF SHORT-TERM FINANCIAL RECEIVABLES AND LOANS

in EUR	2019	2018
Balance 1.1.	1,888,344	2,583,874
Acquisitions	1,335,370	1,075,177
Transfer from long-term receivables	3,516,500	1,000,000
Other	-55	0
Repayments	-2,499,124	-2,770,707
Balance 31.12.	4,241,035	1,888,344

On 2019 December 2019, there were no grounds for impairment of short-term financial receivables and loans.

SHORT-TERM TRADE RECEIVABLES (8)

in EUR	31.12.2019	31.12.2018
Short-term receivables from Group companies	21,729,431	6,167,482
Short-term trade receivables from associates	2,583	5,079
Short-term trade receivables from jointly-controlled companies	146	0
Short-term trade receivables from customers	134,700,544	129,318,234
Total	156,432,704	135,490,795

Short-term trade receivables in the amount of EUR 134,700,544 consist mostly of receivables from sale of electricity in Slovenia and abroad.

SHORT-TERM RECEIVABLES FROM GROUP COMPANIES

in EUR	Country	31.12.2019	31.12.2018
DEM	Slovenia	131,252	177,357
SENG	Slovenia	2,800,718	170,683
TEŠ	Slovenia	5,125,515	94,889
HSE EDT	Slovenia	26,290	20,442
PV	Slovenia	1,764,371	2,237,894
RGP	Slovenia	121	0
HSE Invest	Slovenia	11,215	2,377
HSE Balkan Energy	Serbia	160,134	476,735
HSE Adria - in liquidation	Croatia	0	1,164
HSE MAK Energy	North Macedonia	5,849,953	1,944,755
HSE BH	Bosnia and Herzegovina	5,859,862	1,041,186
Total	0	21,729,431	6,167,482

Short-term trade 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)

in EUR	31.12.2019	31.12.2018
Contract assets	3,042,090	3,016,725
Total	3,042,090	3,016,725

Contract assets include income not yet charged but taken into account in the operating result.

OTHER CURRENT ASSETS (10)

in EUR	31.12.2019	31.12.2018
Short-term advances given	1,445,649	649
Short-term trade receivables from state and other institutions	22,057,193	22,111,931
Short-term trade receivables from others	14,447,254	15,847,655
Short-term deferred costs and expenses	1,903,047	3,273,808
Total	39,853,143	41,234,043

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 from others refer 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)

in EUR	31.12.2019	31.12.2018
Cash items in the process of collection	-1,950,939	0
Cash at the bank	16,632,989	48,131,317
Deposits held at call	11,662,019	15,607,593
Deposits for a fixed term up to 3 months	1,252,711	4,020,338
Total	27,596,780	67,759,248

For the purposes of carrying out its activities, the Company holds bank accounts in Slovenia and abroad and discloses EUR 16,632,989 in cash.

On 31 December 2019, the Company had no approved overdraft on bank accounts.

CAPITAL (12)

in EUR	31.12.2019	31.12.2018
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Other profit reserves	562,744,824	562,744,824
Risk hedging reserve	20,452,278	75,592,356
Fair value reserve	-74,525	-26,773
Retained earnings or losses	-189,580,246	-249,723,231
Total	984,344,305	979,389,150

CAPITAL SURPLUS

in EUR	31.12.2019	31.12.2018
Capital surplus paid-up	561,243,072	561,243,072
Amounts resulting from the reversal of the general revaluation adjustment of capital	113	113
Total	561,243,185	561,243,185

The value of share capital and capital surplus remained unchanged in 2019.

Among the risk hedge reserves on 31 December 2019 in the value of EUR 20,452,278, the Company discloses:

- results of standardised forward contracts for electricity (forward contracts) amounting to EUR -499,816,
- results of standardised forward contracts for emission coupons (forward contracts) amounting to EUR 20,913,540, and
- fair value of currency swaps in the amount of EUR 38,554.

MOVEMENT OF THE RISK HEDGING RESERVE

in EUR	Standardised forward contracts for electricity	Forward contracts for emission coupons	Currency swaps	Total
Balance as at 1.1.2019	**-1,678,240**	**77,215,610**	**54,986**	**75,592,356**
Decrease	-287,757	-56,302,070	-16,432	-56,606,259
Transfer to expenditure	1,466,181			1,466,181
Balance as at 31.12.2019	**-499,816**	**20,913,540**	**38,554**	**20,452,278**
Balance as at 1.1.2018	**1,177,938**	**9,624,800**	**-49,358**	**10,753,380**
Formation, increase	4,736,726	67,590,810	104,344	72,431,880
Decrease	-783,950			-783,950
Transfer to expenditure	-6,808,954			-6,808,954
Balance as at 31.12.2018	**-1,678,240**	**77,215,610**	**54,986**	**75,592,356**

The risk hedging reserve decreased in 2019 by EUR 55,140,078 relative to the previous year. This decrease is mainly at the expense of closing contracts to buy emission coupons for December 2019. The risk hedging reserve includes the trading with standard futures on the electricity markets and emission coupons.

Electricity futures contracts refer to concluding deals on purchase of electricity on foreign electricity stock exchanges for the period from 2020 to 2021, thus securing the already concluded deals for the sale of electricity in the same period. In the case of standardised forward contracts for emission coupons, it is about concluded transactions for purchases and sales of emission coupons in foreign exchange for the period from 2020 to 2022. No deferred taxes were accounted in this relation, as the company will pay an agreed-upon price during the deal's realisation.

In 2019, the Company closed the currency swaps, whose positive fair value amounted as at 31 December 2018 (inclusive of deferred taxes) to EUR 54,986. In 2019, it concluded new transactions and also partly closed some of them. The overall change in the fair value is negative and recorded at EUR 16,432. The positive fair value of open currency swaps amounted at the end of 2019 to EUR 47,597, whereof EUR 9,043 were accounted for deferred tax liabilities. Thus, the closing balance, inclusive of deferred taxes, is recorded at EUR 38,554.

MOVEMENT OF THE FAIR VALUE RESERVE

in EUR	Actuarial revenues/losses on severance payments upon retirement	Total
Balance as at 1.1.2019	**-26,773**	**-26,773**
Formation, increase	-36,275	-36,275
Decrease	13,791	13,791
Transfer to retained profit or loss	-25,268	-25,268
Balance as at 31.12.2019	**-74,525**	**-74,525**
Balance as at 1.1.2018	**51,227**	**51,227**
Formation, increase	-88,312	-88,312
Decrease	23,143	23,143
Transfer to retained profit or loss	-12,831	-12,831
Balance as at 31.12.2018	**-26,773**	**-26,773**

The fair value reserve in the total value of EUR 74,525 disclosed at the year-end of 2019 includes actuarial loss arising on accounted severance payments upon retirement paid to employees. The actuarial loss increased in 2019 by EUR 47,752. According to the actuarial calculation, retained earnings or losses increased due to reversal of severance payments upon retirement by EUR 25,268.

ACCUMULATED PROFIT OR LOSS

in EUR	2019	2018
Net profit or loss for the financial year	60,117,716	9,486,269
Transferred revenues/loss transferred	-249,697,962	-259,209,499
Accumulated profit or loss	**-189,580,246**	**-249,723,230**

At the end of the year, the Company shows a negative retained profit, which consists of net income in 2019 amounting to EUR 60,117,716, decreased by the negative retained profit from 2018, adjusted for the drawdowns of provisions for severance payments upon retirement in 2019 in the amount of EUR 25,268.

The total capital of the company in 2019 increased by EUR 4,955,155, namely:

- net operating income for the period in the amount of EUR 60,117,716, and
- retained net operating income in the amount of EUR 25,268,
- change in the risk hedging reserve in the amount of EUR -55,140,078, and
- change in the fair value reserve in the amount of EUR -47,752.

RETAINED EARNINGS

in EUR	2019	2018
Retained earnings or losses	-189,580,246	-249,723,230
Total	**-189,580,246**	**-249,723,230**

PROVISIONS FOR SEVERANCE PAYMENT UPON RETIREMENT AND JUBILEE BONUSES (13)

Provisions for severance payment upon retirement and jubilee bonuses include provisions for severance payment upon retirement and jubilee bonuses. They are formed in the amount of estimated future payments for severance payments and jubilee bonuses, discounted at the end of the year. The calculation is prepared for each employee by taking into account the costs of severance payments upon retirement and costs of all expected jubilee bonuses until retirement.

in EUR	31.12.2019	31.12.2018
Provisions for severance payments upon retirement	1,113,339	728,726
Provisions for jubilee bonuses	82,590	220,738
Total	1,195,929	949,464

The Company discloses provisions for severance payments upon retirement and jubilee bonuses, created on the basis of an actuarial calculation prepared as at 31 December 2019.

The calculation of provisions for severance payment upon retirement and jubilee bonuses is based on the actuarial calculation, observed following actuarial assumptions:

- provisions of the new corporate collective agreement, adopted in April 2019, which redefine the rights to jubilee bonuses and severance payments upon retirement and their amount,
- mortality tables,
- staff fluctuation,
- retirement,
- rate of increase in average salaries and amounts provided for in the Regulation in the Republic of Slovenia, which foresees growth of 2.0% for inflation and 1% for real growth from 2022 on,
- salary growth rate in the Company,
- discount rate, which is defined as at 31 December 2019 at 0.7%.

MOVEMENT IN PROVISIONS FOR SEVERANCE PAYMENTS AND JUBILEE BONUSES

in EUR	Provisions for severance payments	Provisions for jubilee bonuses	Total
Balance as at 1.1.2019	728,726	220,738	949,464
Interest costs	11,275	914	12,189
The cost of real-time service	112,385	10,177	122,562
Past service costs	267,213	-125,510	141,703
Actuarial gains - elimination	-106,231	-17,785	-124,016
Actuarial losses - formation and consumption	128,714	11,960	140,674
Benefit payments in the financial year	-28,744	-17,904	-46,648
Balance as at 31.12.2019	1,113,338	82,590	1,195,928
Balance as at 1.1.2018	625,249	196,648	821,897
Interest costs	5,559	1,666	7,225
The cost of real-time service	87,255	36,702	123,957
Past service costs	-9,328	3,366	-5,962
Actuarial gains and losses - modified actuarial items	78,393	20,315	98,708
Actuarial gains - elimination	-23,143	-7,388	-30,531
Actuarial losses - formation and consumption	9,919		9,919
Benefit payments in the financial year	-45,178	-30,571	-75,749
Balance as at 31.12.2018	728,726	220,738	949,464

Change in actuarial revenues and losses in the amount of EUR 47,752 arising from severance payment upon retirement is disclosed in the movement of fair value reserve.

SENSITIVITY ANALYSIS FOR PROVISIONS FOR SEVERANCE PAYMENTS UPON RETIREMENT AND JUBILEE BONUSES

	Discount rate		Salary growth	
in EUR	Decrease of 0.5%	Increase of 0.5%	Decrease of 0.5%	Increase of 0.5%
Provisions for severance payments upon retirement	80,294	-73,071	-73,795	78,897
Provisions for jubilee bonuses	4,660	-4,316	-4,498	4,742
Total 2019	84,954	-77,387	-78,293	83,639
Provisions for severance payments upon retirement	50,471	-45,588	-47,077	50,795
Provisions for jubilee bonuses	8,118	-7,581	-7,944	8,348
Total 2018	58,589	-53,169	-55,021	59,143

OTHER PROVISIONS (14)

in EUR	31.12.2019	31.12.2018
For lawsuits	334,875	311,675
Total	334,875	311,675

MOVEMENT OF OTHER PROVISIONS

in EUR	For lawsuits	Total
Balance as at 1.1.2019	311,675	311,675
Formation, increase	23,200	23,200
Balance as at 31.12.2019	334,875	334,875
Balance as at 1.1.2018	0	0
Formation - increase	311,675	311,675
Balance as at 31.12.2018	311,675	311,675

Among other provisions, the Company only posts additional payments made in 2019 for default interest, which belong to a principal of EUR 290,000.

OTHER LONG-TERM LIABILITIES (15)

in EUR	31.12.2019	31.12.2018
Other long-term liabilities	324,006	485,750
Total	324,006	485,750

Among other long-term liabilities, the Company posts, in principal, the funds received from co-financing in the European OSMOSE project and a smaller part of the co-financing received in the European project FARCROSS. The drawing refers to the share of costs incurred in this projects in 2019.

MOVEMENT OF OTHER LONG-TERM LIABILITIES

in EUR	Other	Total
Balance as at 1.1.2019	485,750	485,750
Acquisitions	223,154	223,154
Pumping	-384,898	-384,898
Balance as at 31.12.2019	324,006	324,006
Balance as at 1.1.2018	0	0
Acquisitions	485,750	485,750
Balance as at 31.12.2018	485,750	485,750

LONG-TERM FINANCIAL LIABILITIES (16)

in EUR	31.12.2019	31.12.2018
Long-term financial liabilities to banks	211,151,515	192,434,059
Total	211,151,515	192,434,059

The Company's long-term financial liabilities to banks include long-term loans in the total amount of EUR 211,151,515, namely: The values of loan principals due in 2019 are recorded as short-term liabilities to banks in the amount of EUR 11,303,030. EUR 26,893,938 of long-term loans were repaid in 2019.

The Company's contracts on long-term loans include bank covenants, which were fully met as at 31 December 2019 by the Company.

MOVEMENT OF LONG-TERM FINANCIAL LIABILITIES

in EUR	Long-term financial liabilities to banks	Total
Balance as at 1.1.2019	192,434,059	192,434,059
Acquisitions	180,000,000	180,000,000
Transfers to current liabilities	-11,303,030	-11,303,030
Repayments	-150,909,091	-150,909,091
Other	929,577	929,577
Balance as at 31.12.2019	211,151,515	211,151,515
Balance as at 1.1.2018	219,420,786	219,420,786
Transfers to current liabilities	-26,986,727	-26,986,727
Balance as at 31.12.2018	192,434,059	192,434,059

In August 2019, the Company successfully refinanced part of the existing long-term loan, amounting to EUR 160,000,000 of fixed long-term loan with a maturity of 7 years and EUR 50,000,000 of a long-term revolving loan with a maturity of 3 years.

Revolving loans as at 31 December 2019 were not drawn.

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 markup, ranged between 1.24% and 1.65%.

The Company settles instalments on principals that are due and attributable interest on time.

Moreover, the Company regularly monitors the movement of Euribor market interest rates and accordingly compiles periodical Strategies of interest rate management of the Company. The objective of interest rate risk management is to limit and reduce the risk associated with changes in interest rates and in this way to stabilise cash flows. No new contracts were concluded for interest-rate risk insurance in 2019.

Long-term loans to banks are secured by bills of exchange and business share.

Further details are provided in the section on interest rate risk.

Disclosures on long-term financial leasing obligations are found in section LEASES – IFRS 16 (21).

SHORT-TERM FINANCIAL LIABILITIES (17)

in EUR	31.12.2019	31.12.2018
Short-term financial liabilities to banks without interest	11,303,030	26,986,727
Short-term financial liabilities to banks with interest	59,117	48,226
Other short-term financial liabilities	80,665	105,508
Total	11,442,812	27,140,461

The majority of short-term financial liabilities represents the short-term part of principals of long-term loans, which mature in 2020, and amount to EUR 11,303,030.

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 with interest	Short-term derivatives	Other short-term financial liabilities	Total
Balance as at 1.1.2019	**0**		**26,986,727**	**48,226**	**0**	**105,508**	**27,140,461**
Increase	12,020,833	64,658	36,000,000	6,144,401		2,292,002	56,521,894
Transfers from long-term liabilities			11,303,030				11,303,030
Short-term repayments	-12,020,833	-64,658	-36,000,000	-6,133,510		-2,316,845	-56,535,846
Long-term repayments			-26,986,727				-26,986,727
Balance as at 31.12.2019	**0**	**0**	**11,303,030**	**59,117**	**0**	**80,665**	**11,442,812**
Balance as at 1.1.2018			**16,986,727**	**60,902**		**92,915**	**17,140,544**
Increase	18,341,143	198,082	10,000,000	7,641,534	60,937	2,027,550	38,010,227
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	-60,937	-2,014,957	-38,010,310
Long-term repayments			-17,484,848				-17,484,848
Other			498,121				498,121
Balance as at 31.12.2018	**0**	**0**	**26,986,727**	**48,226**	**0**	**105,508**	**27,140,461**

Disclosures on long-term financial leasing liabilities are found in section LEASES – IFRS 16 (21).

SHORT-TERM OPERATING LIABILITIES (18)

in EUR	31.12.2019	31.12.2018
Short-term trade liabilities to Group companies	35,897,802	21,216,035
Short-term trade liabilities to associates	1,630,861	1,400,082
Short-term trade liabilities to jointly-controlled companies	78,938	62,918
Short-term trade liabilities to suppliers	108,986,505	109,997,855
Total	**146,594,106**	**132,676,890**

Short-term operating liabilities to group companies mostly comprise liabilities arising under the purchase of electricity.

Among short-term operating liabilities to suppliers, the company mostly includes liabilities for electricity purchased in Slovenia and abroad.

SHORT-TERM TRADE LIABILITIES TO GROUP COMPANIES

in EUR	Country	31.12.2019	31.12.2018
DEM	Slovenia	10,693,000	8,811,372
sHPP Lobnica	Slovenia	6,026	1,595
SENG	Slovenia	8,110,834	4,205,819
TEŠ	Slovenia	7,475,149	5,593,109
HSE EDT	Slovenia	6,488	0
PV	Slovenia	144	137
HTZ I.P.	Slovenia	17,418	14,526
RGP	Slovenia	0	163
HSE Invest	Slovenia	96,963	85,956
HSE Balkan Energy	Serbia	202,713	497,658
HSE MAK Energy	North Macedonia	3,618,717	1,029,371
HSE BH	Bosnia and Herzegovina	5,670,350	976,329
Total	0	**35,897,802**	**21,216,035**

OTHER SHORT-TERM LIABILITIES (19)

in EUR	31.12.2019	31.12.2018
Short-term trade liabilities on the basis of advances	84,128	26,529
Short-term trade liabilities to employees	1,189,694	1,134,304
Short-term trade liabilities to state and other institutions	19,606,123	17,815,874
Short-term trade liabilities to others	12,369	12,457
Short-term accrued costs and expenses	37,532,496	27,803,581
Total	**58,424,810**	**46,792,745**

Other short-term liabilities mostly consist of liabilities to state and other institutions as well as accrued costs and expenses.

Short-term liabilities to 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 highest liability of the Company is disclosed by the value-added tax. It is related to the electricity bills received from abroad, where a system of self-taxation is in force, and where the right to deduct VAT is acquired on the day on which the received invoice was issued.

Accrued expenses are expenses that relate to 2019 and are included in the income statement, in 2019 the company did not yet receive the invoice or accounts for those. Most come from purchases of electricity for 2019 from a subsidiary. Other are deviations from schedules for the month of December 2019 and interest on loans taken out for which the Company has not yet received the accounts in 2019.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS (20)

in EUR	31.12.2019	31.12.2018
Guarantees granted and parent guarantees issued for subsidiaries in Slovenia	104,383,357	136,389,178
Bank guarantees issued for subsidiaries in Slovenia	572,811	503,739
Bank and parent guarantees issued for foreign subsidiaries	841,405	386,808
Total	105,797,573	137,279,725

Contingent liabilities include the guarantees granted and parent guarantees.

GUARANTEES GRANTED AND PARENT GUARANTEES

in EUR

Beneficiary	Debtor	Type of guarantee	Validity	Contingent liability as at 31.12.2019	Contingent liability as at 31.12.2018
EBRD*	TEŠ	Guarantee for the EBRD loan	For the duration of the credit agreement	104,011,837	125,726,123
Unicredit banka d.d.	TEŠ	Short-term loan guarantee	31.12.2018	0	6,000,000
NLB d.d.	RGP	Guarantees for the bank guarantee	For the duration of the agreement	0	283,080
Petrol d.d.	HSE	Guarantee for the liabilities of PV, TEŠ, SENG and DEM to Petrol d.d.	31.12.2020	247,928	274,682
Geoplin d.o.o.	TEŠ	Guarantee statement	30.01.2020	123,592	105,293
BKS BANK AG	TEŠ	Short-term credit guarantee	31.12.2018	0	4,000,000
Total				104.383.357	136.389.178

* As a contingent liability, the principal amount of the loan received is disclosed.

The securities and parent guarantees given were reduced in bulk compared to 2018 due to the repayment of part of the principal of the EBRD loan.

LEASES - IFRS 16 (21)

When moving to IFRS 16, the Company chose a modified retrospective approach, where assets representing the right of use are measured as an amount equal to the lease liabilities. The introduction of IFRS 16 did not have a significant impact on the financial statements of the Company. As a result of the transition to IFRS 16, the Company's fixed assets under the right of use increased by EUR 1,403,620 on 1 January 2019 and funding liabilities increased by the same amount. Due to the chosen transition method, there were no effects on retained profits.

STATEMENT OF FINANCIAL POSITION

in EUR	31.12.2019	31.12.2018
ASSETS		
Long-term assets	1,122,914	0
Right to use leased assets	1,122,914	0
TOTAL ASSETS	1,122,914	0
CAPITAL AND LIABILITIES		
Net profit of loss	-12,606	0
Net profit of loss	-12,606	0
Long-term liabilities	861,258	0
Long-term financial liabilities from leases	861,258	0
Short-term liabilities	274,264	0
Short-term financial liabilities from leases	274,264	0
TOTAL LIABILITIES	1,122,914	0

INCOME STATEMENT

in EUR	IFRS 16
Amortization of rights of use	280,705
Lease costs	-297,288
Earnings before interest and tax	16,583
Financing expenses	29,189
Profit or loss before taxes	-12,606

RIGHT TO USE LEASED ASSETS

in EUR	31.12.2019	31.12.2018
Right to use leased assets	1,122,914	0
Total	1,122,914	0

MOVEMENT OF THE RIGHT TO USE ASSETS

in EUR	Buildings	Total
Purchase cost 1.1.2019	1,403,620	1,403,620
Purchase cost 31.12.2019	1,403,620	1,403,620
Write-off value 1.1.2019	0	0
Depreciation	280,706	280,706
Write-off value 31.12.2019	280,706	280,706
Book value 1.1.2019	0	0
Book value 31.12.2019	1,122,914	1,122,914

LONG-TERM FINANCIAL LIABILITIES FROM LEASES

in EUR	31.12.2019	31.12.2018
Long-term financial liabilities from leases	861,258	0
Total	861,258	0

MOVEMENT OF LONG-TERM FINANCIAL LIABILITIES FROM LEASES

in EUR	Long-term financial liabilities from leases	Total
Balance as at 1.1.2019	1,403,620	1,403,620
Decrease	-268,098	-268,098
Transfer to short-term financial liabilities from leases	-274,264	-274,264
Balance as at 31.12.2019	861,258	861,258

SHORT-TERM FINANCIAL LIABILITIES FROM LEASES

in EUR	31.12.2019	31.12.2018
Short-term financial liabilities from leases	274,264	0
Total	274,264	0

WRITE-OFFS OF THE VALUE OF LEASED ASSETS

in EUR	2019	2018
Amortisation of leased assets	280,706	0
Total	280,706	0

The Company applied the exemption for the recognition of the right to use assets for short-term leases for up to one year in accordance with item 5 of IFRS 16 in the amount of EUR 36,982.

4.5.7.2 Income statement

NET SALES REVENUE (22)

in EUR	2019	2018
On the domestic market	597,671,103	536,246,172
Electricity	595,255,160	533,652,161
Other trade goods and materials	384,658	569,186
Other services	2,031,285	2,024,825
On a foreign market	1,142,483,579	945,692,591
Electricity	1,129,088,695	928,467,032
Other services	13,394,884	17,225,559
Total	1,740,154,682	1,481,938,763

The Company generates, in the main, net sales revenue through the sale of electricity. The revenue from the sale of electricity accounts for 99.09% of all net sales revenue. Net sales revenue is higher compared to 2018 due to more electricity volumes sold on both domestic and foreign markets.

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 REVENUE (23)

in EUR	2019	2018
Reversal of impairment of receivables	43	0
Income from compensations and contractual penalties	62,332	6,182
Default interest	382,457	52,698
Profit in the sale of fixed assets	4,552	58,445
Profit of derivatives from electricity trading and emission coupons	6,019,262	3,802,695
Other	260,010	35,466
TOTAL	6,728,656	3,955,486

Most of other operating revenue refers to profits generated on trading with standardized futures contracts in relation to electricity and emission coupons.

COSTS OF GOODS, MATERIALS AND SERVICES (24)

in EUR	2019	2018
Cost of goods sold	1,614,284,245	1,376,533,467
Dependent cost of goods sold	42,102,762	35,318,502
Total cost of goods sold	1,656,387,007	1,411,851,969
Energy costs	50,313	35,831
Cost of small tools	9,495	3,348
Other	311,844	255,711
Total cost of material	371,652	294,890
Cost of transport services	59,314	93,601
Maintenance services	924,944	1,420,322
Lease costs	213,481	973,915
Employee reimbursements costs related to work	113,709	104,738
Insurance and banking costs	1,476,525	1,108,348
Intellectual and personal service costs	2,206,799	2,191,385
Cost of fairs, commercials and representation	579,330	438,799
Cost of services of natural persons	282,045	273,236
Security and control costs	454	3,500
Membership fees	47,198	38,598
Other	1,730,303	593,622
Total cost of services	7,634,102	7,240,064
Total	1,664,392,761	1,419,386,923

The purchase value of the sold goods, which represents 98.68% of all operating expenses, comprises electricity purchase costs and the costs related to this.

The largest amounts among costs of material refer to professional literature, costs of energy and costs of office stationery.

Costs of services include mostly costs for professional services, maintenance costs of computer hardware and software, and costs of insurance and bank services. Higher costs of services are due to the increase in the cost of banking services and the cost of other services, where the largest proportion is the IT costs, the increase of which is due to the transfer of part of the IT business process to DEM.

AUDITOR COSTS

in EUR	2019	2018
Auditing of the annual report	14,500	15,000
Other assurance services	500	408
Total	15,000	15,408

Apart from auditing the annual report, the company Deloitte revizija d.o.o. received no other payments from the Company in 2019.

LABOUR COSTS (25)

in EUR	2019	2018
Salaries	8,486,391	7,811,013
Costs of the pension insurance scheme	1,111,880	1,057,890
Costs of other insurance	641,907	585,517
Other labour costs	1,172,448	1,045,438
Total	11,412,626	10,499,858

Labour costs comprise costs of salaries and other receipts by employees, including employer's contributions. Costs of compensations for unused holiday leave in 2019, which can be utilised by 30 June 2020, are accounted as well. Employee benefits expense increased in comparison with 2018 due to higher average number of employees.

NUMBER OF EMPLOYEES AND AVERAGE NUMBER OF EMPLOYEES BY EDUCATION STRUCTURE

Educational class	1.1.2019	31.12.2019	Average number of employees
5	11	11	11
6/1	19	19	19
6/2	42	46	44
7	75	78	77
8/1	25	29	27
8/2	2	3	3
Total	174	186	180

WRITE-DOWNS IN VALUE (26)

in EUR	2019	2018
Amortisation of intangible assets	246,699	376,643
Amortisation of property, plant and equipment	351,809	492,274
Impairments/write-offs of receivables	661	16,973
Write-offs in property, plant and equipment	2,406	0
Sales in property, plant and equipment	21	37
Amortisation of leased assets	280,706	0
Total	882,302	885,927

Write-downs in value comprise the amortisation of the Company's assets, write-downs of receivables, and loss on the sale of equipment.

Disclosures on the amortisazion of leased assets are in section LEASES – IFRS 16 (21).

OTHER OPERATING EXPENSES (27)

in EUR	2019	2018
Forming of provisions	23,200	311,674
Compensation for the use of building land	11,263	11,106
Donations	75,300	36,255
Other operating expenses	1,644,555	308,137
Total	1,754,318	667,172

The increase in other operating expenses compared to the previous year is represented by higher costs of fees paid in courts related to the conduct of litigation initiated by the audited company and contractual penalties for system services.

FINANCIAL REVENUE (28)

in EUR	2019	2018
Financial income from dividends and other shares in profits	10,170,209	30,353,648
Financial income from loans given and deposits made	4,344,318	2,056,977
Other financial revenue	720,474	872,877
Total	15,235,001	33,283,502

Finance income from shares and interests comprises profit pay-outs of subsidiaries DEM (total amount of EUR 10,000,000) and the jointly-controlled entity Soenergetika (EUR 170,208).

Financial revenue from loans and deposits granted mainly comprises accrued interest for the loans given to the companies in the Group.

Among other financial instruments, the Company's revenue mainly stems from parent guarantees given to companies in the Group.

FINANCIAL EXPENSES (29)

in EUR	2019	2018
Financial expenses for interest	6,412,162	7,811,123
Financial expenses from the impairment of financial investments	0	56,721,354
Financial expenses from the liquidation of a financial investment	26,684	0
Other financial expenses	5,345,551	4,925,857
Other financial expenses from leases	29,189	0
Total	11,813,586	69,458,334

Interest-related financial expenses comprise interest on short-term and long-term loans received from banks (EUR 6,347,505), and accounted interest on short-term loans from HSE Group companies (EUR 64,658).

Financial expenses from the liquidation of the financial investment represents expenses resulting from the liquidation of HSE Adria in 2019.

Other finance expenses refer to the guarantee given by DEM, costs of the withholding tax for foreign loans and costs of raising long-term loans.

TAX (30)

in EUR	2019	2018
Current tax	11,814,081	8,805,263
Deferred taxes	-69,051	-11,996
Total income tax recognised in the operating income statement	11,745,030	8,793,267
Deferred tax recognised in capital	-9,043	-12,898

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 of the company in the Czech Republic is subject to corporation tax in the Czech Republic.

In accordance with the Corporate Income Tax Act, the tax for 2019 amounted to 19% of the tax base reported in the Company's tax return.

The Company's current tax in 2019 amounted to EUR 11,814,081. Based on the 2018 tax return, the Company made a EUR 8,071,491 advance payment of income tax for 2019. At the end of 2019, the Company discloses a liability in the amount of EUR 3,742,590.

Deferred taxes include deferred tax assets. Allocation and drawdown per value are shown in the disclosure of deferred tax assets (explanatory note 6 in the Statement of financial position).

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.

CALCULATION OF THE EFFECTIVE TAX RATE

	2019	2018
Profit or loss before taxes	71,862,746	18,279,536
Calculated tax at the applicable tax rate	13,653,922	3,473,111
Tax on revenues that lower the tax base	-1,948,431	-5,769,179
Tax on tax deductions	-148,499	-155,895
Tax on expenses that lower the tax base	-4,499	-7,331
Tax on unrecognised expenses	166,694	10,909,163
Tax from other changes in the tax balance sheet	94,893	355,394
Tax levied	11,814,080	8,805,263
Deferred taxes	-69,051	-11,996
Total taxes	11,745,029	8,793,267
Effective tax rate	16.34%	48.10%

As at 31 December 2019, 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 differences 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 OF LOSS FOR THE PERIOD (31)

in EUR	2019	2018
Gross return from operations	1,746,883,338	1,485,894,249
Earnings before interest and tax	68,441,330	54,454,368
Financial result	3,421,416	-36,174,832
Profit or loss before taxes	71,862,746	18,279,536
Net profit or loss for the financial year	**60,117,716**	**9,486,269**

The Company concluded 2019 with a net result of EUR 60,117,716.

4.5.7.3 Related companies

Related companies are subsidiaries, associates and jointly-controlled entities that are controlled directly or indirectly by the Company through its subsidiaries.

Related companies also include companies that are majority state-owned.

The sales and purchases columns show the turnover of all transactions (excluding VAT) between the Company and the associated companies in 2019. For financial receivables and loans granted and received, the balance at the end of 2019 is presented (principal amount with interest). Revenue from parent guarantees granted in 2019 are disclosed separately, in the net value (exclusive of VAT). The value of parent guarantees is disclosed in the section Contingent liabilities and Contingent assets (Note 20 to the Statement of financial postition).

The situation of outstanding receivables from associated persons is disclosed in the chapter Short-term operating receivables from buyers; the status of outstanding operating liabilities is disclosed in the chapter Short-term operating liabilities to suppliers.

DATA ON RELATED COMPANIES

in EUR	Sales	Purchases	Granted loans, guarantees and securities with interest	Income from granted parent guarantees
DEM	417,416	65,538,324		
sHPP Lobnica		17,451		
SENG	9,293,948	37,003,825		
TEŠ	5,464,084	218,016,091	90,787,245	711,120
HSE EDT	137,084	425,118	451,434	
TET Novi materiali				
PV	3,710,862	657	18,881,547	
HTZ I.P.		109,237		
RGP				9,350
HSE Invest	44,690	159,702		
HSE Balkan Energy	1,006,351	1,209,140		
HSE Adria - in liquidation	2,588			
HSE MAK Energy	24,684,206	24,047,445		
HSE BH	38,895,475	31,954,273		
Total 2019	**83,656,704**	**378,481,263**	**110,120,226**	**720,470**

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 Company is 100% owned by the Republic of Slovenia. In 2019, the Company concluded no transactions with the Government of the Republic of Slovenia. In 2019, the Company paid no dividend to the owner.

DATA ON RELATED COMPANIES - ASSOCIATES

in EUR	Purchases	Granted loans, guarantees and securities with interest	Loans with interest received	Income from granted parent guarantees	Prihodki od danih starševskih garancij
HESS	21,103	9,565,601	0	0	0
Total 2019	**21,103**	**9,565,601**	**0**	**0**	**0**

DATA ON RELATED COMPANIES - JOINTLY-CONTROLLED COMPANIES

in EUR	Sales	Purchases	Granted loans, guarantees and securities with interest	Loans with interest received	Income from granted parent guarantees
SOENERGETIKA	120	863,151	0	0	0
Total 2019	**120**	**863,151**	**0**	**0**	**0**

TRANSACTIONS WITH THE REPUBLIC OF SLOVENIA AND LEGAL ENTITIES DIRECTLY OWNED BY THE REPUBLIC OF SLOVENIA

in EUR	Open receivables as at 31.12.2019	Open liabilities as at 31.12.2019	Revenue 2019	Expenses 2019
BORZEN d.o.o.	336,506	271,728	8,738,879	8,790,496
BSP d.o.o.	311,588	496,306	70,062,092	51,901,194
ECE d.o.o.	12,619,128	713,177	130,333,078	7,499,171
ELES d.o.o.	2,558,041	711,577	24,588,632	3,594,162
ELEKTRO MARIBOR ENERGIJA PLUS d.o.o.	6,294,139	8,214	65,340,119	1,869,978
E3 d.o.o.	7,818,403	349,683	69,491,472	4,586,671
GEN ENERGIJA d.o.o.	83,919	21,784	818,346	383,091
GEN-I d.o.o.	10,329,928	13,319,357	83,396,706	93,706,703
PETROL d.d.	5,955,726	8,451,634	47,036,264	49,907,224
Energy companies - total	**46,307,378**	**24,343,460**	**499,805,588**	**222,238,690**
TALUM d.d.	1,699,743	269,902	16,605,665	925,843
Aluminium production	**1,699,743**	**269,902**	**16,605,665**	**925,843**
AVTENTA d.o.o.	0	36,997	0	137,838
Other - total	**0**	**36,997**	**0**	**137,838**
NLB d.d.	0	57,000,000	0	1,391,622
SID d.d.	0	40,363,636	0	1,102,442
Banks - total	**0**	**97,363,636**	**0**	**2,494,064**
Total	**48,007,121**	**122,013,995**	**516,411,253**	**225,796,435**

The table shows transactions with entities, which are directly or indirectly majority-owned by the Republic of Slovenia (more than 50% equity) and are important for the Company from the perspective of significance of transactions (income or expenses in 2019 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 Remuneration

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement includes:

- gross compensation included in the income tax return statement,
- other allowances (meals, transportation, daily allowances),
- premiums paid for voluntary supplementary pension insurance.

The remuneration of the members of the Supervisory Board contains gross meeting expenses of all members, including travel expenses for exercising their functions in the Supervisory Board and the Supervisory Board's committees.

In 2019, the Company provided no advances, loans or guarantees to these persons. At the end of 2019, the Company had no receivables from the Management and Supervisory Boards members.

Among short-term operating debts, liabilities for December salaries to members of the Management Board and the employees for whom the tariff part of the collective agreement does not apply, and for December meeting expenses to the members of the Supervisory Board and the members of the committees of the Supervisory Board.

REMUNERATION

in EUR	Gross salary	Other remuneration	Bonus	Reimbursement of costs	Attendance fees	Total
Members of the Management Board	296,952	43,672	11,628	4,395	9,938	366,585
Members of Supervisory Boards and Supervisory Board Committees			1,498	2,959	219,725	224,182
Employees not subject to the tariff part of the collective agreement	331,633	15,706	16,561	7,743		371,643
Total 2019	**628,585**	**59,378**	**29,687**	**15,097**	**229,663**	**962,410**
Members of the Management Board	266,025	9,188	14,982	3,436	7,867	301,498
Members of Supervisory Boards and Supervisory Board Committees			1,377	2,293	211,385	215,055
Employees 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**

MANAGEMENT REMUNERATION

in EUR	Salary gross	Other remuneration - holiday bonus and voluntary supplementary pension scheme	Bonus	Costs reimbursment	Attendance fees*	Total
Nikolić Stojan	130,137	4,724	2,445	2,623	7,544	147,473
Vračar Viktor	75,247	2,914	3,778	783	440	83,162
Marinčič Mirko	48,845	2,128	2,665	640	0	54,278
Marovt Matjaž	42,723	33,906	2,740	349	1,954	81,672
Total	**296,952**	**43,672**	**11,628**	**4,395**	**9,938**	**366,585**

* For members of the Management Board Stojan Nikolić, Matjaž Marovt and Viktor Vračar, the amount of the attendance fee received as members of the Supervisory Board in PV and HSE Invest is taken into account among the items of the attendance fee.

REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD

in EUR	Attendance fee gross/ meetings	Bonus	Attendance fee gross/ basic payment	Attendance fee gross	Attendance fee net	Travel expenses	Total
JANČAR BOŠTJAN Member of the HSE SB	4,070	152	11,300	15,370	11,104	0	15,522
BRANKOVIĆ GORAN Member of the HSE SB	3,190	60	7,624	10,814	7,849	0	10,874
BESEK TOMAŽ Chairman of the HSE SB from 12.06.2019	2,255	70	9,522	11,777	8,547	131	11,978
CUKROV VESNA Member of the HSE SB	4,290	152	11,300	15,590	11,264	354	16,096
MARKOLI BOŠTJAN Deputy Chairperson of the HSE SB to 24.03.2019	2,467	152	12,876	15,343	11,085	30	15,525
OTIČ JERNEJ Member of the HSE SB	4,620	152	11,300	15,920	11,504	1,719	17,791
PANTOŠ MILOŠ Member of the HSE SB	4,209	152	11,300	15,509	11,205	25	15,686
PEROVIĆ MILAN Chairman of the HSE SB to 25.03.2019	1,320	152	5,468	6,788	4,862	53	6,993
VRAČAR VIKTOR Member of the HSE SB	1,100	152	3,675	4,775	3,399	12	4,939
RIJAVEC PETJA Member of the HSE SB	3,549	152	11,300	14,849	10,725	0	15,001
GORJUP BARBARA Deputy Chairperson of the HSE SB from 25.03.2019	2,860	152	12,075	14,935	10,788	69	15,156
Total	**33,930**	**1,498**	**107,740**	**141,670**	**102,332**	**2,393**	**145,561**

REMUNERATION OF MEMBERS OF THE AUDIT COMMITTEE

in EUR	Attendance fee gross/ meetings	Attendance fee gross/ basic payment	Attendance fee gross	Attendance fee net	Travel expenses	Total
JANČAR BOŠTJAN Member of the Audit Committee	1,679	2,825	4,504	3,276	126	4,630
MARKOLI BOŠTJAN Member of the Audit Committee	1,276	2,825	4,101	2,983	19	4,120
GORJUP BARBARA Chairwoman of the Audit Committee	1,474	4,237	5,711	4,154	51	5,762
ZAMAN GROFF MAJA External Member of the Audit Committee	2,551	11,300	13,851	10,074	87	13,938
Total	**6,980**	**21,187**	**28,167**	**20,487**	**283**	**28,450**

REMUNERATION OF MEMBERS OF THE PERSONNEL COMMITTEE

in EUR	Attendance fee gross/ meetings	Attendance fee gross/ basic payment	Attendance fee gross	Attendance fee net	Travel expenses	Total
MARKOLI BOŠTJAN Member of the Personnel Committee	2,156	2,825	4,981	3,623	21	5,002
PANTOŠ MILOŠ Chairman of the Personnel Committee from 05.04.2019	1,100	2,767	3,867	2,812	10	3,877
RIJAVEC PETJA Member of the Personnel Committee	2,376	2,825	5,201	3,783	0	5,201
PEROVIĆ MILAN Chairman of the Personnel Commission to 28.03.2019	836	1,378	2,214	1,610	27	2,241
GORJUP BARBARA Member of the Personnel Committee	2,156	2,825	4,981	3,623	52	5,033
Total	**8,624**	**12,620**	**21,244**	**15,451**	**110**	**21,354**

REMUNERATION OF THE MEMBERS OF THE RESTRUCTURING COMMITTEE

in EUR	Attendance fee gross/ meetings	Attendance fee gross/ basic payment	Attendance fee gross	Attendance fee net	Travel expenses	Total
CUKROV VESNA Member of the Restructuring Committee	0	2,825	2,825	2,055	19	2,844
OTIĆ JERNEJ Member of the Restructuring Committee	528	2,825	3,353	2,439	135	3,488
PANTOŠ MILOŠ Member of the Restructuring Committee	440	2,825	3,265	2,375	5	3,270
BRANKOVIĆ GORAN Chairman of the Committee from 08.04.2019	660	2,731	3,391	2,466	0	3,391
VRAČAR VIKTOR Chairman of the Committee to 28.03.2019	220	1,378	1,598	1,162	3	1,601
Total	**1848**	**12,584**	**14,432**	**10,497**	**162**	**14,594**

REMUNERATIONS OF MEMBERS OF THE MARKETING AND INVESTMENT COMMITTEE

in EUR	Attendance fee gross/ meetings	Attendance fee gross/ basic payment	Attendance fee gross	Attendance fee net	Travel expenses	Total
MARKOJI BOŠTJAN Member of the Marketing and Investment Committee	0	2,825	2,825	2,055	6	2,831
BRANKOVIĆ GORAN Member of the Marketing and Investment Committee	616	1,821	2,437	1,772	0	2,437
JANČAR BOŠTJAN Member of the Marketing and Investment Committee	396	2,825	3,221	2,343	0	3,221
PANTOŠ MILOŠ Chairman of the Marketing and Investment Committee	396	4,238	4,634	3,370	5	4,639
VRAČAR VIKTOR Member of the Marketing and Investment Committee	176	919	1,095	796	0	1,095
Total	**1,584**	**12,628**	**14,212**	**10,336**	**11**	**14,223**

4.5.7.5 Financial instruments and risk management

This section relates to the sections Management of Financial Risks of the Financial Statement and the section on financial risks in the business part.

CREDIT RISK

The major part of activities where the Company meets credit risk stems in particular from the activity of electricity trading. The portfolio of partners, with which we conclude contracts in the field of electricity trading, mostly refers to companies with a high credit rating and payment discipline. Activities for managing credit risks are subject to the Company's adopted internal acts that clearly define the procedures and due diligence applied while selecting and monitoring business partners. We decide on the type of business relation with partners on the basis of previous analyses of the partner's credit rating, which in continuation determine a possible extent and time horizon of operations, elements of contractual relation, and in particular the required extent of additional insurance in the form of bank and corporative guarantees, received advances, and other suitable forms of insurance.

The Company monitors credit exposure to individual partners on a daily basis. An important measure of credit risk mitigation is the conclusion of contractual frameworks, i.e. general and umbrella agreements (e.g. EFET), which determine, inter alia, the monthly financial netting of receivables and liabilities as well as the netting of a wide range of mutual receivables and liabilities in the event of early termination of the agreement due to possible insolvency of the partner.

The Company's maximum exposure to credit risk arising under its short-term operating and financial receivables is represented by the carrying amount of short-term operating receivables, decreased by financial collateral, and financial off-set of receivables and liabilities from those partners where it is legally and contractually possible. Receivables 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.

TRADE RECEIVABLES

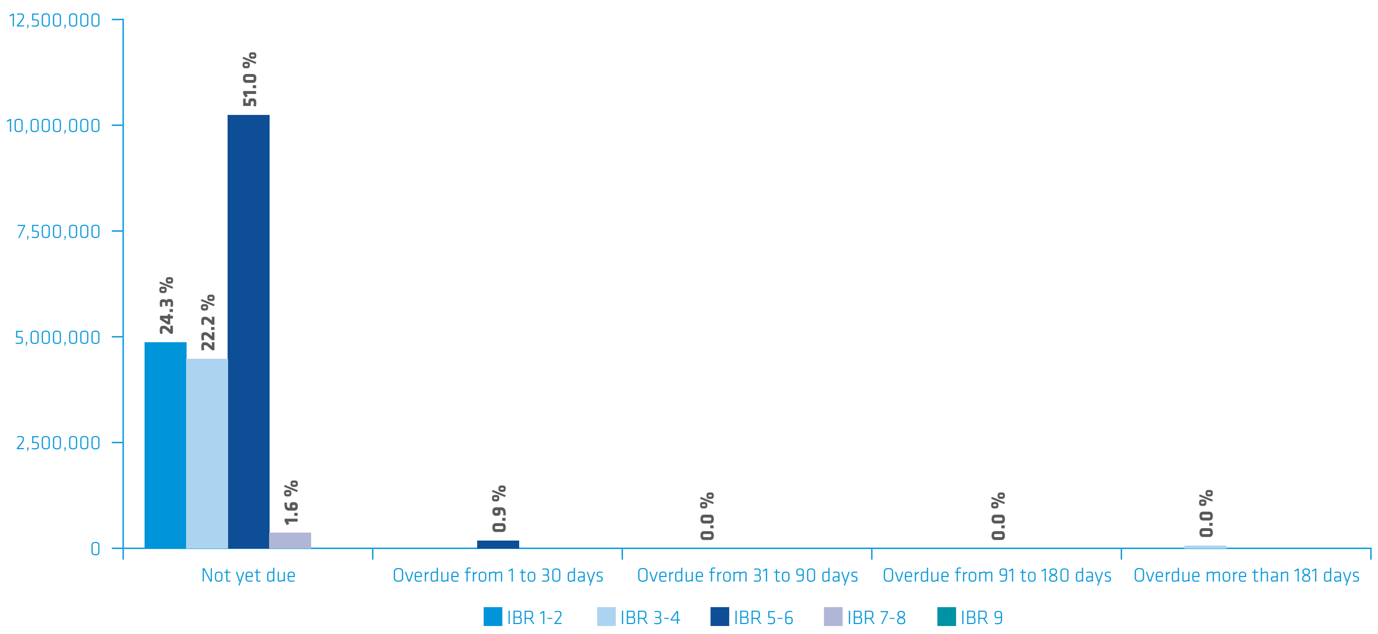
in EUR	Receivables	Secured receivables	%	Unsecured receivables	%
Short-term receivables from Group companies	17,040,905	14,145,662	83%	2,895,243	17%
Short-term receivables from associates	2,583	2,583	100%	0	0%
Short-term receivables from jointly-controlled companies	146	146	0%	0	0%
Short-term trade receivables from customers	134,700,544	114,556,800	85%	20,143,743	15%
Total 31.12.2019	**151,744,178**	**128,705,191**	**85%**	**23,038,987**	**15%**
Short-term receivables from Group companies	6,167,484	5,068,370	82%	1,099,114	18%
Short-term receivables from associates	5,079	5,079	100%	0	0%
Short-term trade receivables from customers	129,318,230	110,046,606	85%	19,271,624	15%
Total 31.12.2018	**135,490,793**	**115,120,055**	**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 act 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, etc.). Short-term receivables 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.

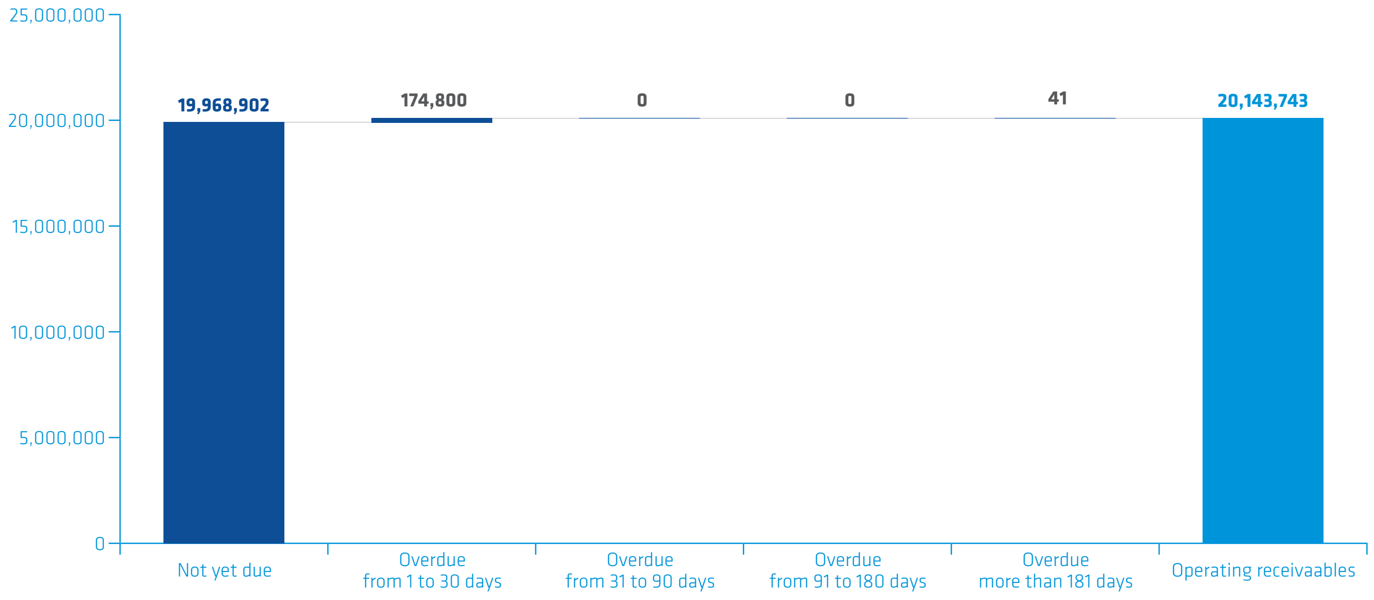
The following analysis shows the unsecured short-term trade receivables as at 31 December 2019 in respect of the internal customer classification by credit ratings, age structure of unsecured receivables, and the structure of receivables by country.

Based on granting a credit rating to individual partners (IBR) 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 2019 IN EUR



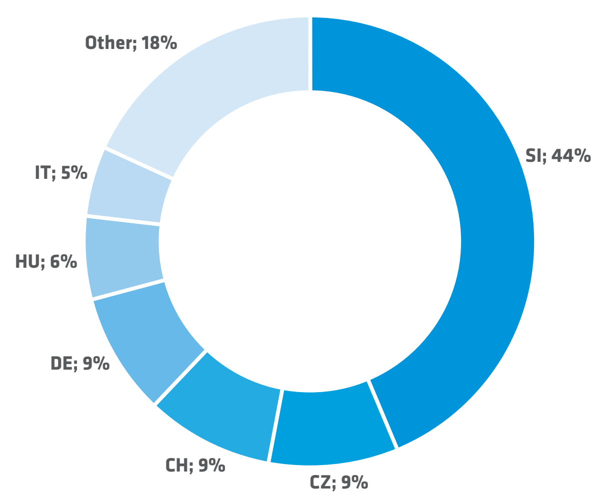
UNSECURED TRADE RECEIVABLES BY AGE STRUCTURE AS AT 31 DECEMBER 2019 IN EUR



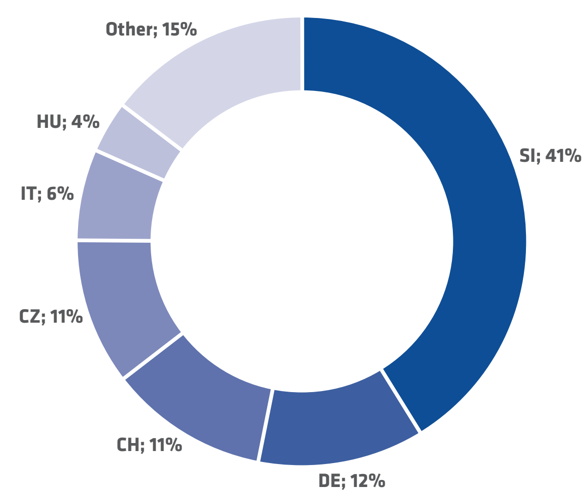
With respect to 2018, the overall value of business receivables from customers increased slightly, however, through careful management of partners, we maintained the values of unsecured receivables at the corporate receivables level as at 31 December 2018. Trade receivables from customers in Slovenia as at 31 December 2019 represent 45% of all trade receivables, which represents an increase by 4% compared to 2018.

TRADE RECEIVABLES BY COUNTRY AS AT 31 DECEMBER 2019 AND 2018

2019



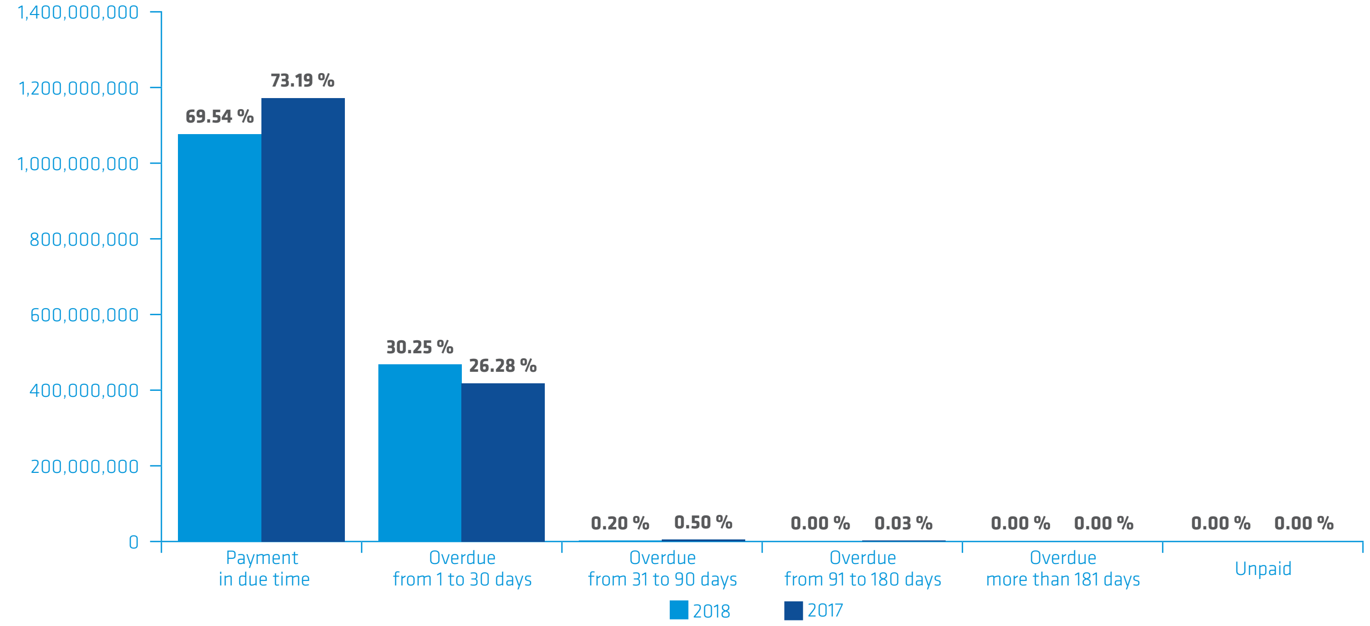
2018



The analysis of the partners' repayment dynamics and the payment discipline in 2017 and 2018 (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 2018 AND 2017 IN EUR



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. Based on the guidelines of the said standards and the findings from the analysis of past patterns of payment by the company's customers by age structure, the expected loss arising from trade receivables from customers for the Company as at 31 December 2019 is estimated at EUR 41.1.

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 2019, 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 their financial situation, the type of insurance received, and the age structure of trade receivables as at 31 December 2019.

As at 31 December 2019, the Company is reporting EUR 1,090,349 in doubtful receivables. Doubtful receivables are in the main part receivables arising from the sale of electricity to Korlea Invest a.s and to S.C. Transenergo com S.A.

MOVEMENT OF VALUE ADJUSTMENTS FOR SHORT-TERM TRADE RECEIVABLES

in EUR	2019	2018
Balance as at 1.1.	**1,090,349**	**850,258**
Formation of allowances for receivables	0	240,091
Balance as at 31.12.	**1,090,349**	**1,090,349**

LONG-TERM TRADE AND FINANCIAL RECEIVABLES ACCORDING TO THEIR MATURITY

in EUR	Maturity date: up to 2 years after the date of SFP	3 to 5 years after the date of SFP	over 5 years after the date of SFP	Total
Long-term financial receivables and loans to group companies	3,698,000	9,585,500	83,932,956	97,216,456
Long-term financial receivables and loans to companies in the interest group	513,075	799,289	7,350,370	8,662,734
Long-term operating receivables from others			797,501	797,501
Total 31.12.2019	**4,211,075**	**10,384,789**	**92,080,827**	**106,676,691**
Long-term financial receivables and loans to group companies			85,282,956	85,282,956
Long-term financial receivables and loans to companies in the interest group			5,245,851	5,245,851
Long-term operating receivables from others			3,050,904	3,050,904
Total 31.12.2018	**0**	**0**	**93,579,711**	**93,579,711**

SHORT-TERM TRADE AND FINANCIAL RECEIVABLES ACCORDING TO THEIR MATURITY

in EUR	Maturity date: not past due	Up to 3 months past due (up to 90 days)	From 3 to 6 months past due (from 91 to 180 days)	From 6 to 9 months past due (from 181 to 272 days)	over a year past due (from 361 days onwards)	Total
Short-term financial receivables and loans to group companies	4,227,620					4,227,620
Short-term financial receivables and loans to companies in the interest group	13,416					13,416
Short-term operating receivables from group companies	20,413,399	1,080,978	235,054			21,729,431
Short-term operating receivables from associates	2,583					2,583
Short-term operating receivables from jointly controlled companies	146					146
Short-term trade receivables	130,804,145	3,896,400		41	1,090,307	135,790,893
Short-term advance payments	1,445,649					1,445,649
Short-term operating receivables from state and other institutions	22,057,193					22,057,193
Short-term operating receivables from others	14,447,254					14,447,254
Total 31.12.2019	**193,411,405**	**4,977,378**	**235,054**	**41**	**1,090,307**	**199,714,185**
Short-term financial receivables and loans to group companies	1,872,874					1,872,874
Short-term financial receivables and loans to companies in the interest group	15,470					15,470
Short-term operating receivables from group companies	4,310,751	1,278,155	578,576			6,167,482
Short-term operating receivables from associates	5,079					5,079
Short-term trade receivables	122,643,976	6,674,207			1,090,400	130,408,583
Short-term advance payments	649					649
Short-term operating receivables from state and other institutions	22,111,931					22,111,931
Short-term operating receivables from others	15,847,655					15,847,655
Total 31.12.2018	**166,808,385**	**7,952,362**	**578,576**	**0**	**1,090,400**	**176,429,723**

LIQUIDITY RISK

The Company's and the Group's liquidity risk management is largely linked and interconnected due to mutual relationships arising from the purchase/sale of electricity and coal, and from the provision of finance sources relating to financing of investments in the Unit 6 of TEŠ.

To manage the liquidity risk, we regularly monitor and plan cash flow at daily, monthly and annual levels. Much of the Company's attention in 2019 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 and use of possible liquidity surpluses or notice and coverage of deficits. The risk of short-term solvency has been successfully controlled by the ongoing reconciliation of the maturity of receivables and liabilities, consistent recovery of receivables and the provision of adequate available credit lines with commercial banks.

At the end of 2018, the Company's liquidity reserve, which consists of unused approved long-term revolving loans and available bank balances, amounted to EUR 77,596,780 and is earmarked to balancing the cash flows and significantly reduces the liquidity risk of the HSE Company and Group.

On 31 December 2019, all due short-term liabilities of the Company were settled.

The maturity of long-term operating and financial liabilities of the Company in the coming years is shown in the tables below. A portion of long-term loans that fall due within one year is disclosed among short-term financial liabilities.

LONG-TERM TRADE AND FINANCIAL RECEIVABLES ACCORDING TO THEIR MATURITY DATE

in EUR	Maturity date: Up to 2 years after the date of SFP	3 to 5 years after the date of SFP	Over 5 years after the date of SFP	Total
Long-term financial liabilities to banks	20,803,030	99,909,091	90,439,394	211,151,515
Long-term financial liabilities from leases	280,575	580,683		861,258
Total 31.12.2019	**21,083,605**	**100,489,774**	**90,439,394**	**212,012,773**
Long-term financial liabilities to banks	26,555,272	143,454,545	22,424,242	192,434,059
Total 31.12.2018	**26,555,272**	**143,454,545**	**22,424,242**	**192,434,059**

The liquidity risk exposure due to financial liabilities to banks on 31 December 2019 is shown in the table below. Amounts in the table are not discounted and include contractually envisaged interest rates and costs of insurance.

EXPOSURE TO LIQUIDITY RISK ARISING ON FINANCIAL LIABILITIES TO BANKS

in EUR	Estimated cash flows: Up to 2 months after the date of SFP	From 2 to 12 months after the date of SFP	From 1 to 2 years after the date of SFP	From 2 to 5 years after the date of SFP	Over 5 years after the date of SFP	Skupaj
Financial liabilities to banks without interest rate hedging						
Long-term loans	0	-11,303,030	-20,803,030	-99,909,091	-90,439,394	-222,454,545
Total 31.12.2019	**0**	**-11,303,030**	**-20,803,030**	**-99,909,091**	**-90,439,394**	**-222,454,545**
Financial liabilities to banks without interest rate hedging						
Long-term loans	0	-27,484,848	-27,484,848	-143,454,545	-22,424,242	-220,848,483
Total 31.12.2018	**0**	**-27,484,848**	**-27,484,848**	**-143,454,545**	**-22,424,242**	**-220,848,483**

The Company secured additional liquidity in 2019 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 sources. In addition, the Company disposes of a liquidity reserve in form of a long-term revolving loan of EUR 50,000,000 for the period of up to August 2021.
Based on the centralized cash flow planning, implemented measures for restructuring and optimizing the debt's maturity, a proper liquidity reserve provided, an active attitude towards the financial markets, the Company's liquidity was under control and ensured in 2019 and thus the liquidity risk 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 small, since the majority of inflows and outflows are in domestic currency - EUR. In 2019, the Company was exposed to some other currencies (HUF, RON) in the context of electricity trading, where it used a protection against exposure with the use of derivatives, if needed.

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 on its management regularly. Additionally, the Company continuously follows developments on the money market, changes in prices and values of currency hedging contracts.

To convert the Company's assets and liabilities on 31 December 2019, the following exchange rates were used:

EXCHANGE RATES

Country	Currency code	Closing EUR rate for 2019	Closing EUR rate for 2018
Czech Republic	CZK	25,4080	25,7240
Hungary	HUF	330,5300	320,9800
Romania	RON	4,7830	4,6635
USA	USD	1,1234	1,1450
United Kingdom	GBP	0,8508	0,8945
Bulgaria	BGN	1,9558	1,9558
Croatia	HRK	7,4395	7,4125
Serbia	RSD	117,3800	118,4300

EXPOSURE TO EXCHANGE RATE FLUCTUATION RISK

in EUR	EUR	HUF	Ostale valute	Total
Long-term financial receivables and loans	105,879,190			105,879,190
Long-term trade receivables	553,667		243,834	797,501
Short-term financial receivables and loans	4,241,036			4,241,036
Short-term trade receivables	194,097,202		285,598	194,382,800
Long-term financial liabilities	-212,012,773			-212,012,773
Short-term financial liabilities	-11,717,077			-11,717,077
Short-term trade liabilities	-167,077,960	-103,709	-304,752	-167,486,421
Net exposure of the SFP 31.12.2019	**-86,036,715**	**-103,709**	**224,680**	**-85,915,744**
Long-term financial receivables and loans	90,528,807			90,528,807
Long-term trade receivables	2,553,666		497,239	3,050,905
Short-term financial receivables and loans	1,888,344			1,888,344
Short-term trade receivables	172,366,193	485	1,084,352	173,451,030
Long-term financial liabilities	-192,434,059			-192,434,059
Short-term financial liabilities	-27,140,461			-27,140,461
Short-term trade liabilities	-149,834,753	-904,757	-486,331	-151,225,841
Net exposure of the SFP 31.12.2018	**-102,072,263**	**-904,272**	**1,095,260**	**-101,881,275**

CURRENCY SWAP CONTRACTS BY MATURITY

in EUR	31.12.2019	31.12.2018
Currency swap contracts by maturity - up to 12 months	10,774,892	5,982,329
Total	**10,774,892**	**5,982,329**

CURRENCY SWAP EFFECT

in EUR	2019	2018
Unrealised profit of effective transactions	38,554	54,987
Realized profit of effective transactions	27,103	32,773
Realized loss of effective transactions	-117,172	-178,938

INTEREST RATE RISK

The Company is managing the interest rate risk adequately by regularly monitoring its interest rate exposure through the policy of interest risk management, in the context of which it monitors cash market development, interest rate and interest rate swap movement, with the aim of proposing measures of interest rate hedging in a timely manner. The decision on interest rate hedging is based on the forecast on the interest rate development, interest swaps and the impact on the amount of financial expenses, whereby it should be emphasised that the Euribor value was negative throughout the 2019 period. The Company concluded contracts for long-term loans 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 to 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 2019.

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 BEARING THE VARIABLE INTEREST RATE

in EUR	31.12.2019	31.12.2018
Financial liabilities	222,454,545	220,848,485

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. Analysis prepared for both years assumes that all variables, particularly foreign currency rates, remain unchanged. In the calculation, the receivables/liabilities at variable interest rate are decreased by the total amount of IRS transactions concluded. Due to negative values of market interest rates of Euribor in 2019, we used in our sensitivity analysis only a markup/increase of +0.50 b. p. In case of loans that bear the Euribor ''zero floor'' interest rate, a markup of + 0.50 b.p. to the average Euribor value in 2019 was taken into account (average value of the 3-month Euribor -0.356%; average value of 6-month Euribor -0.302%).

FINANCIAL INSTRUMENTS BEARING THE VARIABLE INTEREST RATE

in EUR	Net profit of loss 2019		Net profit of loss 2018	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial instruments bearing the variable interest rate	-265,891	n/a	-454,396	n/a
Financial liabilities	-265,891	n/a	-454,396	n/a

Fixed interest rates are agreed for the financial assets, thus the sensitivity analysis has not been conducted for this part.

PRICE RISK

FORWARD CONTRACTS FOR ELECTRICITY

The Company trades with forward contracts with the purpose to insure hedging of 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 forward contracts with the contrary quantity and the same maturity or forward contracts with a maturity that is in line with the planned quantity of own production. This way, the Company financially fixes the revenue, indicating that the loss arising from the purchase of future 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. Thus, the Company is already now selling electricity of subsidiaries for several years ahead, while the main objective of the strategy is to maximise profit and provide stable revenue from electricity sales.

In this relation, the Company recorded at the end of the year forward contracts in the amount of EUR 157,913,329. Related disclosures are provided in the section Capital.

The purchase or sales of a forward 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 forward contracts or physical contracts. At the end of the year, the Company recorded EUR 100,426,110 of open forward contracts held for trading.

CONCLUDED STANDARDISED FORWARD CONTRACTS FOR HEDGING PUPOSES

in EUR	31.12.2019	31.12.2018
For electricity - to insure the purchase	67,870,597	22,389,291
For electricity - to insure sales	90,042,732	21,501,340
Total	157,913,329	43,890,631

CONCLUDED STANDARDISED FORWARD CONTRACTS FOR TRADING

in EUR	31.12.2019	31.12.2018
For electricity - trading - purpose of purchase	59,478,153	40,162,709
For electricity - trading - purpose of sale	40,947,957	17,952,306
Total	100,426,110	58,115,015

EMMISSION COUPONS

The Company concluded forward contracts in 2019 for the purchase and sale of emission coupons in order to insure quantities of emission coupons, relating to own production requirements; the Company also concluded forward contracts in a limited scope in connection with the trading activity, which was not linked to own production. At the end of 2019, the Company recorded in this respect EUR 118,223,740 of open contracts for insuring the purchase and sale of emission coupons. Related disclosures are provided in the section Capital.

CONCLUDED STANDARDISED FORWARD CONTRACTS FOR HEDGING PUPOSES

in EUR	31.12.2019	31.12.2018
For emission coupons - to insure the purchase	112,080,880	63,567,160
For emission coupons - to insure the sales	6,142,860	3,516,970
Total	118,223,740	67,084,130

CAPITAL MANAGEMENT

in EUR	31.12.2019	31.12.2018
Long-term financial liabilities	212,287,037	192,434,059
Short-term financial liabilities	11,442,812	27,140,461
Total financial liabilities	223,729,849	219,574,520
Capital	984,344,305	979,389,150
Financial liabilities/Capital	0.23	0.22
Cash and cash equivalents	27,596,780	67,759,248
Net financial liability	196,133,069	151,815,272
Net debt/Capital	0.20	0.16

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 capital using the financial leverage ratio, which is calculated by dividing total net liabilities by total capital. Net liabilities of the Company include loans received and other financial liabilities less cash.

The ratio shows the relationship between the Company's indebtedness and capital. The ratio at the end of 2019 was higher than in 2018 due to higher 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	31.12.2019		31.12.2018	
	Book value	Fair value	Book value	Fair value
Non-derivative financial assets at fair value	**111,500**	**111,500**	**111,500**	**111,500**
Financial assets measured at fair value through profit or loss	111,500	111,500	111,500	111,500
Derivative financial assets at fair value	**47,597**	**47,597**	**67,885**	**67,885**
Derivative Financial Instruments (receivables)	47,597	47,597	67,885	67,885
Non-derivative financial assets at amortised cost	**332,944,904**	**332,944,904**	**336,746,218**	**337,106,218**
Financial receivables	110,167,823	110,167,823	92,485,036	92,845,036
Trade and other receivables	195,180,301	195,180,301	176,501,934	176,501,934
Cash	27,596,780	27,596,780	67,759,248	67,759,248
Total	**333,056,404**	**159,097**	**336,857,718**	**179,385**
Non-derivative financial liabilities at amortised cost	**394,156,384**	**194,156,384**	**373,229,264**	**373,229,264**
Bank loans	222,513,662	22,513,662	219,469,012	219,469,012
Other financial liabilities	80,665	80,665	105,508	105,508
Trade liabilities and other liabilities	171,562,057	171,562,057	153,654,744	153,654,744
Total	**394,156,384**	**194,156,384**	**373,229,264**	**373,229,264**

FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE BY HIERARCHY

in EUR	2019	2018
Financial assets at fair value of second level	47.597	67.885
Financial assets at fair value of third level	111.500	111.500

4.5.8 Events after the reporting date

After the date of the statement of financial position, the Company had no corporate events that could affect the financial statements for 2019. On 12 March 2020, the COVID19 epidemic was declared in Slovenia, which changed the circumstances of the business, to which the Company adapted accordingly.

As early as 24 February 2020, the Company immediately began preparing and setting up preventive measures to ensure the continued production and sale of electrical and thermal energy, with the first announcement that the COVID-19 epidemic had largely started in the immediate vicinity of Slovenia - Italy. As a result, gradually and in line with the current situation in the country, we have started implementing measures in accordance with the business continuity plan and with the aim of securing the assets of the HSE Group. Given the current situation, the Company started with a timely and appropriate implementation of measures and with limiting the possible consequences, as the business is running smoothly for the time being. Below, we give an assessment of the impact of the epidemic or measures to slow the epidemic on the business and results of the HSE Company by area.

PRICE RISKS

In line with the deteriorating health situation in China in January as well as in Europe in February and March 2020, we witnessed a gradual breakdown of a greater part of social and economic activities, with the exception of urgent services, followed by the prices of energy products – oil, gas, coal, as well as electricity and CO 2 emission coupons prices. From the point of view of the HSE Company, the decline in electricity prices mainly has an impact on the added value of the renewable sources production of our hydroelectric power plants, while the price ratios have not changed significantly from the standpoint of thermo production. The difference between electricity prices and CO_2 emission coupons is maintained. In the field of sales of its own production for 2020, the HSE Company has sold practically the entire volume of planned production, so we have already limited to a greater extent the impact of the absolute drop in electricity prices on hydro production added value, and some of it still depends on potential changes in the price ratio for the supply of electricity day and night, which is not insured. 66% of hydro production in 2021, 15% in 2022 and 4% in 2023 are already secured. However, from the point of view of trading activities which are not related to the sale of own production, the fall in prices on correctly placed market positions does not have a negative impact on the added value of the HSE Company and will not have it in view of current positions.

CREDIT RISKS

As a result of the current situation, we can also expect an increasing incidence of late payment of invoices within the contractual deadlines of our partners (in particular partial payments or late payments) to a certain extent. Such problems are expected mainly for partners who are also heavily involved in the distribution of electricity to final consumers, and for partners who are themselves end-users (large consumers of electricity). We have the largest share of partners belonging to such a group mainly in Slovenia and, due to the current situation, we also monitor them more closely. In this context, we are currently monitoring the implementation of all EU countries' crisis measures to mitigate the consequences of the pandemic and its impact on the economy. At the moment, most countries have already approached the rescuing of the economy (including, inter alia, the resolving of corporate liquidity problems), thus the initially expected effects of the pandemic will not be reflected in such a large scale (depending on the duration of the crisis situation), which is already reflected in the stock markets. We regularly monitor their exposure, payment habits and perform contractual payment netting with all partners, and we have appropriate insurances for key partners that could be cashed in, if necessary, in case of potential defaults or late payments. Also, if we find that current insurance for certain partners would not be sufficient or appropriate to the amount of transactions and the situation, we will approach individual partners with a claim for additional insurance.

QUANTITY/PRODUCTION RISKS

The impact on production under emergency conditions is not expected within a shorter period of time, but if the situation lasted for a longer period, the consequences could also be felt in this area. In the field of production, we are currently implementing all measures in accordance with emergency plans and instructions from state institutions. The consequences of the situation related to the deviation of actual production from the planned one could be mainly due to the lack of input materials and raw materials (mainly the thermal part of production), the inability to provide external services related to production (overhauls, emergency maintenance works, etc.) and as the consequence of other risks (e.g. increased levels of sick leaves of key personnel, failure to make urgent investments, restriction of people in workspaces, etc.). All risks are currently managed by the implementation of additional measures, but should there be a tightening of the situation (prolongation of the emergency situation, fall of sales prices below the threshold price of production, failure of part of the planned production, etc.), depending on the estimated consequences of individual scenarios, we are also preparing appropriate additional measures (for example, if prices on electricity markets fall below the limit prices of each part of production, we will begin with a gradual restriction of production throughout the production chain; in the thermal part this means both in PV and in TEŠ).

OTHER RISKS

From the perspective of other risks, we also highlight the regulation-related risks, as due to the extensive allocation of funds for the purpose of urgent economic measures at EU level, a partial delay in the implementation of the European Green Deal and the implementation of the Fair Transition Fund may also be expected, which would result in affect the delay in the implementation of fair transition measures at national levels. As a result of the above, it is possible to expect a delay in the preparation of the regulatory framework for the exit from coal (strategy, action plans, law), which could lead to a delay in the possibility of drawing funds to finance a fair transition for the needs of the gradual closure of PV and coal blocks of TEŠ.

LIQUIDITY

In the short term, the liquidity of the HSE Company was most affected by the fall in prices on electricity and related products markets, which was successfully neutralised by the appropriate ratio of purchase and sales positions in these markets and by the drawing of revolving loans concluded for this purpose at commercial banks. To further reduce the liquidity risk, we will gain the necessary approvals for additional indebtedness in April and provide adequate credit lines with banks. This way, we will be able to provide the appropriate liquidity reserve necessary in the operations of the HSE Company and Group in crisis situations.

The described consequences of the COVID-19 epidemic in the HSE Group will be the most visible at the parent company HSE, as it limits the risks of subsidiaries linked to both prices and electricity generation outages by contractual relationships. Nevertheless, we believe that if the situation is normalized within two months, the consequences of the epidemic do not represent a significant impact either on the company's operations or on the operations of HSE subsidiaries. However, if the emergency period lasted for a long period of time, the consequences described could also be expressed in PV, which represents the first link in the thermal production chain and could affect both assuring the liquidity and solvency/capital adequacy of the Company. In addition to implementing measures in the field of liquidity/solvency (short-term borrowing, deferrals, advances, etc.), it will be necessary to approach measures that will affect the reduction of the company's costs (materials, services, labour, CAPEX). Among the other HSE subsidiaries, which are also linked to revenues outside the HSE group, the consequences of the situation will be felt mainly by RGP and HSE Invest. However, in the light of the current estimates, we believe that the impacts will not be critical for the continued operations of the aforementioned companies or the HSE Group and will be controlled mainly in the context of liquidity management measures both at the company level and at the level of the HSE Group.

4.5.9 Additional disclosures pursuant to the Energy Act

In 2011, the company commenced producing electricity at its Velenje Solar Power Plant. 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 regarding production of solar power at the solar power plant was drawn up in accordance with the following rules:

- the property, plant, and equipment in the disclosure of production equipment shows the book value of the solar power plant,
- short-term operating receivables present receivables from the buyers of electricity and the input value-added tax,
- profit or loss of individual activities and the difference between assets and liabilities in the statement of financial position are disclosed in capital,
- short-term operating liabilities present liabilities to suppliers for the solar power plant operation and maintenance and the output value-added tax.

4.5.9.1 The statement of financial position as at 31 December 2019 (Energy Act)

in EUR	Electricity trading	Production of solar energy	Total
ASSETS	**1,420,901,308**	**206,950**	**1,421,108,258**
A. LONG-TERM ASSETS	**1,187,404,875**	**81,287**	**1,187,486,162**
I. Intangible assets	40,826,749		40,826,749
II. Property, plant and equipment	11,735,327	81,287	11,816,614
III. Right to use leased assets	1,122,914		1,122,914
IV. Long-term investments in subsidiaries	985,825,813		985,825,813
V. Other long-term investments and loans	146,759,632		146,759,632
VI. Long-term trade receivables	797,501		797,501
VIII. Deferred Tax Assets Liabilities	336,939		336,939
B. SHORT-TERM ASSETS	**233,496,433**	**125,663**	**233,622,096**
II. Inventories	0		0
III. Short-term financial investments	4,288,633		4,288,633
IV. Short-term trade receivables from customers	158,840,436	1,015	158,841,451
V. Contract assets	3,042,089		3,042,089
VI. Other short-term assets	39,853,056	87	39,853,143
VIII. Cash and cash equivalents	27,472,219	124,561	27,596,780
CAPITAL AND LIABILITIES	**1,420,901,308**	**206,950**	**1,421,108,258**
A. CAPITAL	**984,138,084**	**206,221**	**984,344,305**
I. Called-up capital	29,558,789		29,558,789
II. Capital surplus	561,096,840	146,345	561,243,185
III. Profit reserves	562,744,824		562,744,824
IV. Risk hedging reserve	20,452,278		20,452,278
V. Fair value reserve	-74,525		-74,525
VI. Retained earnings or losses	-189,640,122	59,876	-189,580,246
B. LONG-TERM LIABILITIES	**214,150,890**	**0**	**214,150,890**
I. Provisions for severance payments upon retirement and jubilee bonuses	1,195,929		1,195,929
II. Other provisions	334,875		334,875
III. Other long-term liabilities	324,006		324,006
IV. Long-term financial liabilities	211,151,515		211,151,515
V. Long-term trade liabilities from leases	1,135,522		1,135,522
VI. Deferred tax liabilities	9,043		9,043
C. SHORT-TERM LIABILITIES	**222,612,334**	**729**	**222,613,063**
II. Short-term financial liabilities	11,442,812		11,442,812
III. Short-term trade liabilities to suppliers	149,002,305	546	149,002,851
V. Current tax assets	3,742,590		3,742,590
VI. Other short-term liabilities	58,424,627	183	58,424,810

4.5.9.2 Income statement for 2019 (Energy Act)

in EUR	Electricity trading	Production of solar energy	2019
OPERATING INCOME	**1,746,863,642**	**19,696**	**1,746,883,338**
1. Net sales revenue	1,740,134,986	19,696	1,740,154,682
4. Other operating income	6,728,656	0	6,728,656
OPERATING EXPENSES	**1,678,434,282**	**7,726**	**1,678,442,008**
5. Costs of goods, material and services	1,664,390,116	2,646	1,664,392,762
6. Labour costs	11,412,626		11,412,626
7. Write-downs in value	877,222	5,080	882,302
8. Other operating expenses	1,754,318		1,754,318
EARNINGS BEFORE INTEREST AND TAX	**68,429,360**	**11,970**	**68,441,330**
9. Financial revenue	15,235,001	0	15,235,001
10. Financial expenses	11,813,585	0	11,813,585
FINANCIAL RESULT	**3,421,416**	**0**	**3,421,416**
PROFIT OR LOSS BEFORE TAXES	**71,850,776**	**11,970**	**71,862,746**
TAXES	**11,742,756**	**2,274**	**11,745,030**
11. Current tax	11,811,807	2,274	11,814,081
12. Deferred taxes	-69,051		-69,051
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	**60,108,020**	**9,696**	**60,117,716**
Majority owner	60,108,020	9,696	60,117,716

The income statement for electricity production has thus been drawn up in accordance with the following rules:

- the value of invoices issued to buyers of the SPP electricity is disclosed in net operating income,
- materials and services costs include a record of the costs related to the maintenance and operation of the solar power plant;
- amortisation costs refer to the amortisation of the SPP,
- the 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 2019 (Energy Act)

in EUR	Electricity trading	Production of solar energy	2019
CASH FLOWS FROM OPERATING			
Net profit of loss	60,108,021	9,696	60,117,717
Adjustments for:			
Amortisation of intangible assets	246,699		246,699
Amortisation of property, plant and equipment	346,729	5,080	351,809
Amortisation leases	280,706		280,706
Write-offs of property, plant and equipment	2,407		2,407
Write-offs of operating receivables	660		660
Elimination of write-off of trade receivables	-43		-43
Loss in the sale of property, plant and equipment	20		20
Financial revenue	-15,235,001		-15,235,001
Financial expenses	11,813,586		11,813,586
Revenue in the sale of property, plant and equipment	-4,552		-4,552
Taxes	11,742,756	2,274	11,745,030
Operating profit before changes in net short-term assets and taxes	**69,301,988**	**17,050**	**69,319,038**
Changes in net short-term assets and provisions			
Change in:			
Inventories	2,594		2,594
Trade receivables and other assets	-18,314,864	139	-18,314,725
Operating liabilities to suppliers and other liabilities	-27,171,991	-149	-27,172,140
Advances received and other liabilities	-161,744		-161,744
Provisions	317,416		317,416
Profit tax paid	-9,559,259	-2,274	-9,561,533
Cash from operations	**14,414,140**	**14,766**	**14,428,906**
CASH FLOWS FROM INVESTMENTS			
Interest received	929,490		929,490
Remuneration from other financing	882,228		882,228
Dividends received	10,170,209		10,170,209
Remuneration from the sale of property, plant and equipment	5,813		5,813
Remuneration from the sale of intangible assets	27,412,664		27,412,664
Remuneration from reduction of short-term loans given	0		
Remuneration from the reduction of long-term loans given	32,235,500		32,235,500
Expenses for the purchase of property, plant and equipment	-254,166		-254,166
Expenses for the purchase of intangible assets	-36,760,147		-36,760,147
Expenses for purchase leases			-1,403,620
Expenses for the purchase of associates	-32,076,763		-32,076,763
Expenses for the increase of long-term loans given	-46,685,500		-46,685,500
Cash from investment	**-44,140,672**	**0**	**-45,544,292**

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in EUR	Electricity trading	Production of solar energy	2019
CASH FLOWS FROM FINANCING			
Leases			1,135,522
Remuneration from long-term loans received	180,000,000		180,000,000
Remuneration from short-term loans received	36,000,000		36,000,000
Expenses for loan interest	-6,401,271		-6,401,271
Expenses for other financial liabilities	-5,387,395		-5,387,395
Expenses for repayment of long-term loans	-178,393,938		-178,393,938
Expenses for repayment of short-term loans	-36,000,000		-36,000,000
Cash from financing	**-10,182,604**	**0**	**-9,047,082**
INITIAL BALANCE OF CASH AND CASH EQUIVALENTS	**67,649,453**	**109,795**	**67,759,248**
Profit or loss for the period	**-40,177,234**	**14,766**	**-40,162,468**
FINAL BALANCE OF CASH AND CASH EQUIVALENTS	**27,472,219**	**124,561**	**27,596,780**

Abbreviations

AC	Audit Committee
AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
CC	Control Centre
DEM	Dravske elektrarne Maribor d.o.o.
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, taxes, depreciation, and amortisation
ECB	European Central Bank
EE	Electricity
EIB	European Investment Bank
ELES	ELES d. o. o., systemic operator of the electrical power transmission system
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 Standards
ICT	Information and communication technology
IFRS	International Financial Reporting Standards
IFRSIS	International Financial Reporting Standards Interpretations Committee
ISDA	International Association of Swaps and Derivatives
ISO	International Organization for Standardisation
ISO/IEC	Information protection management system
IT	Information technology
MIC	Marketing and Investment Committee
MSR	Market Stability Reserve
NEK	Nuklearna elektrarna Krško d.o.o.
NEPN	National Energy Climate Plan of the Republic of Slovenia
OHSAS	Occupational health and safety management system
OPEC	Organisation of Petroleum Exporting Countries
PC	Personnel Committee
PLP	PLP Lesna industrija d.o.o. Velenje
PoI	Certificates of origin
PSPP	Pump-storage power plant
PV	Premogovnik Velenje d.o.o.
RC	Restructuring Committee
RES	Renewable energy sources
RGP	RGP Rudarski gradbeni program d.o.o.
SB	Supervisory Board
WMP	Water Management Plan
SDH	Slovenski državni holding d.d.
SE	Solar power plant
SENG	Soške elektrarne Nova Gorica d.o.o.
SFP	Statement of financial position
sHPP	Small hydro power plant
SIPOTEH	SIPOTEH Strojna in proizvodna oprema d.o.o.
SOC	Security-operational Centre of the HSE Group
SPESS	Trade Union for the Procurement of Energy Raw Materials of Slovenia
SRESA	Srednjesavske elektrarne d.o.o.
SRF	Solid Recovered Fuels
	Alternative fuel from non-hazardous waste
TEŠ	Termoelektrarna Šoštanj d.o.o.
TPP	Thermal power plant
USD	US dollar
VAT	Value added tax
WPP	Wind power plant

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