RENEWABLE **GROWTH**

ANNUAL REPORT 2020

hse Group

www.hse.si

Holding Slovenske elektrarne d.o.o.
Koprska ulica 92, 1000 Ljubljana, Slovenia
Company registration no.: 1662970000
Entry into court register: District Court of Ljubljana, reg. entry no. 1/35036/00
Share capital: EUR 29,558,789
VAT ID no.: SI99666189
EIC CODE: 11XHSE-SLOVENIAG
ACER CODE: A0000476J.SI
LEI CODE: 549300KRZTPE6IXQYU97
Phone no.: +386 1 47 04 100
www.hse.si

Published by: HSE d.o.o., Ljubljana
Content and graphic design: AV STUDIO tržne komunikacije d.o.o.
Text: HSE d.o.o.
Proofreading: DRUID-Prevajanje in jezikovne storitve
Year of issue: 2021

Annual Report 2020

RENEWABLE GROWTH

hse Group

Contents

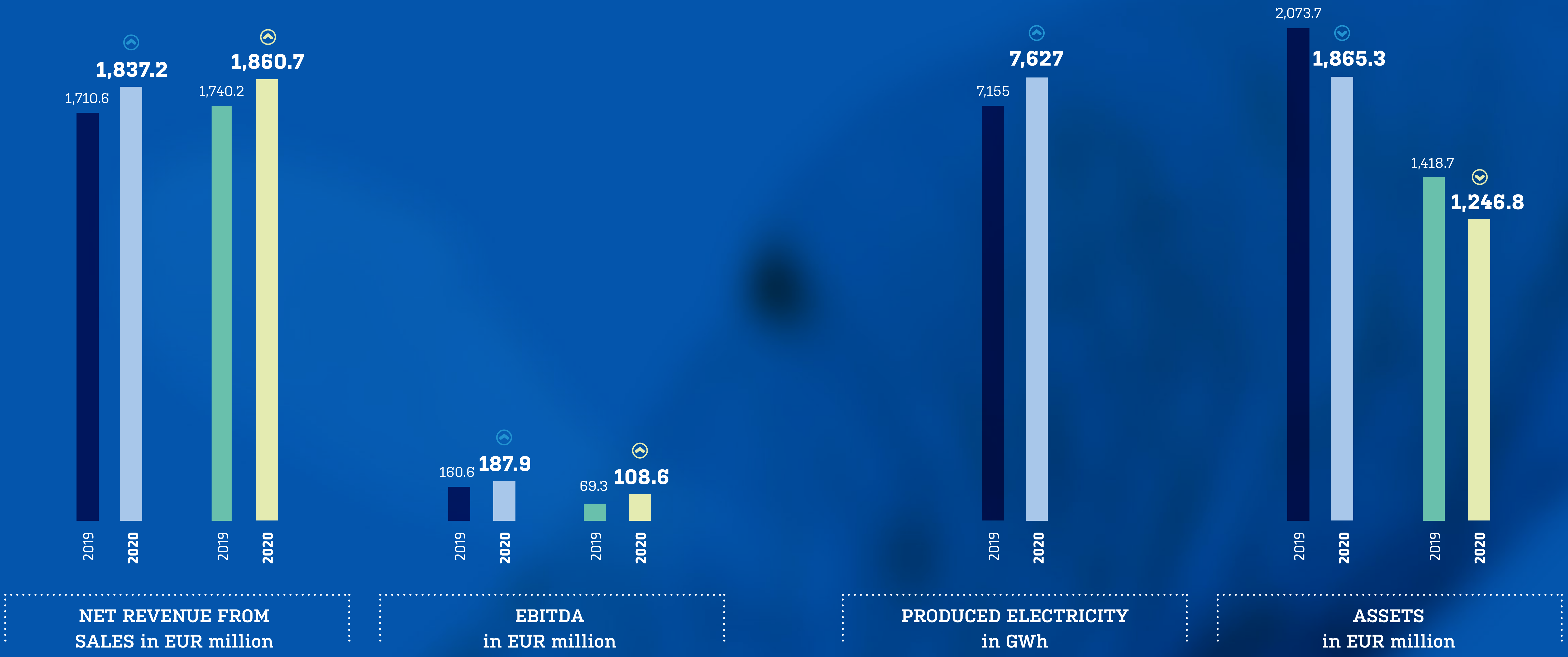
www.hse.si

Contents

INTRODUCTION

We are sowing new successes on the fertile ground of our past achievements.

1.1. Operating highlights of the HSE Group and the HSE Company[1]



LEGEND:

HSE Group

HSE Company

1 GRI: 102-7; 102-48; 201-1


737.6
671.2
223.7
214.1
2019
2020
2019
2020
TOTAL INDEBTEDNESS
in EUR million
42.5
78.5
27.6
37.5
2019
2020
2019
2020
CASH
in EUR million
41.0
42.8
0.9
1.0
2019
2020
2019
2020
INVESTMENTS
in EUR million
3,147
3,151
186
211
2019
2020
2019
2020
EMPLOYEES
LEGEND:
HSE Group
HSE Company

1.2 Letter of the Management Board[2]

A Milestone

Viktor Vračar, Ph.D.
Managing Director of HSE

Uroš Podobnik
Business Director of HSE

Marko Štrigl, M.Sc.
Business Director of HSE

Dear co-workers and partners!

We are proud to report that, in 2020, the companies in the HSE Group claimed the status as the largest producer of electricity in Slovenia. We produced 66 percent of all electricity in Slovenia. We were also extremely successful in producing electricity from renewable sources. Thanks to our hydroelectric power plants, we produced more than 70 percent of the total electricity from renewable sources in Slovenia. In October, with 995 GWh of electricity produced, DEM and SENG reached the highest monthly production in the history of HSE, and in the same month the highest daily electricity production in our history was also recorded: no less than 36.7 GWh.

These results were achieved due to favourable hydrological conditions, high-level availability of power plants and the fact that the majority of the electricity produced was sold in advance.

OPERATIONAL RECORDS
The year 2020 was also marked by operational records. The operating profit plus write-offs (EBITDA) of the HSE Group was more than 17 percent higher compared to 2019, totalling EUR 187,876,309, while the net sales profit in the amount of EUR 1,837,247,832 was more than 7 percent higher compared to the previous year. We also achieved the third largest electricity production in the history of HSE: 7,627 GWh, of which no less than 52 percent was from renewable energy sources.

WE INTRODUCED A NEW BUSINESS ACTIVITY
A significant milestone for the HSE Group was achieved on 1 December 2020. This is when the HSE Company management signed an equity participation agreement with the company ECE, energetska družba d.o.o., which is a national energy product supplier. By doing so, the company entered into the retail market for energy products and services for end customers. By signing this equity participation agreement for holding an equity share in the company ECE, we joined the companies Elektro Celje and Elektro Gorenjska. This integration will be finalised by way of a consent granted by the Slovenian Competition Protection Agency.

By entering into the retail market, we plan to develop new opportunities for the HSE Group, which will connect electricity production, with the activity which we have achieved the greatest success, with products that will be offered to end customers.

WE WISH TO CONTINUE OUR DEVELOPMENT IN THE AREAS IN WHICH WE ARE A LEADER
October 2nd 2020 was an important date for the development of the primary activity of HSE, i.e. electricity production from renewable energy sources. This is when, after more than a decade of coordinating with the Ministry of the Environment and Spatial Planning of the Republic of Slovenia, we signed a concession agreement to use water for electricity production in sections of the body of water of the River Sava from Ježica to Suhadol. In phase one, the siting of the Suhadol, Trbovlje and Renka hydroelectric power plants will be performed. With an annual production of 350 GWh, these will replace half of the electricity production generated at the former Trbovlje thermal power plant, which was in operation nearby. By constructing an entire chain of hydroelectric power plants in this section of the River Sava, HSE will contribute to a 20 percent increase in electricity production using renewable sources connected to a transmission grid.

These results were achieved due to favourable hydrological conditions, high-level availability of power plants and the fact that the majority of the electricity produced was sold in advance.

The electricity production using renewable sources in the Zasavje region will be reinforced by way of the Prapretno Solar Power Plant, for which we began obtaining the necessary documentation in 2020. When it begins operating, the Prapretno Solar Power Plant, which is expected to begin producing electricity in October 2021, will be the largest 3 MW solar power plant in Slovenia. Its construction at the location of a rehabilitated and restricted section of a non-hazardous waste disposal facility also has a major symbolic significance for the HSE Group and for the local environment, as this location experienced severe environmental burdens in the past due to the electricity production at the Trbovlje Thermal Power Plant and the coal mining operations in nearby coal mines. Therefore, electricity production will be revived in this location in an environmentally-friendly manner.

2 GRI: 102-14; 102-23

All of these methods are specific steps towards an energy transition leading us to a carbon-free society. The HSE Group, which is already the largest producer of electricity from renewable sources, is thus keeping its considerable commitment to sustainable development and related economic, environmental and social acceptability. This means that, together with all stakeholders, in addition to investing in renewable energy sources, we will have to change people's habits and transform and update the economy by 2050, when our country will achieve climate neutrality in accordance with the commitments of the EU and the proposed targets.

The period ahead of us will be dynamic and challenging. We are aware of our role and responsibility towards all of the stakeholders and the environment, so our investments into development will be earmarked for electricity production from renewable sources, ensuring the reliability of the operation of our production plants and environmental protection. As far as our thermal power division – Šoštanj Thermal Power Plant (TEŠ) and Velenje Coal Mine (PV) – we will do our very best to determine, together with the competent national authorities, the future role of Block 6 in the electricity system and to effectively adjust to gradually abandoning the use of coal in the Republic of Slovenia according to just transition principles.

INVESTMENTS IN 2020

In 2020, the HSE Group pursued sustainable development principles in the field of development and investments. We continued to invest in increasing the proportion of renewable energy sources in electricity production, the maintenance and restoration of production using existing plants and environmental protection. The particularly noteworthy investments in 2020 include the restoration of the Formin Hydroelectric Power Plant, the renovation of spillways and operating locks in two other power plants on the River Drava, the construction of the first solar power plant, the Hubelj Solar Power Plant, at the company SENG, and the reconstruction of two smaller hydroelectric power plants on the River Soča, the replacement of DENOX packages at the Šoštanj Thermal Power Plant, the restoration of the coal transportation drives at the Velenje Coal Mine and the renovation of the devices at the interim storage facility and the transportation of products at the coal mine. The total value of investments in 2020 amounted to EUR 42.8 million, which is 4.5 percent higher than the previous year.

IT IS THE EMPLOYEES OF HSE WHO GENERATE ENERGY

The credit for all of the successes that we enjoyed in 2020 goes to our employees. At the end of 2019, the HSE Group had 3,147 employees, while in 2020 there were 3,151 employees. The average age of our co-workers was 47.9 years old. Our team is mature and at the peak of its power.

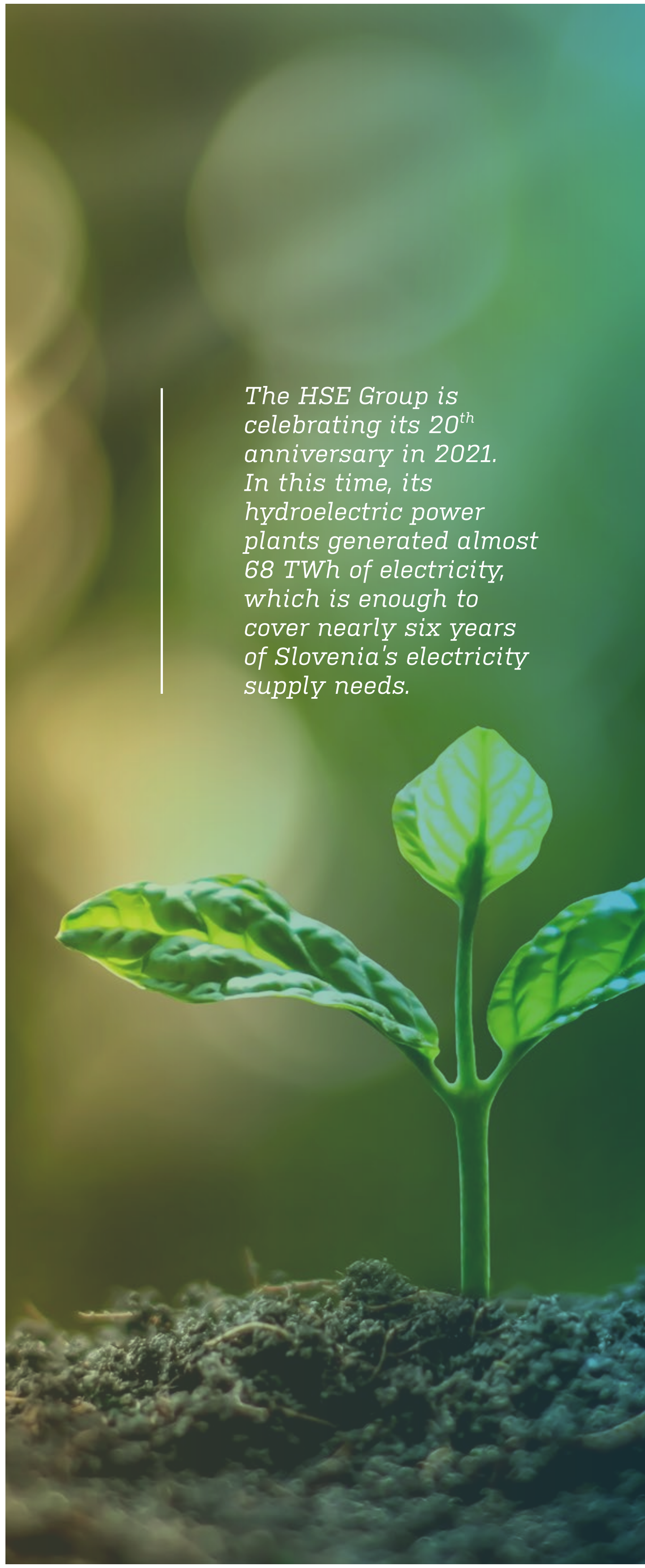
Unfortunately, due to the COVID-19 epidemic, life was turned upside down in early 2020 in the HSE Group as well. Wherever possible, work processes were relocated to new platforms and working from home was introduced. We are immeasurably grateful to our employees for such a successful adjustment. By not being together due to the epidemic, we did the most we could for each other. Our employees suffered only minimal damage while managing the pandemic and work was organised so that production and business processes continued without interruptions and in accordance to our plans. Credit for this also goes to more than three thousand employees, who ensured that the planned results were exceeded despite the changed working conditions.

THE PLANS FOR 2021 ARE FOCUSED ON DEVELOPMENT

The HSE Group set a goal for 2021 striving to continue our development on all of the journeys that we embarked on. After obtaining an equity share in the retail company ECE, we also wish to obtain an equity share in the company Energija Plus in 2021. Together with this company, which is headquartered in Maribor, also home to the companies DEM and HSE Invest, we can take advantage of new synergies in the Group. This will significantly reduce our dependence on the wholesale market, while at the same time raising the added value of our production portfolio and the entire HSE Group. We will continue to actively seek feasible and profitable investment opportunities for RES projects and endeavour to implement the best options.

In 2021, we will observe the twentieth anniversary of the HSE Group. We believe that over the past two decades we have proven that we are the number one company in the energy sector in Slovenia. It is also thanks to us that the supply of households and the Slovenian economy with energy is reliable. We are convinced that we have built trust that will continue to be strengthened by carrying out activities in the retail market.

Ljubljana, 9 April 2021



1.3 Report of the Supervisory Board

On the basis of the Companies Act, the Articles of Association of the private limited company HSE d.o.o., the Rules of Procedure on the Work of the HSE d.o.o. Supervisory Board, and the Corporate Governance Code for Companies with State Capital Investments, the Supervisory Board of the HSE d.o.o. company is hereby issuing the 2020 Report of the HSE d.o.o. Supervisory Board.

Franc Dover, M.Sc.
Chairman of the HSE Supervisory Board

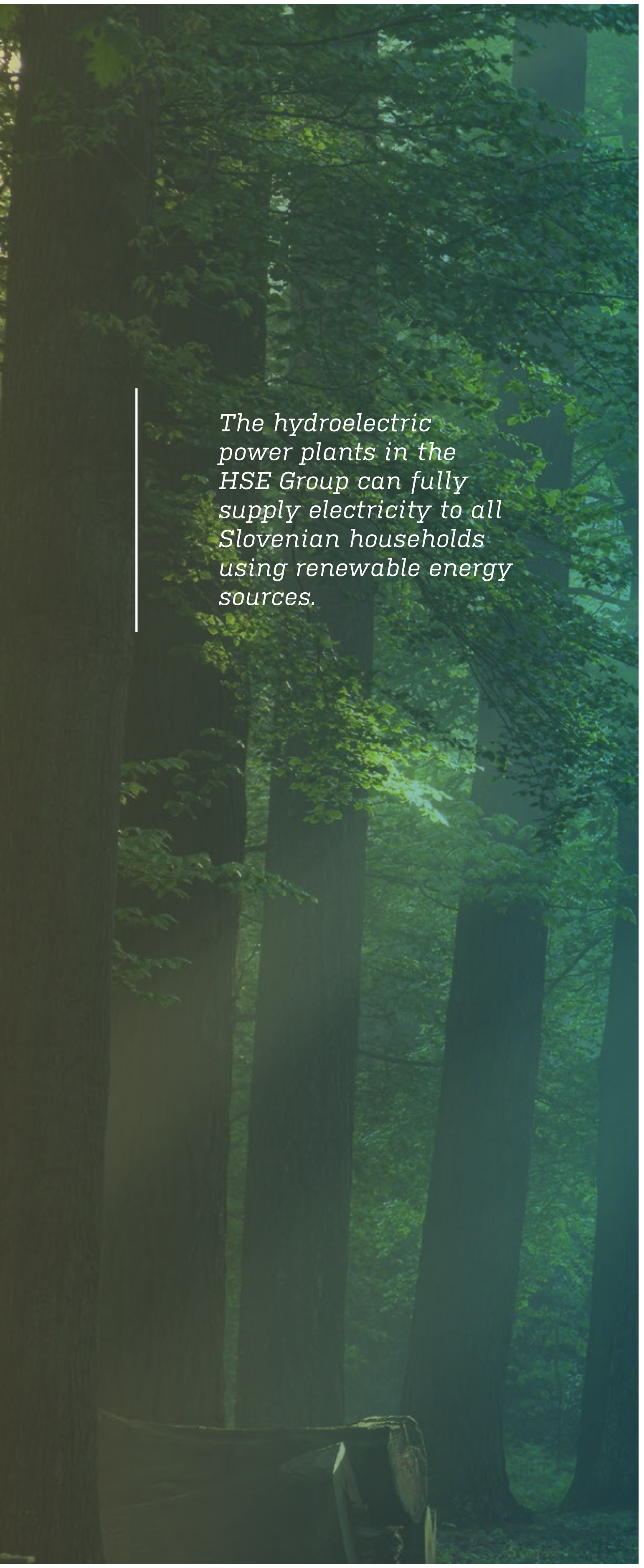
1.3.1 Manner and extent of verifying the management and operations of the HSE Company in the 2020 financial year

In 2020, the HSE Supervisory Board met at a total of sixteen times, of which ten meetings were ordinary, three were extraordinary and three were correspondence meetings. The participation of the members of the HSE Supervisory Board at the meetings was almost always 100%. This is evident from the table included in the management statement. The HSE Supervisory Board was regularly informed of the operating activities and results of the HSE Group and the HSE Company and the implementation of resolutions of the Supervisory Board, discussed the legal transactions and the business matters of subsidiaries, for which prior consent from the Supervisory Board had to be obtained under the Articles of Association, the legal transactions between the companies HSE, PV and TEŠ 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 also informed the HSE Supervisory Board of 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 optimising and streamlining 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 sole company member.

The HSE Supervisory Board gave its consent for the Business Plan of the HSE Group and HSE Company for 2021 with an additional indicative plan for 2022 and 2023 and for the HSE Group Development Plan 2020-2024 and its revision in June 2020. It confirmed the 2019 HSE Group and Company Annual Report and the Rebalance of the Internal Audit Service (IA Service) work plan for 2021 and regularly took note of the audits of this service and of the quarterly reports on the work of the Internal Audit Service. The HSE Supervisory Board intensively continued focusing its activities aimed at controlling the liquidity and borrowing of the HSE Group and Company, whereby special attention was paid to monitoring the conditions in the 'thermal energy division' of the companies in the PV Group and in the company TEŠ. In 2020, the HSE Supervisory Board carried out the procedure for appointing HSE management. Within the scope of its supervisory function, the HSE Supervisory Board obtained answers to questions posed in addition to the usual materials for Supervisory Board meetings.

The HSE Supervisory Board estimates that it operated to the benefit of the company and the group on the basis of the information and reports submitted to it by the management, within the scope of its powers and competencies defined by law and the Articles of Association and taking into consideration the reference Corporate Governance Code for Companies with State Capital Investments (ver. November 2019, SSH, d.d.). The company's Management Board regularly informed the HSE Supervisory Board of the decisions taken by the founder, important projects, court/arbitration proceedings and significant events in the HSE Company and Group.

In January 2020, the Supervisory Board carried out a self-assessment and adopted suitable decisions. In order to check past work and introduce improvements for future work, the members of the HSE Supervisory Board also carry out a Supervisory Board self-assessment procedure each year after the financial year ends. Whenever there is a conflict of interest in a specific case when making a decision, Supervisory Board members recuse themselves.



1.3.2 Operation of the HSE Supervisory Board Audit Committee

In 2020, the Audit Committee of the Supervisory Board of HSE d.o.o. operated in the following composition:

- Barbara Gorjup, M.Sc., Chairperson, until 22 Oct 2020 (Master of Science),
- Boštjan Markoli,Ph.D., member of the committee, until 22 Oct 2020 (Ph.D., 3rd cycle Bologna study programme),
- Boštjan Jančar, member of the committee, employee representative (M.Sc., 2nd cycle Bologna study programme),
- Maja Zaman Groff, Ph.D. external member (Ph.D., 3rd cycle Bologna study programme),
- Rado Sodin, external member (from 28 Oct 2020 to 2 Nov 2020), university education (2nd cycle Bologna study programme), and
- Robert Celec, Ph.D., member of the committee, until 22 Oct 2020 (from 3 Nov 2020 to 30 Nov 2020) (Ph.D., 3rd cycle Bologna study programme),

Audit Committee members as at 31 December 2020:

- Andrej Janša, chairman of the Audit Committee (from 28 Oct 2020, was not a member of the committee from 3 Jan 2020 to 30 Nov 2020), university education (2nd cycle Bologna study programme),
- Marko Hočevar, Ph.D., external member, from 26 Nov 2020 (Ph.D., 3rd cycle Bologna study programme),
- Janez Gutnik, member of the committee (from 28 Oct 2020, deputy chairman of the committee from 3 Nov 2020 to 30 Nov 2020), university education (2nd cycle Bologna study programme) and
- Boštjan Jančar, member of the committee, employee representative (M.Sc., 2nd cycle Bologna study programme).

In 2020, the Audit Committee of the Supervisory Board met in seven regular sessions and one extraordinary session in which all members of the Audit Commission of the Management Board of HSE d.o.o. were present or voted by delivering a ballot. The HSE 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 (until 22 Oct 2020) regularly reported at the Supervisory Board meetings on the work and findings of the Audit Committee. The Audit Committee 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 2020 work plan and the HSE Supervisory Board's decisions. The Audit Committee, with members Gorjup, M.Sc., Zaman Groff, Ph.D., Markoli, Ph.D., and Mr. Jančar, carried out the self-assessment at the beginning of 2020 and adopted a decision based on the performed self-assessment.

1.3.3 Operation of the HSE Supervisory Board Personnel Committee

In 2020, the permanent HSE Supervisory Board Personnel Committee operated and held two regular and one extraordinary session, aimed at offering professional assistance to the Supervisory Board in the field of human resources. It provided the HSE Supervisory Board with the Proposal for Measures for Calculating the Acceptable Income for the Management Board of HSE d.o.o. for 2020, a proposal for the Succession Policy for Management Positions in HSE Group Companies, and it verified whether the adopted criteria for providing bonuses to management in 2019 were met.

1.3.4 Operation of the HSE Supervisory Board Restructuring Committee

In 2020, the permanent HSE Supervisory Board Restructuring Committee operated and met for five regular sessions and one extraordinary session. The Committee acted as the expert support group to the HSE Supervisory Board in the field of restructuring the HSE Group. It discussed the issues in accordance with the Rules of Procedure and the decisions of the HSE Supervisory Board. It was regularly informed concerning the restructuring action plan of the HSE Company and the Group. It also discussed the Business Plan of the HSE Group and the Company for 2021 with an additional indicative plan for 2022 and 2023 and a renewed Restructuring Action Plan HSE for the 2021–2023 Period. The Restructuring Committee regularly monitored the implementation of the activities foreseen in the HSE Group Business Plan and Development Plan. It reviewed the revised annual report of the HSE Company and Group for 2019.

1.3.5 Operation of the HSE Supervisory Board Marketing and Investment Committee

In 2020, the permanent HSE Supervisory Board Marketing and Investment Committee operated and held three ordinary meetings and three extraordinary meetings. The Committee acted as the expert support group to the HSE 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 became acquainted with the HSE Group and Company Business Plan for 2021 with an additional indicative plan for 2022 and 2023, in the framework of which the greatest emphasis was placed on investment. It provided a positive opinion on the investment programme for a long-term maintenance agreement and the digitalisation of Unit 6 at TEŠ. It was informed of the changes in the system for planning, implementing, and monitoring investments in the HSE Company and Group as well as the related organisational regulations. The Marketing and Investment Committee also reviewed the revised annual report of the HSE Group and Company for 2019 and the HSE Group Development Plan for the 2020–2024 period.

1.3.6 Opinion on the Management's Work in 2020[3]

In accordance with the law and good practice, the HSE Supervisory Board comprehensively supervised the management and operations of the HSE Group and Company in 2020. 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. There was also regular communication between the HSE Management Board and the Chairman of the Supervisory Board outside of 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 and project implementation, compared the HSE Group and HSE d.o.o. operations to past periods and planned objectives and took note of the reports by external experts regarding individual companies of the HSE Group. The management diligently and passionately worked towards achieving the set operating goals and optimal budgeting in the HSE Group and its companies and it cooperated well with the HSE Supervisory Board.

3 GRI: 102-28

1.3.7 Opinion on the operations of the HSE Group and the HSE Company in 2020

The net electricity production volume achieved by the HSE Group was 7% higher compared to 2019. The hydroelectric power plants generated 464 GWh more, the Avče Pumped Storage Hydroelectric Power plant 88 GWh more, and the thermal power plant generated 81 GWh less electricity, partly due to adjusting to the lesser consumption during the pandemic and partly due to the limitation of the power of the units and the decreased production and supply of lignite from the Velenje Coal Mine. For the first time, the total volume sales of electricity in the amount of 40 TWh was achieved, which accounts for more than 18% compared to 2019. Net sales revenues from the sale of electricity were 7% higher. The difference in the price between the electricity sales revenues and the purchase value, including the sales revenues from the sale of CO_2 emission allowances, was 13% higher compared to 2019.

Due to ensuring safety in the working environment, which resulted in the purchase of protective materials and disinfectants connected to the COVID-19 pandemic, material costs were 1% higher. The costs of services were 12% higher, mainly due to increased costs related to subcontractors, transport services and rent paid for machinery and equipment connected to the higher income of the company RGP. Higher labour costs were influenced by the cost of the crisis allowance paid based on intervention laws adopted due to the COVID-19 pandemic. Other operating expenses were mainly higher due to the higher price of CO_2 emission allowances and the charge for the use of construction land was also higher. The total impact of the COVID-19 pandemic on the Group's EBITDA was positive, it amounted to EUR 3,120,425; this was due to the received subsidies.

In 2020, the HSE Group generated a consolidated EBITDA in the amount of EUR 187,876,309, which accounted for 17% more than in 2019. Due to the changed market conditions, i.e. the movement of the future prices of electricity and CO_2 emission allowances, the impairment of the assets of the HSE Group companies in the amount of EUR 243,508,849 related to the thermal energy division of the HSE Group was carried out on the basis of the assessments according to IFRS 36. Despite the record-high EBITDA in 2020 and very good operations, the HSE Group recorded an accumulated operating loss.

The financial result was negative, although still better compared to 2019 due to lower financial expenses. The asset impairment performed led to an accumulated loss in the amount of EUR 184,179,380 in 2020. Without the impairment of assets, the HSE Group would have generated net profit in the amount of EUR 60,689,205, but the impairment affected the lower balance of assets by 10% and of capital by 15%.

The total indebtedness was 9% lower due to loan repayments performed in 2020, while the net indebtedness was 15% lower. The net financial liability/EBITDA indicator, which amounted to 3.15 as at 31 December 2020, improved due to a high EBITDA and lower indebtedness.

The HSE Group's investments amounted to EUR 43 million. The investments necessary to ensure reliability and operational safety at production units were the most common.

In 2020, the HSE Company generated for the first time a net profit in the amount of EUR 1.9 billion. Compared to 2019, the net profit was 7% higher; this was the result of sales volumes that were 18% higher and production that was 7% higher. The difference in the price in the sale and trade in electricity was 40% higher, which was also due to the successful protection of our own production from price risks; the trade margin expressed in EUR/MWh was 24% higher compared to the previous year. EBIT and EBITDA were extremely good and 57% higher compared to 2019 and they significantly deviate from the average in recent years due to in increased trade activities.

On the basis of the performed expert assessments according to IFRS 36, the impairment of the long-term financial investments in the total amount of EUR 314,250,147 was carried out at the parent company HSE d.o.o. As a result, due to the impairments performed, the HSE Company generated an accumulated loss in the amount of EUR 226,942,925. Without impairments, it would have generated a profit in the amount of EUR 87,307,222, which would have been the best result in recent years. Due to the impairments of long-term financial investments, the HSE's assets were 12% lower, while the capital was 21% lower. The debt owed to banks was reduced by 5%, while the net debt was reduced by 10% due to loan repayments performed in 2020. As at 31 December 2020, the HSE Company fully met its financial commitments according to long-term loan agreements.

The investments of the HSE Company amounted to EUR 1 million, and the majority of the investments were into a business information system.

1.3.8 Determining Accumulated Loss

According to the audited data, the HSE Company d.o.o. generated a total accumulated loss in the amount of EUR 416,515,035 in the 2020 financial year. Compared to 2019, the accumulated loss increased by EUR 226,934,790, as the company operated with a net operating loss in the amount of EUR 226,942,925 in 2020 following the impairments according to IFRS 36, as explained in the preceding chapter. The loss is the result of the performed impairments of the long-term financial investments at the HSE Company in the amount of EUR 314,250,147 (of which TEŠ: EUR 309,935,818, and PV: EUR 4,314,329).

Pursuant to IFRS 36, if there are indications for impairment, the value of the long-term financial investment or long-term investments of the company must be evaluated. The values of the long-term assets and long-term financial investments of the companies TEŠ and PV have been regularly checked since 2014 for the needs of drafting the HSE Group and Company Annual Report. This is also compliant with the requirements and expectations of external auditors. If the values of the long-term assets and long-term financial investments are not checked, the relevant companies, the company HSE d.o.o. and the HSE Group would receive an adjusted opinion, i.e. a qualified opinion, which already happened during the audit of the financial statements of the HSE Group and Company back in 2013.

Such impairments were carried out based on valuations performed by a certified valuer. When performing valuations, valuators take into consideration IVS 103 10.3 (International Valuation Standards). Considering the purpose of valuation, recoverable value (set forth by IFRS 36) which is higher than the value in use or the fair value less costs to sell is used as the basis for the value. The valuation of the value in use was also valuated based on the discounted cash flow method. Because this value did not exceed the book value of the assets, the fair value less costs to sell was also calculated. The value in use was used as the final value, because it was higher than both of the calculated values.

Despite the performed impairments, which affected the balance sheet profit or loss, 2020 was an above-average successful year for the HSE Group from the perspective of operations. Considering the prognosis for market conditions, it will be difficult to repeat. The EBITDA of the HSE Group in the amount of EUR 187,876,309 was the highest in the last seven years. Due to its above-average production volume and by implementing intensive trade activities, the HSE Group achieved its maximum volume sales of electricity in the history of the HSE Group, namely 40 TWh. In 2020, HSE Group companies once again justified their status of the largest producer of electricity in Slovenia. They generated 66 % of total electricity in the country. The electricity production using renewable energy sources was also at a record high (due to favourable hydrological conditions, hydroelectric power plants achieved the highest production volume in the last five years). More than 70% of electricity was produced using renewable energy sources in Slovenia.

1.3.9 Verification and confirmation of the Annual Report of the HSE Company and the HSE Group for the year 2020 including the opinion on the Auditors' report and Auditor's letter to the Management Board

Pursuant to paragraph 3 of Article 272 of the Companies Act (ZGD-1), the HSE d.o.o. Management Board submitted to the HSE Supervisory Board the 2020 Annual Report of the HSE Group and the Company, including the auditor's reports for 2020, immediately after the preparation and issue of the independent auditor's report, which the HSE Supervisory Board discussed during its meeting no. 11 (ordinary meeting) on 12 May 2021.

The audit of the 2020 Annual Report of the HSE Group and the Company was conducted by the audit firm Deloitte revizija d.o.o. that issued its unmodified opinion on the financial statements of the HSE Group and Company on 9 April 2021. The Audit Committee of the Supervisory Board of HSE d.o.o. discussed the audited Annual Report of the HSE Group and the Company for 2020 at its meeting no. 4 held on 22 April 2021, and established that the annual report was prepared in a timely manner, was compiled clearly, transparently and in accordance with the provisions of the Companies Act (ZGD-1), the applicable International Financial Reporting Standards and the International Valuation Standards, as adopted by the European Union, the provisions of the Energy Act (EZ-1) and other relevant legislation (ZFPPIPP, ZRev etc.).

The HSE Supervisory Board Audit Committee was also acquainted with the findings and recommendations stated in the Management Report for HSE d.o.o. issued and compiled the audit for 2020 had been performed by the audit company Deloitte revizija d.o.o. The Audit Committee made no comments concerning the 2020 Annual Report of the HSE Group and Company, so it proposed that the HSE Supervisory Board adopt a decision on the confirmation of the 2020 Annual Report of the HSE Group and Company 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 2020 Annual Report of the HSE Group and Company, the HSE Supervisory Board estimated that the auditor carried out the work independently and professionally as well as 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 give, in all material aspects, a true and fair view of the financial position of the HSE Group and the Company as at 31 December 2020 and their income statement and the cash flow statements for the then concluded year in accordance with the International Financial Reporting Standards as adopted by the European Union.

The HSE Supervisory Board has no comments on the auditor's report. The HSE Supervisory Board had no other comments on the 2020 Annual Report of the HSE Group and Company that would cause any reservations from taking a decision on its confirmation. For this reason, the HSE Supervisory Board adopted the 2020 Annual Report of the HSE Group and Company in accordance with Paragraph 3 of Article 282 of the Companies Act (ZGD-1). The said 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 2020 Annual Report to the HSE Supervisory Board.

Maribor, 12 May 2021

Franc Dover, M.Sc.
Chairman of the HSE Supervisory Board

BUSINESS REPORT

Deeply rooted in the local environment, we move the boundaries of what is possible.

The annual production in the hydroelectric power plants in the HSE Group would suffice to cover energy consumption needed for a two-year transport of all active residents of the Republic of Slovenia (24 billion kilometres) using e-vehicles, which would account for savings of nearly three million tonnes of CO_2 emissions.

7,627 GWh

produced electricity

40 TWh

sold electricity

MORE on:

2.5 Profile of the HSE Group

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

2.1 Significant events for the HSE Group in 2020[4]

JANUARY

On 1 January, the amendments to the Corporate Governance Code for Companies with State Capital Investments, which were adopted in November 2019, entered into force.

On 1 January, a part of the activities of the company HSE EDT were assigned to the HSE Company (the activity dealing with marketing storage facilities for petroleum-based products, the activity dealing with marketing electricity production using two gas turbines for performing systemic services and commercial operations, real estate and all related movable property management and development of an energy location on HSE EDT properties).

On 1 January, DEM fully assumed the management of ICT infrastructure, services and people for the needs of the entire HSE Group. A CSA agreement was signed. The fixed assets from the subsidiaries in the HSE group were transferred to DEM.

In January, two short-term framework loan agreements were signed between DEM and HSE in the amount of EUR 5 million and between SENG and HSE in the amount of EUR 6 million, both with a repayment deadline on 31 December 2020.

In January, we began selling aFRR and mFRR systemic services for energy.

On 30 January, the HSE Supervisory Board met at its 66 ordinary meeting and granted consent to the HSE Group Development Plan for the 2020–2024 Period with a view to 2030 and called upon the HSE Management Board to submit it for adoption to the founder, Slovenian Sovereign Holding (SSH).

FEBRUARY

On 27 February, the Government of the Republic of Slovenia adopted the National Energy and Climate Plan of the Republic of Slovenia (NEPN), which it submitted to the European Commission pursuant to Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action.

February also saw the beginning of the activities for the implementation of the SAP and BC information systems in the companies within the PV Group.

MARCH

As of 1 March, HSE employees may use benefits arising from the "Specialists + Collective" insurance; the basic premium will be paid for the employees by the employer. This insurance enables shorter waiting periods and comprehensive medical treatment from the first examination to a diagnosis, procedure, medication and rehabilitation; as a result, sick leave periods will be shorter and the loss of income will be less significant.

On 6 March, the company SENG submitted a decision on the liquidation of the company Elprom, which has been non-operational since 2015, to the founder (HSE) according to a fast-track procedure.

On 11 March, based on the instructions from the Corporate Security Service of the HSE Group and in accordance with Article 169 of the Labour Relations Act with the aim of managing the risks and preventing the spread of COVID -19 among workers and consequently preventing potential disturbances in the work process, a decree for HSE employees to carry out their work obligations under the employment agreement at home during the period starting on 12 March and until further notice. Only a minimum number of employees remain at the company, who are essential for managing and coordinating affairs under critical conditions in the HSE Group and for ensuring that trade activities are carries out without any interruptions. The remaining companies in the HSE Group also followed these guidelines.

On 11 March, the Slovenian Sovereign Holding re-appointed mag. Barbara Gorjup as a member of the Supervisory Board of HSE; she began her four-year term to office on 6 April 2020.

On 25 March, the HSE team provided two respirators to the University Clinical Centre Ljubljana for COVID-19 treatment. These are high-quality transport respirators with all associated equipment, 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 computers. The respirators come with portable oxygen tanks and a tube that connects to oxygen installations in the hospital or in the ambulance vehicle.

In March, the HSE subsidiary MAK Energy received a decision from the Regulatory Commission for Energy and Water Conditions of the Republic of Northern Macedonia extending its licence for carrying out trade activities related to solar energy until 2030.

APRIL

On 2 April, the HSE Group donated protective surgical masks, FFP2 masks, 3M respirators, protective goggles, face shields, gloves, hazmat suits and hand sanitisers to the Velenje Community Health Centre and the Velenje and Šoštanj civil defence units. The purpose of the donation was to provide adequate protective equipment to people in Šalek Valley who perform preventive activities and take care of the large number of people employed in the Premogovnik Velenje coal mine and the Šoštanj Thermal Power Plant.

On 10 April, the HSE Group signed an agreement concerning the reconstruction of the Knežke Ravne 1 small hydroelectric power plant (SENG).

On 11 April, the PV coal mine observed its 145th anniversary – almost a century and a half of challenges, fighting nature and its laws, and more than 220 million tonnes of coal produced.

On 16 April, the HSE Supervisory Board confirmed the 2019 Annual Report of the HSE Company and Group.

On 30 April, Miha Pečovnik was dismissed from his position as the Director of the company HSE Invest. He was replaced by mag. Aleksander Brunčko and procurator Zef Vučaj.

4 GRI: 102-10

MAY

As of 4 May, the HSE Group introduced the gradual return of employees to their workplaces pursuant to the new assessment of the situation related to the risk of the spread of COVID-19.

On 4 May, DEM began renovating spillways and performing construction work on the Markovci dam. The entire investment (phases 1 and 2) will cost almost EUR 5 million.

On 25 May, the HSE Group approved the return of all workers to their workplaces.

On 29 May, the PV Supervisory Board adopted a decision on the early dismissal of the Managing Director of PV, mag. Marko Mavec. It appointed Dr Janez Rošer as the interim Managing Director of the company PV, who was in charge of work preparation at the coal mine at the time.

In May, the Energy Agency included the Hubelj Hydroelectric Power Plant into its support scheme (SENG).

JUNE

On 1 June, the HSE Group cancelled some self-protection measures (the mandatory use of face masks).

On 8 June, the management of TEŠ and HSE met with the representatives of local municipalities and informed them of the further activities related to the planned project for the co-incineration of fuel from non-hazardous waste from solid recovered fuels (SRF).

On 12 June, the PV Supervisory Board met in an ordinary meeting and adopted a decision on appointing Dr Janez Rošer as the Managing Director of the company PV for a period of four years, with the possibility of re-appointment (his four-year term began on 13 June) and a decision to appoint mag. Mojca Letnik as the Director of the company PV for a period of four years, with the possibility of re-appointment (her four-year term began on 1 December).

On 15 June, a fire broke out in the engine room of the Avče Pumped Storage Hydroelectric Power Plant. On 24 June, the Avče Pumped Storage Hydroelectric Power plant restarted its operation following a successful restoration.

JULY

On 1 July, the Management Board of the company TEŠ held a press conference to present the results of the environmental impact assessment for the co-incineration project. These events showed that the planned co-incineration project was acceptable, as it does not degenerate the existing environmental situation in Šalek Valley. On the same day, TEŠ filed the environmental impact assessment to the Slovenian Environment Agency (ARSO). This meant that the procedure to obtain environmental consent for co-incineration in Unit 6 of the Šoštanj Thermal Power Plant officially commenced.

On 8 July, the Government of the Republic of Slovenia adopted a decision on implementing national spatial planning for the Rogatec Wind Farm.

On 19 July, the company RGP began constructing a solar power station on the roof of the engine room of the Hubelj Small Hydroelectric Power Plant (SENG).

On 28 July, someone drowned in the area of the Solkan Hydroelectric Power Plant, despite the warning signs stating that swimming is at one's own risk. The Solkan Hydroelectric Power Plant was in operation within the permitted parameters of the concession agreement.

On 28 July, a test automatic start-up of the aggregate at the Fala Hydroelectric Power Plant was successfully carried out without relying on the external electric power from the DEM control centre (black start). This means that the power plant is able to re-establish voltage after a complete shut-down of Slovenia's electric power transmission system, including a 400 kV transmission network.

The credit rating of the company RGP improved from SB6 to SB5.

Based on an agreement reached in Article 6 of the Collective Bargaining Agreement for the Electricity Generating Industries, the HSE Management Board adopted a decision raising the starting gross salary by 2%, effective as of 1 June 2020. This modification applies to all HSE Group companies who are committed to using the Collective Bargaining Agreement for the Electricity Generating Industries in Slovenia.

In order to provide good healthcare to its employees, the HSE Management Board decided to provide its employees with the option to obtain a collective insurance policy called 'Zdravstveni nasvet' (Medical Advice), which allows them to enjoy up to 5 pieces of free remote medical advice in the event of non-emergency health issues experienced by employees or their minor children. Considering the fact that most employees in our company already hold the Specialisti+ insurance policy, the coverage provided by both policies complements each other; this means that a referral by a general practitioner to a specialist within the Medical Advice policy can be replaced by a referral from a general practitioner to receive a first examination by a specialist.

AUGUST

On 1 August, the new Remote Working Rules entered into force.

On 3 August, Moody's gave the HSE Company a Ba1 long-term credit rating. The upgrade confirmed the ability of the HSE Group, as the leading producer of electricity in Slovenia, to honour its financial obligations and maintain credit indicators at an appropriate level.

On 31 August, SSH gave its consent for the liquidation of the companies Elprom and TET Novi materiali.

From 22 August to 5 September, Unit 6 was shut down pursuant to the operation plan. During the shutdown, pipe thickness controls were carried out on PP1; 6 pipes and 6 safeguards were replaced. LUVO systems were washed on both sides. LUBECO was restored.

SEPTEMBER

On 17 September, the 60th anniversary of the Ožbalt Hydroelectric Power Plant was observed – this is the newest hydroelectric power plant on the upper current of the River Drava, upstream from Maribor. Today, the Ožbalt Hydroelectric Power Plant produces approximately 300 GWh of electricity annually, which accounts for approximately a tenth of the total production by DEM. Throughout its time in operation, it produced approximately 18,000 GWh, which is comparable to the use of all Slovenian households in a period of just over five years.

On 29 September, the HSE Supervisory Board gave its consent to the Management Board to sign a concession agreement for the use of water to produce electricity on the River Sava from Ježica to Suhadol with the Government of the Republic of Slovenia as the concession provider. Members of the HSE Supervisory Board were also acquainted with the Agreement regulating the manner of the implementation of the concession for the use of water to produce electricity and confirmed the Strategy for the construction of the hydroelectric power plant project on the middle Sava until 2030 (for the Suhadol, Trbovlje and Renke hydroelectric power plants).

SEPTEMBER

On 29 and 30 September, an external assessment of quality management systems was carried out by the SIQ certification institution. Six external evaluators checked the compliance of operations with standards ISO 9001, ISO 27001 and ISO 45001 in business units in Ljubljana, Šoštanj and Maribor. The company successfully passed the assessment and was only given certain recommendations that will help us to introduce further improvements.

On 30 September, the Government of the Republic of Slovenia issued a Decree Amending the Decree on the Concession for the Use of water for Electricity Generation on the Sava River Section from Ježica to Suhadol.

We began measuring the body temperature of employees and visitors upon entering the HSE office building. Pursuant to the guidelines provided by the Government of the Republic of Slovenia, HSE once again began referring employees to work remotely from home (weekly, fortnightly shifts, etc.).

OCTOBER

On 2 October, we signed a Concession Agreement for the Use of Water for Electricity Generation on Middle Sava from Ježica to Suhadol.

On 5 October, the founder of the company HSE EDT gave its consent for the initiation and implementation of the liquidation procedure for the subsidiary TET Novi materiali and its deletion from the court register of companies.

On 13 October, we achieved a record-breaking daily electricity production in the HSE Group – 36.7 GWh.

On 14 October, the HSE Supervisory Board discussed and gave its consent to the HSE Group 2021 Business Plan with an additional plan for 2022 and 2023.

On 15 October, the Hubelj Solar Power Plant began its operations.

On 22 October, the Management Board of SSH was informed of the resignation statement of Boštjan Markoli Ph.D., a member of the HSE Supervisory Board and, at the same time, it appointed five new representatives of the owner for a four-year term. As of 23 October, the HSE Supervisory Board consists of the following six representatives of the owner: Andrej Janša, Franc Dover, M.Sc., Damjan Seme, M.Sc., Robert Celec, Ph.D., Janez Gutnik, Vesna Cukrov and three representatives of the employees: Boštjan Jančar, M.Sc., Petja Rijavec, M.Sc., and Jernej Otič.

On 28 October, Franc Dover, M.Sc. was unanimously appointed chairman of the HSE Supervisory Board. Also appointed were the deputy chairman of the HSE Supervisory Board Andrej Janša and members of the HSE Supervisory Board commissions.

On 29 October, the first assembly of the members of the a section of the Slovenian National Committee of the World Energy Council (SNK WEC) was held, at which Ivan Šmon, Ph.D., Managing Director of Elektro Gorenjska, was elected to become the chairman of the section, while Karina Medved Bregar of HSE was elected as the deputy chairperson. Each of the members was appointed for a term of five years.

On 29 October, the companies HSE, Plinovodi, ELES and HESS shared their expertise, experience and views of the coming energy transition and submitted an application for the SLOP2G project to the European Innovation Fund. The project is the first concrete step towards a zero-carbon society and energy transition in the field of integration of the electricity and gas sectors.

On 30 October, the SSH Management Board adopted a decision and granted its consent to the HSE Company regarding additional contributions of capital to the company PV in the form of transferring financial claims arising from credit/loan agreements in the amount of EUR 46.2 million.

On 30 October, the SSH Management Board adopted a decision and granted its consent to the HSE Company regarding additional contributions of capital to the company TEŠ in the form of transferring financial claims arising from credit/loan agreements, plus interest, in the total amount of EUR 149.6 million.

In October, we generated a record-breaking electricity production, as Group companies (together with HESS) generated almost 1 TWh of electricity, exceeding our monthly plan by nearly 50%. This record production is attributed to the favourable hydrological conditions and highly accessible production infrastructure. In October, TEŠ also achieved its third best electricity production in its history.

NOVEMBER

On 1 Novemberv, the Managing Director of the company HSE Invest accepted a position at DEM, however he still continues to perform his managing role under a management agreement.

On 2 November, the founder consented to the signing of an Annex to the Long-Term Loan Agreement between HSE and HSE EDT with the purpose of decreasing the amount for the repayment of the principle from EUR 16.5 thousand to EUR 12 thousand.

On 3 November, the HSE Supervisory Board dismissed HSE Managing Director, Stojan Nikolić, M.Sc., as well as HSE business directors, Viktor Vračar, Ph.D. and Mirko Marinčič, M.Sc., thus removing them from their positions. Viktor Vračar, previously a chief operating officer of HSE, was appointed the chief executive officer for a four-year term, while Uroš Podobnik, previously an assistant to the Management Board of HSE, was appointed as chief operating officer for a four-year term. From among its members, the HSE Supervisory Board appointed Andrej Janša as the Interim Business Director.

On 3 November, DEM and SENG carried out a transition in their operations to a 15-minute metering interval.

On 13 November, at the constituent meeting of the PV Supervisory Board, HSE Business Director Uroš Podobnik was elected to be chairman of the Supervisory Board, while Marko Bahor, M.Sc., Head of the HSE Development and Investment Department, was elected to be his deputy. Danilo Rednjak continues to be the representative of PV employees. The Supervisory Board members are elected for a four-year term.

On 26 November, the HSE Supervisory Board appointed Marko Štrigl, M.Sc. as the Business Director. He assumed his role on 1 December coinciding with the expiry of the term of the Board member Andrej Janša, who was appointed to the position temporarily on 3 November 2020.

On 27 November, TEŠ produced 19,100 MWh of electricity, which was the highest daily production rate thus far. The record daily production of electricity was achieved with Units 5 and 6 and gas-powered generators.

TEŠ obtained the Slovenian Technical Consent (STS) for a stabilisation material to be placed between Lake Velenje and Lake Družmirje (PSU), entering into effect on 22 October 2020 and remaining valid until 1 June 2021.

In November, the company SENG donated a turbine ventilator and an isolator for the treatment and transport of patients, including those with COVID-19, to the France Derganc, Ph.D. Nova Gorica General Hospital.

NOVEMBER

HSE successfully passed an external assessment according to standard ISO 27001:2013. For the first time in the history of the HSE Group, the aforementioned standard and the related information safety management system SUVI were assessed as a whole by using a single methodology for risk assessment and renewed information protection policies. What contributed to the measures demanded by the standard being effectively implemented was the fact that the joint information technology business process ZPP IT had been fully implemented in the HSE Group and that the teams from HSE and DEM independently manage complex information and business solutions and a unified infrastructure. In addition to the companies HSE and DEM, which has already been certified according to standard ISO 27001:2013, the companies TEŠ and SENG, which also successfully met the standard requirements, joined this year's extension assessment.

DECEMBER

On 1 December, the HSE Invest General Assembly adopted a decision on the change of status; the company HSE Invest was restructured into an infrastructure company – a joint undertaking. Furthermore, Jure Šimic was appointed as the new Managing Director of the company, while Aleksander Brunčko, M.Sc., was appointed as the procurator; their terms began on 1 January 2021.

On 1 December, we entered into a purchase agreement for the purchase of a 51% shareholding in the company ECE and two option agreements for the purchase of the remaining equity shareholdings. Then, on 23 December, we reported the intended concentration with the Slovenian Competition Protection Agency.

On 22 December, the PV Supervisory Board dismissed member of the Management Board, Director Mojca Letnik, M.Sc. The dismissal entered into force on 1 January 2021. Managing Director, Janez Rošer, Ph.D., represented the company by himself until a new management board member was appointed.

On 29 December, the HSE Group ensured an uninterrupted and safe supply of electricity for Slovenian households and the economy, despite a major earthquake in the region. At the time of the earthquake, the hydroelectric power plants on the rivers Drava and Soča continued to operate without interruptions and to their full capacities. At the Šoštanj Thermal Power Plant, Unit 5 operated normally (Unit 6 was undergoing planned repairs). Hydroelectric power plants and thermal power plants provided all systemic services, even during the shut-down of the Krško Nuclear Power Plant.

DEM hydroelectric power plants concluded the year 2020 with the third highest annual electricity production in the company's history, namely 3,202 GWh, which accounted for 20% (or 525 GWh) more than had been planned.

On 30 December, in accordance with signed agreements, HSE repaid the company's short-term loans to DEM and SENG in the total amount of EUR 20 million.

The HSE Group successfully switched from a one-hour to a 15-minute metering interval in December 2020.

In December, we obtained an operating permit for the Hubelj Solar Power Plant, which is installed on the roof of the engine room at the Hubelj Small Hydroelectric Power Plant.

2.2 Significant events after the end of the period in question

JANUARY

On 12 January, member of the Management Board, Marko Štrigl, M.Sc., became the chairman of the PV Supervisory Board. Pursuant to the division of purviews among the members of the HSE Management Board and the PV Supervisory Board, Uroš Podobnik resigned, as he will assume other corporate governance tasks. Another two members of the PV Supervisory Board are Marko Bahor, M.Sc., and employee representative Danilo Rednjak.

On 22 January, the PV Supervisory Board appointed Aleš Logar as a new member of the PV Management Board. He will be responsible for finances, general affairs and development. He will start his term on 1 March 2021.

Aiming to solidify its position as the largest producer of electricity from renewable energy sources in Slovenia, the company DEM, together with its partners, Petrol and Nafta Lendava, is planning to establish a pilot geothermal power plant in the Municipality of Lendava. A letter of intent was signed for this purpose at the end of January. The project will be the first application of a Slovenian patent and it is an important milestone for the use of geothermal energy at abandoned natural gas/oil wells in Slovenia and throughout the world.

In January, the Short-Term Framework Loan Agreement No 1/DEM/HSE/21 was signed by the companies DEM and HSE in the amount of EUR 15 million, with the final deadline on 31 December 2021.

On 29 January, the 2021 Business Plan for the company PV, plus an additional plan for 2022 and 2023, was adopted during the fourth regular meeting of the PV Supervisory Board.

FEBRUARY

On 15 February, the General Meeting of the company RGP appointed a new two-member Management Board of the company, consisting of General Manager, Marko Ranzinger, M.Sc., and Director Zef Vučaj.

On 18 February, the company Elprom was deleted from the court register of companies.

As of 26 February, the subsidiary TET Novi materiali is subject to regular liquidation proceedings (HSE EDT) on the basis of a court decision.

MARCH

On 10 March, the companies HSE and TEŠ signed an out-of-court settlement with the General Electric (GE) Group, the legal successor of Alstom, for the total value of EUR 261 million to the benefit of TEŠ. By doing this, the claim that had been submitted to the International Chamber of Commerce for damages due to allegedly unlawful actions surrounding the construction of TEŠ Unit 6 was waived.

At the end of 2020, the company TEŠ became insolvent because the loss exceeded half of its share capital due to the recognised asset impairment. The insolvency of the company was eliminated in March 2021 when the GE Group paid the compensation for damages. Following this event, the net loss was once again lower than half of the share capital.

On 17 March, Slovenian Sovereign Holding adopted modifications and amendments to the Corporate Governance Code for Companies with State Capital Investments.

On 18 March, Moody's upgraded the long-term credit rating of the HSE Company from Ba1 'stable' to Ba1 'positive'.

2.3 Transparency of financial relations[5]

In 2020, the HSE Company received funds based on the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP)-PKP1 in the amount of EUR 472,079 as well as funds in the amount of EUR 1,348 based on (ZIUZEOP)-PKP7. Furthermore, it also received funds in the amount of EUR 13,820 based on co-funding educational programmes (the KOC Energija project). The recognised costs of the European Osmose project amounted to EUR 94,923, while the recognised costs of the FARCROSS project amounted to EUR 9,564.

The companies in the HSE Group disclose the funds received based on the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act (ZPFOLERD-1) in their annual reports.

5 GRI: 201-4

2.4 Corporate Governance Statement[6]

Pursuant to paragraph five of Article 70 of the Companies Act, the company Holding Slovenske elektrarne d.o.o., Koprska ulica 92, 1000 Ljubljana (HSE) states the following with regard to the period from 1 January 2020 to 31 December 2020.

The Management Board and the Supervisory Board of the HSE Company state that the management of the company in 2020 was in accordance with laws and other regulations, the Articles of Association of the Private Limited Company HSE and the recommendations listed in the Corporate Governance Code for Companies with State Capital Investments. In accordance with Article 60a of the Companies Act, the members of the Management Board and Supervisory Board of HSE hereby declare that the annual report, including the governance statement, was compiled 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 can be accessed via the company's website http://www.hse.si.

2.4.1 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)

2.4.1.1 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, November 2019, hereinafter: 'the Code'), which is publicly available on the website of the Slovenian Sovereign Holding. The said Code was amended in March 2021, with the effective date being 17 March 2021. Taking into account its activity and other specificities, the company, to a large extent, reasonably complied with the Code in its operations. In 2020, in accordance with the comply-or-explain principle, the company fully observed the majority of the recommendations contained in the Code that referred to the companies in which the state had a 100% equity shareholding. The deviations are explained in the sections below:

Recommendation no 6.5.1:
The recommendation is reasonably applied. The Supervisory Board determines the competency profile for a Supervisory Board member for a specific procedure by adopting a decision, taking into account the direct legal grounds for this – Article 21 of the Slovenian Sovereign Holding Act. This Act was not published on the company's website.

Recommendation no 6.9:
Recommendation is applied partially. The selection procedure for Supervisory Board members and the formation of a General Meeting decision on the appointment of supervisory board members is transparent (the decision-making is carried out at a meeting of the HSE Supervisory Board), although not defined in advance.

Recommendation no 6.9.1:
The recommendation is not applied. The Supervisory Board is appointed by the owner.

Recommendation no 6.10.2:
The recommendation is reasonably applied. The existing decision adopted by the founder in 2011 regarding payments made to the Supervisory Board members is in accordance with the guidelines arising from the decision found in Appendix 2 of the Code.

Recommendation no 6.10.3:
HSE does not apply the part of the recommendation referring to D&O insurance. Within the collective D&O insurance in the HSE Group, the HSE Supervisory Board members have the right to be included in this insurance policy. Pursuant to tax rules, they are eligable for a tax bonus.

Recommendation no 6.13:
The Supervisory Board did not carry out the recommendation at the end of 2020, as the constituent meeting was held on 28 October 2020, when it was still too early to evaluate the performance of the Supervisory Board by way of a self-assessment. The Supervisory Board will carry out the self-assessment in December 2021.

Recommendation no 8.5:
HSE does not follow the recommendation, as we believe that the publication of a financial calendar in a one-member private limited company does not make sense because financial calendars are intended for public disclosure and/or publication of financial statements and the disclosure of operations of 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 no 9.2.6:
Because the number of sick leaves taken by the employees at the Internal Audit Department exceeded the expected number and because an internal auditor was not employed as planned, not all of the internal audit reviews planned for 2020 pursuant to the Work Plan of the Internal Audit Department were carried out.

Recommendation no 9.2.7:
The recommendation is only partially applied, as certain recommendations are implemented in an extended period due to their complexity.

6 GRI: 102-3; 102-15; 102-18; 102-20; 102-22; 102-24; 103-1; 103-2; 103-3; 405-1

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

During its operations in 2020, the Company reasonably followed, to a great extent, the recommendations of the Slovenian Sovereign Holding (March 2018) and the recommendations of the Slovenian Sovereign Holding (August 2020), under consideration of the Company's activity and its other specificities. Following the 'comply or explain' principle, the company fully respected a significant part of the recommendations. The deviations are explained in the sections below:

Recommendation 3.6:
followed partially. The part of the recommendation referring to the field of trading in energy products and related products is not followed. The trading agreements that have the nature of a contract of mandate, such as intermediary agreements relating to trading, are not reported publicly, as they are considered to be a trade secret. Publication of the conducted transactions stated in the recommendation is carried out in line with the Public Information Access Act.

Recommendation no 4.5:
The recommendation is not applied. The company does not publish a collective bargaining agreement because it does not have the consent of worker representatives to do so. Links to collective bargaining agreements 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 performance of internal audits in accordance with the standards (ISO 9001, BS OHSAS 18001 and ISO 27001) that also serve as bases for self-assessment under the EFQM model.

Recommendation no 8.2:
The recommendation is applied partially; the action plan for implementing individual commitments by defining the deadlines for fulfilling individual commitments is being prepared. The recommendation will be fully performed in Q1 2021.

2.4.2 Data on the work of the shareholders' General Meeting, composition and work of the management and supervisory bodies

In 2020, 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 27 February 2020, the HSE Company revised its policy regarding diversity in the management and supervisory bodies and published it on its website. The aim of the policy for the diversity in the management and supervisory bodies of the company Holding Slovenske elektrarne d.o.o. is to achieve better performance of the Supervisory Board and management as a whole. The diversity policy is mainly carried out by applying a suitable recruitment and selection procedure for candidates for Supervisory and Management Board members and their confirmation. It is important to use the recruitment steps that make it possible to attract a wide enough range of different candidates. Both the Supervisory Board as well as the sole company member endeavour to achieve the goals of the diversity policy. The diversity policy determines the frameworks that enable the suitable structure of the management and supervisory bodies considering the specificities of the HSE Company, namely that members have the knowledge, skills and experience necessary for the in-depth understanding of the activities of the HSE Company and Group and the related key risks and essential goals. The policy strives to achieve an optimal equal representation of both sexes and continuity, in the sense that it pursues the goal of not replacing all of the Management or Supervisory Board members at the same time. It is also important that the Supervisory Board members complement each other and that efforts are made to ensure that the Supervisory Board is made up of at least one representative from the business, legal and technical fields. Considering the available candidates, the Supervisory Board, the founder and the HSE Works' Council carry out the policy for the diversity of management and supervisory bodies in the HSE Company to the best possible extent. Gender diversity in the Supervisory Board is 22.22%: 77.78%, and in the Management Board it is 100%: 0%.

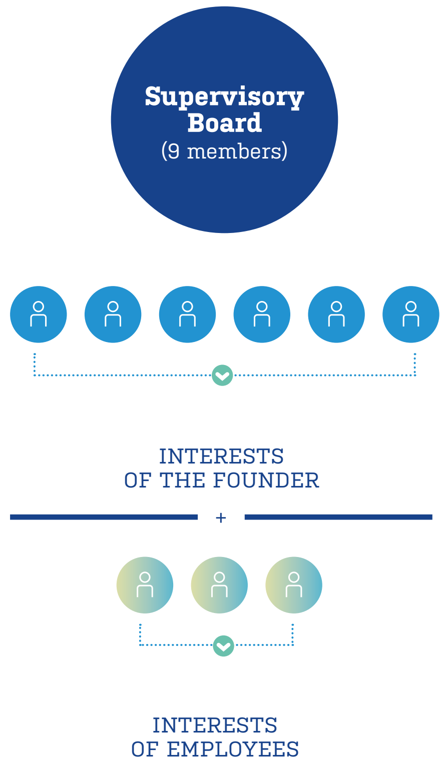
2.4.2.1 Founder in the role of Shareholders' General Meeting

The founder has the function and the capacities of a General Meeting 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 2020, 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). Some key competences include:

- adoption of 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 at the proposal of the Management Board and having received the consent of the Supervisory Board,
- deciding on the use of the distributable profit,
- deciding on the return of subsequent capital contributions,
- deciding on the use, distribution and withdrawal of shareholdings,
- appointment and discharge of Supervisory Board members, except for those elected by the Works Council,
- deciding on the establishment of companies and the acquisition of majority capital participation in other companies at the proposal of the Management Board and having received the consent of the Supervisory Board,
- deciding on the disposition of shareholdings and shares in the companies that are defined as strategic or important investments in the respective decision about the strategy of the management of capital investments of the state,
- deciding on the disposition and burdening of shareholdings/shares held in subsidiaries and affiliates at the proposal of the Management Board and having received the consent of the Supervisory Board,
- granting discharge to the Management and Supervisory Board,
- deciding on entering into agreements and other transactions, with which the company undertakes to transfer to another person, whether or not for consideration, 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 dissolution of the company as well as other competences that are further determined in the Articles of Association and the applicable legislation.

2.4.2.2 Work of the Supervisory Board

In 2020, the Supervisory Board acted in compliance with its competences determined in the Companies Act, Slovenian Sovereign Holding Act (ZSDH-1), 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 2020. Six members represented the interests of the founder and three members the interests of the employees (they are appointed and discharge pursuant to the Worker Participation in Management Act). The Supervisory Board members can be appointed 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 providing 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 2020

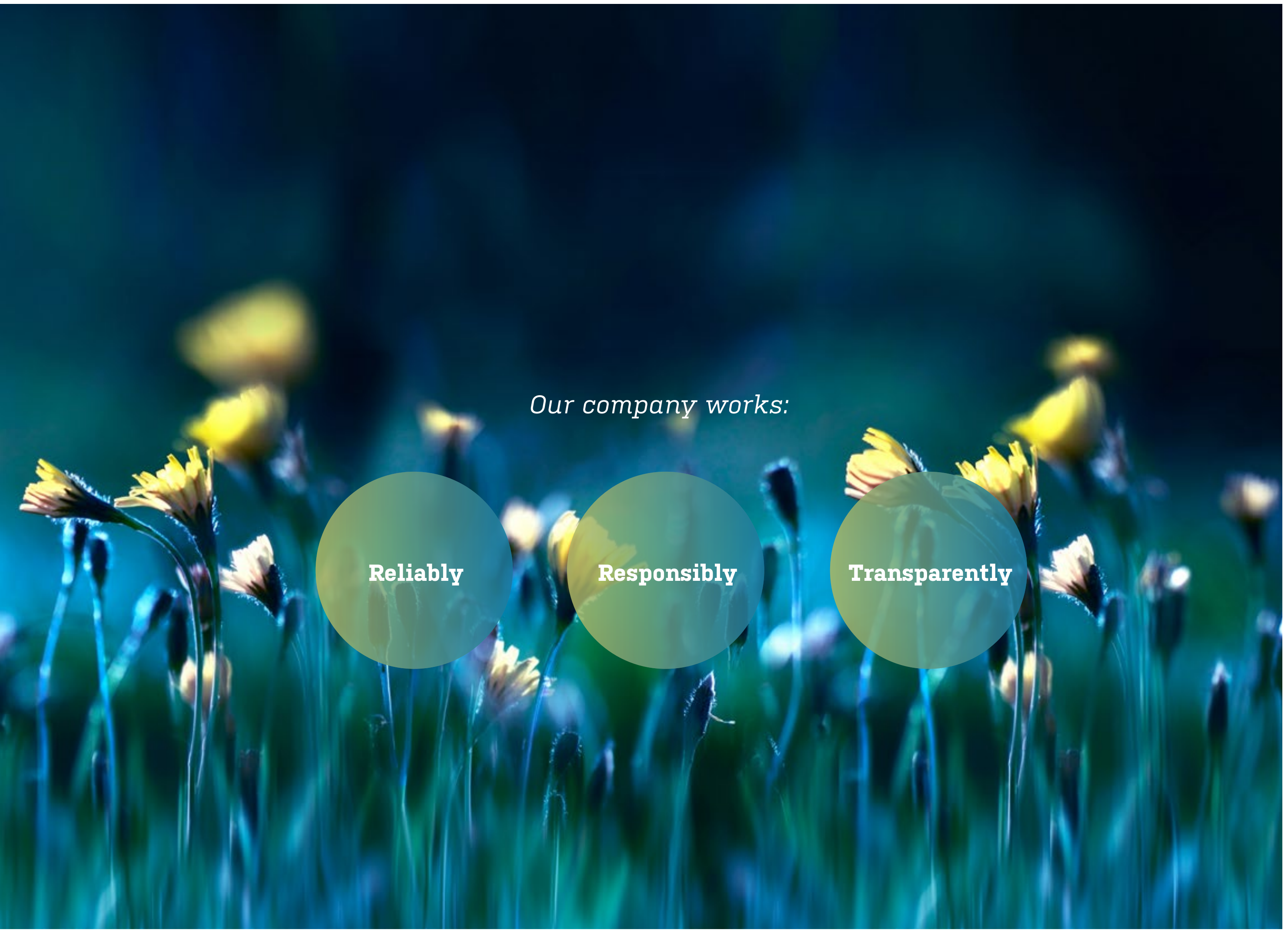
NAME AND SURNAME	Franc Dover, M.Sc.	Andrej Janša	Robert Celec, Ph.D.	Damjan Seme, M.Sc.	Janez Gutnik	Vesna Cukrov	Boštjan Jančar
FUNCTION (president, deputy, SB member)	SB President	Deputy President	SB Member	SB Member	SB Member	SB Member, Deputy President of SB from 3 Nov 2020 to 1 Dec 2020	SB Member
FIRST APPOINTMENT	23 Oct 2020 - SB Member, 28 Oct 2020 - SB President	23 Oct 2020 - SB Member, 28 Oct 2020 - SB Deputy President	23.10.2020	23.10.2020	23.10.2020	1.9.2017	9.5.2013
END OF FUNCTION/TERM OF OFFICE	23.10.2024	23.10.2024	23.10.2024	23.10.2024	23.10.2024	1.9.2021	2.7.2022
CAPITAL/EMPLOYEE REPRESENTATIVE	Capital representative	Capital representative	Capital representative	Capital representative	Capital representative	Capital representative	Employee representative
PARTICIPATION AT SB MEETINGS WITH REGARD TO TOTAL NUMBER OF SB MEETINGS	100%	100%	100%	100%	100%	15 of 16	100%
GENDER	male	male	male	male	male	female	male
NATIONALITY	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
BIRTH YEAR	1965	1978	1975	1980	1964	1967	1971
EDUCATION	Master of Tech. Science	Bachelor of Economics	Ph.D. in Economics	Master of Elect. Tech. Science	Bachelor of Economics	Graduate in law, bar exam	Master of Business
PROFESSIONAL PROFILE	Technology, mechanical engineering, management, environment, management, supervision	Management, organisation, management and supervision	Management, organisation, project management	Power electronics (energy)	Business economics (organisation, plan, analyses), organisation unit management and work process management, financial and project management	Legal, investments	Finance
INDEPENDENCE AS PER ARTICLE 23 OF THE CODE (YES/NO)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CONFLICT OF INTEREST IN BUSINESS YEAR (YES/NO)	Yes, was self-eliminated in the matter	Yes, was self-eliminated in the matter	No	Yes, was self-eliminated in the matter	No	Yes, was self-eliminated in two matters	No
MEMBERSHIP IN SUPERVISORY BOARDS OF OTHER COMPANIES	/	/	/	/	/	/	/
MEMBERSHIP IN COMMITTEES	PC	AC, MIC	RC, MIC, AC to 3 Nov 2020 to 1 Dec 2020	RC, PC	AC, MIC	RC, PC	AC, MIC
COMMITTEE PRESIDENT/MEMBER	PC- member since 26 Nov 2020	AC - president since 28 Oct 2020, MIC - member since 28 Oct 2020	RC - member, MIC - member AC - member since 3 Nov 2020 to 1 Dec 2020	RC - member PC - president since 26 Nov 2020	MIC - president since 28 Oct 2020, AC - member since 28 Oct 2020	RC - member to 28 Oct 2020, RC - president since 28 Oct 2020, PC - deputy president since 26 Nov 2020	AC - member, MIC - member
PARTICIPATION AT COMMITTEE MEETINGS WITH REGARD TO TOTAL NUJMBER OF MEETINGS	During term of office No PC meeting	AC and MIC - 100%	RC and AC - 100%, During term of office No KP meeting	RC - 100%, During term of office No PC meeting	AC and MIT - 100%	RC - 100% During term of office as RC president No RC meeting	AC and MIC - 100%

NAME AND SURNAME	Jernej Otič	Petja Rijavec, M.Sc.	Tomaž Besek	Boštjan Markoli, Ph.D.	Miloš Pantoš, Ph.D.	Barbara Gorjup, M.Sc.	Goran Brankovič, M.Sc.
FUNCTION (president, deputy, SB member)	SB Member	SB Member	SB President to 22 Oct 2020	SB Member to 22 Oct 2020	SB Member to 22 Oct 2020	Deputy President to 22 Oct 2020	SB Member to 22 Oct 2020
FIRST APPOINTMENT	30.6.2014	2.7.2018	29 Mar 2019 – SB Member, President From 12 June 2019	21.1.2014	21.1.2014	5.4.2016	29.3.2019
END OF FUNCTION/TERM OF OFFICE	2.7.2022	2.7.2022	22.10.2020	22.10.2020	22.10.2020	22.10.2020	22.10.2020
CAPITAL/EMPLOYEE REPRESENTATIVE	Employee representative	Employee representative	Capital representative	Capital representative	Capital representative	Capital representative	Capital representative
PARTICIPATION AT SB MEETINGS WITH REGARD TO TOTAL NUMBER OF SB MEETINGS	100%	100%	100%	100%	100%	100%	100%
GENDER	male	female	male	male	male	female	male
NATIONALITY	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
BIRTH YEAR	1976	1971	1970	1968	1977	1973	1964
EDUCATION	Bachelor of Elect. Tech. Science Master of Economics and Business	Master of Communicology	Electrotechnical Engineer (Energy) and Bachelor of Work Organisation - IT	Ph.D.	Ph.D.	Master of International Economics	Master of Economics and Electrotechnical Engineer
PROFESSIONAL PROFILE	Electrical engineering, electricity production	Public relations	Electrotechnology, energy, organisation	Mining and metallurgy	Electric energy	Business finance, evaluation, economic viability of investments, controlling (planned, reporting system), accounting, corporate management	Electric energy, economics, business finance, controlling, accounting, property management, company restructuring, corporate supervision, investments and project management, crisis management, real property management, IT
INDEPENDENCE AS PER ARTICLE 23 OF THE CODE (YES/NO)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CONFLICT OF INTEREST IN BUSINESS YEAR (YES/NO)	No	Yes, was self-eliminated in the matter	No	No	No	No	No
MEMBERSHIP IN SUPERVISORY BOARDS OF OTHER COMPANIES	/	/	DUTB d.d. to 2 June 2020	/	/	Telekom Slovenije d.d.	/
MEMBERSHIP IN COMMITTEES	RC	PC	PC	PC MIC AC	MIC PC RC	AC PC	MIC RC
COMMITTEE PRESIDENT/MEMBER	RC - member	PC - member	PC - member since 22 Oct 2020	PC - member, MIC- member AC - member to 22 Oct 2020	MIC - president, RC - member PC - president to 22 Oct 2020	AC - president and PC - member to 22 Oct 2020	RC - president, and MICI - member to 22 Oct 2020
PARTICIPATION AT COMMITTEE MEETINGS WITH REGARD TO TOTAL NUJMBER OF MEETINGS	RC - 100%	PC - 100%	PC - 100%	PC - 100% MIC - 100% AC - 100%	MIC - 100% RC - 100%	AC - 100% PC - 100%	MIC - 100% RC - 100%

SB - Supervisory Board, **AC** - Audit Committee, **PC** - Personnel Committee, **MIC** - Marketing and Investment Committee, **RC** - Restructuring Committee

* From 3 November to 1 December 2020 he wasn't allowed to work as SB Member in accordance with Paragraph 2 of Article 273 of ZGD-1, because he was appointed temporary business director.

EXTERNAL COMMITTEE MEMBERS IN 2020			
NAME AND SURNAME	Marko Hočevar, Ph.D.	Rado Sodin	Maja Zaman Groff, Ph.D.
COMMITTEE	AC since 26 Nov 2020	AC from 28 Oct 2020 to 2 Nov 2020	AC to 28 Oct 2020
PARTICIPATION AT COMMITTEE MEETINGS WITH REGARD TO TOTAL NUJMBER OF MEETINGS	100%	No meetings	100%
GENDER	male	male	female
NATIONALITY	Slovenian	Slovenian	Slovenian
EDUCATION	Ph.D.	BA in Economics	Ph.D.
BIRTH YEAR	1962	1982	1972
PROFESSIONAL PROFILE	Business and financial accounting, audit	Economics, financial statements audit specialist, authorised auditor, authorised company appraiser, internal state auditor	Audit (internal, external), financial accounting
MEMBERSHIP IN SUPERVISORY BODIES IN COMPANIES NOT CONNECTED TO THE COMPANY	Member of Hidria holding d.d. SB	Not member in any SB	Not member in any SB



2.4.2.3 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 at its own risk. In the period from 1 January 2020 to 31 December 2020, the Management Board had three members, namely Stojan Nikolić, M.Sc., Managing Director, Viktor Vračar, Ph.D., Business Director and Mirko Marinčič, M.Sc., Business Director; and as of 3 November 2020: Viktor Vračar, Ph.D., Managing Director, Uroš Podobnik, Business Director, Andrej Janša, Business Director. On 1 December 2020, the Interim Business Director was replaced by Marko Štrigl, M.Sc., who was appointed for a four-year term.

MANAGEMENT STRUCTURE IN 2020[7]						
NAME AND SURNAME	Viktor Vračar, Ph.D.	Uroš Podobnik	Marko Štrigl, M.Sc.	Andrej Janša	Stojan Nikolić, M.Sc.	Mirko Marinčič, M.Sc.
FUNCTION (president, member)	Business director to 3 Nov 2020, General director since 3 Nov 2020	Business director since 3 Nov 2020	Business director since 1 Dec 2020	Temporary business director from 3 Nov 2020 to 1 Dec 2020	General director to 3 Nov 2020	Business director to 3 Nov 2020
AREA OF WORK IN MANAGEMENT	Business director to 3 Nov 2020, General director since 3 Nov 2020	Business director	Business director	Temporary business director	General director to 3 Nov 2020	Business director to 3 Nov 2020
FIRST APPOINTMENT	1 May 2019 - business director 3 Nov 2020 - general director	3.11.2020	1.12.2020	3.11.2020	1 Oct 2014 - financial director 1 Apr 2019 - general director	15.7.2019
END OF FUNCTION/TERM OF OFFICE	3.11.2024	3.11.2024	1.12.2024	1.12.2020	3.11.2020	3.11.2020
GENDER	male	male	male	male	male	male
NATIONALITY	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
BIRTH YEAR	1971	1980	1983	1978	1975	1971
EDUCATION	Ph.D. and Electrotechnical Engineer	Graduate in law, bar exam	M.Sc.	Bachelor of Economics	M.Sc. of Economics	M.Sc., Electrotechnical Engineer
PROFESSIONAL PROFILE	Management, organisation, investment, development, restructuring	Law, corporate management, management	Finance and banking	Management, organisation management and supervision	Financial management	Electrotechnology, organisation
MEMBERSHIP IN SUPERVISORY BODIES IN COMPANIES NOT CONNECTED TO THE COMPANY	/	/	Bodočnost Maribor d.o.o.	/	/	/

7 GRI: 102-22

2.4.3 Description of the main characteristics of the Internal controls systems and Risk management in the company relating to the Financial reporting procedure[8]

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 45001 occupational health and safety standard, ISO/IEC 27001 information security management 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.

The system of internal controls in the company allows for a planned and systematic use 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.

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

The Management Board of the Company is responsible for keeping adequate account records and for establishing and ensuring the functioning of internal controls and internal accounting controls, selection and the 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 a control system (carried out by various professional services),
- controlling the system operation and introducing improvements (carried out by the Internal Audit Department).

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,
- the efficiency and effectiveness of operations.

An independent risk management department and a risk management committee were established in the Company with the aim of achieving complete risk management and providing quality information to the Management Board and Supervisory Board regarding the management and supervision of the Company. The risk management department is responsible for establishing and continually operating the risk management system. Furthermore, it carries out the operational and coordination support to the Risk Management Committee and its sub-committees that supervise the complete risk management system and propose adequate amendments.

The Internal Audit Department established in the Company operates in accordance with the adopted Rules on the HSE Group Internal Audit. Its mission in the HSE Group is carried out based on a long-term and annual work plan. Organisational independence is displayed by the fact that the internal audit is organised as an independent organisational unit that reports to the HSE Management Board with regard to organisation and to the Audit Committee and/or the HSE Supervisory Board with regard to 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.

8 GRI: 102-15; 102-18; 102-25; 102-30

In 2020, the Internal Audit Department carried out internal audit procedures and other activities pursuant to the approved annual work plan and two decisions that were adopted by the HSE Management Board. Based on a decision adopted by the HSE Management Board, the Internal Audit Department managed a project titled 'Including Risk Management into the Renovation of the Quality Management System'. Within the scope of the performed procedures, the Internal Audit Department reviewed the existence, operation and efficiency of the internal controls system for the achievement of the objectives set in the audited units. It submitted recommendations for their improvement. The Internal Audit Department carried out some informal consulting activities aimed at providing assistance in managing the HSE Group, risk management and developing the internal controls system. Special attention was paid to monitoring the implementation of audit recommendations, training and education and ensuring the high-quality and professional operation of the internal audit function within the HSE Group. The Internal Audit Department reported on its work to the Management Board, the Audit Committee, the HSE Supervisory Board and the PV Audit Committee. The development of internal auditing is being implemented with the help of a programme for ensuring and improving quality. Its purpose is to guarantee to all interested parties that the Internal Audit Department operates in accordance with the applicable rules in the field and that its operation is both effective and efficient.

2.4.4 Description of the system for operational compliance and integrity

As of mid-2020, the second line of defence was also the Operational Compliance Department. Its operation within the internal controls system is determined in the Rules that were adopted in January 2021 and its main task was to manage the risks arising from legislative non-compliance. The main substantive areas in which the compliance department operates include the management of the internal controls system, preventing corruption and fraud, implementing the HSE Group Code of Business Conduct, managing conflict of interest, communicating with or reporting to external institutions and supervisory bodies in accordance with the internal division of tasks with other key business functions within the HSE Group and collective activities for enhancing integrity.

Ljubljana, 23 April 2021

Viktor Vračar, Ph.D.
Managing Director of HSE

Uroš Podobnik
Business Director of HSE

Marko Štrigl, M.Sc.
Business Director of HSE

Franc Dover, M.Sc.
Chairman of the HSE Supervisory Board

2.5 Profile of the HSE Group[9]

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

The electricity that we produce is sold to our customers on the domestic and European wholesale market and we trade electricity and all of its derivatives and related products on different energy exchanges across Europe. We are present in 22 European countries, including Slovenia.

WE PRODUCE

> 65 %

of all the electricity in Slovenia

WE PRODUCE

> 70 %

of the total renewable energy sources in Slovenia

Our balanced production portfolio makes us a key pillar for reliable electricity supply in Slovenia, as we ensure the stable operation of the electricity system, while we are also a key energy group for achieving Slovenia's objectives in the field of renewable energy sources.

We are the largest producer of electricity from renewable energy sources in Slovenia. In 2020, more than half of our production came from renewable energy sources – from systematic hydroelectric power plants, the Avče Pumped Storage Hydroelectric Power Plant, small hydroelectric power plants and solar power plants.

The rest of the electricity in the HSE Group is produced from conventional sources, using two coal-powered generators at the Šoštanj Thermal Power Plant (TEŠ), with a 100% domestic primary source and four gas turbines.

We also have our own primary source of energy – lignite. Velenje Coal Mine is a modern coal mine with underground coal exploitation. Annually, we extract more than 3 million tonnes of coal, which is used in the production of electricity and thermal energy.

Our power plants are operated remotely and 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.

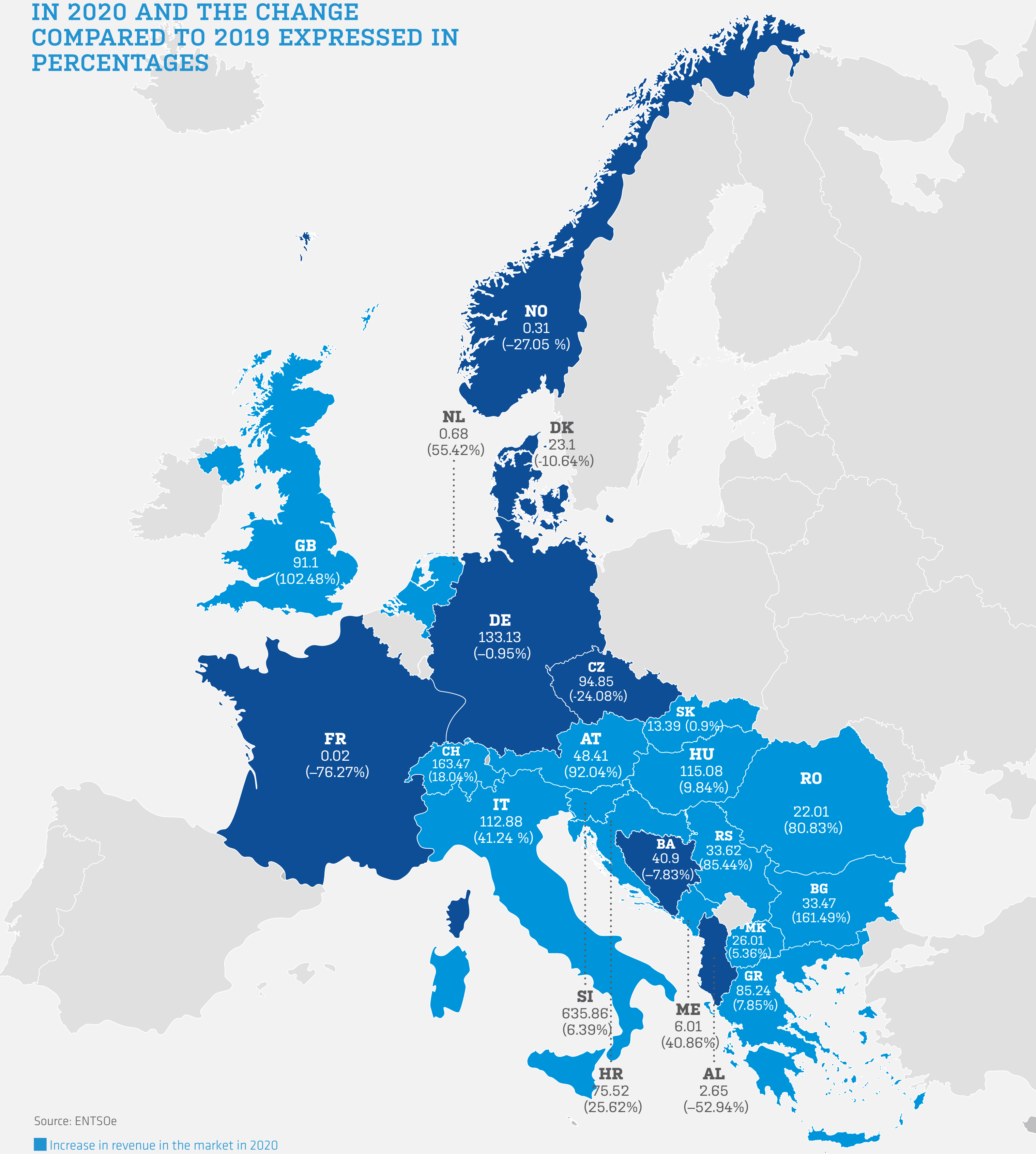
The HSE Group's activities encompass managing energy and the environment and managing the processes and risks related thereto. A wide array of activities fall into the following main groups:

- production of electrical and thermal energy,
- extraction of lignite,
- the sale and trade in electricity and thermal energy, futures contracts for electricity, emission allowances, gas, etc.,
- production optimisation in the HSE Group,
- provision of the systemic services required for the functioning of the electric power system in Slovenia,
- managing and implementing energy projects and environmental projects.

We recognise that the operations of the HSE Group, in addition to market, hydro-meteorological and geo-mechanical conditions, largely depend on our responsible handling of key stakeholders. We communicate with them openly, on an ongoing basis, transparently and proactively.

9 GRI: 102-1; 102-2; 102-4; 102-7; 102-6; 102-49

THE SALES REVENUES OF THE CONTROLLING COMPANY IN THE HSE GROUP IN EUR MILLION IN 2020 AND THE CHANGE COMPARED TO 2019 EXPRESSED IN PERCENTAGES



Source: ENTSOe

Increase in revenue in the market in 2020

Decrease in revenue in the market in 2020

AFFILIATED COMPANIES OF THE HSE GROUP AS AT 31 DECEMBER 2020[10]

HOLDING SLOVENSKE ELEKTRARNE D.O.O

Hydro production

- DRAVSKE ELEKTRARNE MARIBOR D.O.O. (HSE 100%)
  - MHE LOBNICA D.O.O. (DEM 65%)
- SOŠKE ELEKTRARNE NOVA GORICA D.O.O. (HSE 100%)
  - ELPROM D.O.O. - Not functioning* (SENG 100%)
- HIDROELEKTRARNE NA SPODNJI SAVI D.O.O. (HSE 15.4%, DEM 30.8%, SENG 2.8%)
- SREDNJESAVSKE ELEKTRARNE D.O.O. (HSE 60%)

* ELRPOM d.o.o. – Not functioning was deleted from the court register on 18 February 2021.

Thermo production

- TERMOELEKTRARNA ŠOŠTANJ D.O.O. (HSE 100%)
- HSE - ENERGETSKA DRUŽBA TRBOVLJE D.O.O. (HSE 100%)
  - TET NOVI MATERIALI D.O.O.* (HSE EDT 93.8%)

* On the basis of court decision, TET Novi materiali d.o.o. Company has been in regular liquidation procedure since 26 February 2021.

Primary sources

- PREMOGOVNIK VELENJE D.O.O. (HSE 100%)
- HTZ I. P. D.O.O. (PV 100%)
- SIPOTEH D.O.O. (PV 100%)
- PLP D.O.O. (PV 100%)

SUBSIDIARY IN MACEDONIA

RCE - RAZVOJNI CENTER ENERGIJA D.O.O. IN BANKRUPTCY (PV 15.5%, TEŠ 8%, HTZ 1%)

International network

- HSE BE D.O.O. (HSE 100%)
- HSE MAK ENERGY DOOEL (HSE 100%)
- HSE BH D.O.O. (HSE 100%)
- HSE SUBSIDIARY IN PRAGUE

Investmenst

- SOENERGETIKA D.O.O. (HSE 25%)
- HSE INVEST D.O.O. (HSE 50%, DEM 25%, SENG 25%)
- RGP D.O.O. (PV 4%, DEM 86.9 %, SENG 4%, TEŠ 5.1%)

10 GRI 102-45

BUSINESS MODEL OF THE HSE GROUP

HOLDING SLOVENSKE ELEKTRARNE D.O.O.

	2020	2019
Number of employees	211	186

SALE OF ELECTRICITY

Domestic market	2020	2019
Sale of electricity in GWh	12,116	11,282
Sales share in the domestic market	30%	33%

Foreign markets	2020	2019
Sale of electricity in GWh	28,666	23,256
Sales share in foreign markets	70%	67%

PURCHASE OF ELECTRICITY

Other sources of electricity	2020	2019
Purchase of electricity in GWh	33,155	27,383
Share of other resources	81%	79%

HESS	2020	2019
Production of electricity in GWh (49% share)	257	265

Own production resources	2020	2019
Production of electricity in GWh	7,627	7,155
Share of own resources	19%	21%
Number of employees*	1,850	1,892
Power in MW	1,915	1,913

52% of resources – HYDRO PRODUCTION

	2020	2019
Number of employees	364	363
Production of electricity in GWh	3,987	3,434
Power in MW	929	928
Units	70 turbines 5 solar power plants	70 turbines 4 solar power plants

DEM	2020	2019
Number of employees	242	236
Production of electricity in GWh	3,202	2,744
Power in MW	592	592
Units**	31 turbins 4 solar power plants	31 turbins 4 solar power plants

SENG	2020	2019
Number of employees	122	127
Production of electricity in GWh	785	690
Power in MW	337	336
Units**	39 turbins 1 solar power plants	39 turbins

48% of resources – THERMO PRODUCTION

	2020	2019
Number of employees	322	336
Production of electricity in GWh	3,640	3,721
Power in MW	986	986
Units	2 blocks 4 gas turbines	2 blocks 4 gas turbines

HSE EDT	2020	2019
Number of employees	0	17
Production of electricity in GWh	0	0
Power in MW	58	58
Units	2 gas turbins	2 gas turbins

TEŠ	2020	2019
Number of employees	322	319
Production of electricity in GWh	3,640	3,721
Power in MW	928	928
Units	2 blocks 2 gas turbins	2 blocks 2 gas turbins

PRIMARY SOURCES

PV	2020	2019
Number of employees	1,164	1,193
Coal production at TJ	36,230	37,113

* The number of employees does not include employees of PV subsidiaries, the international network and investments.
** Due to data comparability, at DEM, we added 4 solar power plants in 2019 with a total power of 1 MW, solar power plant SE Hubelj (SENG) started operating on 15 October 2020 (power 0.06 MW).

2.6 The market environment in electricity generating industry[11]

Just like in other industries in 2020, the market environment in the electricity wholesale markets and markets trading in related products was largely dependent on the course of the pandemic caused by the virus SARS-CoV-2. Globally, economic activities ceased at the same time during Q1 in most countries.

As a result, all markets declined at roughly the same pace. Later in the year, the second wave of the pandemic affected various industries in different time periods. Furthermore, various countries attempted to re-launch their economies in different ways and to different extents, so the response of the markets was also more complex during the second half of the year. Key indicators are presented below.

*Last year, electricity consumption on the Slovenian market fell by **4%** due to the partial closure of the economy as a result of measures to limit the spread of the COVID-19 virus.*

MORE on:
2.8 Risk management in the HSE Group

11 GRI: 103-1; 13-2; 103-3; 201-2

ECONOMIC GROWTH IN EUROPE

2020
-5.1%
2019
1.4%

- Due to the spread of COVID-19 and, consequently, due to the closing of public life and the economy (the latter mainly in the spring), GDP experienced a significant drop.

INTEREST RATE EURIBOR 12 M

2020
-0.499%
2019
- 0.248%

Movement range: [-0.507, -0.053]

- The ECB insists on the policy of low interest rates, partly because it wishes to boost economic recovery following the COVID-19 pandemic.

FOREIGN EXCHANGE RATE

2020
1.2271
2019
1.1225

Movement range: [1.0707, 1.2281]

- The strategy of the American policy of the weaker dollar.
- In the USA, the second economic relief package for fighting the consequences of the COVID-19 virus was adopted with a delay compared to Europe.

GAS PRICE

2020
USD 52/Bbl
2019
USD 67/Bbl

Movement range: [19, 69]

- The April ‘oil war’ between Russia and Saudi Arabia.
- A massive decrease in production in OPEC+ as of May.
- A drop in production in the USA and for certain other producers.
- A drop in consumption due to the measures for fighting the spread of COVID-19.

OIL PRICE

2020
EUR 16/MWh
2019
EUR 17/MWh

Movement range: [11, 17]

- Cold in Asia at the end of the year and problems faced by LNG producers.
- An extremely warm 2019/2020 winter and major snowfall at the end of the hot period.
- A drop in consumption as the novel coronavirus appeared and a jump in the supply of LNG (liquefied natural gas) from the USA.

COAL PRICE

2020
USD 63/t
2019
USD 75/t

Movement range: [52, 70]

- A drop in consumption due to the measures for fighting the spread of COVID-19.
- Enforcing quota for importing coal to China.

ENERGY FROM WATER IN SOUTHEASTERN EUROPE

2020
41.5 TWh
2019
40 TWh

In southeastern Europe, the production in flow-through hydroelectric power plants was the same in 2020 as in 2019. At the beginning of the year, there was little rainfall and production, although the situation vastly improved in the second part of the year.

RENEWABLE ENERGY SOURCES IN GERMANY

2020
176 TWh
2019
165 TWh

- In Germany, as the leading country with the most renewable energy sources in Europe, the installed power of RES was increased by approximately 4 GW.
- German solar power plants produced 45.8 TWh, which is 9% more compared to 2019.
- Last year, no less than 130 TWh were produced by wind power plants in Germany, which is a 6% increase compared to 2019.

CO_2 PRICES

2020
EUR 29.9/t
2019
EUR 24.6/t

Movement range: [19, 30]

- However, in the second part of the year, there was massive pressures on prices to increase due to the speculative buying of CO_2 emission allowances.
- There was a major drop in prices at the beginning of the year due to problems related to COVID-19.

AVERAGE ELECTRICITY PRICES

	2020	2019
DE	EUR 31/MWh	EUR 38/MWh
HU	EUR 39/MWh	EUR 50/MWh
SI	EUR 38/MWh	EUR 49/MWh
IT	EUR 39/MWh	EUR 52/MWh
GR	45 EUR/MWh	EUR 64/MWh
RO	EUR 40/MWh	EUR 50/MWh

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

In the first half of 2020, the prices of solar power and other energy products in the European markets fell significantly. The key factors were low consumption due to the drastic measures to prevent the spread of COVID-19, the low prices of energy products and the availability of CO2 emission allowances. In Scandinavia, electricity prices additionally dropped due to the above-average hydrology, while in continental Europe the hydrology, which was below-average in Q1, in eastern and southeastern Europe in Q2, actually helped to prevent prices from dropping even further. The hydrological conditions in eastern Europe were poor at the beginning of Q2, although they significantly improved in June in the central part of eastern Europe, and later also in the southern part of eastern Europe.

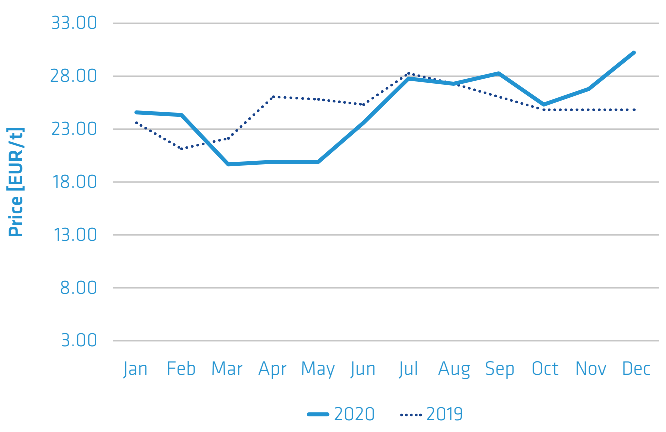
Due to the measures to prevent the spread of the virus, electricity consumption additionally dropped in Q2, namely by 20% in Italy and Spain, by 15% in France and by no less than 30% below normal consumption in the United Kingdom. By the middle of the year, the consumption stabilised to a level of 10% below normal, except in the United Kingdom, where it remained 15% lower.

In Germany, the consumption dropped by 15% for a short period, although it quickly rose again and stayed at a level of 5–10% below the normal level until the end of Q2.

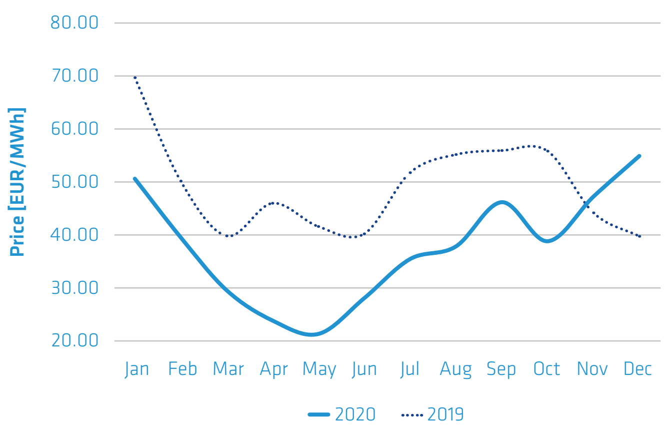
In Q3, prices were even lower compared to the previous year. There were no price hikes and market surprises in July and August, partly due to the mild summer and lower consumption as well as due to relatively good hydrology and lower gas prices compared to the previous year. Prices then jumped in September due to the impact of countries in the CWE countries, particularly Germany. This was due to repairs of coal units, shutdowns of nuclear power plants, low production from renewable energy sources and the limited availability of transmission capacities.

Contrary to the first three quarters of the year, prices were higher in the last quarter compared to the previous year. While prices were still relatively low in October, they rose in November and were the highest in December – this was also due to seasonally lower temperatures, higher consumption of electricity and higher prices of gas and CO_2 emission allowances.

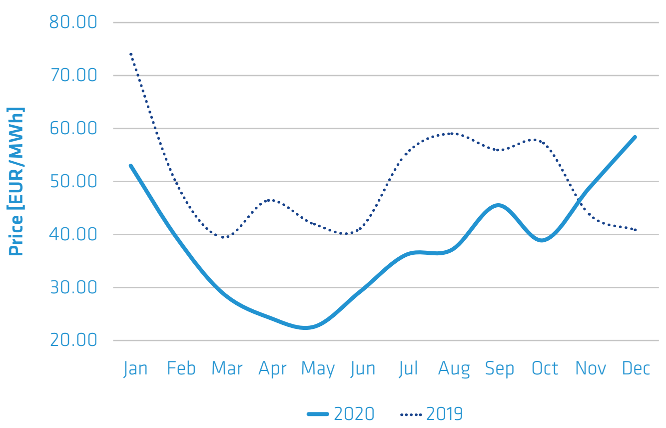
AVERAGE MONTHLY PRICES OF CO_2 EMISSION ALLOWANCES WITH THE DELIVERY IN DECEMBER WITHIN THE YEAR OF DELIVERY



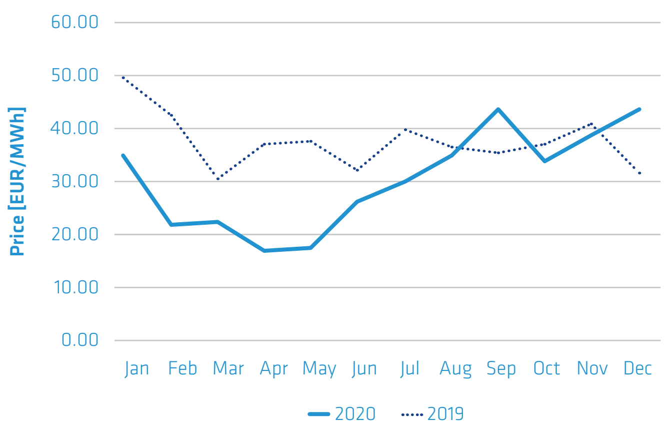
AVERAGE MONTHLY PRICE OF ELECTRICITY BSP – SOUTHPOOL (SLOVENIA)



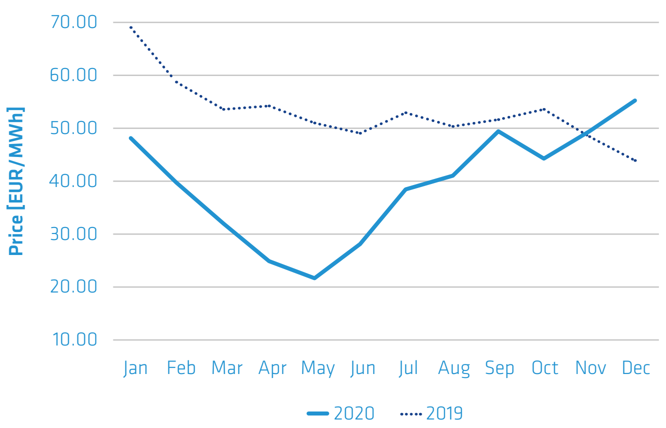
AVERAGE MONTHLY PRICE OF ELECTRICITY HUPX (HUNGARY)



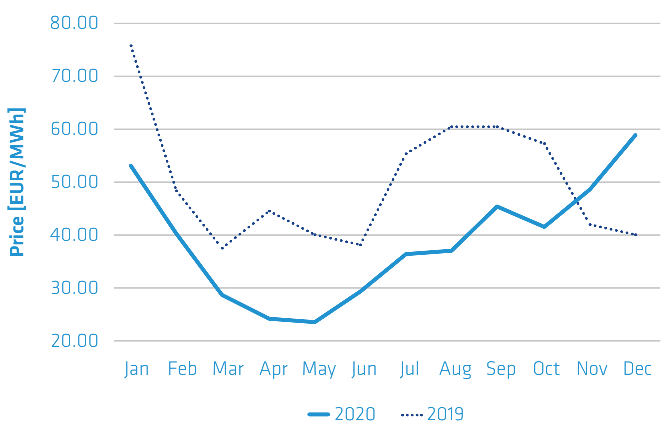
AVERAGE MONTHLY PRICE OF ELECTRICITY EPEX SPOT DE/AT (GERMANY)



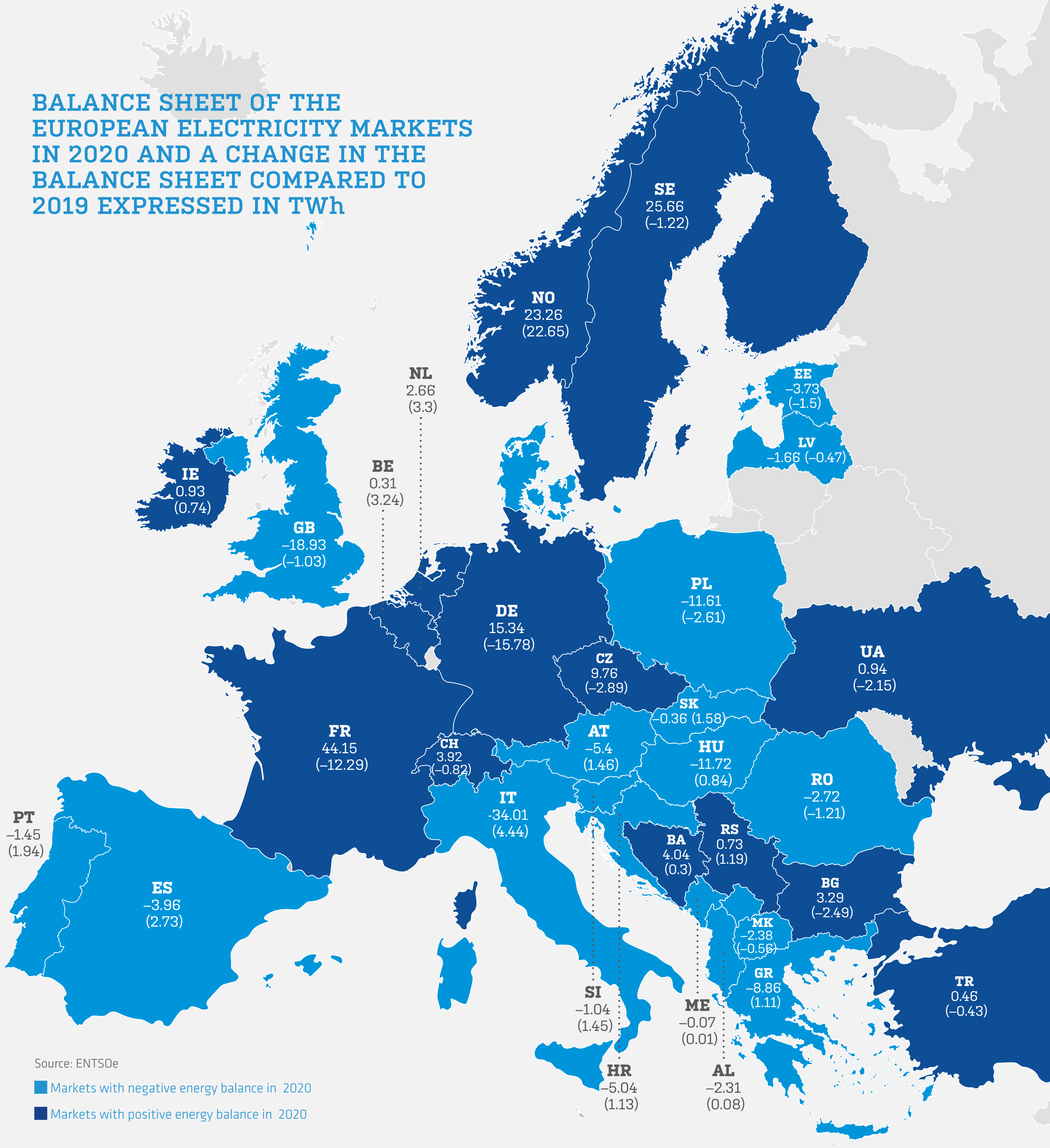
AVERAGE MONTHLY PRICE OF ELECTRICITY GME PUN (ITALY)



AVERAGE MONTHLY PRICE OF ELECTRICITY OPCOM (ROMANIA)



BALANCE SHEET OF THE EUROPEAN ELECTRICITY MARKETS IN 2020 AND A CHANGE IN THE BALANCE SHEET COMPARED TO 2019 EXPRESSED IN TWh



Source: ENTSOe

Markets with negative energy balance in 2020

Markets with positive energy balance in 2020

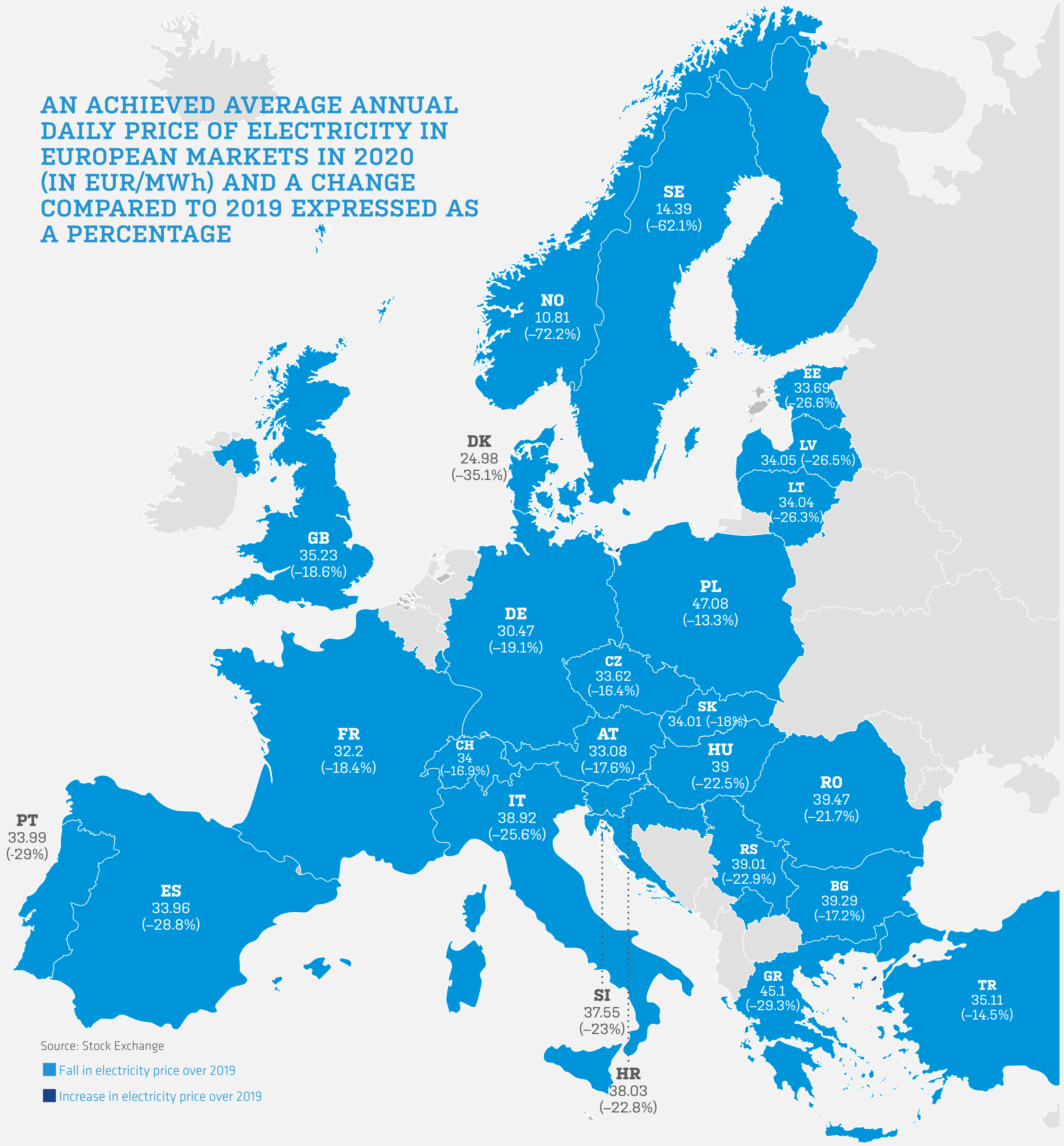
In addition to the significant influence of the measures to stop the spread of the COVID-19 virus, mainly on the consumption of electricity and, as a result, on the energy balance, the extremely volatile price of CO_2 emission allowances played an important role in forming these balances in 2020. The very dynamic gas prices also had a substantial impact. In Q2, the prices of CO_2 emission allowances were extremely low, while there was a significant jump in these prices in Q3.

Mediterranean countries (Spain, Italy, Croatia) consumed less in the summer months due to a significantly lower tourist season than usual. Therefore, there were no typical consumption peaks in the summer, which was also partly due to the below-average air temperatures. There were practically no lengthier heat waves.

The energy balance was, at the same time, supported by good hydrological conditions in southeastern Europe, mainly in the second half of the year.

Despite the availability of nuclear power plants, their operation was adjusted to the consumption, so France's year-long balance remained lower than the previous year. Extremely favourable hydrological conditions in the last quarter of 2020 improved the energy balance in Slovenia, which nonetheless remained negative.

AN ACHIEVED AVERAGE ANNUAL DAILY PRICE OF ELECTRICITY IN EUROPEAN MARKETS IN 2020 (IN EUR/MWh) AND A CHANGE COMPARED TO 2019 EXPRESSED AS A PERCENTAGE



Source: Stock Exchange

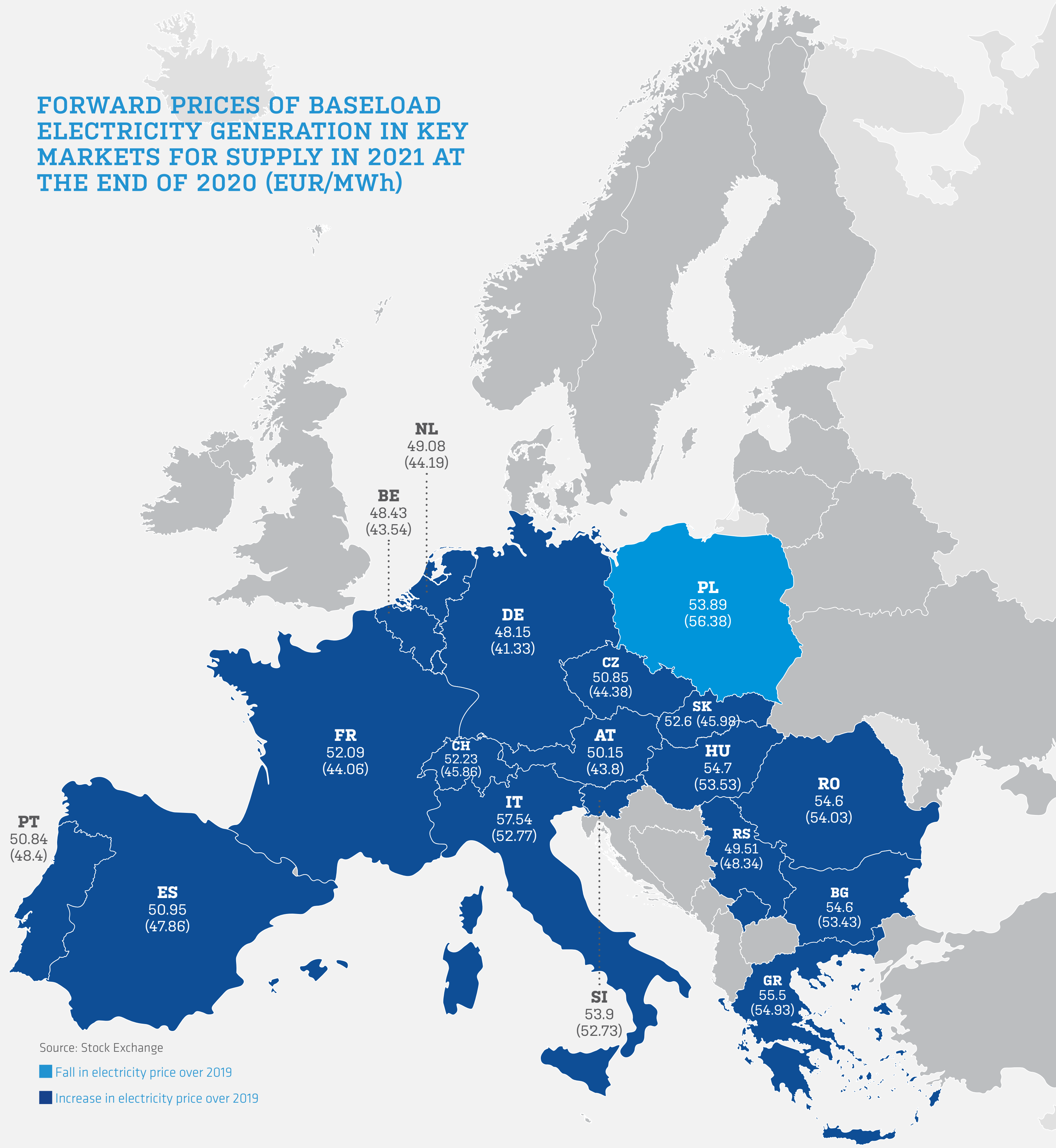
Fall in electricity price over 2019

Increase in electricity price over 2019

For most of the year, the prices in the day-ahead electricity supply markets reflected the pandemic and the cycles of intensifying and de-intensifying the measures related to the pandemic. Price movements were at significantly lower levels compared to 2019 for most of the year.

Regarding upcoming products, the prices in long-term markets for electricity supply reflected the prices in day-ahead electricity supply markets, while the prices for more remote products were usually at higher levels because the economy expected the measures to relax. For most of the year, the prices of long-term products were dropping as their delivery date approached. This indicates that, in 2020, the situation was expected to normalise more quickly, although this did not happen.

FORWARD PRICES OF BASELOAD ELECTRICITY GENERATION IN KEY MARKETS FOR SUPPLY IN 2021 AT THE END OF 2020 (EUR/MWh)



Source: Stock Exchange

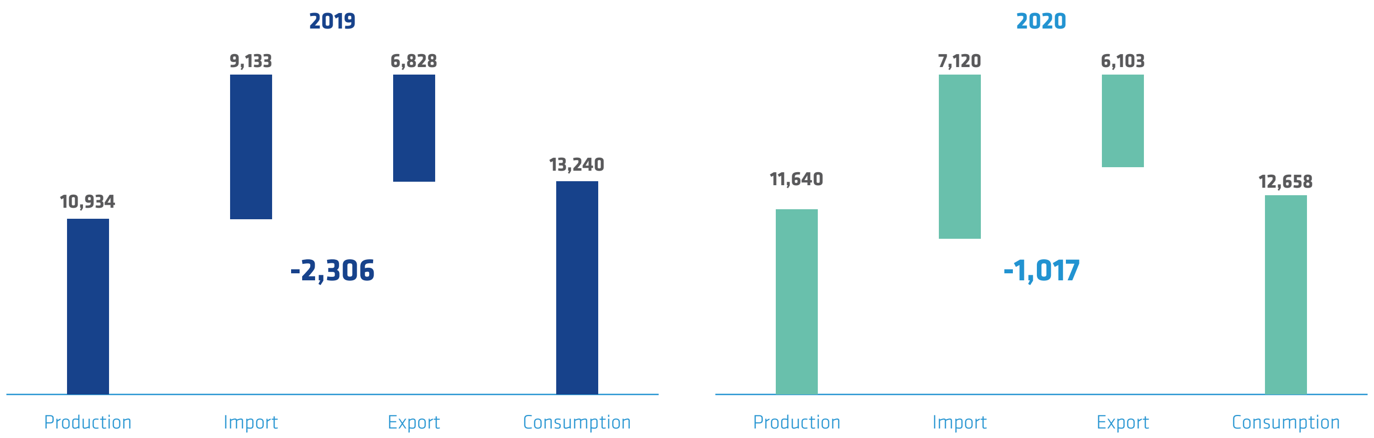
Fall in electricity price over 2019

Increase in electricity price over 2019

Forward prices of baseload electricity for supply in 2020 were lower than the previous year. In Q2, these prices even reached values of at least 20% lower compared to the end of 2019. In the first half of the year, there was an overabundance of natural gas reserves in Europe, while the delivery of LNG quantities was also abundant, so gas prices reached a record low. The prices of CO_2 emission allowances significantly dropped due to the measures to help stop the spread of COVID-19, resulting in 'coal-to-gas switching', which caused coal prices to additionally decrease. Furthermore, an 'oil war' between Saudi Arabia and Russia affected the markets, so in April the WTI American oil index price went into negative figures for the first time in history.

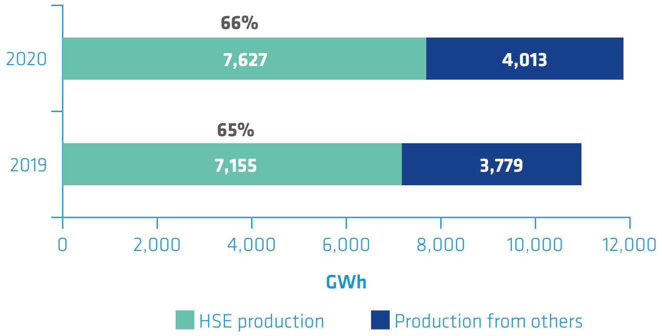
In the second half of the year, electricity prices increased significantly throughout Europe, mainly due to the increase in the prices of gas and emission allowances. In September, the said prices reached EUR 30/t, while they dropped to EUR 24/T at the end of October, and then at the end of the year allowance prices increased together with gas, coal and oil prices. The prices of coal and CO_2 emission allowances in Europe exceeded the 2019 values at the end of the year, while gas prices came close, which was the reason for the significant jump in electricity prices across Europe. In western Europe, prices finally exceeded the levels of the preceding year in December, while in southern and southeastern Europe they at least came very close.

SLOVENIAN ELECTRICITY MARKET IN GWh



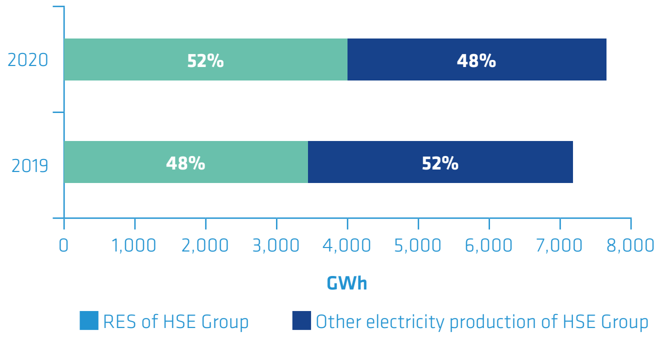
Last year, electricity consumption in the Slovenian market dropped by 4% due to the partial shut-down of the economy as a result of the measures to help stop the spread of COVID-19. The situation did not improve until the last quarter, because consumption was actually higher than in the same period in 2019, largely due to low temperatures. However, electricity production was 6% higher than in 2019 due to favourable hydrological conditions. At an annual level, hydroelectric power plants produced 12% more electricity than the year before, while thermal power plants produced 2% less. The Slovenian energy balance remained negative, nonetheless.

PRODUCTION IN THE HSE GROUP AS A PROPORTION OF THE TOTAL ELECTRICITY PRODUCTION IN SLOVENIA



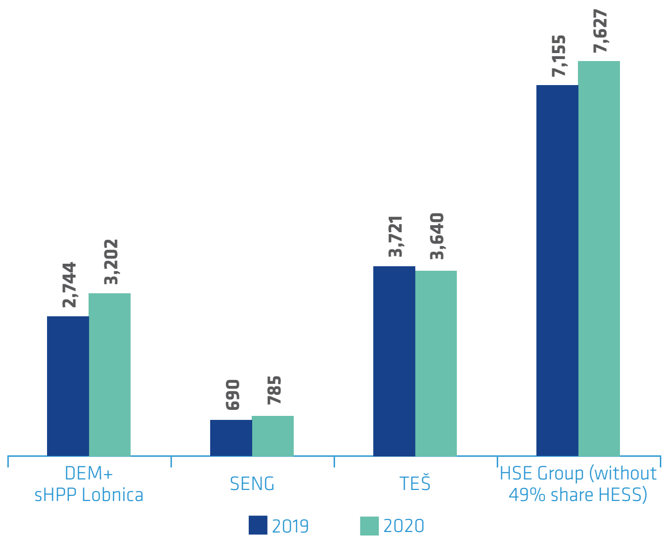
The HSE Group maintains a 2/3 proportion in the production of electricity in Slovenia. The produced annual volume in the Group is higher due to favourable weather conditions, because there was sufficient rainfall and there were no excessive droughts in the summer months.

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



Compared to the previous year, production at DEM and SENG was 16% higher, while thermal power production was 2% lower. The proportion of production from renewable energy sources at HSE was also higher, because the companies DEM and SENG produced no less than 553 GWh more electricity in the period in question compared to the previous year.

RATED POWER PRODUCED IN THE HSE GROUP IN GWh



In the previous year, the companies DEM and SENG recorded their highest electricity production in recent years, and the same applies to the entire HSE Group, even though production was slightly lower at the Šoštanj Thermal Power Plant (TEŠ). Production at TEŠ was limited in Q2 to a preventive method of the operation of thermo units in order to ensure back-up coal reserves to cover any coal delivery failures, which, however, did not happen due to the effective implementation of the measures to limit COVID-19 infections.

2.7 Business performance analysis of the HSE Group and the HSE Company[12]

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

HSE GROUP

	2020	2019
Value of assets	1,865,305,533	2,073,747,513
Amount of total capital	900,395,852	1,064,640,821
Net profit/loss	-184,179,380	29,727,979
EBITDA	187,876,309	160,617,601

HOLDING SLOVENSKE ELEKTRARNE D.O.O.

	2020	2019
Value of assets	1,246,755,844	1,418,699,514
Amount of total capital	779,976,244	984,344,305
Net profit/loss	-226,942,925	60,117,717
EBITDA	108,640,716	69,323,633

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

12 GRI: 102-10; 103-1; 103-2; 103-3; 201-1

Hydro production

DRAVSKE ELEKTRARNE MARIBOR D.O.O.

	2020	2019
Value of assets	465,403,548	453,346,543
Amount of total capital	449,855,717	440,215,315
Net profit/loss	10,047,014	5,126,119
EBITDA	28,658,166	25,632,677

SOŠKE ELEKTRARNE NOVA GORICA D.O.O.

	2020	2019
Value of assets	225,491,066	225,002,840
Amount of total capital	208,556,831	203,870,114
Net profit/loss	4,863,650	4,980,024
EBITDA	16,782,641	16,794,803

SREDNJESAVSKE ELEKTRARNE D.O.O.

	2020	2019
Value of assets	52,140	57,793
Amount of total capital	52,129	57,782
Net profit/loss	-5,653	-5,187
EBITDA	-5,654	-5,187

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

	2020	2019
Value of assets	337,300,533	342,524,469
Amount of total capital	286,734,994	284,528,188
Net profit/loss	2,315,333	2,401,078
EBITDA	12,317,136	12,296,223

Thermo production

TERMOELEKTRARNA ŠOŠTANJ D.O.O.

	2020	2019
Value of assets	787,421,645	1,016,196,704
Amount of total capital	233,642,841	364,537,027
Net profit/loss	-280,428,143	-19,582,324
EBITDA	22,314,011	44,610,838

HSE - ENERGETSKA DRUŽBA TRBOVLJE D.O.O.

	2020	2019
Value of assets	3,122,330	3,265,047
Amount of total capital	1,420,201	1,458,871
Net profit/loss	-45,717	-708,656
EBITDA	229,057	-379,617

Primary sources and other activities

PREMOGOVNIK VELENJE D.O.O.

	2020	2019
Value of assets	153,611,813	139,920,428
Amount of total capital	71,502,364	36,309,737
Net profit/loss	-9,664,140	-6,584,420
EBITDA	6,365,491	2,745,263

HTZ D.O.O.

	2020	2019
Value of assets	14,009,007	16,158,442
Amount of total capital	753,279	1,883,381
Net profit/loss	-525,601	-1,542,243
EBITDA	1,033,802	-544,107

SIPOTEH D.O.O.

	2020	2019
Value of assets	2,093,598	1,341,749
Amount of total capital	1,212,550	727,333
Net profit/loss	490,507	271,007
EBITDA	583,008	367,949

PLP D.O.O.

	2020	2019
Value of assets	1,537,038	1,701,396
Amount of total capital	947,276	817,237
Net profit/loss	132,619	169,876
EBITDA	205,493	248,126

International network

HSE BE D.O.O.

	2020	2019
Value of assets	957,151	1,104,100
Amount of total capital	936,515	926,855
Net profit/loss	10,850	37,699
EBITDA	12,711	45,409

HSE MAK ENERGY DOOEL

	2020	2019
Value of assets	2,756,349	6,404,842
Amount of total capital	738,797	341,109
Net profit/loss	398,914	205,029
EBITDA	443,239	227,810

HSE BH D.O.O.

	2020	2019
Value of assets	9,849,387	9,694,678
Amount of total capital	1,292,479	1,032,521
Net profit/loss	259,959	278,893
EBITDA	289,278	310,232

Investments

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

	2020	2019
Value of assets	2,311,439	2,748,088
Amount of total capital	1,672,300	1,822,060
Net profit/loss	541,978	691,738
EBITDA	1,335,789	1,450,904

HSE INVEST D.O.O.

	2020	2019
Value of assets	2,158,678	2,034,631
Amount of total capital	592,070	346,042
Net profit/loss	227,983	-232,382
EBITDA	441,660	-47,380

RGP D.O.O.

	2020	2019
Value of assets	12,639,460	9,958,998
Amount of total capital	3,836,681	2,967,738
Net profit/loss	923,138	703,937
EBITDA	2,055,021	1,586,692

2.7.1 Business performance analysis of the HSE Group

2.7.1.1 Key data of the HSE Group

Key data	Unit of measure	2016	2017	2018	2019	2020	Graphic comparison
Net sales revenue	EUR	1,179,841,222	1,587,759,985	1,471,965,221	1,710,574,972	1,837,247,832	
Net profit/loss	EUR	21,660,852	8,213,664	-11,802,603	29,727,979	-184,179,380	
Revenue	EUR	1,201,249,357	1,611,867,720	1,491,669,217	1,729,972,574	1,858,861,858	
EBIT = Operating profit or loss	EUR	75,027,419	56,437,024	30,442,789	74,100,308	-137,675,154	
EBITDA	EUR	155,690,340	138,235,820	128,129,727	160,617,601	187,876,309	
Assets	EUR	2,156,756,540	2,138,362,354	2,134,733,707	2,073,747,513	1,865,305,533	
Capital	EUR	1,015,220,355	1,038,307,041	1,091,245,475	1,064,640,823	900,395,852	
Bank indebtedness	EUR	896,097,180	851,175,060	783,548,534	732,273,957	666,325,878	
Total indebtedness	EUR	899,604,980	851,439,217	784,137,313	737,556,113	671,183,485	
Investments	EUR	33,510,462	49,208,528	57,444,700	40,971,390	42,814,532	
Electricity produced	GWh	7,778	7,034	7,320	7,155	7,627	
Electricity sold	GWh	28,344	36,987	30,629	33,638	39,664	
Employed at the end of the year	Number	3,110	3,093	3,074	3,147	3,151	
Average number of employees	Number	3,250	3,102	3,078	3,111	3,149	
Trading margin	in EUR/GWh	12,823	9,297	11,120	11,508	11,076	

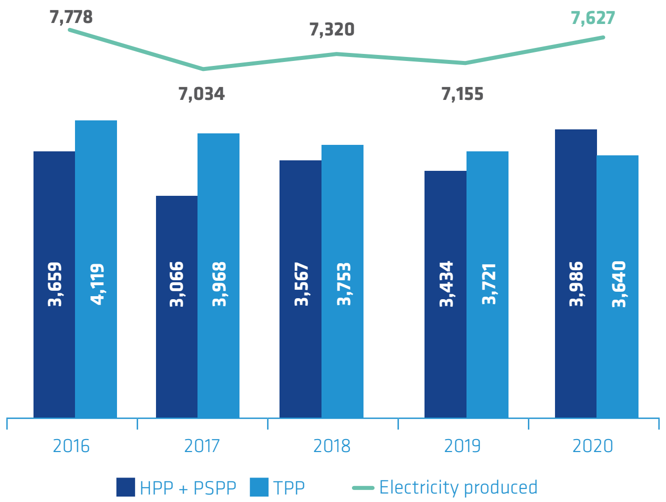
NOTE: The average number of employees is calculated on the basis of the number of employees as at 31 December 2019 and 31 December 2020.

Key data	Unit of measure	2016	2017	2018	2019	2020
Self-financing ratio		47.07	48.56	51.12	51.34	48.27
Long-term financing ratio		89.82	88.21	86.91	87.31	85.34
Operating fixed assets rate		80.73	79.57	77.80	78.40	72.76
Long-term investment ratio		87.58	87.08	85.36	86.13	81.43
Equity to operating fixed assets ratio		0.58	0.61	0.66	0.65	0.67
Immediate solvency ratio		0.39	0.30	0.35	0.21	0.33
Quick ratio		1.06	0.94	0.99	0.93	1.11
Current ratio		1.19	1.09	1.12	1.07	1.26
Operating efficiency ratio		1.07	1.04	1.02	1.04	0.93
Net profitability ration of ROE capital	%	2.2	0.8	-1.1	2.8	-18.7
Net profitability ration of ROA assets	%	1.0	0.4	-0.6	1.4	-9.4
Added Value	EUR	281,479,876	258,115,028	251,427,464	291,532,762	319,201,067
Added value per employee	EUR	86,609	83,223	81,685	93,725	101,366
Debt-to-capital ratio		0.89	0.82	0.72	0.69	0.75
Total financial liabilities / EBITDA		5.78	6.16	6.12	4.59	3.57
EBITDA / Financial expenses from received loans		4.59	4.96	4.91	6.92	9.91
Total financial liabilities / Assets		0.42	0.40	0.37	0.36	0.36
Net financial liability	EUR	816,119,586	789,745,775	700,626,784	695,038,514	592,710,461
Net financial liabilities / EBITDA		5.24	5.71	5.47	4.33	3.15
Net financial liability / Capital		0.80	0.76	0.64	0.65	0.66

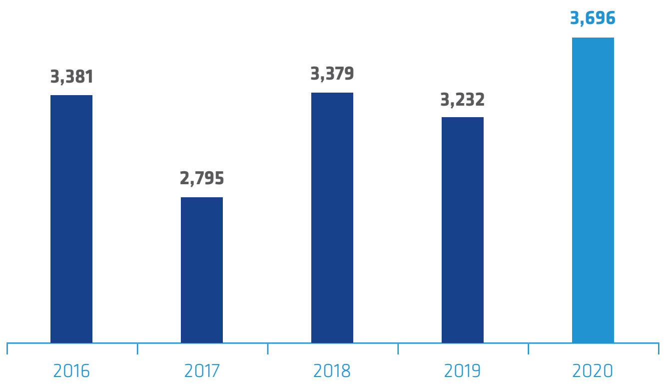
2.7.1.2 Analysis of the profit and loss statement of the HSE Group[13]

EXCEPTIONAL PRODUCTION USING RENEWABLE ENERGY SOURCES AND HISTORICAL ELECTRICITY SALE RECORDS

PRODUCED ELECTRICITY IN GWh



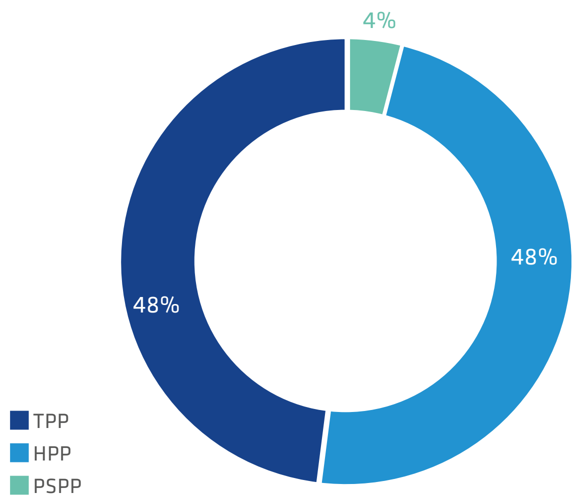
SOLD ELECTRICITY PRODUCED BY HYDROELECTRIC POWER PLANTS IN GWh



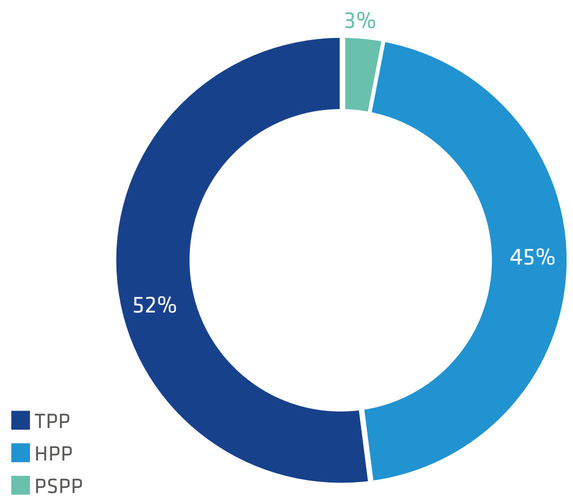
13 Unless stated otherwise, this chapter provides explanations regarding operational deviations in 2020 compared to 2019.

Favourable weather conditions and a high level of the availability of our production facilities contributed to the record-breaking electricity production using renewable energy sources in 2020, is it was higher compared to 2019 by an impressive 16%. Hydroelectric power plants produced 464 GWh more than the year before and thus achieved the highest production rate in the past five years. The production at the Avče Pumped Storage Hydroelectric Power Plant was by 88 GWh higher, because it reached above-average levels in 2019 due to a performed repair. The thermal power plant produced 81 GWh less due to the limitation of the power of the units and decreased coal production.

STRUCTURE OF THE PRODUCED ELECTRICITY IN 2020

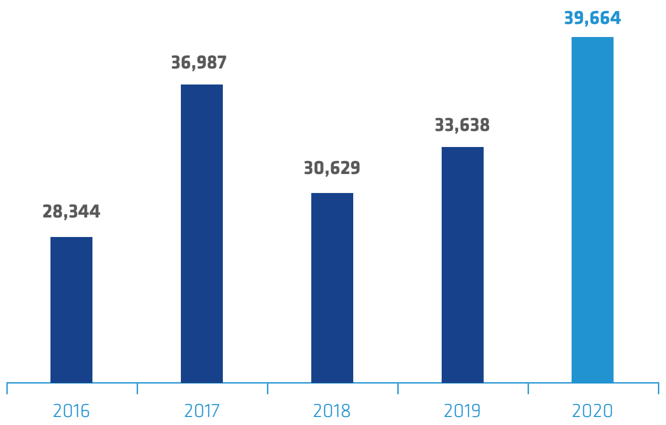


STRUCTURE OF THE PRODUCED ELECTRICITY IN 2019

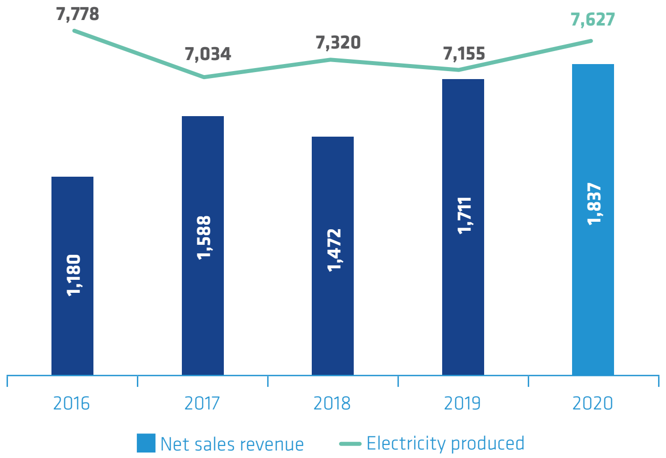


Due to its above-average production and by implementing intensive trade activities, the HSE Group achieved its maximum volume sales of electricity in the history of the HSE Group, namely 40 TWh. It increased by 18% when compared to 2019. Net sales revenue from the sale of electricity, which accounted for 98% in the net sales revenue structure, were 7% higher due to increased volumes sold. The average prices for the sale of electricity were 9% lower due to the impact of the COVID-19 pandemic and its influence on lower electricity consumption.

ELECTRICITY SOLD IN GWh

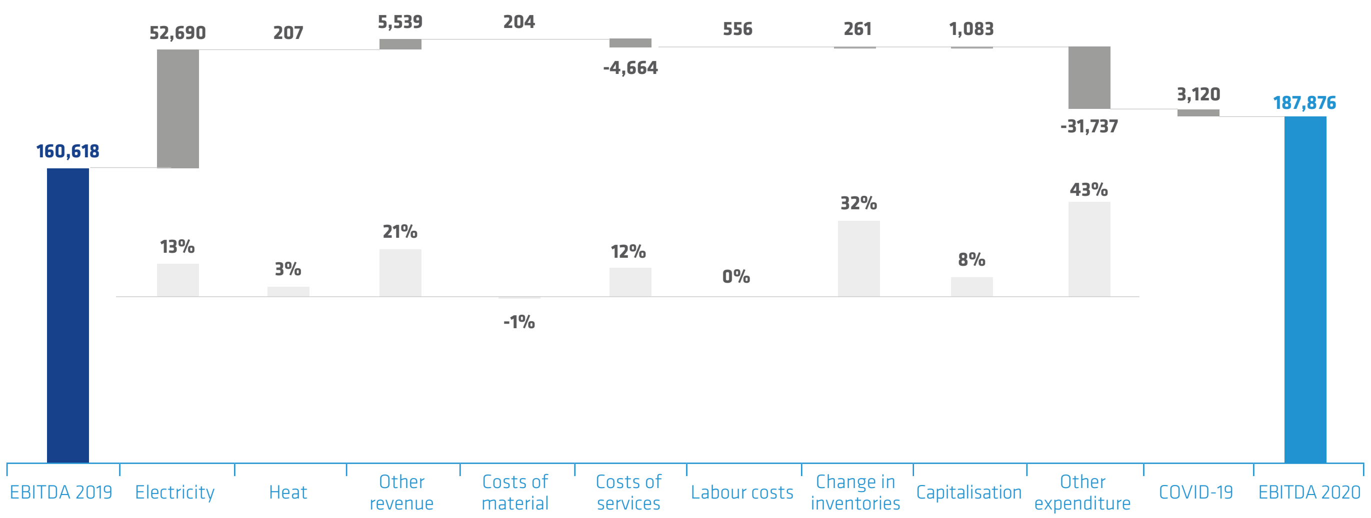


REVENUE IN EUR MILLION AND ELECTRICITY PRODUCED IN GWh



The difference between the revenues and the purchase value of the electricity sold, including the sales revenues from the sale of CO_2 emission allowances in the amount of EUR 5,388,854, was 13% higher compared to 2019.

HSE GROUP EBITDA IN 2020 RELATIVE TO 2019 IN EUR THOUSAND



Due to higher production volumes and a higher price, the sales revenues from the sale of thermal energy were 3% higher.

Other revenue was 21% higher. **Revenue from services** (58% proportion) was achieved by the HSE Group by providing construction, mining and maintenance works, as well as rents. Compared to 2019, it was 48% higher due to the higher revenue generated from the projects carried out by the company RGP. **Revenue from drawing deferred revenue** used to cover the salaries of the disabled employees of the company HTZ was 3% higher (23% proportion). **The revenues from sales of merchandise, materials and products**[14] were generated by the Group by selling scrap iron, fly ash and gypsum (9% proportion). They were 31% higher due to the increased sales in scrap iron. A 28% increase in profit was generated by way of **disinvestment** (3% proportion). **Revenue from compensation and contractual penalties** was 16% lower (3% proportion).

Without taking into account the purchase of protective materials and the costs of disinfectants related to the COVID-19 pandemic, material costs were 1% lower. If these costs are taken into account, however, they were 1% higher. Due to the increased revenues of the company RGP, the **material costs related to its projects** were 45% higher (12% proportion). The cost of spare parts was 16% higher due to the use of the DeNOx catalyst element (17% proportion). On the other hand, this cost reduces capitalisation. The increase in the price of the network change for the natural gas transmission system affected the higher **gas cost** by 7% (14% proportion). The **costs related to limestone meal** were also 8% higher due to the higher price (13% proportion). Due to the lower rate of track production compared to 2019 and a lesser consumption of the new steel arc support compared to the renovated ones, the **costs of the steel arc support** were 34% lower (15% proportion).

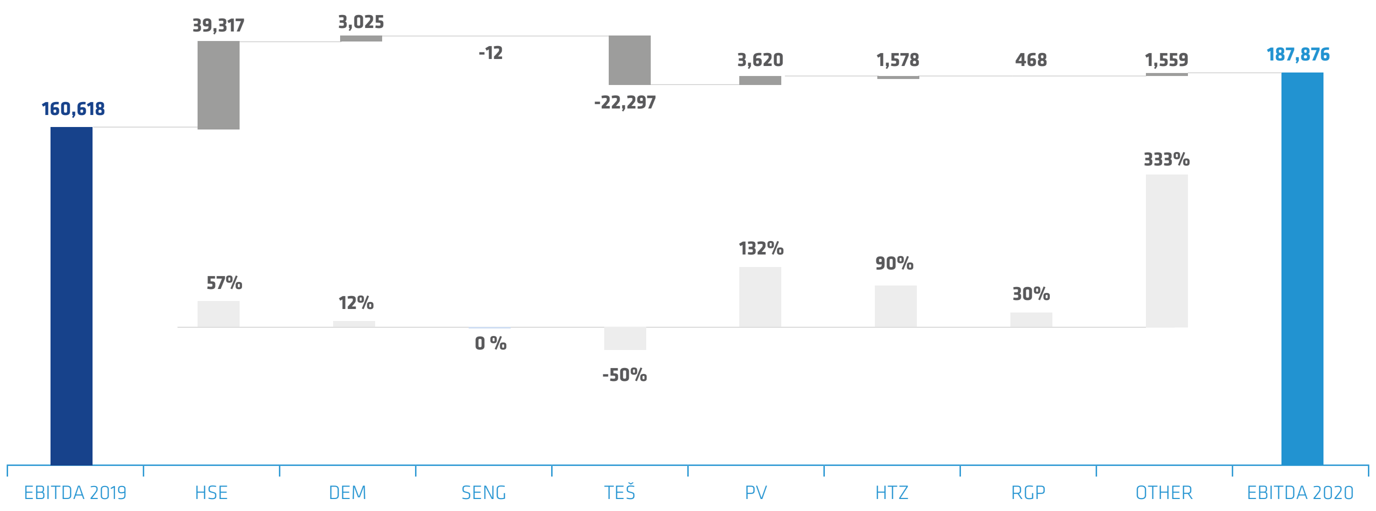
The costs of services were 12% higher in 2020 due to the 56% higher costs of **services rendered by subcontractors, transport services and rents paid for machinery and equipment** (37% proportion). The increase in these costs is related to the higher revenues of the company RGP. **Maintenance costs** were 5% lower (24% proportion), mainly due to the repair of the Avče Pumped Storage Hydroelectric Power Plant in 2019. **The costs of insurance and bank services** were 3% lower (13% proportion). Due to a delay, the **costs of intellectual and personal services** were 9% lower (10% proportion).

Higher labour costs by 1% were influenced by the cost of the crisis allowance paid based on intervention laws adopted due to the COVID-19 pandemic. Without these costs, the labour costs would have been equal to those in 2019. The company PV achieved lower labour costs due to lower provisions for long-service bonuses and severance pays. The companies HSE, DEM, TEŠ and RGP had a higher average employee number and higher labour costs. The added value per employee increased by 8%.

The capitalised own products and services, which were 8% higher, was mostly generated by the HSE Group through construction and engineering services. The 43% increase in other operational expenses was mainly affected by the higher price of CO_2 emission allowances. The costs of CO2 emission allowances were 90% higher (63% proportion). Despite the higher production generated by hydroelectric power plants, the costs of concession fees were at the same level as in 2019 due to lower average electricity prices (15% proportion). Fees for the use of construction land were 7% higher (10% proportion).

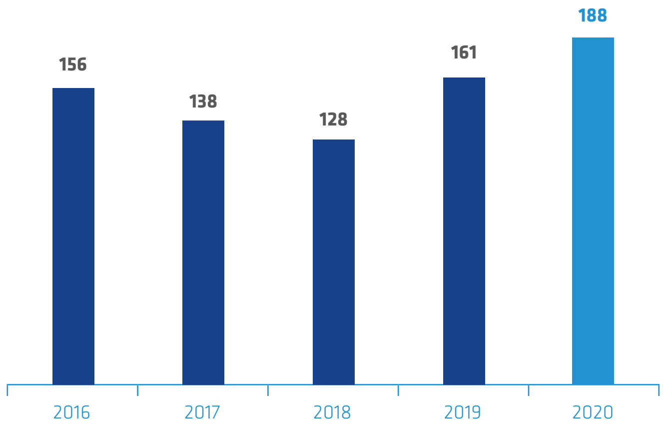
14 In the profit and loss statement, the revenues from the sale of CO_2 emission allowances, which are included in the electricity segment, are also included in the revenues from the sales of merchandise, materials and products.

HSE GROUP EBITDA CHANGE BY COMPANY, IN 2020, RELATIVE TO 2019 IN EUR THOUSAND

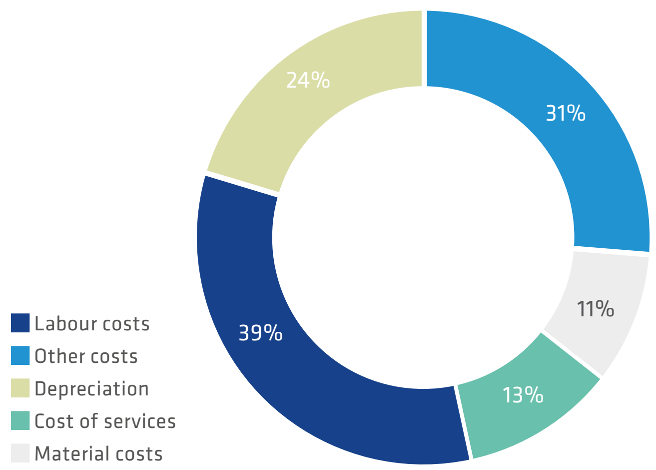


The impact of the COVID-19 pandemic on HSE Group EBITDA was positive, in the amount of EUR 3,120,425, as the HSE Group received subsidies based on intervention laws in the form of state aid, whereby it incurred additional direct materials, services and labour costs. The liquidity impact of the pandemic on the operation of the HSE Group was minor, as a part of the protective materials is disclosed at the end of 2020 in inventory, which does not affect the EBITDA amount as yet. In 2020, higher expenses were also disclosed for the purchase of additional computer equipment that was necessary in order to ensure remote work from home.

EBITDA IN EUR MILLION



COST STRUCTURE IN 2020



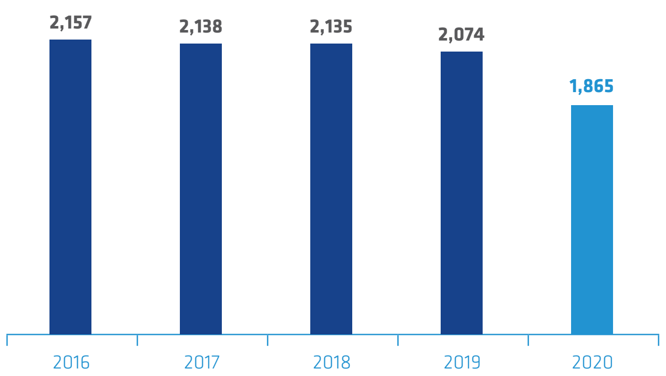
EBITDA WAS THE HIGHEST IN THE LAST SEVEN YEARS

Despite the higher price of own production facilities (higher costs of CO_2 emission allowances), impressive EBITDA was generated, as it was the highest in the last seven years. It increased by 17% when compared to 2019. Due to the changed market conditions, asset impairment was performed in the amount of EUR 243,508,849 and, despite a record-breaking EBITDA, the Group operated at a loss in the amount of EUR 137,675,154.

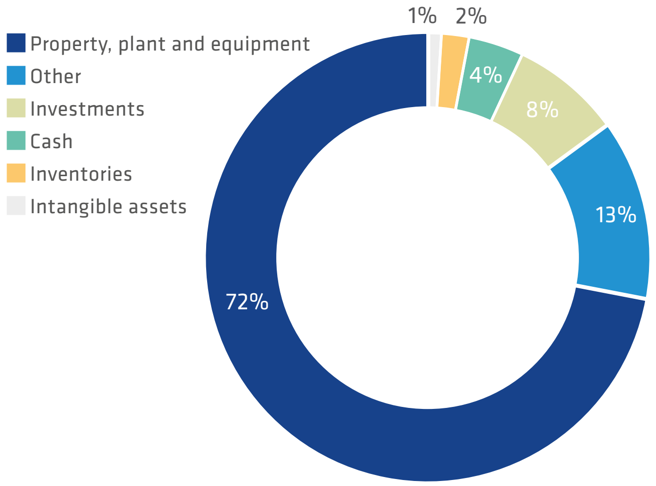
The financial result was 24% better compared to 2019 due to lower financial expenses. The reasons for this are reduced debts and the re-financing carried out in 2019, which caused additional one-time financial expenses. Due to the negative operating profit or loss, the profit or loss before taxes was negative, in the amount of EUR 160,809,466. After taxes in the amount of EUR 23,369,914, loss was disclosed in 2020 in the amount of EUR 184,179,380. Without the asset impairment, the HSE Group would have generated a net profit in the amount of EUR 60,689,205.

2.7.1.3 Analysis of the definitive financial statement of the HSE Group

ASSETS IN EUR MILLION



STRUCTURE OF ASSETS



Due to the impairments performed, the assets of the HSE Group were 10% lower at the end of 2020 compared to 2019. The proportion of long-term assets decreased within the structure of assets.

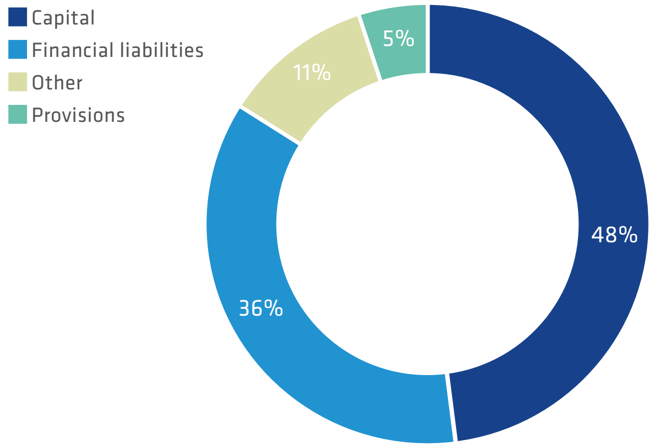
The HSE Group purchases CO_2 emission allowances for the needs of electricity production by way of thermal power. Due to the lower volume of CO_2 emission allowances, the intangible assets were 7% lower. Property, plant and equipment costs were 17% lower due to the impairments. At the same time, the investments did not follow the amortisation of assets. Production equipment was 24% lower (65% proportion), while land was 2% lower (2% proportion). Buildings were at the same level as in 2019 (29% proportion), while property, plant and equipment in acquisition were 1% higher (4% proportion). The right to use leased assets decreased by 14% due to amortisation. Investment properties were 3% lower. The majority of the other long-term financial investments consisted of the investment into the affiliated company HESS, in which the HSE Group has a 49% shareholding. Due to the valuation according to the equity method, the value was 1% higher. Long-term operating receivables mainly represented receivables for granted financial cover for the purposes of electricity trading. Due to the increased trading volume, they were 101% higher.

Assets for sale were 94% lower due to the sale of a holiday facility. Inventory was 17% higher, mainly due to the higher material inventory (of spare parts and the steel arc support at the company PV due to the lower production rate of mine tracks and the higher inventory of spare parts for the Šoštanj Thermal Power Plant). Short-term financial investments mainly referred to the dedicated deposit for the repayment of the financial liabilities of the company TEŠ. Due to the increased turnover of the parent company, the short-term operating trade receivables were 18% higher. Other short-term assets were 4% lower due to VAT receivables. Cash was higher by no less than 85% due to better operating cash flow (the change is evident in greater detail in the cash flow table in the accounting part of the HSE Group Report).

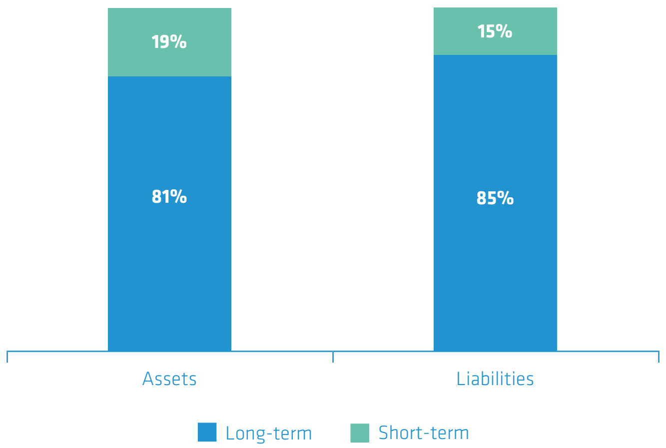
As at 31 December 2020, the capital structure was favourable, as all short-term liabilities were covered using short-term assets. Capital was 15% lower. The loss in 2020 had a negative impact on the capital, while the higher risk hedging reserve had a positive impact, by EUR 22,757,102, within which trading with standardised futures contracts in markets for trading electricity and CO_2 emission allowances is disclosed.

At the end of 2020, the company TEŠ became insolvent because the loss exceeded half of its share capital due to the recognised asset impairment. The insolvency of the company was resolved in March 2021, when the company GE transferred the payment of a compensation for damages (signed out-of-court settlement related to the construction of TEŠ Unit 6 between HSE, TEŠ and GE). Following this event, the net loss was once again lower than half of the share capital.

STRUCTURE OF EQUITY AND LIABILITIES



STRUCTURE OF THE FINANCIAL POSITION OF THE HSE GROUP AS AT 31 DECEMBER 2020



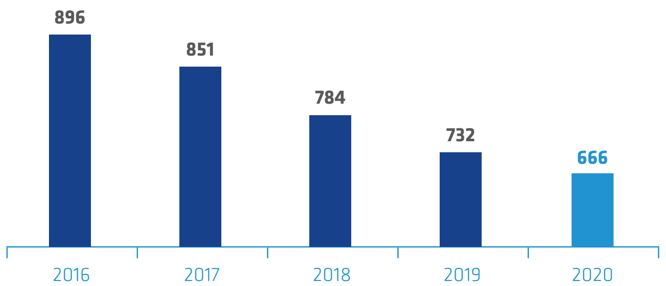
On the basis of an actuary calculation, provisions for severance pays and long-service bonuses were additionally formed; they were 17% higher. Among other provisions, which were 23% higher, additional formation of provisions for closing works and dismantling were disclosed. Due to the costs incurred through the European Osmose and Farcross projects, other long-term liabilities were 6% lower.

DELEVERAGING

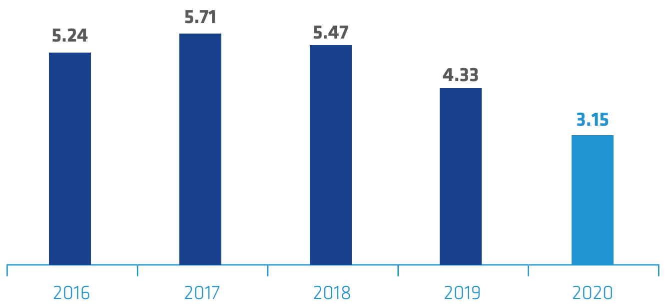
The indebtedness to banks was lower by 9%, while net indebtedness by lower by no less than 15%. The net financial liability/EBITDA indicator improved from 4.33 (as at the end of 2019) to 3.15, one of the reasons for this being high EBITDA. As at 31 December 2020, the Group fully met its financial commitments according to long-term loan agreements.

Short-term operating trade payables were 2% higher due to the higher turnover of the parent company. Other short-term liabilities were 10% lower.

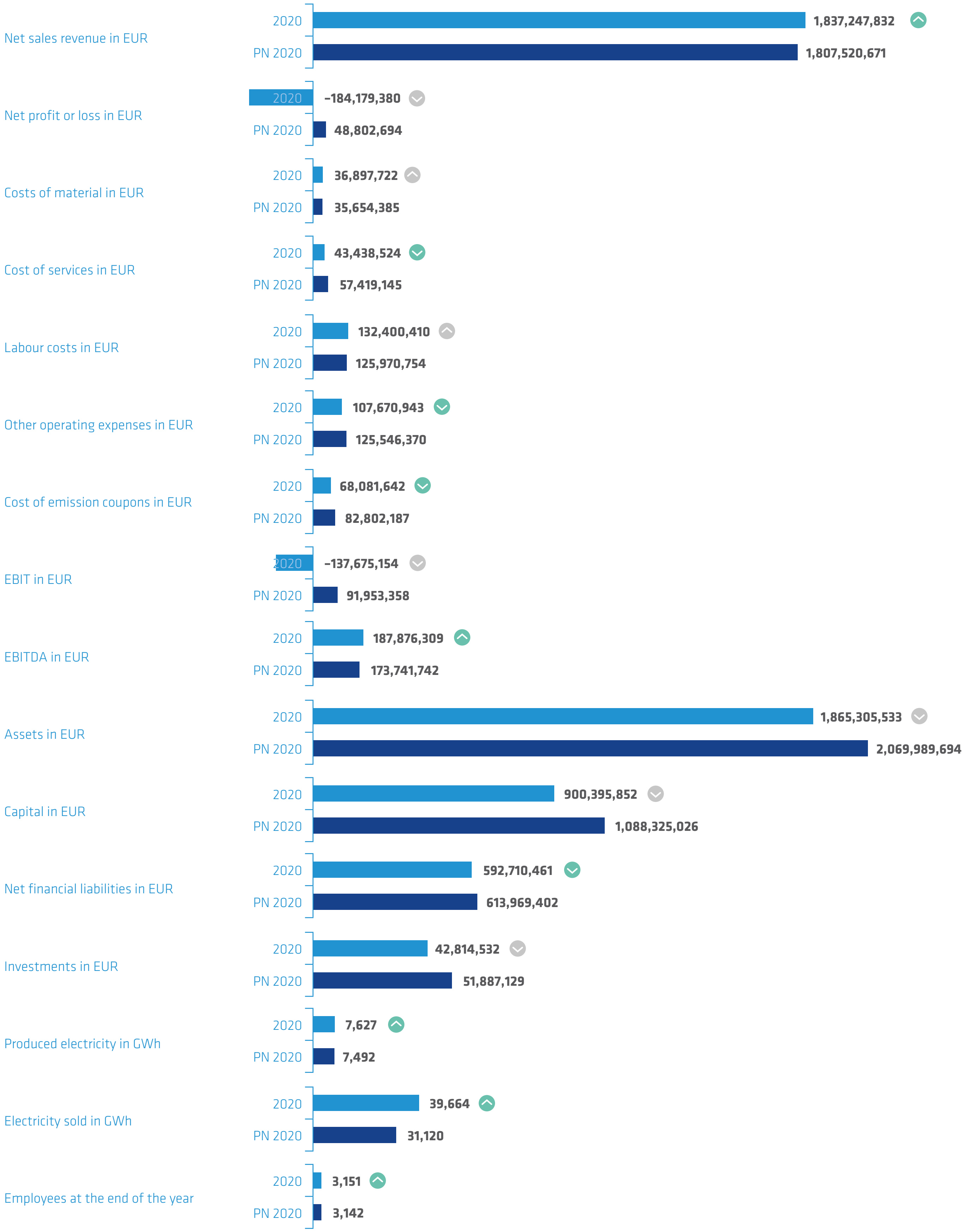
INDEBTEDNESS TO BANKS IN EUR MILLION



NET FINANCIAL LIABILITIES/EBITDA



2.7.1.4 Comparison of 2020 operations with the 2020 plan



EBITDA exceeded the plan due to a better profit/loss in trading in electricity, generated unplanned revenues from the sale of CO_2 emission allowances, lower costs of services (HSE – lower attorney and consultancy costs and maintenance costs; TEŠ – lower costs of municipal utility services, attorney services, and costs related to the demolition of a cooling tower and chimney; RGP – lower production services because there were mostly projects with a larger proportion of materials and own turnover; DEM – lower costs of intellectual and personal services, mainly lower costs related to occupational safety, healthcare services and education due to fewer conducted educational courses than planned due to the situation surrounding the coronavirus, and maintenance services due to the lesser scope of works, as only the most urgent work was performed during the epidemic), CO_2 emission allowances (lower production using thermal power), and lower concession fees (lower average sales price for electricity).

The production in hydroelectric power plants was above average. The sales volumes of electricity were higher due to higher production rates as well as due to net trading. As a result, net revenues from sales were also higher. Material costs were higher because activities mainly included projects with a higher proportion of materials and own turnover (mainly due to a higher consumption of construction aggregates, construction materials, and gravel within the projects carried out by the company RGP) and because protective materials and disinfectants were purchased due to COVID-19. The companies PV and HTZ incurred labour costs beyond those planned due to non-implementation, although planned measures to reduce labour costs (management and labour did not grant the required consent due to the COVID-19 situation). Due to the performed impairments, EBIT was negative and a loss was generated. Without the impairments, the HSE Group would have operated with a profit beyond that which had been planned. The impairment also caused a decrease in the asset balance and capital. Company debt was at the planned level. A delay in certain investments occurred due to the COVID-19 pandemic.

2.7.2 Business performance analysis of the HSE Company[15]

2.7.2.1 Key data of the Company HSE

Key data	Unit of measure	2016	2017	2018	2019	2020	Graphic comparison
Net sales revenue	EUR	1,234,432,724	1,610,687,897	1,481,938,763	1,740,154,682	1,860,698,020	
Net profit/loss	EUR	44,359,794	19,737,615	9,486,269	60,117,717	-226,942,925	
Revenue	EUR	1,293,642,769	1,657,588,300	1,519,177,749	1,762,118,339	1,870,651,657	
EBIT = Operating profit or loss	EUR	64,207,895	50,171,197	54,454,367	68,441,332	107,379,998	
EBITDA	EUR	64,973,556	51,015,920	55,340,294	69,323,633	108,640,716	
Assets	EUR	1,299,127,630	1,321,084,847	1,381,683,132	1,418,699,514	1,246,755,844	
Capital	EUR	876,576,884	905,369,122	979,389,150	984,344,305	779,976,244	
Bank indebtedness	EUR	245,192,351	236,468,415	219,469,011	222,513,663	211,177,071	
Total indebtedness	EUR	246,409,568	236,622,267	219,574,520	223,729,850	214,055,939	
Investments	EUR	853,639	1,746,764	1,247,046	899,352	973,620	
Electricity produced	GWh	7,778	7,034	7,320	7,155	7,627	
Electricity sold	GWh	30,483	37,799	31,158	34,538	40,782	
Employed at the end of the year	Number	150	174	176	186	211	
Average number of employees	Number	147	162	175	181	199	
EBITDA margin	%	5.2	3.2	3.7	4.0	5.8	

NOTE: The average number of employees is calculated on the basis of the number of employees as at 31 December 2019 and 31 December 2020.

15 Unless stated otherwise, this chapter provides explanations regarding operational deviations in 2020 compared to 2019.

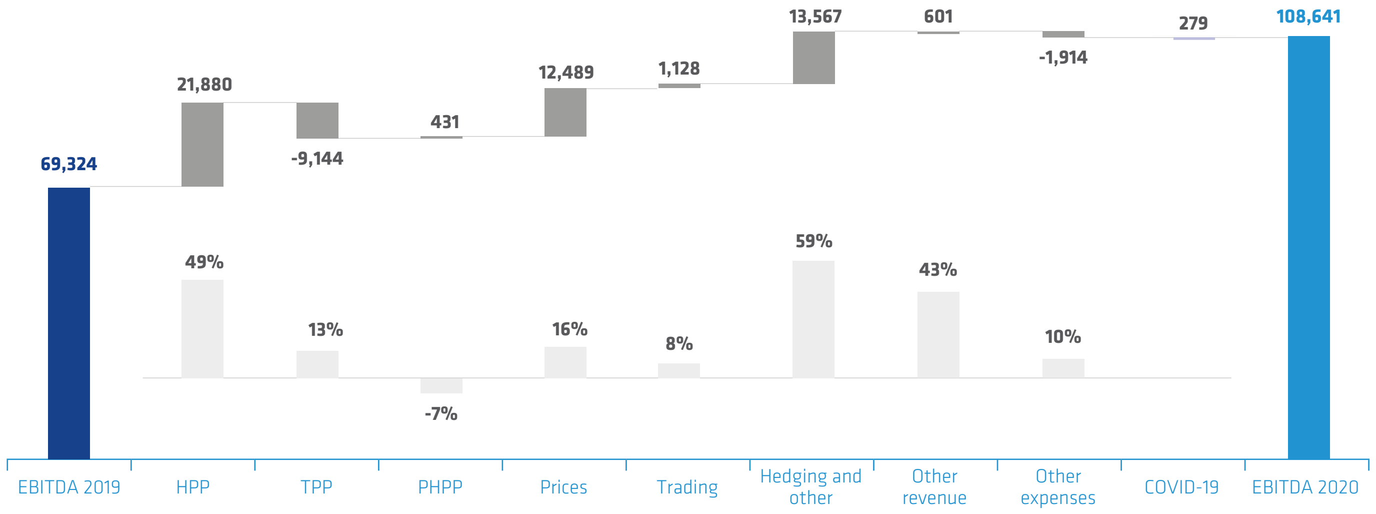
Key data	Unit of measure	2016	2017	2018	2019	2020
Self-financing ratio		67.47	68.53	70.88	69.38	62.56
Long-term financing ratio		85.73	85.20	84.94	84.46	78.12
Operating fixed assets rate		3.02	2.97	3.16	3.79	6.81
Long-term investment ratio		85.98	84.68	81.93	83.68	79.88
Equity to operating fixed assets ratio		22.37	23.06	22.44	18.31	9.19
Immediate solvency ratio		0.17	0.15	0.34	0.14	0.14
Quick ratio		0.91	0.99	1.17	1.03	0.90
Current ratio		0.95	1.03	1.20	1.05	0.92
Operating efficiency ratio		1.05	1.03	1.04	1.04	1.06
Net profitability ration of ROE capital	%	5.2	2.2	1.0	6.1	-25.7
Net profitability ration of ROA assets	%	3.5	1.5	0.7	4.3	-17.0
Added Value	EUR	73,116,212	60,913,790	65,840,152	80,736,259	121,554,459
Added value per employee	EUR	497,389	376,011	376,229	446,057	612,365
Debt-to-capital ratio		0.28	0.26	0.22	0.23	0.27
Total financial liabilities / EBITDA		3.79	4.64	3.97	3.23	1.97
EBITDA / Financial expenses from received loans		5.83	6.38	7.08	10.81	27.69
Total financial liabilities / Assets		0.19	0.18	0.16	0.16	0.17
Net financial liability	EUR	217,458,121	209,894,393	151,815,272	196,133,069	176,569,879
Net financial liabilities / EBITDA		3.35	4.11	2.74	2.83	1.63
Net financial liability / Capital		0.25	0.23	0.16	0.20	0.23

2.7.2.2 Analysis of the profit and loss statement

RECORD-BREAKING VOLUMES, EBIT AND EBITDA

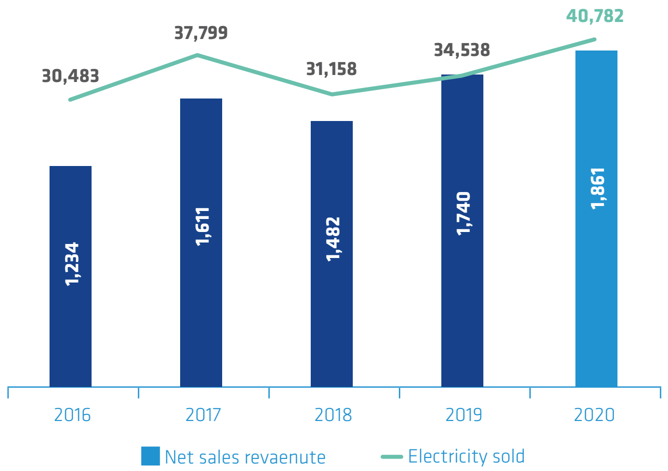
The COVID-19 pandemic did not significantly affect the operation of the company HSE in 2020. Protective measures to ensure uninterrupted operations of production plants were adopted and two back-up locations for the needs of the uninterrupted operations of a HSE management centre and centre for the sale and trade in electricity were established. Production was 7% higher compared to 2019 due to favourable hydrological conditions, only lagging behind production in 2016 (more details provided in the analysis of the operation of the HSE Group). Favourable hydrological conditions, the successful compensation for outages in production through thermal power, and taking advantage of market opportunities are the reasons for the highest volume sales of electricity, as sales exceeded 40 TWh for the first time in HSE history. It increased by 18% when compared to 2019.

HSE GROUP EBITDA CHANGE IN 2020 RELATIVE TO 2019 IN EUR THOUSAND

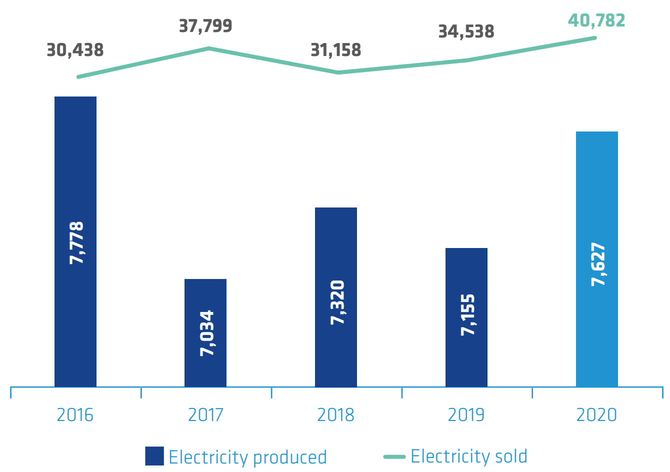


Due to a higher sales volume, the generated revenues from the sale of electricity achieved almost EUR 1.9 billion (99% of the operating income). Compared to 2019, revenues were 7% higher, despite average electricity sales prices that were 9% lower. These prices were lower due to lower consumption as the result of the measures adopted to prevent the spread of COVID-19 and the low prices of energy products and CO_2 emission allowances, particularly in the first half of 2020. The purchase price of electricity (99% of the operating income) increased by 5%, which was less than the increase of the revenues from the sale of electricity due to successful hedging. The price difference in the sale and trade in electricity was 40% higher and the trade margin expressed in EUR/MWh was 24% higher.

NET SALES REVENUES IN EUR MILLION AND ELECTRICITY SALES VOLUMES IN GWh



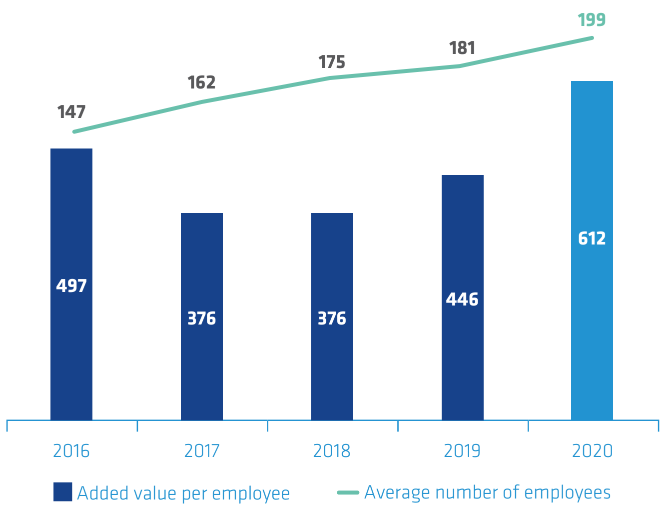
ELECTRICITY SOLD AND PRODUCED IN GWh



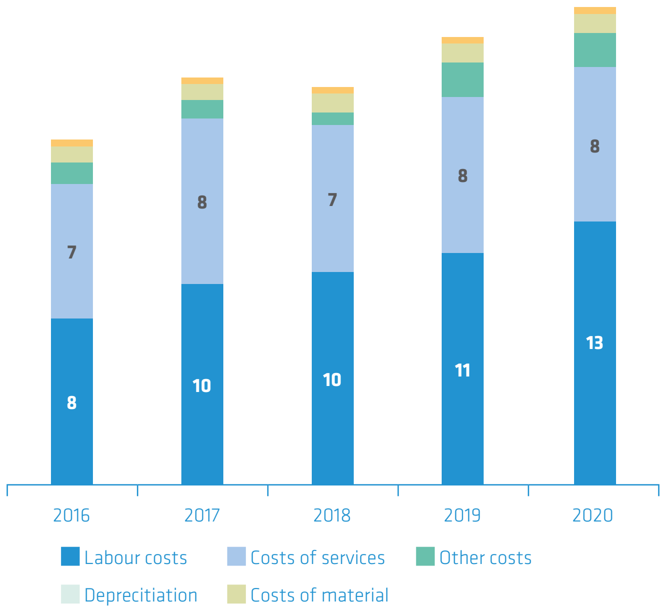
A large part of the revenues from the sale of merchandise and materials in the amount of EUR 5,524,197 were generated with the sale of CO_2 emission allowances. Revenues from services are mainly connected to electricity and were 27% lower. The following was disclosed among other operating income: the positive effects of the valuation of financial instruments in the amount of EUR 4,311,356, revenues from the refinanced pension and disability insurance (ZPIZ) contributions of the employer and employee (COVID-19) in the amount of EUR 476,676, revenues from late payment interest in the amount of EUR 382,331 and revenues from co-financing in the amount of EUR 118,308. Compared to 2019, these revenues were 21% lower due to the lesser effects of the valuation of financial instruments.

The costs incurred in 2020 were 9% higher compared to 2019. Due to the purchase of protective materials and disinfectants related to the COVID-19 pandemic, in the amount of EUR 206,730, and due to higher cost of expert literature and e-access, the costs of materials were 88% higher (3% proportion of the total costs). The cost of services were 2% lower (33% proportion). The largest proportion among the costs of services were the costs of re-invoiced IT services to subsidiaries, which were 2% higher (19% proportion) due to taking over the performance of activities from a subsidiary. The costs of legal, attorney and notary services were 24% lower due to the delay in arbitration proceedings (13% proportion). Maintenance costs were 3% lower due to lower computer equipment maintenance costs (12% proportion). Because more computer equipment and vehicles were rented, the costs of rent were 23% higher (4% proportion). The costs of bank guarantees and load approvals depend on the scope of trading activities; in 2020, they were 6% higher (11% proportion). The following costs were lower due to the impact of the pandemic: other costs of intellectual services by 5% (12% proportion), the costs related to trade shows, advertising and entertainment by 3% (8% proportion) and costs related to business trips by 60% (1% proportion). The costs of transportation services were 63% higher (1% proportion) due to the transportation of face masks. Labour costs were 13% higher due to the increased average number of employees by 18 employees (57% proportion). At the beginning of 2020, 13 employees were reassigned to different workplaces due to the transfer of business activities from a subsidiary to HSE. Despite the increased average number of employees, the added value per employee was 37% higher. Depreciation costs were 43% higher due to the depreciation of assets rented at the beginning of 2020 (6% proportion). Provisions were 542% higher due to the additionally formed provisions for lawsuits and the increase for late payment interest (1% proportion). Other costs were 51% lower (1% proportion) due to lower court and administrative fees related to the delay in arbitration proceedings. Other operating expenses were 2% higher.

VALUE ADDED PER EMPLOYEE IN EUR THOUSAND AND THE AVERAGE NUMBER OF EMPLOYEES

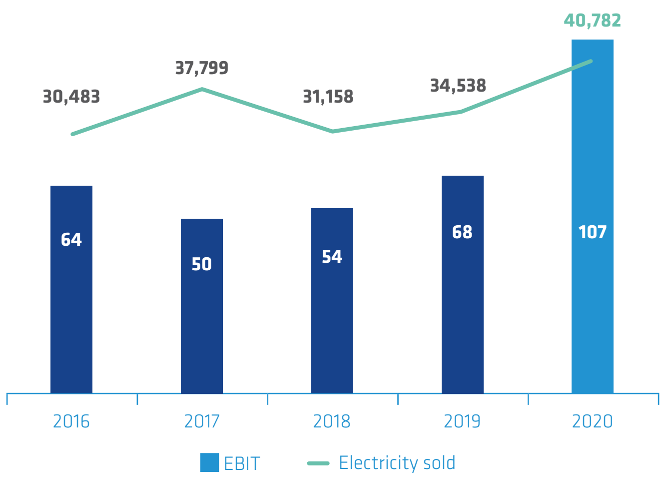


COSTS IN EUR MILLION

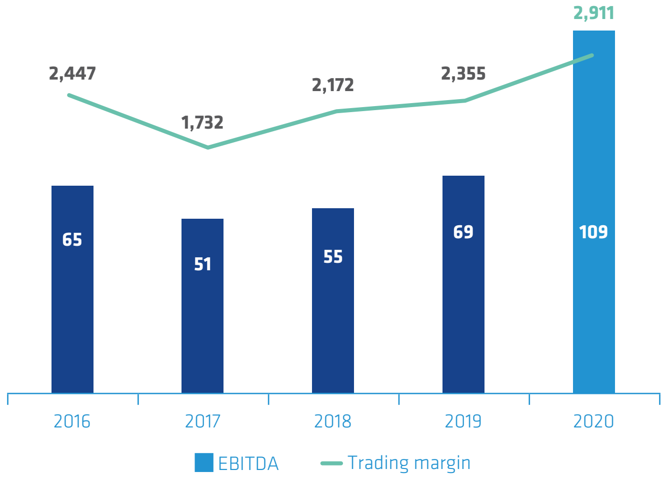


EBIT in EBITDA were record-breaking, 57% higher compared to 2019. They significantly deviate from the average in recent years due to increased trade activities.

EBIT IN EUR MILLION AND ELECTRICITY SOLD IN GWh



EBITDA IN EUR MILLION AND TRADING MARGIN IN EUR/GWh

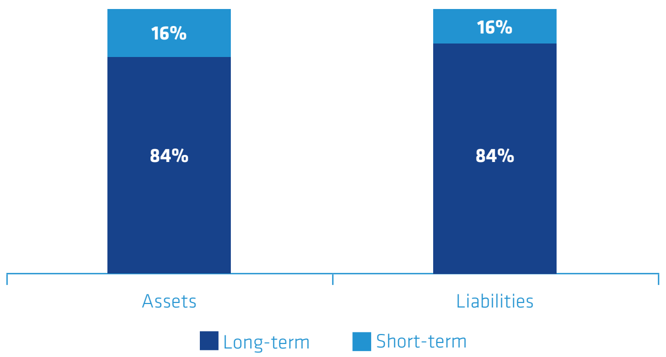


The net flow in 2020 was negative, while it was positive in 2019, in the amount of EUR 3,421,414. Based on valuations performed, the impairment of long-term financial investments in the amount of EUR 314,250,147 was disclosed due to the changed market conditions. Revenues from the participation in the profit of subsidiaries were 98% lower, while financial revenues from interest were 12% lower due to the conversion of loans granted to long-term financial investments. Other financial revenues were also 12% lower due to lower revenues from parent company guarantees. Because the company refinanced debt in 2019, its financial expenses were 63% lower.

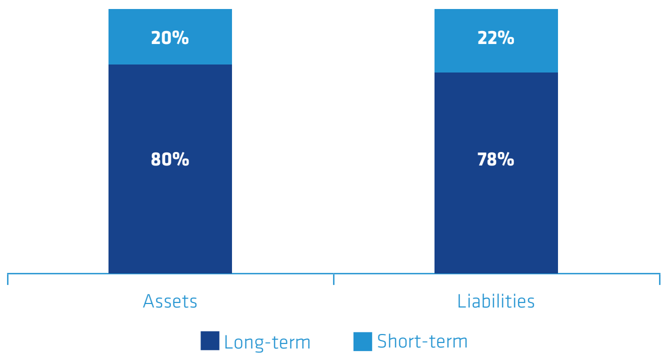
In 2020, we generated exceptional operating results. Nonetheless, we finished the year 2020 with a loss in the amount of EUR 226,942,925 due to the impairment of long-term financial investments. Without those impairments, the company HSE would have generated a profit in the amount of EUR 87,307,221, which would have been the best result in recent years.

2.7.2.3 Analysis of the definitive financial statement

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



STRUCTURE OF THE FINANCIAL POSITION OF THE COMPANY HSE AS AT 31 DECEMBER 2020



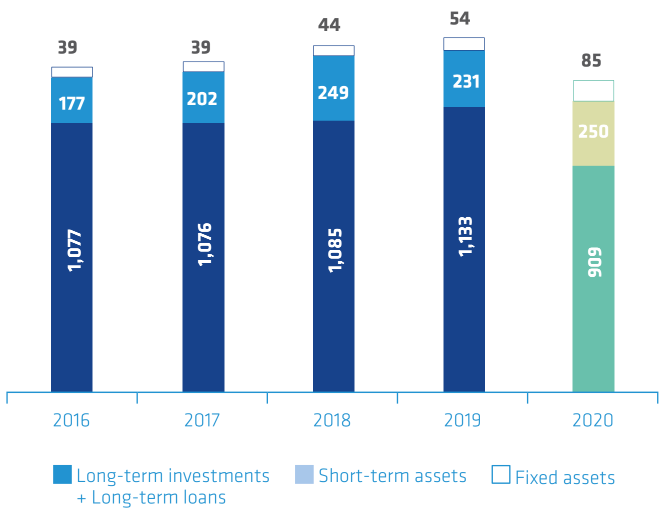
The impairment of long-term financial investments also affected the lower balance of assets at the end of 2020 compared to 2019, namely by 12%, and the decrease in the proportion of long-term assets within the total assets by 4%. Nonetheless, the capital structure was still favourable.

Intangible assets are 74% higher due to the higher inventory of CO_2 emission allowances (higher prices). Property, plant, and equipment are 2% higher due to investments that were higher than the depreciation. The right to use leased assets is 61% higher due to the higher balance of leased assets – the takeover of business activities from a subsidiary. Long-term financial investments into subsidiaries account for the largest proportion within the structure of assets (70% proportion). They were 12% lower due to impairments performed. In 2020, the conversion of loans granted to the company TEŠ, plus interest as at 30 September 2020, into a long-term financial investment in the amount of EUR 149,649,797 and the conversion of advance payments and loans granted to the company PV into a financial investment in the amount of EUR 46,225,000 were carried out. The shareholdings in other companies where there were no changes (15.4% shareholding in the affiliate HESS, 25% shareholding in Soenergetika, and a 12.13% shareholding Stelkom) as well as long-term loans granted to subsidiaries, which were lower due to the equity increase in TEŠ and PV, were disclosed among other long-term financial investments and loans. As at 31 December 2020, long-term financial receivables related to the loans granted in the amount of EUR 1,144,000 were disclosed, namely receivables from the company RGP in the amount of EUR 730,000 and the company HSE EDT in the amount EUR 414,000. The short-term part of long-term loans was disclosed among short-term financial investments, which were 92% lower due to the conversions of the loans granted into long-term financial investments and due to the repayment of long-term loans. Long-term operating receivables are 94% higher due to higher financial coverages granted for the purpose of trading in electricity.

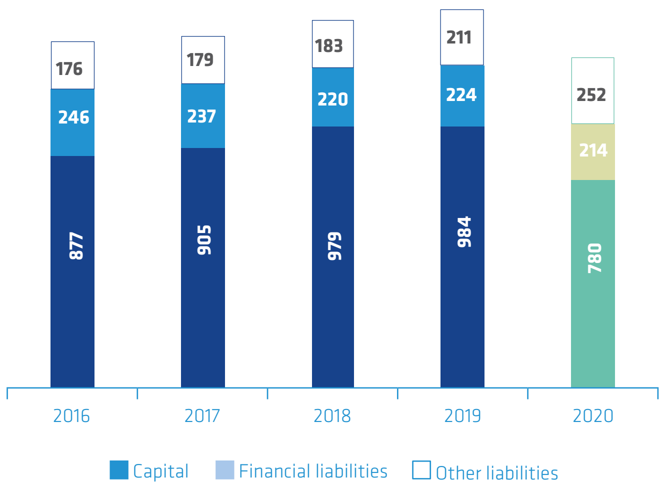
At the end of 2020, the inventory of protective materials due to the COVID-19 pandemic was disclosed, namely in the amount of EUR 724,119.

Short-term assets are 8% higher due to higher short-term operating trade receivables and higher cash (the change in cash is evident from the cash flow statement in the accounting part of the HSE Report). Due to increased turnover, the short-term operating trade receivables were 9% higher (68% proportion). A large part of the other short-term assets that are 3% lower refers to short-term operating receivables from state and other institutions (15% of the short-term assets). Contract assets represent short-term revenue not yet charged, which was 14% lower.

ASSETS IN EUR MILLION



LIABILITIES TO ASSET SOURCES IN EUR MILLION

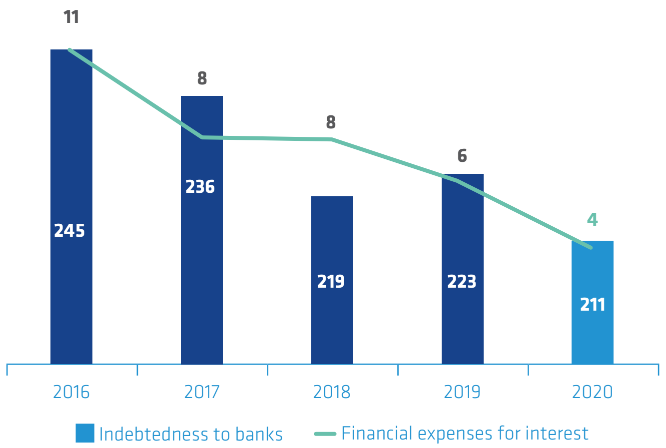


In the structure of liabilities to asset resources, the highest proportion was capital (63%). It was 21% lower due to the loss in 2020 in the amount of EUR 226,942,925. However, the risk hedging reserve had a positive impact, as it increased by EUR 22,757,102. As at 31 December 2020, the accumulated loss amounted to EUR 416,515,035. According to the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP), the accumulated loss can be covered as chargeable to other reserves.

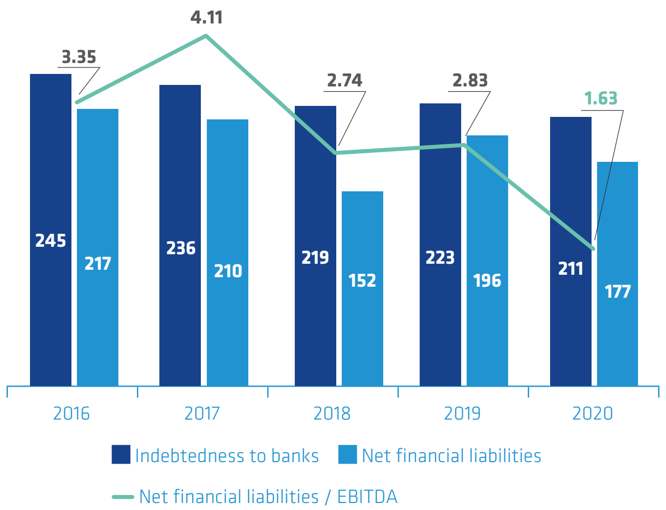
Provisions for severance pay and long-service bonuses were 37% higher due to additional formation (a higher average number of employees and a change in actuarial assumptions). Due to the formed provision for a lawsuit and the attribution of late payment interest, other provisions were 45% higher. The assets received from the co-funding of the European Projects Osmose and Farcross were disclosed among other long-term liabilities, which were 33% lower due to the costs incurred in the said projects.

LOWER TOTAL DEBTS

DEBTS OWED TO BANKS AND FINANCIAL EXPENSES FOR INTEREST IN EUR MILLION



DEBTS IN EUR MILLION AND THE NET FINANCIAL LIABILITY/EBITDA INDICATOR

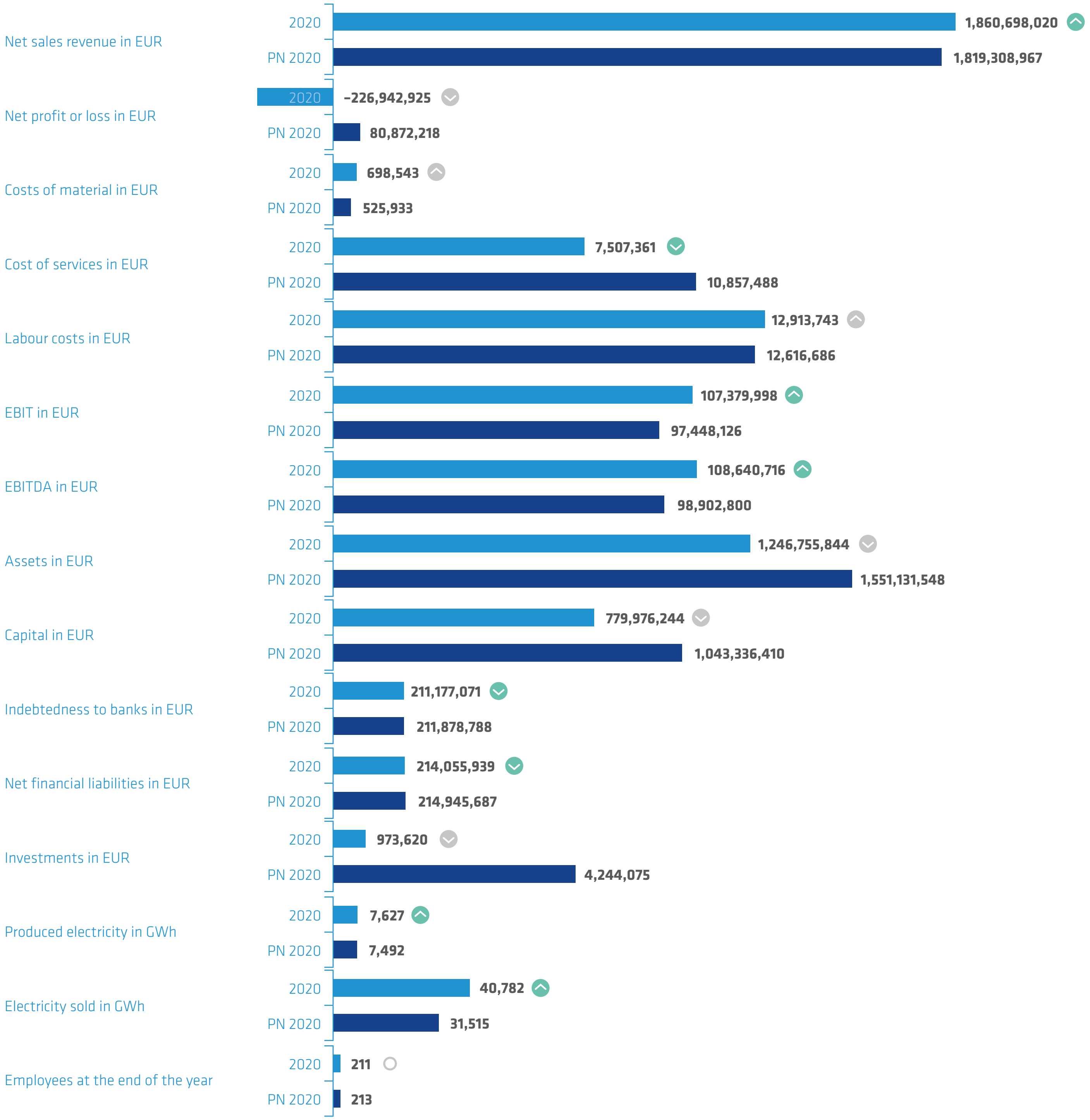


The debts owed to banks was lower by 5% due to loan repayments, while the net debt was lower by 10%, as cash was also higher. As at 31 December 2020, the company fully met its financial commitments according to long-term loan agreements. The proportionate part of the long-term loans which is due in 2021 was disclosed at the end of 2020 among short-term financial liabilities. The financial lease liabilities were 62% higher. On the other hand, the right to use leased assets was also higher.

The fair value of currency swaps in the amount of EUR 959,104 affected the increase in other short-term financial liabilities.

Due to the increased turnover, the short-term operating trade liabilities were 5% higher. Other short-term liabilities were 46% higher and mostly referred to the liabilities to state and other institutions and to short-term accrued costs and expenses.

2.7.2.5 Comparison of 2020 operations with the 2020 plan



In 2020, the company HSE generated a better EBIT and EBITDA compared to the plan. This was due to more favourable hydrological conditions (higher production), better price differences when trading in electricity, generated unplanned revenues due to the sale of CO_2 emission allowances and the lower costs of services due to a delay in arbitration proceedings. The net sales revenues were higher due to the higher sales volume of electricity. The COVID-19 pandemic did not significantly affect the profit or loss of the company, although it did affect the higher costs of materials due to the purchase of protective materials and disinfectants, while it also caused a delay in investments. Due to the above-planned value of the trading result, work performance was accounted for, and therefore the labour costs exceeded those planned. In 2020, the impairment of long-term financial investments was disclosed, which affected the generated loss in 2020 and the lower balance of both assets and capital. At the end of 2020, debt did not significantly deviate from the plan.

2.8 Risk management in the HSE Group[16]

The HSE Group is committed to constantly upgrading the risk management system and enhancing its use, both in the strategic planning process as well as when adopting the regular business decisions of the HSE Group.

Corporate risk management in the HSE Group is based on a ‘three-level defence line model’:

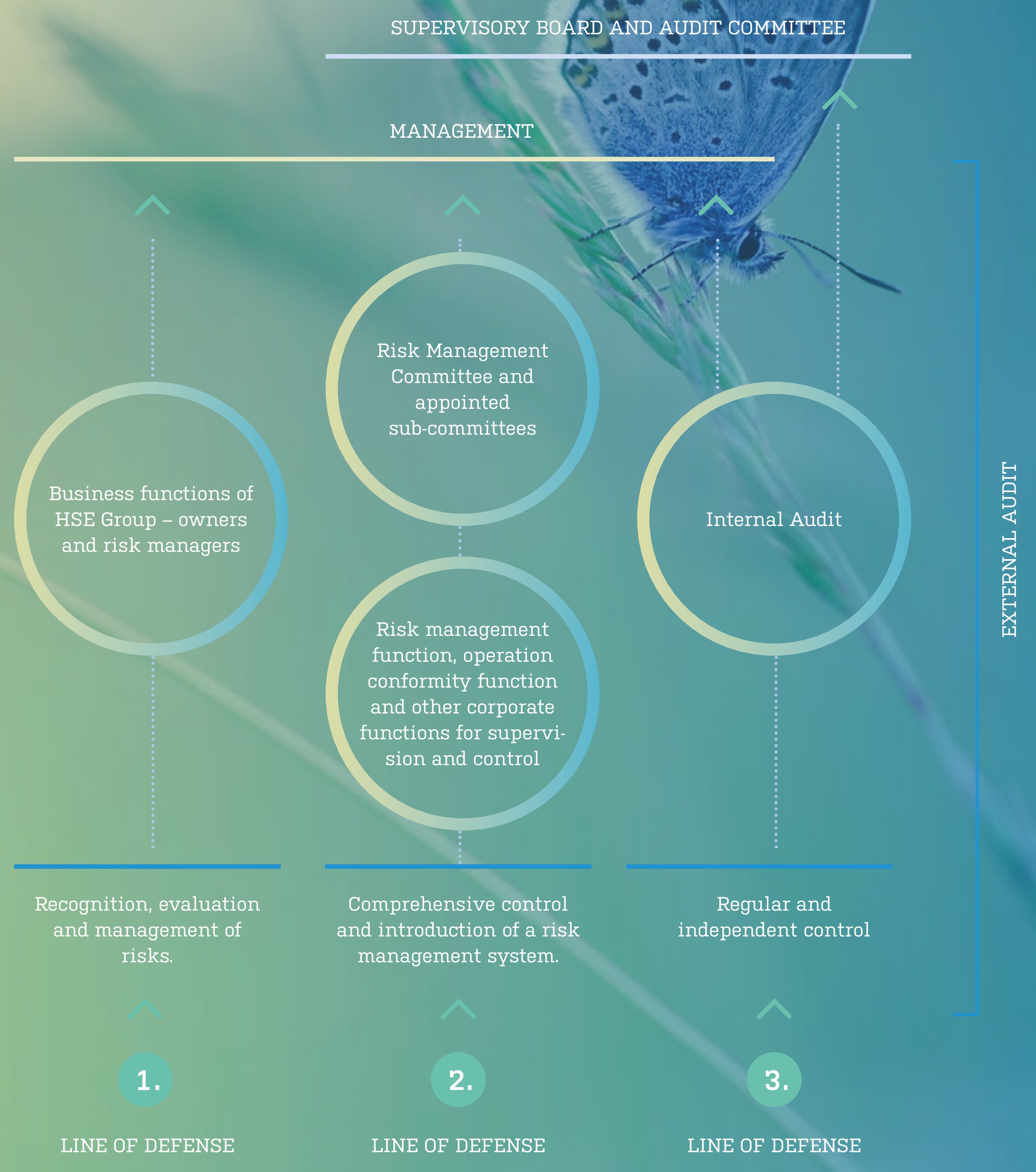
- The first line of defence is responsible for recognising and assuming risk and establishing suitable measures and internal controls for effectively managing risks.
- The second line of defence ensures control over operational compliance and establishes a risk management system.
- The third line of defence carries out regular inspections of the suitability and effectiveness of the internal environment as well as the entire risk management system.

A key role in the risk management system is played by the Management Board, the Supervisory Board and the Audit Committee, which are not a direct part of these three defence lines, although they are the primary stakeholders taking advantage of the services provided by all three defence lines and are, at the same time, responsible for the effective operation of the system.

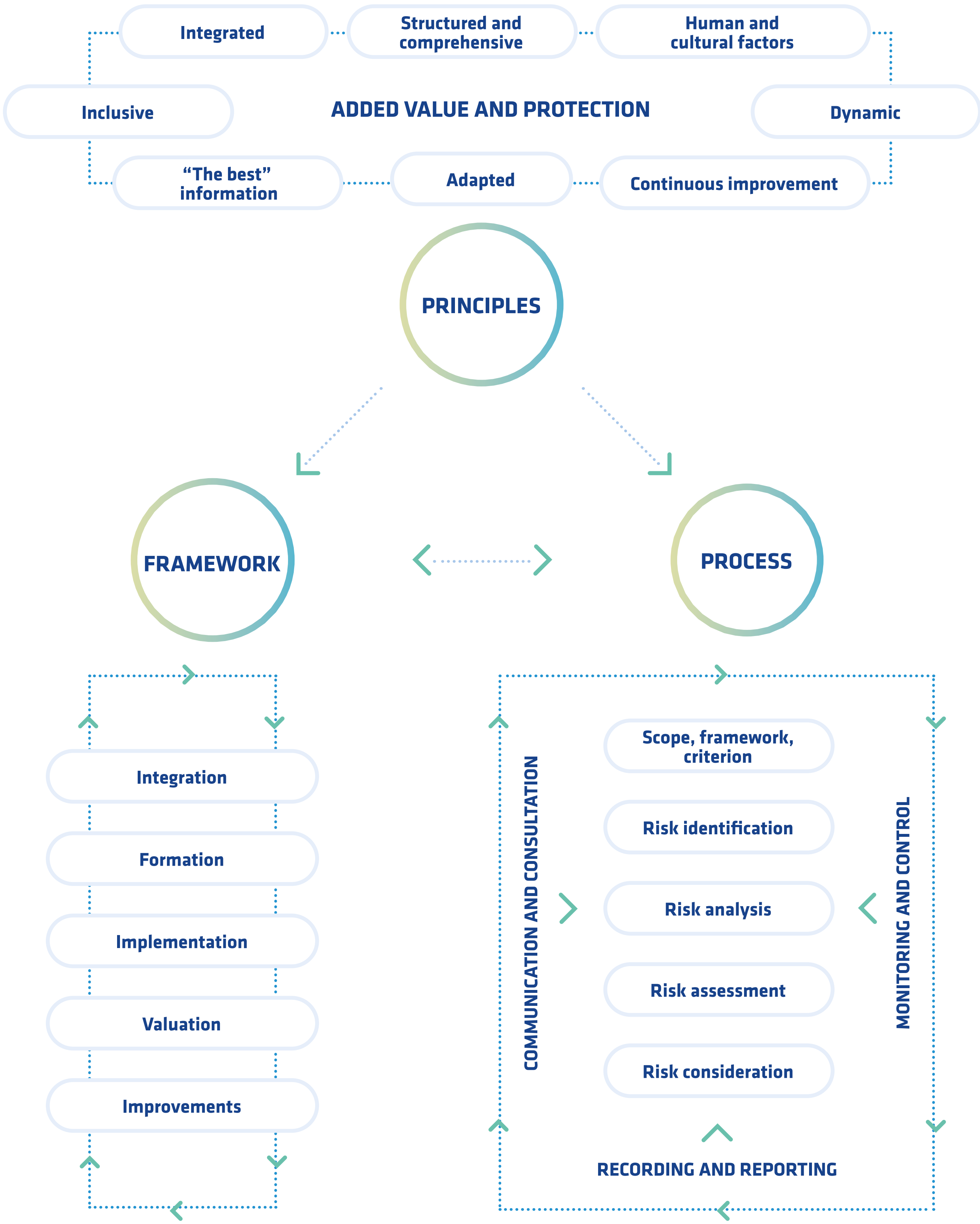
Risk management in the HSE Group is carried out in a centralised manner at the level of the entire group, where we are constantly striving to standardise processes and tools for comprehensive risk management. Effective risk management is key for achieving the set goals, improving operational effectiveness, providing safety to people and assets, making informed decisions, and ensuring operational compliance with applicable internal and external regulatory frameworks. By implementing and upgrading risk management at the level of the HSE Group, we are following the guidelines of the standard ISO 31000:2018 to the greatest possible extent.

16 GRI: 102-15; 102-25; 102-30; 102-46; 103-1; 103-2; 103-3

ORGANISATION OF RISK MANAGEMENT IN THE HSE GROUP



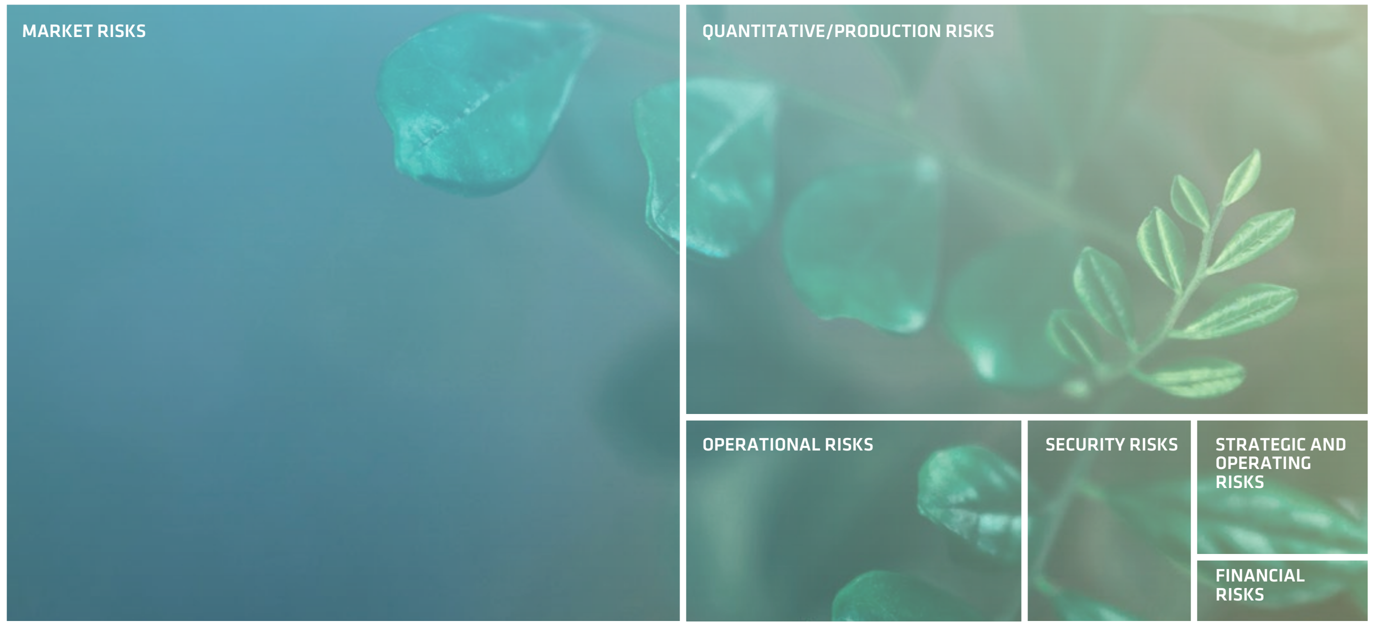
PRINCIPLES, FRAMEWORK, AND PROCESS (ACCORDING TO ISO 31000:2018)



KEY RISKS OF THE HSE GROUP

We annually assess the risk profile of individual companies in the HSE Group, which tells us what the contribution is of individual key risks at the level of the entire exposure of an individual company or the Group from the perspective of the impact on the EBITDA. We base this assessment on the business model of the HSE Group, where we identify key insecurities and assumptions (to which the Group is exposed within its operations), define their value rankings, and carry out a Monte Carlo (MC) simulation. The contribution of each risk to the risk profile of the HSE Group, which is shown below, is obtained by evaluating the proportion of the contribution that the individual risk contributes to the total set of risks (considering the 5th percentile of the calculated distribution from the Monte Carlo simulation). All of the key risks in the HSE Group are grouped according to the nature of the risk into six major categories described below.

THE RISK PROFILE OF THE HSE GROUP IN THE NEXT THREE YEARS[17]

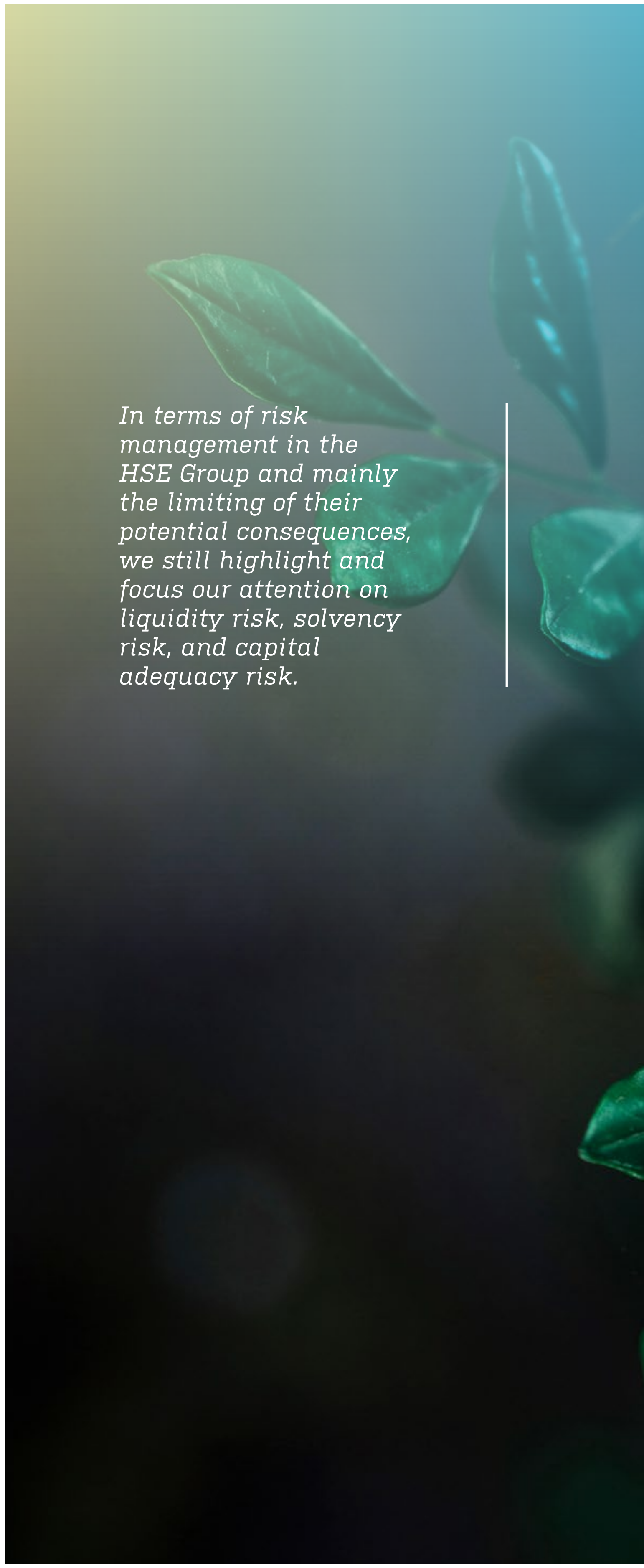


17 GRI: 201-1

Mechanisms were set up wherever possible to regularly monitor key risks based on objective indicators, while the information obtained is taken into consideration within decision-making processes to the best possible extent.

Within the process of identifying and evaluating key risks, the risks that might also impact other balance sheet items of the HSE Group or are the result of other risks are defined. Among these, the first to be highlighted is liquidity risk, which is defined as the risk for the disharmony between incoming assets and liabilities or the possibility of the lack of cash for the repayment of due liabilities. Because the liquidity risk is the common denominator for other risks, managing this risk is a difficult although important task, which cannot be carried out individually, but rather together while managing other risks. Liquidity risk is managed by planning daily, monthly and annual cash flow and then, on the basis of this, by effectively distributing surpluses within the Group and ensuring suitable available credit lines from business banks. The second highlighted risk is solvency and capital adequacy risk. When managing this risk, all risk factors that have a long-term effect on the operation of the HSE Group are taken into account. This is why this risk is also managed by managing other risks. We regularly monitor solvency indicators pursuant to the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act, and we carry out suitable corrective measures in a timely manner. From the perspective of solvency, we strive to ensure such volume of long-term financing resources that is sufficient considering the scope and type of business transactions carried out by the Group, taking into account the risks to which we are exposed.

Due to their significance, the above risks are managed within the comprehensive risk management of an individual company and the Group. More detailed information regarding the measures for ensuring the liquidity, solvency, and capital adequacy of HSE Group companies are available in the accounting part of the annual report of the company HSE and the HSE Group.



In terms of risk management in the HSE Group and mainly the limiting of their potential consequences, we still highlight and focus our attention on liquidity risk, solvency risk, and capital adequacy risk.

2.8.1 Market risks

When it comes to its operations, the HSE Group is most exposed to the risks that are the result of trends and electricity price movements in the region and the ratios between these movements between individual markets where we perform our activities. Just like electricity prices, the movements of emission allowance prices are also a significant factor. Price risks are managed at the Group level within the activities of the HSE parent company. In addition to the said effects of prices, another two key factors are the difference between the volume of planned production and the purchased and sold electricity at the moment of supply in the future, i.e. open position.

In 2020 there was a major impact by the COVID-19 pandemic, and the first effects became evident as early as at the beginning of the year. The situation changed quickly, especially in Q3, and fluctuations in the marked for electricity and related products were considerable. This period was marked by major price shifts in electricity prices, prices of emission allowances and the prices of related energy products. Q1 was marked by a downward shift in the prices of energy products due to the decision of all European countries to cease or drastically limit economic activity. From the perspective of managing market risks, this part of the year was predictable, and attention was mainly paid to managing liquidity and credit risks that could arise in such a situation. What followed was a period of greater market insecurity, mainly due to the attempts of countries to relax the imposed limitations. Their attempts were different, made at different times, and this caused greater insecurities in markets.

The exposure to market risks remained at a similar level compared to 2019.

Market risks related to the sale of our own production volumes, which is the largest and most important segment in the operations of the HSE Group, were managed in 2020 pursuant to the defined strategy for selling our own production volumes and purchasing emission allowances for the needs of our own production. The year 2020 was marked by the deterioration of the price relationships for production using thermal power. In the sale of electricity produced using hydro power, the focus in 2020 was mainly on managing the surplus volumes of produced electricity, which deviated from the usual patterns in terms of monthly distribution and securing their prices.

In the segment of trading in electricity, market risks were managed based on selecting and limiting the maximum values of the parameters that had been monitored for this purpose in recent years. In addition to the Value-at-Risk parameter (the 5-day VaR parameter with a 95% confidence interval was monitored), we also monitor venture capital; furthermore, the already achieved added value of the portfolio was protected based on the fluctuating profit loss limit parameter. Risks are managed by actively managing portfolio positions. By doing so, we ensure that parameter values are within the limits. The exposure to these risks remained at a similar level compared to 2019.

The process of monitoring market risks is being constantly improved and adapted to new market situations and new possibilities for price protection occurring in the market. In this sense, the effectiveness of the implementation of the risk management system is being constantly monitored and upgraded.

Additional information related to managing price risks are also provided in the accounting part of the report (Financial instruments and risk management).

2.8.2 Quantity/production risks[18]

Volume/production risks arise due to the differences between the planned and actually produced volumes of electricity. These risks are related to the technological and logistics limitation in production, the timely supply of energy products and weather conditions.

The risks that affect the reliability of production plants are managed based on extensive experience, know-how and regular employee training.

The key factor in quantity/production risks is hydrology, which is managed by planning production based on average flows over several years and the foreseen probability of favourable hydrological conditions. In 2020, hydrological assessments were regularly performed monthly and they were based on the latest available meteorological data. The deviations that occurred in production are managed in the next step mainly by redistributing production in the HSE Group and by trading in electricity. Due to the significance of the impact of this risk on the operations, we are also working on projects for generating more precise hydrological models in individual river basins, which will additionally improve the short- and long-term hydrology assessments.

The risk of not achieving the planned volumes of coal at Velenje Coal Mine could be the result of external factors, such as rock bursts, stoppings, water and gas leakage, exceptional occurrences (e.g. epidemics), i.e. factors that cannot be influenced by the company PV and internal factors, such as operational reliability, which depends on the condition of the machinery and equipment that are exposed to the difficult conditions in the mine. Risks were managed in 2020 by drafting long-term excavation plans, taking epidemiological measures, monitoring and establishing a suitable strategic inventory volume at the coal yard, taking measures to replace equipment, ensuring continued equipment maintenance and supervision of operations, optimising the costs of materials for constructing mine tracks and, in the event of problems, by introducing additional workdays to compensate for the lost production volumes. Risk is a very important consideration for the HSE Group, as it also significantly influences production at the TEŠ thermal power plant.

The risks that affect the reliability of production plants are managed based on extensive experience, know-how and regular employee training as well as based on known operational methods of the production plant. The uninterrupted operation of production units and other electrical power devices is ensured by individual HSE Group companies by providing regular maintenance and periodic equipment controls (measurements, equipment diagnostics). Modern monitoring systems are established at production units. They are used to regularly monitor the condition of key components, which allows us to quickly detect mechanical and electrical malfunctions of the equipment. This is how we reduce the probability of unplanned standstills or shut-downs of production units. In 2020 we continued to upgrade the functionality of the IT system for providing support to maintenance – SAP PM (EAM) – and we established a notification system for ongoing event recording and the implementation of measures on the equipment at production units. In this way, the SAP system was used to additionally improve the coordinated overview and more effective response to equipment management, thus allowing us to more effectively manage unplanned events related to the maintenance of production units. Such maintenance is also managed by carrying out inspections and repairs in a timely manner and by compensating production using available units in the HSE Group. All of the additional measures contribute to more effective risk management in the field of managing production units and also contribute to reducing the exposure of the HSE Group to these risks.

Measures to manage risks related to the COVID-19 epidemic were adopted in 2020. These measures contributed to uninterrupted production. Two planner-dispatcher teams were formed which took turns in the workplace every 14 days. Our employees were regularly tested for the coronavirus. We established a back-up HSE management centre, which is separate from other employees. This centre is where work was carried out during the epidemic. All employees, except for the planner-dispatcher, worked from home. We also drafted a scenario for working in isolation or if key employees needed to be accommodated at work if the epidemiological situation drastically worsened.

Quantity/production risks are also managed 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.

18 GRI: 201-2

2.8.3 Operational risks[19]

Operational risks are risks that occur due to the improper or unsuccessful operations of the HSE Group or due to the implementation of internal processes, human resource processes, and managing external events and influences of individual HSE Group companies.

In order to more successfully manage fraud risk and the risk of compliant operations with the national legislation and EU regulations and other commitments, the Operational Compliance Department was established in 2020.

The key element in managing these risks is establishing an effective internal controls system, whereby the focus is mainly on the accuracy and reliability of financial and accounting reporting, ensuring operational compliance with internal and external acts and the effectiveness and reliability of carrying out business processes. The goal of managing operational risks is to effectively prevent potential adverse effects, effectively eliminate the consequences of a particular event, optimise business processes and ensure the expert and ethical work of the HSE Group employees.

In order to more successfully manage fraud risk and the risk of compliant operations with the national legislation and EU regulations and other commitments, the Operational Compliance Department was established in 2020. Risks are primarily managed by carrying out preventive activities in the form of educational courses and employee training in the field of operational compliance and integrity. At the same time, we carry out supervision in the form of compliance checks and (forensic) investigations related to preventing and detecting fraud and in the form of corrective activities carried out in order to prevent and check detected frauds and to establish the measures for their prevention. Within the scope of our operations, there was also a task group in 2020 comprising of members from various expert departments. It operated in accordance with REMIT (Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency).

In terms of contractual risks, we continued to standardise draft agreements in 2020. By doing so, we minimised risks, while also improving our negotiating position in relation to our counterpart. Furthermore, we also composed an internal checklist with the elements that need to be taken into account in every inspection in order to review the received agreement proposals.

With regard to the environment, the HSE Group also strives to ensure sustainable operation. For this reason, all potential risks have been evaluated. Environmental risks are connected to recognised environmental aspects, which are the result of activities performed by individual HSE Group companies in the field of raw material extraction and energy conversion. The HSE Group is aware that, when taking advantage of business opportunities, negative impacts can occur such as emissions into the air, emissions into water and the ground, electromagnetic and ionising radiation, ambient noise, land degradation and usurpation, unpleasant odours and impacts related to waste formation and management. The HSE Group consistently follows the established sustainable environmental policy, which defines the important objectives in the field of the environmental management system and the key guidelines for implementing measures for managing these risks (for more details, see chapter Sustainable development in the HSE Group). In 2020 we began drafting a systemic regulation that would introduce coordinated monitoring and control of the environmental management system in the HSE Group, the detection of environmental risks when performing business activities, and the coordinated reporting of environmental indicators at the level of HSE Group companies. In 2020 we also paid the strictest attention, and will continue to pay the strictest attention to managing environmental impacts related to coal mining (e.g. repairing depressions, etc.). Risks were successfully managed in 2020.

In terms of IT risks, we encountered exceptional circumstances in 2020 caused by the COVID-19 epidemic. The manner of work changed for employees. We were exposed to a new situation and new risks. We successfully established all of the necessary safety mechanisms for safe work from home, such as introducing two-factor authentication and safe mobility. In 2021, we do not expect to encounter any new or increased risks in this field, although the emergency situation literally caused complete digitalisation. A lot of work and resources were devoted to optimising the operation of full IT support in the HSE Group focusing on optimising the functioning of SAP software solutions (ERP, CRM, BW) related to the document system and other IT systems. In this field, pursuant to the recommendations given following the revision of the IT system of the HSE Group, we renewed authorisations, thus significantly reducing risks due to unauthorised data inspections. In order to additionally reduce risks, we carried out a pilot run of an identity management system in the HSE Group (IAM), by way of which we will successfully assign and change user rights or user group rights in the HSE IT system. These measures improved strategic and risk management at the Group level, a higher level of optimised system functioning was achieved and the level of automation and internal control functioning was increased. In order to ensure the operation of ICT systems and business solutions, our back-up system was standardised, as was the virtual environment; by doing this we reduced risks while also increasing the capability, reliability and safety of the operation of IT systems of the HSE Group.

Within personnel risk, we also paid a lot of attention to risk management related to COVID-19. We were among the first company to adapt to the new conditions as the pandemic was declared (on 12 March 2020). Wherever possible, we enabled our employees to work from home. During the emergency situation, we carried out all of the necessary as well as additional measures for the protection of our employees and ensured the uninterrupted operation of all HSE Group companies (daily communication regarding the emergency situation, protective materials, educational courses, etc.).

19 GRI: 205-1

2.8.4 Security risks

Security risks occur due to the improper or unsuccessful protection of information, property, safety or health at work and due to unforeseen external events that could have an exceptional impact on the operation of companies. Risks are successfully managed by establishing and regularly upgrading suitable preventive measures and systems for the early detection of changes in our operational environment.

The greatest risks in the HSE Group in the field of occupational health and safety and fire safety are related to coal mining and electricity production. The risks arise from mechanical hazards at work (rotating, moving parts, the use of forklifts, heavy construction machinery, etc.), factors related to the method of work (work at heights, work in enclosed or indoor spaces, physical loads), electricity hazard (electrical shock hazard – direct, indirect contact), hazardous substances at work (substances posing a health risk, flammable, and explosive substances, chemicals, fires and explosions), physical factors (non-ionising radiation, noise, mechanical vibrations, substances with a high/low temperature, pressurised substances), ecological conditions at work (poor lighting, high/low temperatures, dirt), ergonomic loads at work, psychological factors (intensity, monotony, stress), shift work (night shifts), difficult working conditions (unfavourable weather conditions, work near water), etc. Health and safety at work risks and fire safety risks are successfully managed by planning, controlling and implementing various measures and monitoring their effectiveness. The risks of accidents and health injuries are monitored for all job positions and technologies. The risks related to health and safety at work, fire safety and the system for managing health and safety at work are periodically assessed, maintained at the acceptable level by way of suitable safety measures and thus affect the constant improvement of working conditions in the long term. In 2020 we also carried out various educational courses and practical exercises in health and safety at work and fire safety (evacuation drills for employees, extinguishing fires, hazardous substance spillages, providing first aid, drills of the mine rescue team, etc.), although only to a limited extent due to the necessary measures to prevent the spread of COVID-19. We also adopted many measures for preventing the spread of COVID-19, by way of which we successfully managed the risk related to the biological hazard, which had been unknown previously.

The indicators that are monitored at the Group level:
- the number of drills for improving emergency preparedness,
- the number of sick leave days resulting from accidents or injuries,
- the number of accidents,
- the type of accidents or occupational illnesses.

IT safety risks or the significance of safe information and communication are high on the priority list in HSE Group companies, which is particularly evident from the introduction of new IT solutions in addition to digitalising key business processes. IT safety risks are managed at multiple levels by using various technological solutions (upgrading the IT system), implementing procedures within the ISO 27001 standard (safety policy and IT safety organisation) and by educating and raising the awareness of the users of IT solutions, so that employees perceive safety as something that is completely normal and necessary. In 2020, despite the intensified situation related to the COVID-19 pandemic, we successfully passed assessments according to the ISO 27001:2013 standard. The said standard and the related IT safety management system called SUVI were assessed together, taking into account the single methodology for risk assessment and the updated information protection policy in all Group companies.

Asset protection risks are managed by asset insurance and establishing/maintaining security systems and/or a security architecture (encompassing organisational and functional measures for establishing or ensuring operational and internal safety, security sub-systems (video surveillance, physical and technical security, etc.)) and a safety culture among the employees. In 2020 we successfully completed the publication of a joint (single) call for tenders for HSE Group companies to upgrade the equipment of technical security systems, the purpose of which is to ensure a suitable level of security for the employees and assets of HSE Group companies and the uninterrupted or smooth operation of the production plants in all HSE Group companies.

2.8.5 Strategic and business risks

Strategic and business risks arise due to unsuitable strategic and business decisions and the lack of responsiveness to the changes in the business environment, which could have consequences in the future. It is not necessary for the consequences of these risks to be fully reflected in the presented risk profile, as their consequences could be much more far-reaching than the period relevant for the profile assessment. Nonetheless, we are aware of their significance for the further operation of the HSE Group and are suitably responding to them while considering their nature.

Regulatory risks are managed by regularly monitoring legislative changes, analysing their impacts on the operation of the HSE Group and actively responding to the protection of the interests of the HSE Group, even before a change enters into effect in the applicable legislation. The employees in the HSE Group are regularly notified regarding the relevant legislative changes that affect the operation of the HSE Group.

In terms of legislation, we actively cooperated in the discussion regarding the Act on Energy Efficiency, the Act on Electricity Supply and the Act on Promoting the Use Renewable Energy Sources. In the said acts, we pursued the interest of reducing the operational costs of pumped storage hydroelectric power plants, recognising the savings of primary energy for fulfilling the commitments of mandatory investments into savings by end consumers and reducing the obstacles for siting new production plants for renewable energy sources.

At the beginning of 2020 we actively joined the final drafting of the National Energy and Climate Plan of the Republic of Slovenia (NEPN) and, by way of taking a proactive approach, we managed to ensure that the limitations calculated for with the plan for new investments into hydroelectric power plants are minimised to a level that is still acceptable for the HSE Group. We continued to perform activities related to preparing the National Strategy for Abandoning Coal Use, which will define the year of our coal exit, and the regional plans for restructuring the Šalek and Zasavje regions, which will be the prerequisite for drawing funds from the Just Transition Fund. With regard to this, the HSE Group is also preparing to extend our concession for extracting lignite at Velenje Coal Mine (PV), which expires in early 2022. We will actively participate in drafting the amendments to the Mining Act, which will be discussed in the legislative procedure in 2021, with the goal of establishing the conditions for a timely extension of our concession.

We provided concrete suggestions, mainly with regard to future use of hydro energy, to advocate for the relaxation of the measures adopted within the NEPN Plan which we found unfavourable. Based on these suggestions, we joined the drafting of Slovenia's Long-Term Climate Strategy by 2050 and Slovenia's Spatial Planning Strategy by 2050.

Within the procedure for signing a concession agreement for the use of water to produce electricity on the middle River Sava, we successfully limited the amount of fees per kWh of produced electricity, by way of which we eliminated the regulatory risks in the field of raising operating costs for new hydroelectric power plants due to increased public levies.

In 2020, in the field of the European legislative framework, we actively participated in a number of public panels regarding the upcoming reforms of climate and energy legislation so that the EU could reach its climate targets by 2030 in accordance with the Green Deal.

Next year, in addition to the already mentioned Mining Act and the National Strategy for Abandoning Coal Use, the following will also be significant in terms of having an impact on HSE Group activities: the adoption of the 2022–2027 Water Management Plan III (possible impacts on electricity production using hydro power due to the inclusion of measures to revise licences related to the implementation of ecologically acceptable flow), the Act Regulating the Closure of Velenje Coal Mine, which will have to ensure public sources of financing for the closure-related works and regulate the concession relationship until the end of the lifespan of Velenje Coal Mine in accordance with the political decision on the coal exit, and the Act on Restructuring the Šalek Region, which will define the activities necessary to boost the economy and generate jobs in light of reducing the negative impacts of abandoning coal use in the region. On average, the energy industry generates almost 30% of all income generated by the local economy, and the PV Group directly employs almost 10% of the active working population in the Šalek Valley (and another 10% are indirectly connected to coal mining).

Due to the collective climate goal in the EU adopted in December 2020, according to which emissions will be decreased by 55% by 2030, a large part of the energy legislation is to be revised – targets related to renewable energy sources and the efficient use of energy will be increased and the European Union Emission Trading Scheme will be revised and is expected to lower the upper limit for emissions and accelerate their reduction by 2030. On the one hand, the legislative amendment will have a positive effect on promoting RES projects, mainly ensuring requests that administrative obstacles for siting new RES projects be removed, while on the other hand, the change in the Emission Trading Scheme will affect the price of emission allowances, thus also impacting the operation of power plants using coal and gas.

In terms of streamlining the operation of the PV Group and other factors from the operating environment, which are moving towards an energy transition into a zero carbon or low carbon print society, we paid special attention in 2020 to the measures for optimising labour costs that mainly include changes to organising labour and improvements to process management, measures for reducing the number of employees, and an intensive social dialogue, all with the purpose of managing the impact of labour costs on the cost price of producing coal and ensuring a satisfactory level of competitiveness for the company PV or the PV Group in the future.

In 2020, investment risks in development projects and new construction projects in the HSE Group were effectively managed by establishing control over the investments of the HSE Group and by adopting new normative regulations at the HSE Group level, within the scope of which a new method for analysing the economic viability of investments and risk assessments was introduced. Based on the analysis of economic viability and risk assessment, the controller reaches a decision after each phase of the investment documentation regarding the next step of the investment documentation. If the Board for Confirming Investments confirms the last step for investment documentation, the investment is submitted to the Management Board and the HSE Supervisory Board for confirmation in accordance with corporate governance rules. The control over the investments of the HSE Group is also carried out by regularly monitoring ongoing key investment projects, by ensuring standardised investment assessments, and by carrying out effective control over the competent expert departments within HSE. Internal control procedures are regularly carried out within the HSE Group regarding the planning and implementation of investments.

Divestment is a significant segment for providing planned liquid assets. For this reason, it is subject to careful inspection of the technical adequacy and economic viability of performing divestment of assets not required for business purposes. When assessing technical adequacy, special attention was paid in 2020 to two divestments related to the elements of the distribution and transmission network. Primarily, the economic viability assessment was carried out in all cases based on the appraisals obtained from qualified appraisers. The legal adequacy of the divestment procedure was ensured by way of a legal review that was carried out by the Legal Department of the company HSE for all investments. In 2020 procedures for standardising and systemically regulating this field at the HSE Group level were initiated for the purpose of ensuring suitable risk management in the field of divestments.

2.8.6 Financial risks

Credit risks are managed by thoroughly verifying the credit rating of the operation of our existing and potential business partners, by way of a clearly defined debt collection procedure, a payment demand system and by entering into agreements with suitable collaterals (bank and corporate guarantees, advance payments and other suitable collaterals).

The level of the assessed risk mainly depends on the partner's business performance, particularly the level of indebtedness, short-term liquidity, solvency indicators and profitability indicators. We place substantial importance on obtaining the latest market information, as the status of a particular partner can quickly change depending on different market and regulatory changes. From the perspective of managing credit risks in relation to banks and other financial institutions, information regarding the operation of the financial institutions with which we cooperate is regularly monitored.

Various financial instruments (e.g. interest rate swap) are available to manage interest rate risk. Their purpose is to reduce the negative impacts of changing market-based interest rates. Usually, the scope of the exposure to interest rate risk depends on the size of the proportion of the financial liabilities and financial investments in a company using a floating interest rate. Considering the interest rate risk management strategy and considering the market predictions for interest rate trends in the past year, the HSE Company did not choose to use safeguards for protection against interest rate increases. This is why no agreements regarding such financial instruments were entered into.

The HSE Group mainly operates using the national currency (EUR) and is therefore only exposed to foreign exchange risk to a lesser extent. If electricity is purchased using a foreign currency, foreign exchange futures and forward contracts (FX Forward) are entered into in order to limit risks.

More detailed information regarding the exposure to individual financial risks and the disclosures related to financial instruments are defined in the accounting part of the Report (Financial instruments and risk management).

2.9 Development strategy of the HSE Group[20]

In the 2013–2020 period, the comprehensive restructuring of the HSE Group was performed, our credit rating improved, suitable relationships with banks were established and a sustainable structure for financing sources was introduced.

We created conditions for setting ambitious strategic goals focusing on enhancing production, research, development and investments into renewable energy sources and on improving our competitive edge, growth and the sustainable development of the HSE Group in the fields of sales, trading and developing new products and services.

We are seeking solutions for the new **strategic challenges in the business environment** that we will be facing, namely:

Decarbonisation of the economy – a decrease in the significance of coal in the EU's energy mix and pressures to abandon its use in electricity production as soon as possible. The goal is to adopt a long-term strategy for decarbonising Slovenia based on a just transition and a programme for gradually abandoning coal while also ensuring that the competitiveness of the existing production portfolio of the HSE Group is maintained.

The regionalisation of the system services market – an increase in the volume of **variable and decentralised electricity production using renewable energy sources**, a more intense growth of efficient energy use and faster electrification in transport, heating and cooling. The goal is to optimise the existing production portfolio and improve the price competitiveness of the HSE Group.

Introducing new technologies – digitalisation and using smart networks, storage tanks and virtual power plants. The goal is to adapt the business model of the HSE Group and develop services and products that are relevant for the market.

Ensuring reliable supply through self-sufficiency – we are advocating that the key role of low-carbon conventional power plants be recognised in the transition of the energy system to a larger proportion of zero carbon electricity generation and that long-term climate neutrality be included in all key national energy documents. The goal is to achieve a self-sufficient supply with a suitable energy combination.

20 GRI: 103-1; 103-2; 103-3; 203-1.

2.9.1 The business policy of the HSE Group

MISSION

The HSE Group is Slovenia's largest producer and dealer in self-produced electricity.

We are striving for the safe, reliable, competitive and profitable production of electricity, which we perform with our experienced and dedicated employees efficiently while minimising the effects on the environment in which we operate.

VISION

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

Our efforts will be focused on the growth of production of electricity from renewable sources and expansion of the content, scope and profitability of operations.

By monitoring the trends in the business, market and technological environment, we will seek the best business solutions to any upcoming challenges and continue to actively participate in adopting national energy policies.

VALUES

RESPONSIBILITY: We are actively participating in forming business goals. We are responsible for fulfilling goals, for our own development, for our employees, business partners, owners and the environment.

EFFICIENCY: We are good at what we do. We optimise processes and simplify procedures. We do the correct things.

INNOVATION AND CREATIVITY: We seek the best solutions. We have the courage to be original and the constant wish to see improvement. We view business challenges from different perspectives. We have an open mind and support creativity in our work.

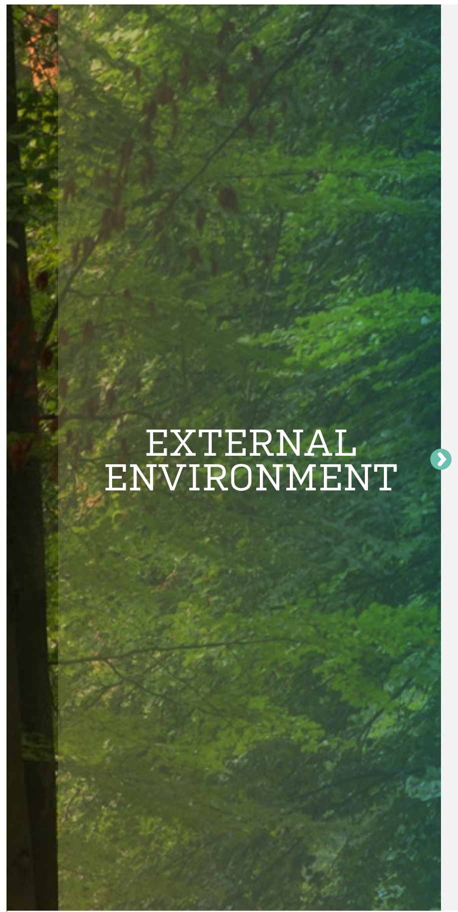
POSITIVE ATTITUDE: We perform our tasks with optimism and positive energy. We are committed. We are confident in our knowledge and abilities.

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

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

2.9.2 Analysis of our environment and competition

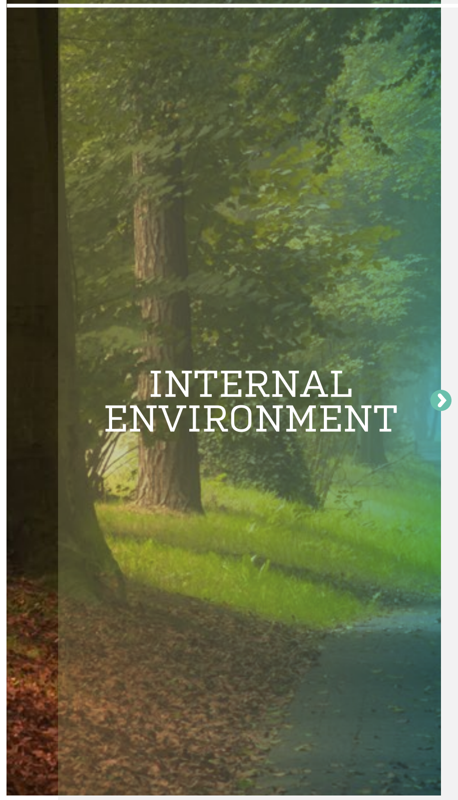
2.9.2.1 Environment analysis



POLITICAL PERSPECTIVE
- decarbonisation and quicker coal phase-out,
- introduction of capacity mechanisms (emphasis on gas power plants),
- a growing need for regional system services, shorter contract maturity,
- shortening trading intervals (as of 2021, 15-minute trading and product portfolio balancing commenced),
- maintaining support schemes after 2020 and
- raising environmental and concession duties.

BUSINESS PERSPECTIVE
- increase in electricity use and limited production growth in Slovenia,
- increase in the prices of electricity and CO_2 emission allowances and
- integration of markets and additional transmission links in the region of south eastern Europe.

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



ELECTRICITY PRODUCTION
- coal extraction conditions are becoming more and more demanding, coal reserves are diminishing and
- the production capacities of the HSE Group are highly available.

SALE OF ELECTRICITY
- long position of the portfolio of the HSE Group in the south eastern European region,
- a 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.

FINANCES
- good access to financial markets and banking providers and
- a high ratio of financial debt to EBITDA.

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

2.9.2.2 Comparative analysis of competing energy companies' strategies

We reviewed the strategies of energy companies in Europe. We analysed their existing production portfolios, objectives and strategies, and the consistency of their plans and objectives with the national energy policy guidelines. In 2020, EU Member States adopted their national energy and climate plans, in which they defined the development of their energy sector by 2030 with a view to 2040. In 2021, it can be expected that the European Union will require that all national energy and climate plans be updated due to the adoption of the more ambitious goals for reducing greenhouse gas emissions, namely by 55% by 2030.

2.9.2.3 Key findings of the review of national energy policies

DECARBONISATION

Accelerated decarbonisation in electricity generation is also increasingly discussed within national strategies of countries that have a significant proportion of coal in their portfolio. Support for a substantial portfolio change will be provided by gas or nuclear power plants and by way of the accelerated deployment of renewable energy sources (mainly solar and wind energy). An overview of the portfolio of key countries using coal technology and the announced coal phase-out: Germany (38% coal proportion, abandonment by 2038), Greece (36% coal proportion, abandonment by 2028), Spain (22% coal proportion, abandonment by 2030), Hungary (16% coal proportion, abandonment by 2030). By 2030, coal-based power plant capacities in the European Union are to decrease by 35.4 GW, which accounts for 25% of the current capacities. In order to implement the coal phase-out procedure, many countries adopted national strategies and special coal mine closure acts, which take into account aspects of restructuring according to just transition principles.

COAL

The use of fossil energy sources is mainly persisting in the energy strategies of those countries that produce coal domestically and still, to a large extent, receive free CO_2 emission allowances for producing electricity for domestic consumption. These are 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 allowances and have domestic coal, some have already announced an accelerated coal exit – Slovakia by 2023, Chechnya will set an exit date in 2021 (the year 2038 is being discussed) and Poland (77% proportion) by 2049. Bulgaria (48% proportion) and Romania (19% proportion) have not yet made a decision regarding coal phase-out.

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

GAS

Countries that have spent their RES potential to a greater extent (hydro) will replace coal sources with gas (Austria, Hungary, Italy, Romania, Spain, Croatia). The use of gas as a transitional energy product in the coal phase-out process is also planned by countries that have a high proportion of coal in electricity and heat production.

OVERVIEW OF ENERGY STRATEGIES

Competitors emphasise the following in their strategies:

- 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-customer electrification processes – carbon footprint reduction/efficient use measures,
  - development of new services in the field of energy efficiency and flexibility, as well as the 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 foundation for regulated activities 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,
- the importance of preserving nuclear energy when achieving climate goals (even building new nuclear power plants),
- accelerated development in the field of renewable energy sources (mainly solar and wind energy at sea and land due to subsidies),
- the development of energy storage solutions (batteries),
- the process of finding opportunities and innovation in the field of digitisation, end-customer services and decarbonisation as an integral part of operations.

In most cases, entrepreneurial strategies are aligned with national strategies, thus demonstrating the possible cooperation and support of European countries to national energy companies. Exiting from coal is a priority in the transition to a zero-carbon society and a competitive circular economy in all countries in which the energy mix does not include coal. Companies are aligned with national strategies and they emphasise a systematic, gradual and just coal phase-out by working together with the state and replacing coal with alternative renewable energy sources. In the transitional period, coal is to be replaced with gas or nuclear energy.

2.9.3 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

Development and investments

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

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

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.

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
- 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.

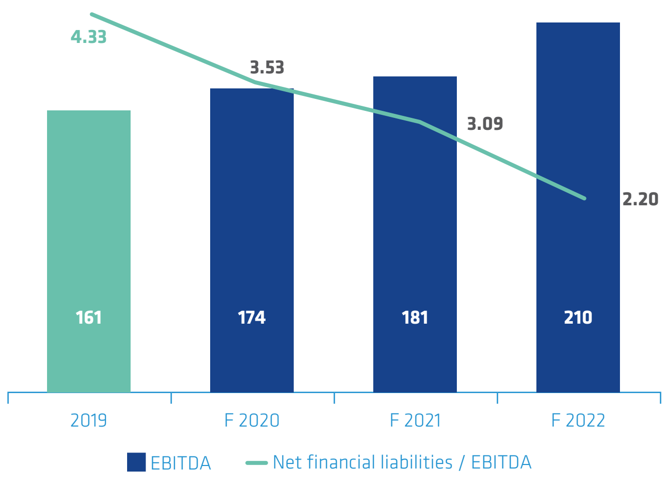
The HSE Group will:

- 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).

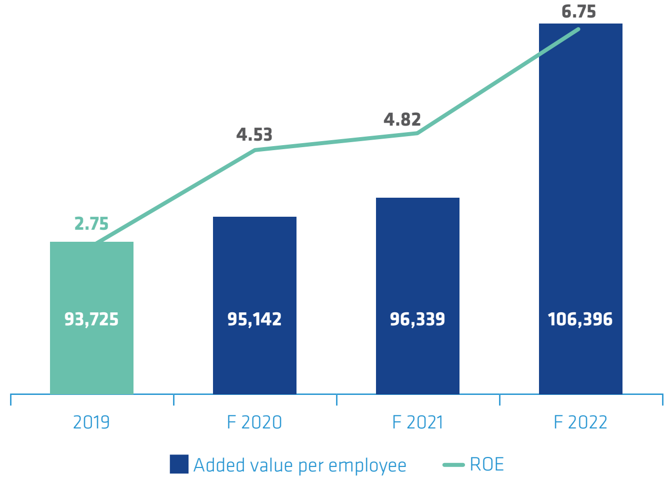
OPTIMAL ORGANIZATIONAL, PERSONNEL AND FINANCIAL STRUCTURE OF THE HSE GROUP

The realisation of the strategic objectives of the HSE Group is largely dependent on two key parameters: electricity prices and CO_2 emission allowances prices. In the calculation of the key strategic indicators of the HSE Group, the closing prices for electricity forward agreements and CO_2 emission allowances as at 30 August 2019 were used for the not yet sold part of electricity and not yet purchased part of CO_2 emission allowances in the 2020–2022 period. Due to the extreme growth of CO_2 emission allowances in the second half of 2020, more ambitious strategic policies of the European Union regarding the reduction in greenhouse gas emissions in December 2020 and the published draft National Strategy for Coal Exit and the Restructuring of Coal Regions and the corresponding Environmental Report in March 2021, in which the foreseen coal exit year in Slovenia is 2033, a new HSE Group Development Plan is being prepared.

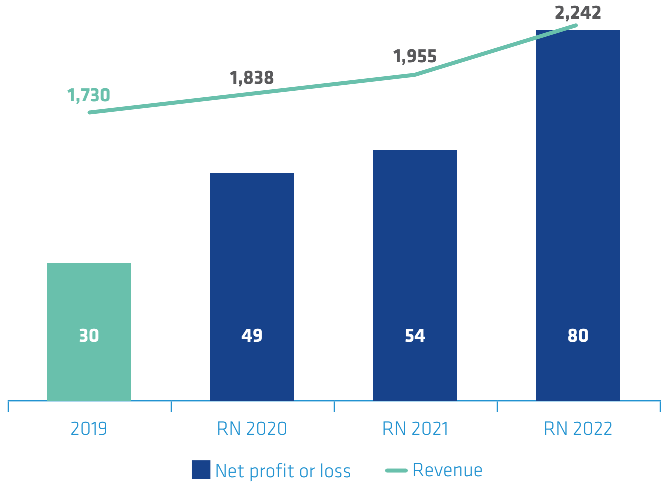
EBITDA IN EUR MILLION AND NET FINANCIAL LIABILITIES/EBITDA



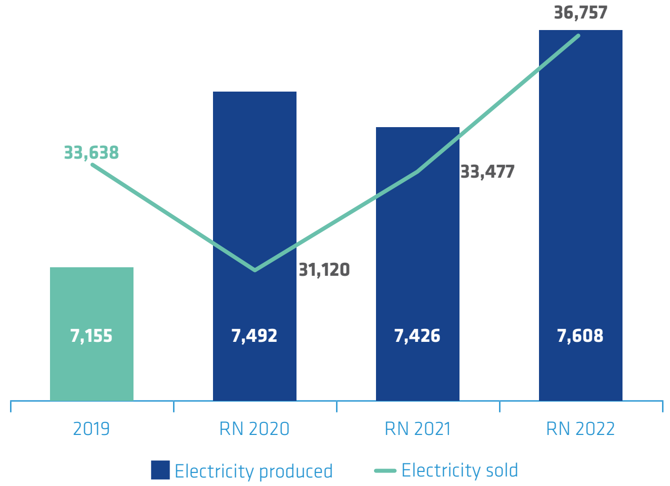
ADDED VALUE PER EMPLOYEE IN EUR AND ROE IN %



NET PROFIT OR LOSS AND REVENUES IN EUR MILLION



GENERATION AND SALE OF ELECTRICITY IN GWh



Source: HSE Group Development Plan for the 2020–2024 Period with a View to 2030 adopted at the HSE Supervisory Board meeting in June 2020, although not confirmed as yet by the founder, SSH.

2.9.4 Development and investment policy of the HSE Group[21]

In the field of development and investments, the HSE Group pursued sustainable development principles by increasing the volumes of electricity production using renewable energy sources, which will gradually replace production using fossil fuels. We use a well-considered strategy to pursue the national and EU goals for the decrease in CO_2 emissions by 55% by 2030 and we are striving to become a carbon neutral society by 2050 at the latest.

In 2020, efforts were made to draft investment documentation for solar power station and wind farm projects as well as for projects dealing with other zero carbon and low-carbon electricity production sources. We actively participated in seeking and creating a set of projects that could be financed through the Just Transition Fund and that would pave the way for the fair transition of both coal regions.

In order to ensure better investment development management and the realisation of investments through implementation projects, we laid the foundations for a project office. This office will oversee all investment development activities defined in system regulations, their implementation and performance checks for activities already carried out. Furthermore, new system regulations in the field of investments for the HSE Group were adopted.

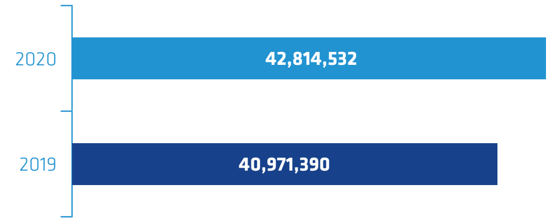
In order to achieve better cooperation and synergies between all Group companies, changes in the operation of the Development Board were introduced in 2020. The Development Board operates at the HSE Group level and has become a tool for seeking points of contact between individual Group companies. The role of the Board is to realise the common economic, technical and most environmentally suitable projects and to identify new ones, which are focused on realising the common vision of the HSE Group.

In 2020 we continue with investments that are key for the sustainable competitiveness of the HSE Group, both in terms of increasing the proportion of RES in electricity production as well as in terms of investments in maintaining and renewing production at existing plants and environmental protection investments. A considerable proportion of our investments are committed to investment maintenance and investments in the reliability of production. We utilise the synergies within the HSE Group by carrying out internal ordering and consolidating human resource potentials. In 2020 we invested in safety and the reliability of the operation of existing thermal power plants and hydroelectric power plants (renovation of spillways and operating locks, maintaining the energy potential, replacing secondary systems, etc.).

In October 2020, a concession agreement was signed with the Ministry of the Environment and Spatial Planning as the concession provider (on behalf of the Government of the Republic of Slovenia) for the construction of a hydroelectric power plant on the middle River Sava. After signing the concession agreement, we began managing the project, planning and carrying out administrative procedures.

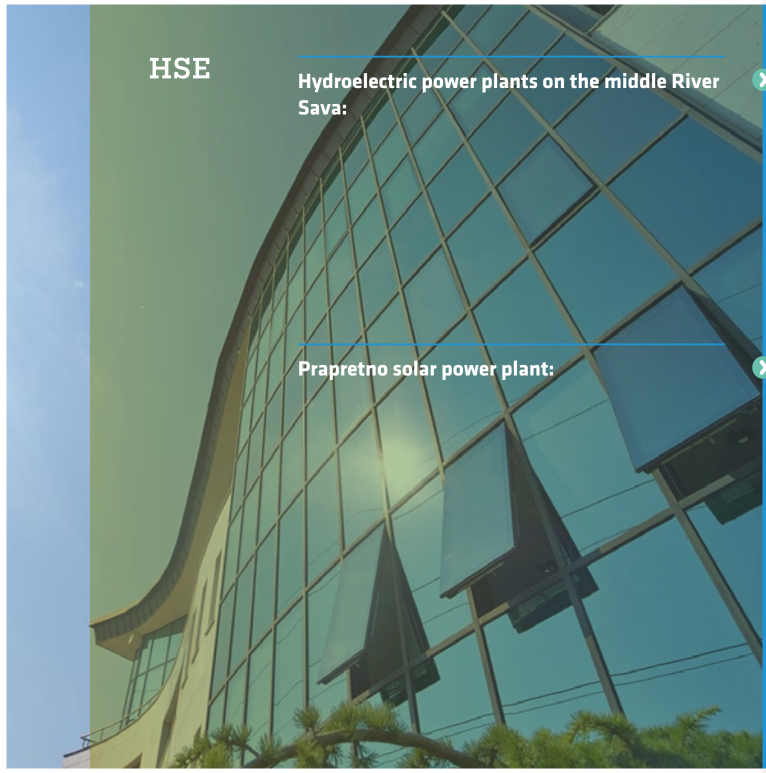
In 2020 we completed the installation of the Hubelj Solar Power Plant and the Zlatoličje 5 Solar Power Plant (110 kWp), while also carrying out new projects to apply for national and European calls for applications to be granted non-refundable funds for the refund of investments or for the operational support within the first 15 years of operations. In the future, we plan to invest in development projects, in renewable energy sources in the region (solar power plants, wind farms, and hydroelectric power plants), develop energy storage facilities (battery storage, pumped storage hydroelectric power plants, hydrogen technologies, zero-emission corridor), we plan to continue the already initiated activities related to RES projects (large hydroelectric power plants) and projects for efficient energy use, all pursuant to national and EU policies and adopted strategic documents. By way of its performed and planned investments, the HSE Group is continuing its transformation into a sustainably oriented group, because it is aware that this is the only way to continue providing stable and environmentally friendly electricity. Innovative digital solutions will make our Group a significant link in the maintenance of the stability of the network as well as a reliable source of electricity for our customers.

INVESTMENTS IN THE HSE GROUP IN EUR



21 GRI: 203-1

Major investments in HSE Group companies are presented below.



HSE

Hydroelectric power plants on the middle River Sava:

In October, a concession agreement was signed between the concession operator (Holding Slovenske elektrarne d.o.o.) and the concession provider (the Ministry of the Environment and Spatial Planning on behalf of the Government of the Republic of Slovenia). After the concession agreement was signed, we began coordinating all of the necessary procedures, from the perspective of planning, licensing, administrative procedures and project management.

Prapretno solar power plant:

The installation of a 3 MW solar power plant with a planned annual production of 3,362 MWh is planned at the location of the rehabilitated section of the Prapretno non-hazardous waste disposal facility. An additional 9 MW of solar power stations can be installed at this location. In order to realise this project, we drafted the required documentation for the Prapretno Solar Station and the cable conduit that will connect the location with the distribution network. In December 2020 we obtained an energy authorisation and ARSO (the Slovenian Environment Agency) gave a positive conclusion in its preliminary environmental impact assessment. Procedures for obtaining a building permit and submitting an application within the call for applications published by the Energy Agency to obtain operational support are underway.

DEM

Ojstrica wind farm:

The Government of the Republic of Slovenia adopted a decision initiating the drafting of a National Spatial Plan. Expert groundwork is currently being drafted for an environmental report (a list and mapping of habitat types, a basic analysis of the effect on groundwater, a study of the effect on the functions of the forest, and expert groundwork related to noise). The estimated power of wind energy potential is 10.8 MW or 25 GWh.

Paški Kozjak wind farm and Rogatec wind farm:

The Government of the Republic of Slovenia adopted a decision on the implementation of a National Spatial Plan. After the decision was adopted, the activities on this project resumed (visualisation of the siting of wind turbines, obtained mapping and surveying groundwork for further planning, and the drafting of the necessary expert groundwork for the needs of an environmental report). The estimated power of the wind energy potential is 36 MW.

Solar power stations:

The installation of solar power plants on the inflow and outflow channels of the Zlatoličje and Formin hydroelectric power plants (30 MW) represents the possibility of additional utilisation of the natural potentials of renewable energy sources. The siting procedure, the drafting of the necessary documentation as well as the implementation of the procedures preceding the adoption of a Government decision initiating the procedure for drafting the National Spatial Plan are underway. The construction will be carried out in 2024 and 2025.

In 2020, the Zlatoličje 5 Solar Power Plant was installed (110 kWp, annual electricity production: 130 MWh). The start-up tests were completed in March 2021. An internal technical inspection is still planned prior to starting up regular operations.

DEM

Renovation of the Formin hydroelectric power plant:

At the end of 2019, we began reconstructing the last hydroelectric power plant on the chain of power plants of the River Drava that had not yet been renovated. The benefits of the reconstruction will be the equalisation of the installed flow of the chain of power plants on the River Drava, the optimisation of production, increased capacities and the prolonged lifespan of the power plant. The drafted solution concepts for the reconstruction of the Formin Hydroelectric Power Plant deal with five variants, which differ depending on the selected equipment and scope of construction, which affects the volume of annual production as well as the investment value.

The renovation of the secondary systems at the Dravograd, Vuzenica, and Mariborski otok hydroelectric power plants:

All of the investment documentation has been drafted. In 2020 the tender documentation for the needs of public procurement procedures was intensively being drafted.

The reconstruction of the 110 kv switchyard of the Formin hydroelectric power plant:

By handing over a part of the 110 kV switchyard to a transmission system operator (TSO), a DEM-ELES joint venture agreement regarding the drafting of the pre-investment documentation for the construction of the new 110 kV Formin Switchyard was signed in early 2019. It was agreed that the investment costs would be shared by the partners, DEM and ELES, specifically: one quarter would be covered by DEM and three quarters by ELES. In December 2020, a joint venture agreement for the implementation of the investment with the partner ELES, who is the investment vehicle, was signed based on an investment programme and coordinated agreement on the construction and co-funding of the 110 kV Formin Switchyard. The reconstruction of the switchyard (as a gas-insulated switchgear or GIS) was selected as the optimum solution.

Renovation and renewal of the 4 Mariborski otok (MO4) flow field:

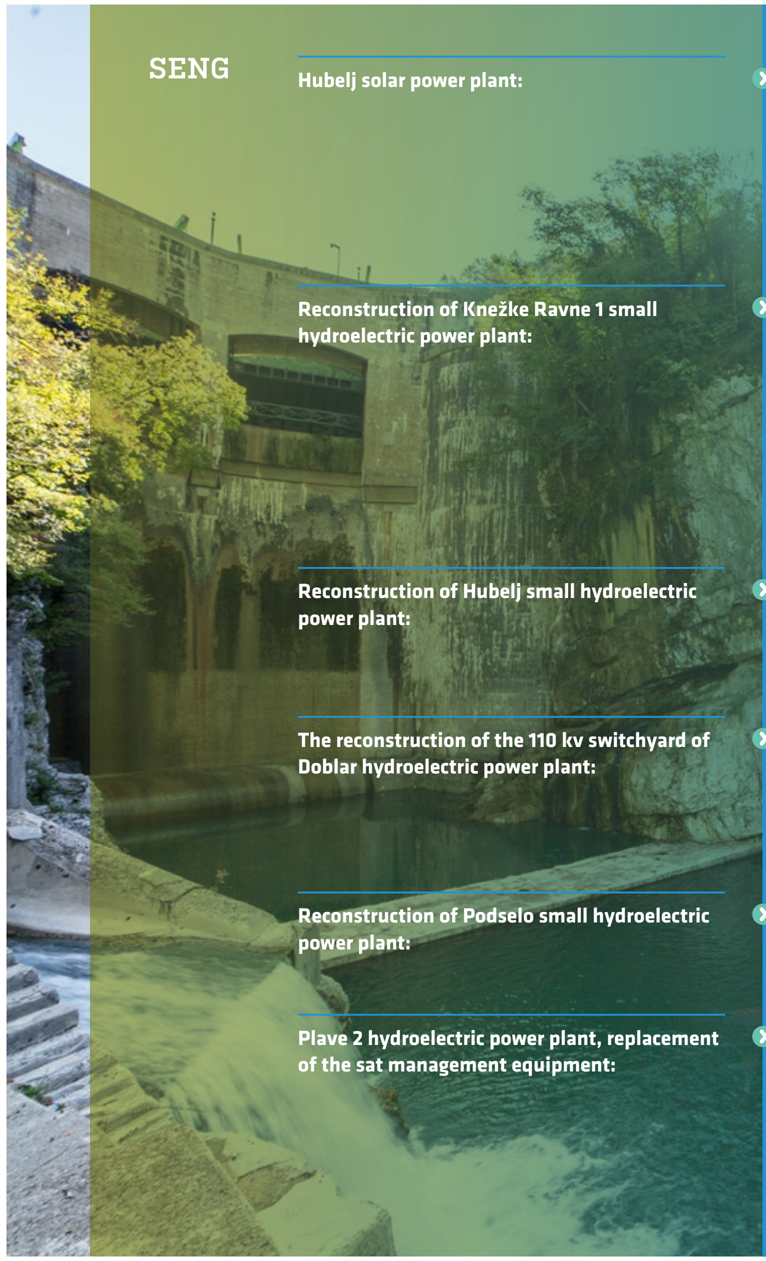
The renovation and renewal work on the flow field equipment began in August 2019. In 2020, we constructed and installed the upper lock, on which the first movement tests were performed as early as in November. During the year, all of the construction work was carried out, new lifting chains were ordered and received, and the renovation and installation of drive mechanisms were completed.

The renovation of hydroelectric power plant flow fields and operating locks:

The operational capacity of locks to allow water flow is key for the safety of hydroelectric power plant facilities and for flood safety. For many years we have continually invested in the renovation and repair of locks and drives. In 2020 we continued to renovate flow fields 3 and 4 of the Dravograd Hydroelectric Power Plant and the operating locks on flow field 1 of the Fala Hydroelectric Power Plant.

The improvement of the vibration condition of phase 2 hydroelectric power plant generators:

In 2020, we continued to renovate the vibration condition of phase two generators. During the period of repairs and audits, we completed the renovation of variation status of Generator 1 of Ožbalt Hydroelectric Power Plant in April and, in May, of the G3 Generator of Vuhred Hydroelectric Power Plant. Both renovations were performed successfully, because the final measurements showed that the vibrations of the stator housing and the assembly were below the limit values.



SENG

Hubelj solar power plant:

In 2020, the first solar power plant in the company SENG was installed on the roof of the engine room of Hubelj Small Hydroelectric Power Plant – Hubelj Solar Power Plant. After obtaining a building permit at the end of 2019 and selecting a contractor from the HSE Group, installation works were performed in 2020, the plant was connected to the power grid and an operating permit was obtained.

Reconstruction of Knežke Ravne 1 small hydroelectric power plant:

The reconstruction of Knežke Ravne 1 Small Hydroelectric Power Plant was performed. This included replacing the turbine, the generator and the secondary equipment, and installing a voltage regulator or reactive power regulator that will meet the new requirements of the distribution network code (SONDO). By the end of December, we had carried out start-up tests and the synchronisation of the small hydroelectric power plant, we performed an expert inspection and trained the operators.

Reconstruction of Hubelj small hydroelectric power plant:

After we had obtained a building permit and a favourable expert opinion for the investment project identification document (DIIP) and the investment programme (IP), we began preparing the tender dossier.

The reconstruction of the 110 kv switchyard of Doblar hydroelectric power plant:

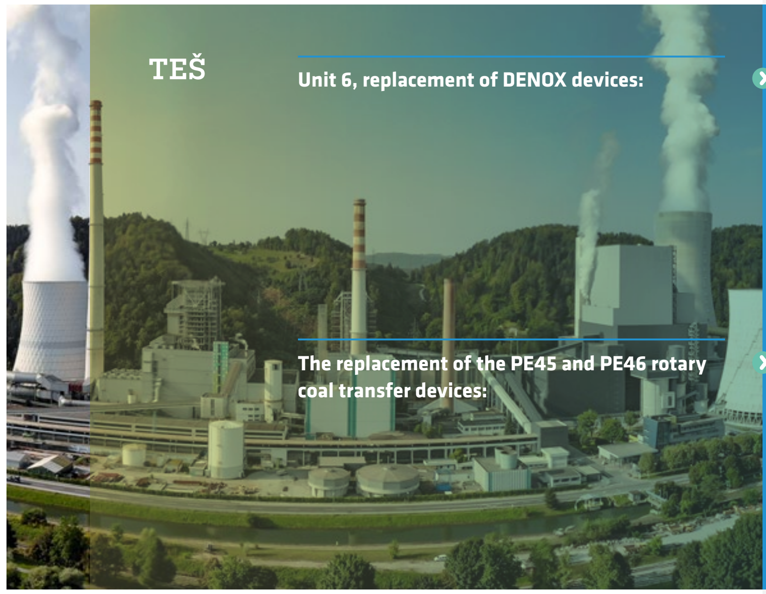
In 2020 we signed an agreement with the company ELES, which is a co-investor in the said investment. We prepared the technical specifications for the tender. During this time, ELES carried out a public procurement process to select a design engineer. Reconstruction is underway.

Reconstruction of Podselo small hydroelectric power plant:

In 2020 we drafted the investment project identification documentation (DIIP) and the technical specifications. The implementation is planned for 2021.

Plave 2 hydroelectric power plant, replacement of the sat management equipment:

The investment was fully completed in 2020. The preparatory works began after the technical documentation had been obtained. Tests were conducted following the equipment replacement. The power plant was successfully connected to the power grid. The investment ended with the as-built design documentation, drafted instructions and training for operators.



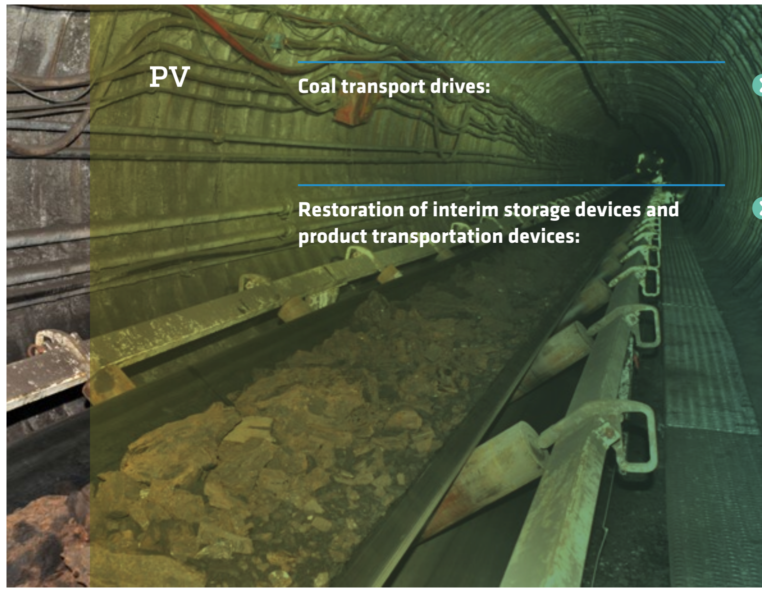
TEŠ

Unit 6, replacement of DENOX devices:

In May 2020 we replaced second level DENOX devices, while in December the first level devices were also replaced. The replacement was carried out in order to improve the operation of the catalyst, which causes decreased consumption of ammonia mixtures and a considerable decrease in forming deposits in the heating systems of both LUVO regenerative air pre-heaters. DeNOx devices are intended for reducing NOx emissions in the flue gases of Unit 6.

The replacement of the PE45 and PE46 rotary coal transfer devices:

In 2020 we designed and installed new PE45 and PE46 rotary coal transfer devices. These rotary coal transfer devices are used to transfer coal between PE42, PE43, PE45 and PE46 conveyors and are some of the key elements in coal transportation.



PV

Coal transport drives:

In 2020 we carried out the first part of the investment for renewing two drives that are among the key elements of coal transportation.

Restoration of interim storage devices and product transportation devices:

Through this investment, we restored the structure of the interim storage facility and the support pillars for pipe conveyors and we replaced and prolonged the coal transfer devices on the pipe conveyors. The implementation of the investment was planned for Q1 2020, although it was actually completed in August 2020 due COVID-19.

2.9.5 Research and development projects

OSMOSE

The acronym OSMOSE stands 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 time 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.

P2G

The companies HSE, Plinovodi, HESS and ELES commenced talks in March upon signing an agreement on co-operating in a joint initiative for a project to produce and use hydrogen and to link up the gas and power sectors in Slovenia. The companies are implementing a series of activities in accordance with the work programme, the main objective of which is to launch a P2G pilot project. An increasing proportion of renewable energy sources in electricity production requires greater flexibility of transmission systems, as their availability does coincide with the energy flow diagram or the peak demand. This is why we face daily surpluses or deficits of available energy. Greater flexibility of energy systems may be secured by linking up the gas and electricity systems. It is possible to convert the surplus of electricity produced from renewable sources into hydrogen, and use it for transport, energy and industry, or combine it with CO2 to turn it into a synthetic gas, which is identical in its structure to fossil natural gas and which may be stored in a natural gas pipeline system. With the linking up gas and power, it is possible to achieve numerous positive effects for both sectors. There are three benefits of key importance, namely: full utilisation of the potential of renewable energy sources, the use of a gas pipeline system as seasonal storage of renewable energy sources and unburdening the electricity system.

FARCROSS

The purpose of the Farcross project (Facilitating regional CROSS-border electricity transmission through innovation) is to optimise 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 potential regulatory obstacles. This would increase the transmission capacity of the existing transmission infrastructure and facilitate the transfer of energy between EU countries. HSE is involved in the project. The project includes 30 partners from Belgium, Greece, Bulgaria, Hungary, Austria, Romania, Croatia, Bosnia and Herzegovina, Albania, Spain, Ireland, Luxembourg, Germany, Cyprus, Slovenia and Great Britain. The project coordinator is UBITECH Energy Sprl, Belgium.

A PILOT PROJECT FOR USING GEOTHERMAL ENERGY

DEM, together with its partners Petrol and Nafta Lendava, is planning to establish a pilot geothermal power plant in the Municipality of Lendava, for which a Letter of Intent was signed. The project will be the first application of a Slovenian patent and is a milestone for the use of geothermal energy at abandoned natural gas/oil wells in Slovenia and the rest of the world. The purpose of this research and application pilot project is to practically implement and apply a globally novel method for producing electricity using a geothermal gravitational heat pipe, which is the result of Slovenian know-how (patent SI 23618 A). By using a geothermal gravitational heat pipe, a sufficient heat flux for electricity production is obtained at depths greater than 2 kilometres. The structure of the gravitational heat pipe is designed so that, by using the geothermal heat of the Earth in a borehole, the coolant is vaporised and the generated vapours are led to the surface, where they condense and return back into the borehole. The geothermal energy produced in this manner can be used for heating and the production of renewable electricity. The construction of a small pilot power plant with a gravitational heat pipe in a borehole with a depth of about three kilometres is planned within the project. If the pilot project yields good results, this concept can be used in other abandoned boreholes in Slovenia and around the world. The project is a major contribution to reducing pollution from abandoned boreholes around the world.

ISONZO/SOČA CROSS-BORDER NATURE PARK

The aim of the project is the integrated arrangement of the banks of 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 and also submitted a proposal to include the connecting route from the kayak centre Solkan to Solkan HPP and the public route via the Solkan HPP facility on the right bank of Soča River.

SPARE-ASP170

The purpose of the project, in accordance with the regulations and strategic guidelines for water management and nature conservation, is to methodologically and procedurally support the decision-making on priorities for conserving or restoring river ecosystems, as well as to justify the 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 in 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 gravel areas. Great emphasis is also placed on environmental issues, where we continue to manage and use sediment in the area of Lake Ptuj. For this purpose, we are currently working with ZAG Ljubljana on the application of the project to the Slovenian Research Agency (ARRS) regarding the possibility of using silt (products) for further use. DEM is involved in projects.

2.10 Sustainable business and development of the HSE Group

2.10.1 Statement on non-financial operations[22]

The international standard for non-financial reporting (GRI - Global Reporting Initiative) is applied in the HSE Group. By reporting according to the GRI (2018) standard (basic level), the HSE Group Annual Report also complies with the requirements of the EU directive as regards disclosure of non-financial and diversity information by certain large undertakings and groups, which was transposed into Slovenian legislation in 2017.

The Companies Act (ZGD-1J) introduced commitments to disclose data on non-financial operations. These apply to large companies that are subject to public interest and whose average number of employees was larger than 500 as at the balance sheet cut-off date and to companies that are obliged to draft a consolidated annual report and have, on average, 500 employees at the consolidated level.

The statement refers to the historical period of operation and contains data on the environmental, social, and personnel issues, respect for human rights, operational compliance and fight against corruption, including:

- **a brief description of the business model of the HSE Group**, disclosed in chapter 2.5 Profile of the HSE Group,
- **a description of the environmental, business and social policies of the HSE Group**, presented in chapter 2.10 Sustainable operations and development of the HSE Group,
- **the results of these policies**, presented in chapter 2.10 Sustainable operations and development of the HSE Group,
- **the presentation of the key risks and the sustainable management of these risks**, presented in chapter 2.8 Risk management in the HSE Group,
- **key non-financial performance indicators in the environmental, personnel and social fields**, presented in chapter 2.10 Sustainable operations and development of the HSE Group,
- **a description of diversity policies**, which are carried out with regard to administrative, management and supervisory bodies and are presented in chapter 2.4 Corporate governance statement.

Ljubljana, 9 April 2021

Viktor Vračar, Ph.D.
Managing Director of HSE

Uroš Podobnik
Business Director of HSE

Marko Štrigl, M.Sc.
Business Director of HSE

22 GRI: 102-54

2.10.2 Sustainable business and development[23]

The HSE Group follows the Agenda 2030, which was unanimously adopted in 2015 by the UN General Assembly. The Member States committed to 17 universal goals at the time, based on which they will do everything in their power by 2030 to introduce sustainable development principles in order to eliminate all forms of poverty, fight inequalities, discrimination and climate change. The HSE Group supports these efforts, and among the 17 goals, the following are the most essential for our operations:

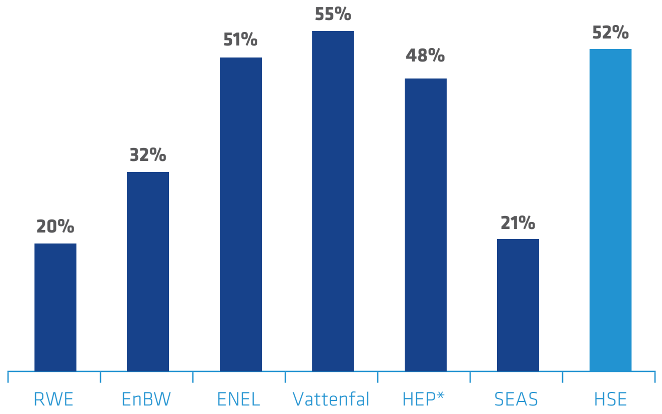
UN GLOBAL SUSTAINABLE DEVELOPMENT GOALS

Goal 3: Good health and well-being,
Goal 4: Quality education,
Goal 5: Gender equality,
Goal 7: Affordable and clean energy,
Goal 8: Decent work and economic growth,
Goal 9: Industry, innovation and infrastructure,
Goal 11: Sustainable cities and communities,
Goal 12: Responsible consumption and production,
Goal 13: Climate action,
Goal 15: Life on land,
Goal 17: Partnerships for the goals.

We are aware that, in order for the operation of companies to be successful, partnerships must be maintained with all stakeholders and their interests and views must be respected during a period of ever-increasing climate change, increased sensitivity and awareness of people, politicians and domestic and international institutions for environmental and social issues. At the same time, we clearly and transparently communicate that the energy sector is at the verge of significant changes, as European and national demands for reducing emissions into the air, ground and water are enhancing, and for the HSE Group this practically means that it must gradually and prudently abandon fossil fuels and strategically focus on building new production capacities using renewable and low-carbon energy sources. The entire energy system will have to know how to adapt to a greater proportion of dispersed sources, an ever-increasing electromobility and the greater use of electricity for heating and cooling. Furthermore, it is our goal to continue providing reliable, safe and competitive electricity supply. The HSE Group is the largest producer of electricity in Slovenia. In 2020, it already produced 52% of electricity using RES, which accounts for more than 70% of all of Slovenia's electricity from renewable energy sources, thus proving the sustainable focus of the HSE Group. Even compared to significant energy companies from abroad, our proportion of production using RES is very competitive.

23 GRI: 102-16; 102-20; 102-30; 102-46

THE PROPORTION OF PRODUCTION USING RES IN SELECTED FOREIGN COUNTRIES



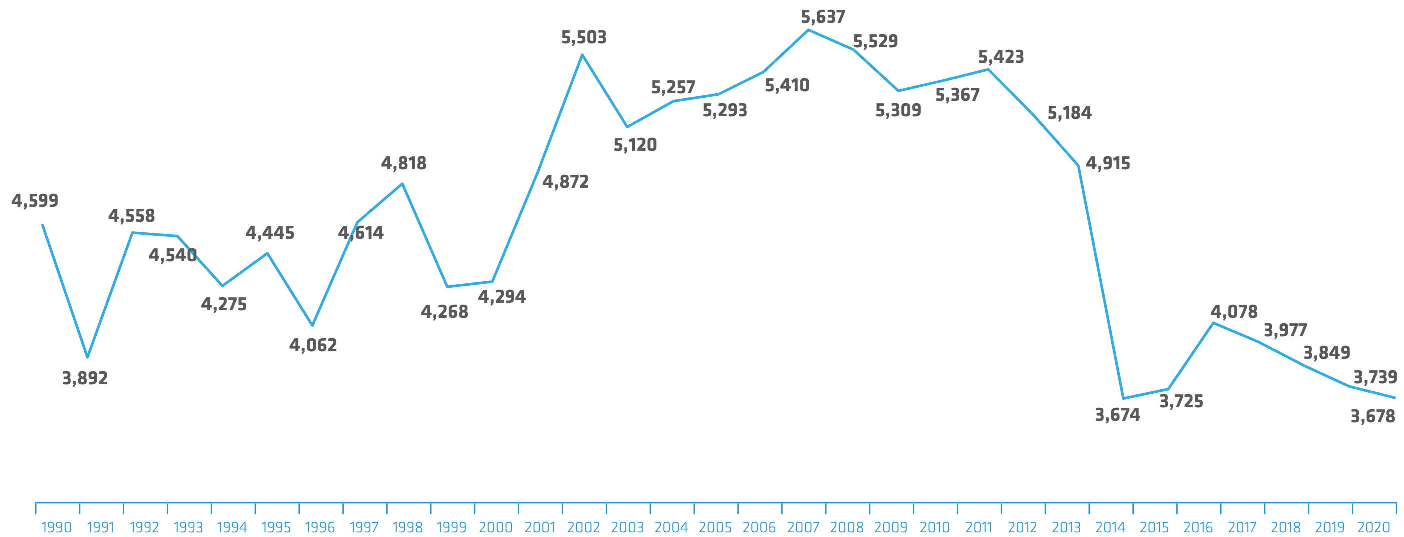
* HEP – data for 2019
Sources: RWE: FY 2020 capacity and power generation data, enbw.com, ENEL: FY 2020 results, Vattenfal: FY Results 2020, www.hep.hr, www.seas.sk

2.10.2.1 Sustainability is in our DNA[24]

In 2020, the European Union adopted certain changes to European climate rules, namely at least a 55% reduction in greenhouse gas emissions in the EU by 2030 compared to 1990 levels. With this ambitious goal for the coming decade, the EU is embarking on a balanced journey to climate neutrality by 2050. The new goals are based on a comprehensive assessment of the effect of social, economic and environmental effects. According to the assessment, such action is realistic and viable.

The HSE Group has been seeing a decreasing emission trend for several decades. SO_2, NOx and dust particle emissions have been reduced considerably. We managed to achieve this by replacing the old units at TEŠ using BAT technology, installing suitable modern filters and by closing the coal unit in Trbovlje. In the Šalek Valley in particular, the quality of air, ground and water improved significantly, resulting in lesser impacts on the health of people, animals and plants. Unit 6, which is one of the most modern thermal power plant units in Europe, allowed us to reduce CO_2 emissions by a third per unit of generated electricity compared to Unit 5.

CO_2 EMISSION TRENDS IN THE 1990–2020 PERIOD IN THE HSE GROUP (IN THOUSANDS OF TONNES)



24 GRI 102-49

The HSE Group supports the goal of becoming a carbon neutral society by 2050, so the majority of our development investments are focused on renewable energy sources. At the same time, we are advocates of a just transition of coal regions and the just sharing of burdens when restructuring coal regions into sustainable oriented circular economies. The regions and people who carried the main burden of industrialisation and the related progress and prosperity for more than a century should not bear the burdens of the past in a post-industrial society on their own.

What must be taken into account when adopting laws and measures is that the power production sector has already made considerable contributions to reducing emissions, having almost halved them during the last three decades. The raising of the objective for the EU ETS sector (European Union Emissions Trading System), of which energy is a part, must thus be based on a fairer distribution of contributions between sectors, in particular those that are not currently included in the EU ETS system, such as, for example, transportation, which contributed considerably to raising emissions in the same period. Within this context, the HSE Group also supports an expansion of the EU ETS system to other sectors.

CERTIFICATES ACQUIRED BY THE HSE GROUP

The HSE Group is committed to high-quality and responsible operations and we work pursuant to the obtained ISO standards.

	HSE	DEM	SENG	TEŠ	PV	HTZ	PLP	RGP	HSE Invest
ISO 9001 Quality management system	■	■	■	■	■	■	■	■	■
ISO 14001 Environmental management system	□	■	■	■	■	■		■	
ISO 45001 Occupational Health and Safety Management System	■	■	■	■	■	■		■	■
ISO 27001 IT security management system	■	■	■	■	□	□		□	□
ISO/IEC 17025 General requirements for testing and calibration laboratories				■					
ISO 55001 Property management system	◊	◊	◊	◊					
EFQM Self-evaluation according to business excellence model	◊								
EE Certification of electricity production from renewable sources	■	■	■						
EEnew E generation with requirements for new HPP	■	■							
PoI Certificate of Origin	■	■	■						
DPP Famiily Friendly Company	■	■							

■ Certification □ Consideration of mandatory control ◊ In phase of preparation for implementation

HSE EDT and Sipoteh have no certificates.

2.10.2.2 Management policies of the HSE Group

Sustainable development within the HSE Group is achieved through continuous improvement of the integrated management system based on the process approach. At the 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 the fire safety policy of the HSE Group,
- information security management policy of the HSE Group,
- HSE Group and Company management policy,
- social responsibility policy of the HSE Group,
- the policy regarding succession in the business functions of HSE Group companies.

2.10.2.3 Operations in 2020

HSE Group companies plan and coordinate activities related to management systems within the following boards:

- management system board – strategic planning of management systems,
- safety board – coordinating activities related to occupational safety and health and fire safety,
- ecology and energy board – coordinating activities related to the environment,
- SUVI board – coordinating activities related to IT security management.

2.10.2.4 We defined the process scheme of the HSE Group

At the Group level, we defined:

- management processes and functions,
- basic processes,
- support business processes and functions.

HSE Group companies coordinated their processes schemes with the HSE Group process scheme.

The HSE Group defined unified process enumeration and naming.

A process owner was defined for all processes at the HSE Group level. This process owner determined the indicators with the corresponding measurable goals and activities for their achievement.

2.10.2.5 Unified certification according to the ISO 27001:2013 standard at HSE, DEM, SENG and TEŠ

With the development and changes in legislation, the market system in the field of electricity, new technologies, new organisational models and new safety incidents, new threats and risks in operations are arising, which could become insurmountable if no suitable action is taken. This is why the SUVI system (ISO/IEC 27001) was standardised and extended to the companies HSE, DEM, SENG and TEŠ. This allowed us to achieve a greater level of protecting information confidentiality, integrity and availability in the HSE Group. By implementing the IT security management standard ISO/IEC 27001, we ensured suitable mechanisms for the constant control and evaluation of IT security and, based on this, risk management related to IT assets.

The basic goal of managing IT security pursuant to the ISO 27001:2013 standard in the HSE Group is to protect and safeguard all IT assets used in the sale, trade, and production of electricity and thermal energy and related products as well as in business.

The implementation of the ISO 27001:2013 standard also included electricity production IT assets, which posed additional challenges when implementing the standard. Production IT assets require a different approach to managing and protecting information than the business aspect of the Group due to the specific hardware and software used to supervise and manage production, i.e. 'SCADA systems'.

The security policies of all companies were revised and standardised to a common denominator. In order to ensure easier implementation, four separate dedicated security policies were devised in place of one extensive document:

- the HSE Group Framework Information Management and Security Policy,
- the Security Policy for HSE Group Employees,
- Sector-Specific HSE Group Security Policies,
- the Security Policy for External Interested Parties in the HSE Group.

A significant perspective in this process was also raising the awareness of employees, where the human factor was often key for information security. For this reason, an educational course regarding information security with a final test was organised for all employees. Special attention within the scope of the ISO 27001:2013 standard was paid to the continuity of operations, change management and incident management.

2.10.2.6 Confident steps towards sustainable operations[25]

Because we wish to monitor the sustainable development of the HSE Group, environmental, social and economic indicators that will be monitored within sustainable operations and development were determined pursuant to GRI (Global reporting Initiative), the international standard for non-financial reporting. They show the impact of the Group on the economy, nature and society in general. The set of these indicators will also serve as the groundwork for future strategic and business decisions, because we wish to develop and improve in all aspects of the operation of the HSE Group. We will continue to focus all of our efforts on reliable and profitable electricity production, while also reducing the negative impacts on the environment and society. Through partnerships with all stakeholders, we seek the best projects and solutions for new zero carbon and low carbon energy sources.

GREENHOUSE GASES IN THE HSE GROUP IN THE 2015–2020 PERIOD[26]

Greenhouse gases/carbon print	Unit of measurement	2015	2016	2017	2018	2019	2020
Direct emissions (Set 1)							
Due to coal combustion	t CO_2eq	3,725,436	4,078,362	3,976,500	3,926,418	3,810,203	3,677,806
– of which for own usage	t CO_2eq	443,111	447,948	440,309	434,747	422,965	421,302
Due to natural gas combustion, ELKO	t CO_2eq	10,329	5,604	23,030	9,809	14,452	19,248
Indirect emissions (Set 2)							
Energy sources for direct implementation of activities (construction machinery, work leases, work travel)	t CO_2eq	2,033	2,056	2,022	2,288	1,944	1,518
Administrative buildings	t CO_2eq	858	819	856	841	796	741
Indirect emissions (Set 3)							
Transport to work	t CO_2eq	402	408	397	399	398	400
Other emissions	t CO_2eq	55,370	64,814	74,011	68,475	63,565	63,467
Total	**t CO_2eq**	**3,794,428**	**4,152,063**	**4,076,817**	**4,008,230**	**3,891,359**	**3,763,181**

25 GRI 103-1; 103-2; 103-3
26 GRI 305-1; 305-2; 305-3; 305-4; 305-5; 305-7

AIR POLLUTANTS IN THE HSE GROUP IN THE 2015–2020 PERIOD

Air pollutants	Unit of measurement	2015	2016	2017	2018	2019	2020
SO_2 intensity for electricity production	mg/kWh	365	228	333	454	278	280
NOx intensity for electricity production	mg/kWh	902	670	821	842	607	597
Sulphur dioxide (SO_2)	t	1,313	945	1,471	1,703	1,049	1,037
Nitrogen gases, NO_2	t	3,245	2,767	3,271	3,168	2,270	2,185
Carbon monoxide (CO)	t	559	685	886	783	721	740
Particles (PM)	t	114	68	162	105	65	70
Methane	t	7,865	1,354	9,783	4,184	3,752	4,772

The HSE Group regularly monitors, measures and supervises numerous environmental indicators. The most important ones include monitoring CO_2 emissions (Group 1), where emissions due to coal use for electricity generation at TEŠ are prevalent. The absolute value of emissions dropped slightly as Unit 6 began operating, although with approximately the same amount of coal used we produce almost one third more electricity than in Unit 5. We also monitor emissions due to the consumption of oil and other fuels for machinery, business trips, and vehicle rentals (Group 2) and (Group 3) emissions for fuel used by employees for coming to and from work (calculated based on mileage paid) and other emissions. The short-term goal is to use upgrades and optimisations to additionally reduce environmental pollution.

The emissions and intensity of sulphur dioxide and nitrogen compounds occurring during electricity production are also monitored within other emissions. Both parameters have been successfully lowered for a number of years and are now considerably below the limit values. The systems at Unit 6 are continually upgraded and improved to ensure even less emissions.

ENERGY AND FUEL CONSUMPTION IN THE HSE GROUP IN THE 2015–2020 PERIOD[27]

Energy	Unit of measurement	2015	2016	2017	2018	2019	2020
Total end energy consumption (electricity, heat, cooling)	GWh	95	95	98	95	93	77
End energy consumption in business premises per employee	kWh/employee	1,816,004	1,855,857	3,725,289	3,927,339	3,127,326	3,612,811
FUELS							
Coal	GJ	36,334,074	39,484,981	38,863,893	37,521,291	36,589,929	35,658,312
Natural gas	GJ	34,492	49,649	388,626	122,615	256,021	334,286
Other	GJ	682	554	809	610	646	533

Our indicators also include monitoring the total final energy consumption for electricity, heating, cooling and the final energy consumption in office buildings per employee, because we are aware that efficient energy use is also important and that investments also need to be made into the energy-saving renovation of our real property. Among fuel consumed, coal used for electricity production and thermal energy at TEŠ and natural gas used in four gas turbines and, in places, for heating buildings are in first place.

27 GRI 302-1; 302-2; 302-3; 302-4

INCOMING MATERIALS IN THE HSE GROUP IN THE 2015–2020 PERIOD[28]

Input materials (in tonnes)	2015	2016	2017	2018	2019	2020
Limestone products (CaCO3, CaO, Ca(OH)2)	127,552	149,511	170,931	158,244	146,813	145,601
Ammoium hydroxide	2,155	2,985	3,000	2,945	2,711	2,530
Chlorine-hydrogen acid	237.55	276	275.64	365.86	261.84	304.38
Lubricants, oils	214	173	164	150	160	152
Steel	4,431	6,565	6,960	7,592	10,038	8,216
Wood (PV)	5,372	5,230	4,996	5,037	5,754	5,193

At the HSE Group level, we are also monitoring in detail the purchasing and consumption of incoming materials, while those were included among the indicators, which have a significant or a potentially significant effect on environmental protection.

WATER USE IN THE HSE GROUP IN THE 2015–2020 PERIOD[29]

Water	Unit of measure-ment	2015	2016	2017	2018	2019	2020
Use of river water*	mio m^3	6.104	3.071	3.282	3.623	3.380	3.443
Use of accumulation and lakes*	mio m^3	2.743	5.961	6.157	5.754	5.216	5.246
Use of groundwater	mio m^3	2.985	2.208	2.414	2.786	2.479	2.629
Use of drinking water	m^3	256,975	278,937	209,739	215,674	202,015	146,350
Use of water for production at HPP	mio m^3	66,998	76,911	62,695	79,832	73,889	85,343

* For cooling technical devices

Responsible water and water source management is among the key environmental aspects in the HSE Group. Millions of cubic metres of water running through the turbines of our hydroelectric power plants bring about economic success, although they also require us to be responsible towards the natural environment in the rivers Drava, Soča and Sava, as well as on the banks and the areas of influence of the hydroelectric power plants. Water is used for cooling technological equipment. This water is mostly returned to rivers and lakes without significantly affecting their quality.

WASTE AND WASTE WATER IN THE HSE GROUP IN THE 2015–2020 PERIOD[30]

WATER PROTECTION (in mio m^3)	2015	2016	2017	2018	2019	2020
Evaporation	6.68	6.75	7.09	7.04	7.03	7.71
Technological wastewater	4.91	3.84	4.21	4.56	4.03	3.90
WASTE (in tonnes)						
All waste	742,861.69	696,751.45	802,634.73	793,660.92	686,420.40	768,029.64
Hazardous waste	113.10	139.78	461.51	502.92	271.40	347.64
Non-hazardous waste	742,748.59	696,611.68	802,173.22	793,158.00	686,149.00	767,682.00
Processed waste	728,437.00	688,693.65	796,344.99	732,453.00	675,648.00	749,368.00
Debris	483.57	400.00	1,128.37	11,716.88	1,349.58	2,485.56

Technological wastewater and waste management in the HSE Group are also monitored. The volume of waste mostly depends on the renovation of river banks and the restoration or demolition of buildings, while responsible actions successfully reduce ‘ordinary’ waste.

28 GRI 301-1
29 GRI 303-1; 303-2; 303-4; 303-5
30 GRI 306-3; 306-5

PRODUCTS AND SERVICES IN THE HSE GROUP

Products and services	Unit of measure-ment	2015	2016	2017	2018	2019	2020
Ashes	t	17,151	14,343	15,376	4,392	10,455	22,173
Gypsum	t	14,339	16,995	21,624	15,370	23,158	67,789
Stabiliser*	t	698,621	649,932	769,436	732,424	639,323	660,834
Waste metals	t	3,940	5,058	26,905	3,493	3,441	6,520
Heat energy	MWh	357,882	384,333	385,989	355,424	341,217	351,254
Gravel	t	32,630	8,051	3,206	46,330	10,666	31,141

* Stabiliser contains ashes, gypsum and slag Excess materials are sold in the market.

The HSE Group makes substantial effort to re-use the materials that are classified as waste according to the Decree on Waste, in the spirit of a circular economy. A stabilising agent is made using the ash, slag and gypsum created during electricity production using coal, and this agent is then installed in the dam between Lake Velenje and Lake Družmirje. Certain surpluses are also sold in the construction material production market. Thermal energy production is also a part of our services. It is used to supply heat to almost all of Šalek Valley. It is precisely district heating that pushed aside the use of individual heating systems in this area, thus considerably contributing to reducing harmful emissions in Šalek Valley. The HSE Group is certain that, instead of using numerous low-quality heating systems, it is better to use a larger high-quality system that will have a less negative impact on the environment due to excellent combustion and the best filters installed.

EXPENSES FOR NATURE PROTECTION IN THE HSE GROUP

Expenditure for nature protection (in EUR thousands)	2015	2016	2017	2018	2019	2020
Air and climate protection	53,479	37,748	36,547	38,955	46,070	81,149
– of which for climate change	33,209	28,704	26,862	26,564	35,867	69,961
Wastewater management	1,864	1,907	3,319	5,273	3,442	2,987
Waste management	2,379	2,213	2,438	4,026	3,848	5,694
Soil, groundwater and surface water protection and improvement	1,769	1,953	2,035	962	2,755	6,177
Noise and vibration protection	19.86	66.54	63.41	4.34	16.66	8.47
Biodiversity and landscape protection	289.55	132.30	156.50	186.64	210.85	335.69
Research and development	26.41	8.58	31.97	9.60	33.64	4.87
Other	4,128.86	3,061.89	3,243.56	3,092.93	3,493.25	3,289.89
Total	**63,955**	**47,090**	**47,834**	**52,509**	**59,869**	**99,646**

The HSE Group makes substantial investments into nature protection because it is aware that a healthy environment is paramount for the high-quality of life for people, animals and plants. The table shows that the expenses have nearly doubled in the past year, as a result of the increase in the price of CO_2 emission allowances. The HSE Group has found that the burden for the emissions is unjustly distributed among the sectors. Furthermore, we are certain that part of the funds collected in the Eco Fund should also be intended for supporting our investments into renewable energy sources and efficient energy use.

2.10.3 Environmental policy[31]

The concern for the environment is included in all aspects of the operation of the HSE Group. Within the Group, we possess extensive knowledge and rich experience in environmental protection because we are very active in the thermal energy, hydro energy and RES segments of electricity production. Everyone is part of the concern for the environment, beginning with strategic and business decisions of the Management, the sensitivity of the members of the Environmental Board of the HSE Group for even the most minor incidents that could cause damage to nature and then extending to investment planners who, in the early phase, are looking for and considering solutions that are not harmful to the environment and could be used in new electricity generation plants or could improve the carbon footprint of the existing plants. The environmental policy in the HSE Group can be summarised in a commitment to operate according to the precautionary principle of recognising and preventing environmental impacts. All employees are part of our ecological consciousness because we encourage a healthy lifestyle in a healthy environment.

The HSE Group did not have any major environmental incidents in 2020, all of our plants operated within the parameters permitted by law, we successfully completed all inspections (the environmental inspection at the Gradišče Small Hydroelectric Power Plant, a mining inspection with regard to excavating raw materials at the RGP quarry, a mining inspection of repairing depressions, a comprehensive inspection of the implementation of the measures at the closed Prapretno waste deposit site, etc.). Our concern for the environment and environmental management are also evident from the fact that we have not been penalised or fined for any environmental damage caused for several years.

In 2020 we were faced with six minor environmental incidents, which, however, did not have any negative environmental impacts. At DEM, three spillages of hazardous substances into the watercourse were recorded. In the first case, the spillage of a small amount of oil that is not harmful for the environment occurred at Zlatoličje Hydroelectric Power Plant. Containment measures were carried out in a quick and expert manner and there was no environmental damage. In the other two cases, small amounts of oil that is not harmful for the environment leaked into the watercourse of River Drava (Lake Ptuj). The competent authorities were notified in all cases and the environmental inspection service did not impose any additional measures. The measures aimed at preventing similar incidents were immediately adopted by DEM.

Three incidents were also recorded at Velenje Coal Mine (PV): a brown stain on Lake Škale where Lepena Stream enters the lake, a damaged pipeline for contaminated air and illegally deposited cement asbestos plates on the embankment of Velunja Stream within the PV excavation area. In all three cases, measures were taken in a timely and effective fashion without any detected environmental effects.

31 GRI 102-11; 307-1

2.10.3.1 Sustainable management of River Drava from the perspective of the effects of the chain of hydroelectric power plants on the natural environment[32]

The sustainable development principle is the promotion of such economic and social development that, when meeting the needs of the current generation, takes into consideration the equal opportunities for meeting the needs of future generations and enables long-term environmental conservation.

The main goal of the environmental management system is to establish a support system for the sustainable management of the chain of hydroelectric power plants on River Drava in such a way that takes into account the sustainable principles of management and the obligations of the company DEM (concession operator) in accordance with the requirements of the Water Directive, which has been transposed into Slovenian legislation by way of the Water Management Plan. The entire river system and all of its mutual functions and spatial connections are taken into consideration when sustainably managing the chain of hydroelectric power plants on River Drava, whereby, in addition to the energy goals, relevant fields, such as nature and water protection, flood protection and other fields are taken into account.

Tasks related to monitoring the condition of the environment are also set forth by law. These include monitoring and controlling the quality of the ground, water and air as well as biodiversity. The monitoring of natural phenomena encompasses the monitoring and controlling of meteorological, hydrological, erosion-related, geological, seismological, radiological and other geophysical phenomena. Pursuant to the Rules on Monitoring the Status of Surface Water, DEM also carries out water and sediment analyses each year.

Despite exploitation for energy, River Drava also remains important from the nature protection aspect, as it is surrounded by diverse riparian habitats, with the running water providing them with the exceptional ability to adapt to human-made development. Lake Dravograd is an artificial lake, although important wetlands have been created around it, with diverse flora and fauna. The area also boasts important spawning grounds and the lake is also a permanent or temporary home to around 150 species of birds. This area is also a sanctuary for a colony of beavers and the lake is additionally interesting from a botanical perspective. Behind the dam in Markovci, the largest artificial lake in Slovenia has been created on River Drava – Lake Ptuj, providing the city with an extensive body of water, which is important for various forms of recreation on and along the water and angling. The lake has attracted more than 200 bird species. Some smaller islands are also intended for them (made within the LIFE Drava project).

Nestled between the Drava and Dravinja rivers, on the right bank of River Drava, is Šturmovci Landscape Park, which is known for a mix of flooded forests, meander cut offs, and meadows with rich flora and fauna, where approximately 90 bird species nests. It is also the habitat of dragonflies, butterflies and more than 500 plant species.

Extensive parts of the floodplain on the left (Hungarian) side of River Drava are protected as part of Danube-Drava National Park. Protected in the park are very diverse habitats with rich flora and fauna, from point bars in the riverbed, to wetlands, oxbow lakes with blind river branches, flooded forests and marsh meadows.

Experience, expert findings and increasing knowledge show us that the co-habitation of industry, nature and people is possible. For this reason, the HSE Group is convinced that it is a strategically correct decision to continue investing into hydroelectric power plants on the rivers Sava and Mura, which still have untapped energy potential using renewable energy sources.

Whenever humans seek energy in nature, the landscape is affected. Pier-type power plants, installed in the riverbed, have a lesser impact on the environment than channel-type power plants. In channel-type power plants, interventions are more extensive, although well thought through solutions may even protect and enrich the environment. The operation of hydro power plants with adequate technological solutions does not place a burden on the environment, although their construction may impact the appearance of the landscape, change the water regime of the river and, consequently, habitats. Responsible environmental management thus starts with the planning of technological solutions, prevention of possible negative effects and constant monitoring of the possible environmental impact of the operation of hydro power plants. It is not possible to completely prevent certain impacts, which is why care for the elimination of their consequences is so important.

Ecological projects undertaken by the company DEM are focused on the reconstruction of reservoirs and the subsequent revitalisation and development of the banks, the removal of wood debris and driftwood and ecological utilisation of organic waste. Reconstruction of reservoirs includes development of the mouths of tributaries, construction of embankments, artificial islands, barriers for wood debris and driftwood and similar developments which contribute to the natural balance of the environment. Appropriate development of reservoirs and banks is also the foundation for the development of tourism and recreation activities related to bodies of water.

32 GRI: 304-1; 304-2; 304-3

2.10.3.2 The Šalek coal mining region

Coal has been mined in Šalek Valley for more than 145 years and this underground coal excavation activity affects the quality of the environment and the life in the valley. At the same time, Velenje Coal Mine (PV) has been the backbone of Slovenia's energy industry and (local) economy for this entire time. The entire surface of the mining area has considerably changed due to the consequences of mining, which also caused the formation of lakes. The area where depressions are being repaired between Lake Velenje and Lake Družmirje will continue to change until coal is no longer mined. However, the PV company has been making efforts to provide ongoing rehabilitation and restoration of the area. Part of the area has been rehabilitated to the point that it now enables the performance of various leisure and sports activities. By seeking various solutions and approaches, the surface of the water accumulation of the small lakes in the area of depression repair was able to be reduced by half – from 3.48 ha to 1.79 ha.

The HSE Group has been working with the local community, it has been monitoring changes on the surface of the PV excavation area within regular monitoring activities and by performing mapping and surveying measurements, and the requirements of the legislation and the internal and environmental protection regulations have been consistently monitored and taken into account.

To rehabilitate depressions (pits), a stabilising agent is used. This is a mixture of waste products generated within electricity production at Šoštanj Thermal Power Plant (TEŠ). Therefore, fly ash, slag and gypsum are not accumulated as waste material, but are built into the barrier between the lakes as construction composite material with a prescribed mixture. In October, TEŠ obtained the Slovenian technical permit for the use of the stabilising agent, which is valid until 1 June 2021.

We also actively participated in the siting of the 3rd development axis and we worked with the design engineers developing the route as well as with the local community and the state. Since the route will not run across the area affected by coal mining, we are satisfied that in 2020 the construction of the third development route began, because it is of key importance for the future development of Šalek Valley.

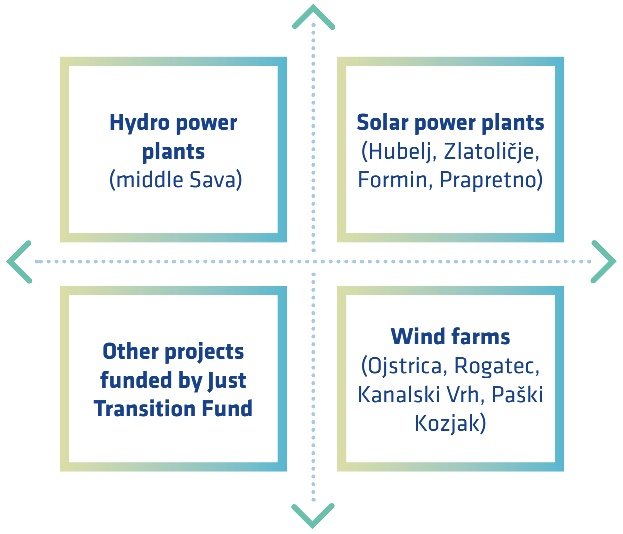
2.10.3.3 The European and national legislative risks[33]

The HSE Group supports the goals of the energy and climate policy of the European Union and its commitment to reaching climate neutrality by 2050, assuming that the country-specific features and the available environmental options are taken into consideration. In order to contribute to this goal, we have already began carrying out restructuring measures, the goal of which is the long-term decarbonisation of electricity production by phasing out the use of coal without having a negative impact on the reliability of supplying our business partners and consumers with electricity. Coal will be replaced by renewable and other low carbon energy sources. For this reason, we are proactive in order to ensure the formation of a regulatory support framework that will enable the realisation of the sustainably oriented development projects of the HSE Group and the groundwork for ensuring a suitable proportion of the public funds necessary for their implementation. We would like to highlight the following aspects, which are significant for the HSE Group:

- coal phase-out according to just transition principles,
- the support of public funds for implementing the energy transition,
- the construction of new hydroelectric power plants and other RES projects,
- recognising the transitional nature of natural gas,
- simplifying the issuing procedure for authorisations,
- a stable and reliable investment environment.

33 GRI: 415-1

2.10.3.4 Coal phase-out according to Just transition principles



The HSE Group is making efforts to ensure that the coal exit and the necessary restructuring of PV and TEŠ are carried out in a predictable way and according to just transition principles, which would provide regions and energy companies with sufficient time to adapt and implement all of the necessary steps. Reckless decisions or a coal exit that is economically too rapid would threaten the reliability of Slovenia's supply and the competitiveness of its economy, because the more than 30% proportion of electricity production in Slovenia currently provided by TEŠ and PV would have to be replaced. The HSE Group is carrying out activities for extending the concession for mining lignite at Velenje Coal mine throughout the entire period leading up to the end of the predicted lifespan of the coal mine.

The adoption of a suitable regulatory framework and a decision regarding the year of the coal exit at the state level, while also ensuring primary public financing sources for the entire process, are also necessary in order to continue effectively planning the development activities and projects of the HSE Group. Therefore, we are actively participating in the drafting of the National Strategy for Abandoning Coal Use and of the regional plans for restructuring the Šalek and Zasavje regions, which are to be adopted by mid-2021 and are going to be the prerequisite for drawing on the funds from the Just Transition Fund.

2.10.3.5 Energy transition supported by public funds

The measures and investments necessary to carry out a socially, environmentally, and economically just energy transition will need to be implemented in a cost-effective manner that will maintain the competitiveness of the economy. This means that not all costs can be charged to energy companies, because the funds to cover them cannot be ensured in the market through electricity prices, although public national and European funds will also have to be ensured for this purpose. Slovenia has at its disposal multiple financial instruments within the recovery package and the multiannual budget of the European Union.

In addition to promoting the increase in the proportion of electricity generated using renewable energy sources in an environmentally friendly manner, the HSE Group finds that the most important part of the European Green Deal is to establish a Just Transition Fund at the level of the European Union, which is intended to finance the just transition in coal and carbon intensive regions. Within the scope of its preparation, we also proposed that the investments into the ecological revitalisation of existing energy locations (what is known as brownfield investments) also be included among legitimate purposes.

Moreover, we are convinced that Member States should ensure that the revenues from emission allowance auctions within EU ETS are intended, to a maximum extent, to just transition projects in coal regions, including renewable energy source projects, focusing on projects within these regions. Therefore we are advocating at the national level that this type of arrangement be made within a Climate Change Funding Programme. At the level of the European Union, we proposed that Slovenia be included as a Member State eligible to receive funds from the Modernisation Fund, as also foreseen in the National Energy and Climate Plan.

2.10.3.6 The construction of a new hydroelectric power plants and other RES projects

Water power is the greatest and most important renewable energy source for electricity production in the HSE Group. This is why we are making efforts to continue using this national strategic source that is so significant for Slovenia. Slovenia is one of the rare EU Member States that still has a particular potential of untapped water energy, which could considerably contribute to achieving the national goals by 2030. And the HSE Group is the sole owner of the concessions for its use. Because the planned water energy and other RES projects are particularly challenging due to siting in special protected areas, we are striving for sustainable solutions that would enable them to be sited in an environmentally and economically acceptable fashion.

2.10.3.7 Natural gas as a transitional energy source for achieving climate neutrality

The HSE Group sees natural gas as an important transitional energy source for achieving climate neutrality, particularly in countries that strongly rely on coal. As the European Council adopted the measures regarding the new climate goal in December 2020, it also stressed that the right of Member States to decide on their own energy mix and to select the most suitable technologies, including transitional technologies, such as gas, must be observed in order to jointly fulfil the climate goals by 2030. Therefore, we are making efforts within the scope of drafting new European legislation on sustainable funding to ensure that gas projects be recognised as a key element of the transition towards climate neutrality, so that, as a result, we could have access to good financial sources.

2.10.3.8 Simplifying the acquisition of authorisations for RES projects

The lengthy procedure for obtaining building permits is a major challenge when carrying out energy and other infrastructure projects. This is why, on the one hand, we are striving to prepare the necessary documentation as best as we can and to achieve the consensus of as much of the public as possible beforehand, while, on the other hand, we are advocating legislative solutions that will enable simpler and quicker siting procedures. As the largest producer of electricity using renewable energy sources in Slovenia and the holder of key concessions for the use of the water potential of the River Mura, the middle River Sava and Soča and its tributaries, we are proactive in obtaining the maximum support of the Government and the competent ministries and ensuring that the public interest in projects with renewable energy sources be recognised in order for climate and energy goals be achieved.

2.10.3.9 A stable and reliable investment environment

The HSE Group is convinced that long-term investments into the energy sector are only possible within suitable market conditions that are based on a stable and reliable regulatory environment. The constant reform of the key EU legislation does not yet offer the stability necessary for investors in the energy sector to provide major investments necessary for fulfilling the ambitious climate goals. Therefore, we are proactively participating in the process for legislative changes from the perspective of managing legislative risks and protecting the interests of the HSE Group.

Due to the adoption of a 55% increase in the EU's climate goal regarding the reduction of greenhouse gas emissions by 2030, a revision of a large part of the energy and climate legislation is foreseen. Within this revision, an increase in the goals related to the proportion of renewable energy sources in the gross end consumption of energy and energy efficiency is expected. In our experience, this is an additional opportunity for new production plants using renewable sources due to a rise in the demand for electricity. The European Commission will present its proposals as early as in the first half of 2021.

2.10.3.10 JTF projects[34]

The HSE Group recognised very early on the necessity of having an approach to devising a long-term plan for coal use in Slovenia that is as early and as coordinated as possible. One of the key challenges with regard to this is the further development of the regions that a strongly dependent on coal mining. After Slovenia's Šalek and Zasavje region acceded to the Platform for Coal Regions, which was helped by none other than the HSE Group, the just transition also became legitimatised within the National Energy and Climate Plan.

According to the Plan, a comprehensive regulatory framework must be set up in Slovenia for restructuring coal mining and ensuring a development transition of coal regions. This framework will include the preparation of a long-term national strategy. The Strategy will include the necessary measures and schedule for a just plan for the early closure of Velenje Coal Mine (PV) and the phase-out of coal use at Šoštanj Thermal Power Plant (TEŠ), within which the following is to be ensured:

- the proposed timeline must be based on a realistic cost-benefit analysis, which must provide an answer regarding the amount of funds that will be necessary to successfully restructure the Šalek region and regarding the sources of funding for the closure and restructuring works that must also be based on public funds,
- the strategy must contain the necessary legislative framework for closing the coal mine (the National Energy and Climate Plan of the Republic of Slovenia (NEPN) contains a commitment that an Act Governing the Closure of Velenje Coal Mine (PV) will also be drafted in 2021), and
- the strategy must also take into account the long-term socioeconomic perspectives of restructuring and the impact on the reliability of electricity supply in Slovenia, where PV and TEŠ play a very important role.

The draft National Strategy for a Coal Exit and the corresponding Environmental Report were in the process of public disclosure until 15 April 2021. For the purpose of facilitating the public discussion on the Strategy and the Environmental Report, on the basis of the conclusions arising from the Environmental Report and the Intersectoral Working Group of the Republic of Slovenia for Restructuring Coal Regions, the coal exit scenario by 2033 at the latest is proposed for the Savinja-Šalek (SAŠA) region, while something known as the Harmonious Scenario is proposed for the Zasavje region – this scenario proposes balanced investments into human resources and entrepreneurship. The competent ministry expects for the political decision regarding the year of the coal exit to be confirmed by the Government of the Republic of Slovenia in June, before Slovenia's presiding over the European Council begins.

The regional plans for drawing on the funds from the Just Transition Fund are still in preparation. The HSE Group actively participates in the process by providing project proposals that the author of regional plans is still coordinating with the European Commission. The first calls for applications for grants are expected in Q1 2022. As regional plans are being drafted, the HSE Group is mainly endeavouring to include, to a maximum possible extent, the development projects of the HSE Group from both regions into these plans.

2.10.3.11 How the HSE Group envisions just transition

The HSE Group is committed to the long-term decarbonisation of its electricity production and carbon neutrality by 2050; however, we would like to stress that this new increased goal could threaten the competitiveness and reliability of electricity supply for the energy sector which is included in the EU ETS. For this reason, we support the proposal that the contribution to achieving the new climate goal be divided among all energy consumption sectors depending on their potential, accessibility to established effective technologies and the consideration of cost effectiveness. We firmly believe that the successful transformation of coal regions is key for the successful decarbonisation of the European Union. This is why we advocate the importance of a just transition when phasing out coal use and restructuring coal regions. To ensure the just transition, a certain amount of dedicated public funds will also have to be ensured in order to achieve more effective implementation and social acceptability.

34 JTF – Just Transition Fund

2.10.3.12 Two specific regions

By participating in the drafting of regional plans for the just transition of both coal regions – the Šalek region and the Zasavje region – which are a prerequisite for drawing EU funds, we wish to ensure that both regions will be restructured in the best possible economic and socially acceptable manner. Considering that the starting condition of each of these regions is different, we took their different circumstances into account when planning individual measures, from the perspective of eliminating the consequences of long-term mining as well as from the perspective of the operation of thermal power plants.

TEŠ and PV are important and still operating energy companies in the Savinja-Šalek region. On average, they contribute just over 30% of annual domestic electricity production in one of the most modern production plants in the EU, which was built in accordance with the best available technology techniques (BAT). We are convinced that, from the perspective of providing reliable electricity supply and implementing a cost-effective energy transition, it is reasonable for TEŠ to operate within its foreseen economic lifespan, while, at the same time, investments are made into replacement production capacities at the existing energy location.

In Zasavje, there are no longer any relevant activities connected to electricity production using coal. HSE EDT manages the energy location of the former Trbovlje Thermal Power Plant located next to River Sava as well as the two satellite locations in Lakonca and Prapretno. In Prapretno, there is a closed industrial waste deposit site for fly ash, slag and gypsum. According to the applicable legislation, measures following closure are being carried out, and the HSE Group is planning to build a large solar power plant with power up to 12 MW. At the former Lakonci coal yard, a large, fully developed area (with utilities) intended for wider industrial use was created following the removal of the equipment. The area will enable the further economic development of the region. In addition to the construction of new production facilities for electricity and heat production using low carbon and carbon neutral gases, the HSE EDT location, due to its remoteness from urban areas and good infrastructure, also enables the construction of large plants in the field of circular economy.

2.10.3.13 The dependency of the Savinja-Šalek region on the coal mine and potential alternatives

The HSE Group actively participates in the preparation of a regulatory framework for restructuring the Šalek region, which will define the activities necessary for starting up the economy and generating jobs as well as the necessary public sources of funding. The energy sector generates almost 30% of all income generated by the local economy annually, and the PV Group directly employs almost 10% of the active working population in Šalek Valley. At least a third of the local population is indirectly connected to coal mining. Within the planned measures for restructuring the Savinja-Šalek region, we are making efforts to preserve the energy location for the purposes of sustainable energy production and for the development of new economic activities, focusing on a circular economy. This plan will make it possible for people to retrain, find new employment, and for high-quality jobs to be created in new business sectors in a timely manner.

In 2020, the Group successfully accelerated the preparation of the projects that will ensure the start-up of alternative industrial activities in the next few years in the area of the shutdown thermal units 1 through 4. Furthermore, we plan to build combined cycle power plants by 2027, which will, due to their high efficiency and flexibility, also enable the use of synthetic, environmentally friendly fuels, and they will also continue to provide thermal energy to the local environment.

2.10.4 Social perspective[35]

People are social and emotional beings, so appropriate, respectful and transparent relationships are necessary in order to enter into trustworthy partnerships that lead to progress, development, success and the satisfaction of all. The HSE group utilises all of its activities and over 3,000 employees to be involved in numerous aspects of social life. We actively and responsibly participate in all processes, programmes, events, and initiatives that affect our activities or are affected by our activities. We do not consider social responsibility merely as humanitarian acts, sponsorships and donations, but rather mainly as the search for synergies in the environment for the common good. The list of all stakeholders is beyond the scope of this Report, so only the key and most numerous stakeholder groups are listed.

35 GRI: 102-9; 102-13; 102-40; 102-42; 102-43; 413-1; 413-2

2.10.4.1 We are stronger when we join forces with our stakeholders

Our first stakeholder is the owner, the company Slovenski državni holding d. d., which sets forth the main guidelines for the operation of the HSE Group through its Annual Investment Management Report, the Criteria for Measuring the Performance of Companies with State Capital Investments and the Corporate Governance Code for Companies with State Capital Investments. This group of stakeholders also includes the HSE Supervisory Board as the representative of the owner.

The second group of stakeholders includes bodies and institutions of the state and the EU, which set forth the regulatory framework of the operation of the HSE Group. Because we are aware of the importance of national and European regulatory frameworks, we actively participate in public discussions, we provide informed views regarding key energy-related and other issues, we participate in devising strategies, programmes and acts. We also work with numerous ministries on a daily basis (the Ministry of the Environment and Spatial Planning, the Ministry of Infrastructure, the Ministry of Finance, etc.), government agencies (ARSO – Slovenian Environment Agency), inspection services, the Energy Agency, the Court of Audit of the Republic of Slovenia, etc.

Our relationship with our buyers of goods and services is also key for a successful business result. Record-breaking net sales revenues prove that we have developed high-quality relationships with our business partners:
- international and domestic electricity producers and traders in electricity, CO_2 emission allowances, and other certificates related to producing electricity, gas, and other energy products necessary for electricity production,
- 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 public utility companies,
- system operators of the electricity distribution network (SODO).

Market activity organisers also contributed to this:
- 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 exchange markets trading in electricity and other related products (EEX, EXAA, EPEX, HUPX, HUDEX, OTE, PXE, BSC Southpool, OPCOM, CROPEX, IBEX, SEEPEX, OKTE).

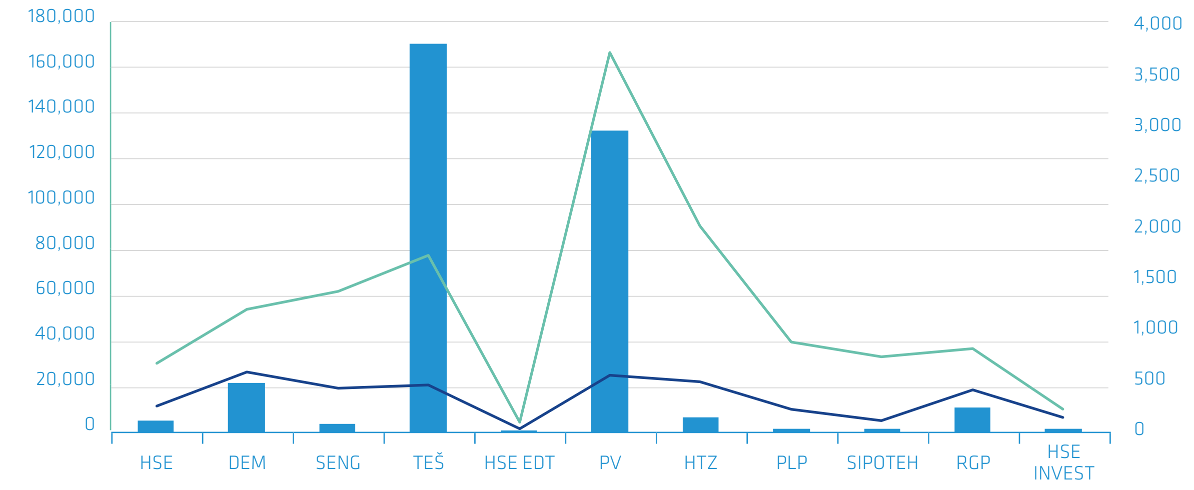
The next group of stakeholders include international and domestic financial institutions, banks, and other financial institutions, credit rating companies, agencies, and insurance companies.

The key stakeholders with whom we cooperate regularly also include expert and professional associations. Expert associations and organisations in which we are active members in Slovenia and abroad also include: the Energy Industry Chamber of Slovenia (Euroelectric, IAEE (SAEE), IPET Section), the Chamber of Commerce and Industry of Slovenia, the Association of Employers of Slovenia, Electrotechnical Association of Slovenia, Slovenian Committee of Electric Power Engineers CIGRE-CIRED and CIGRE Paris, Slovenian Chamber of Engineers, Slovenian Quality and Excellence Association – Energy Section, SI:RISK, ICS Slovenian Corporate Security Association, Slovenian Institute of Auditors – Slovenian Section of the IIS, ACFE Slovenia Association, Slovenian Directors' Association, the Manager Association, Slovenian Corporate Treasurers' Association, EUROCOAL European Association, the Chamber of Agriculture and Forestry of Slovenia, Savinja-Šalek Chamber of Commerce and Industry, Slovenian Museum Association, SLOCOLD National Committee for Large Dams, Slovenian Maintenance Society, and the Štajerska Chamber of Commerce and Industry.

From the perspective of sustainable operations, the relationships with suppliers and the management of the supply chain are also significant. In addition to the standard, economically measurable goals of the purchasing process, the HSE Group companies are also trying to build supply chains with suppliers in a sustainable manner. In doing so, we strictly adhere to public procurement rules, international recommendations, standards, and expert guidelines in the industry. When managing the relationships with suppliers and other stakeholders, we are very sensitive in the purchasing process about how sustainably oriented our partners are. For this reason, the sustainable orientation of suppliers is included in our purchasing strategies and supply chains. We systematically implement this also by standardising the internal rules of the purchasing process within the HSE Group.

At an annual level, HSE Group companies work with more than 3,000 suppliers, with whom between 9,000 and 10,000 business deals regarding the supply of goods, services, and the performance of construction are entered into every year.

2.10.4.2 The volume of the purchases of the HSE Group



We do a lot of business with scientific and expert institutes, research and educational institutions. Together, we seek the best energy, environmental, and business solutions.

Because our operation affects the environments in which we operate, local communities, their mayors, and municipal council members are a very important stakeholder. In addition to them, local associations, societies and clubs are also important. We endeavour to maintain a respectful, expert dialogue with local communities, as this is the only way to integrate in a sustainable manner within an environment.

Furthermore, we continue to work and consult with the civil society and non-governmental organisations. Their views are valuable for better and more acceptable siting of production units using renewable energy sources.

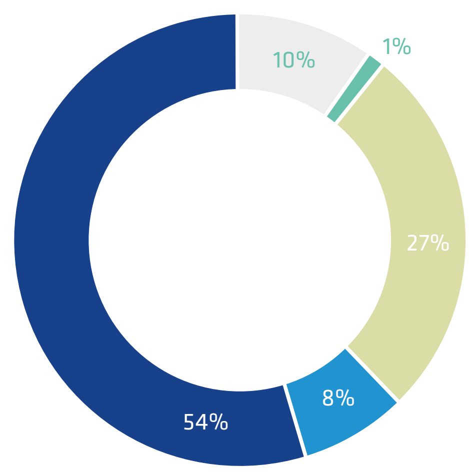
Because we support comprehensive social development, as we are convinced that, as a society, we can only make progress if we develop and make strides in all areas, we also work together with sports, cultural, humanitarian, environmental, and local societies, we sponsor their activities, and allocate donations. In accordance with the, all recipients of sponsorship funds and donations are published on the websites of HSE Group companies.

Domestic, local, and foreign media and, through them, the general public are a key stakeholder for the recognisability of the HSE Group and for the accurate and correct presentation of our views. The purpose of corporate communication in the HSE Group is to build the Group's recognisability and help pave the way for new projects. Moreover, we make efforts to ensure that only accurate, true, positive, and full information are shared with the public. We stress contents that represent our main activity: electricity production using renewable energy sources, development projects, sustainable development, and various milestones and successes marking our operations. The main messages that we wish the target public would always connect with the HSE Group are the strengthening of the image of the holding as a pillar in the energy sector in the country and the advantages created by being in a leading position with regard to electricity production using renewable energy sources.

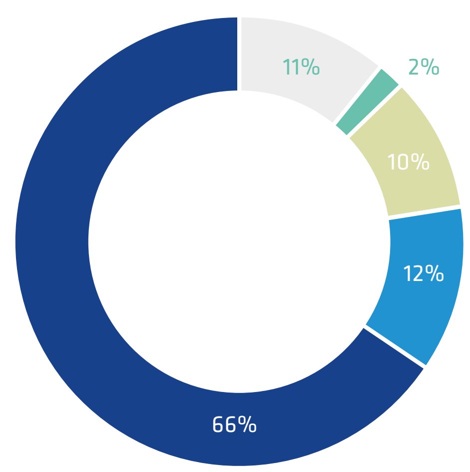
Our greatest wealth are the employees of the HSE Group who daily ensure reliable and safe electricity production, its sale and marketing activities, as well as all employees in support services, who are also a part of the successful mosaic of the HSE Group.

HSE GROUP SPONSORSHIPS AND DONATIONS

2020

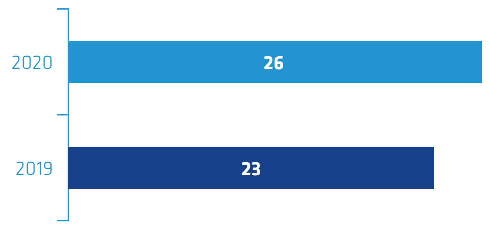


2019

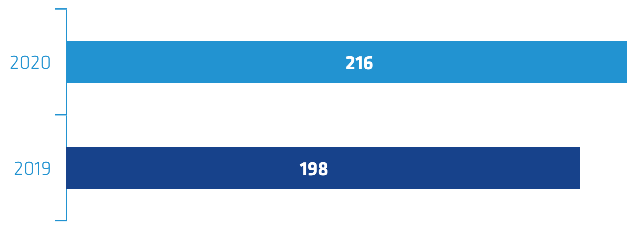


LEGEND:
- Sports and recreation
- Education and science
- Humanitarian purpose
- Protection of the environment
- Culture

NUMBER OF SOLIDARITY BENEFIRS GRANTED



EMPLOYEES ON PARENTAL LEAVE



2.10.5 Human resource management[36]

2.10.5.1 We share our knowledge and experience with younger generations

The HSE Group is aware that the sustainable operations of the HSE Group can only be enabled by high-quality, educated, and capable new human resources. This is why we provide stipends for young and promising secondary school and university students. We provide them with their first contact with a work environment. Mentored by our experts, we also enable them to carry out their mandatory apprenticeship and student work, transfer what they have learned into practice, and we help them prepare seminar papers and final papers. We actively cooperate with secondary schools, higher education institutions, and universities in preparing educational programmes, mandatory apprenticeship programmes, and promoting various professions, particularly those in shortage.

2.10.5.2 Seeking new human resources

We do not leave the search for new employees to chance. We actively participate in career conventions, we advertise available jobs on various portals, we work with faculties, and we also use social media to attract as many potential job applicants as possible. We find it important to give an opportunity to as many job applicants as possible, to listen to their wishes, future plans and fresh ideas. This is one of the reasons why we have two rounds of job interviews and why we meet a large number of job applicants in person. This part is extremely important, as we seek workers who, in addition to professional knowledge, also enrich our team with their personality. Ultimately, we want to work with those applicants who see themselves in the values of our Group. This is why we occasionally use tools for evaluating personalities, abilities and potential when making our selection.

2.10.5.3 Employee development[37]

Every day, we create a work environment which connects and inspires our employees. We try to recognise the ideas, thoughts and experience of all of our employees and give them an opportunity to develop their own abilities in order to create excellent business results. The good relationships among our employees are based on trust, respect, sincerity and cooperation. We respect the differences between the employees and we accept them in an open and tolerant manner, without interfering with the privacy of individuals.

Employee training and education

We systematically approach the development of all employees. For this reason, we are involved in projects intended for developing professional and personal competencies: Start Your Career with Potential, SPIN, Competence Centres – KOC Energija. These are opportunities available to our employees to upgrade their knowledge and competencies. They are partly co-funded by the European Union.

We held workshops that are directly connected to the work process at the company or the HSE Group; they are adjusted specifically to the employees in our companies or the Group with the help of external training providers, our partners. On a monthly basis, we get together at 'Megawatt Hours', where divisions, sectors, and departments are presented. The better we know each other the better we cooperate, thus strengthening the awareness that each person is a piece of a mosaic and that all pieces are necessary for a perfect mosaic.

We also held workshops with external training providers who adjusted their programme at our request to the specific circumstances of the HSE Company or Group.

Special attention is also paid to developing leaders. We are aware that only highly-qualified management personnel can recognise talents, key know-how and skills of employees and support them in their development and further training. In order to strengthen management skills, we held an interactive event with experiential learning focusing on assuming responsibilities and cooperating, communication skills training, workshops in various fields of management, employee development and conflict resolution, the understanding of mutual relationships and encouraging cooperation.

Annual development interviews[38]

A structured annual development interview is a communications channel between a manager and an employee. It provides both with an opportunity to give proposals and suggestions for improvements, both in the professional as well as in a personal sense. At the same time, regular annual development interviews are an important source of information for the management and the human resource department, so that they can plan further activities and measures for developing professional competencies.

36 GRI: 102-8; 401-1; 403-9; 403-10; 404-1; 404-4
37 GRI: 404-2; 404-4
38 GRI: 404-3

At the HSE Group, regular annual development interviews are mainly:
- development interviews,
- an opportunity to evaluate the achievements from the previous year and set future goals,
- a source of information for planning the individual development of employees,
- a review of the wishes for career changes,
- the foundation for preparing employee training and education plans.

The work performance of our employees is also evaluated with the aim of ensuring continued development and improvements. They are expected to carry out high-quality and professional work, to be proactive and to communicate in a professional manner. Additionally, leaders are also responsible for transferring knowledge and information among employees. This was another reason why we introduced the anonymous evaluation of leaders last year, given by their co-workers.

Mentoring

Mentorship programmes for new employees, apprentices and workers assuming new tasks requiring more responsibility have been established. The introduced mentorship programmes are key for transferring knowledge and values among employees.

Innovation

In their daily tasks, our employees are encouraged to continue seeking ways to improve their work and perform it with better quality. Within the continuous improvement system, there is also an innovation and improvement system within our work process. Employees can contribute innovative suggestions to participate in various innovation competitions where they continue to achieve excellent results. For example, we successfully participated in the competition of the Chamber of Commerce and Industry of the North Primorska Region in Nova Gorica for the best innovations. Three of our innovations were won prizes at this competition.

2.10.5.4 Internal communication

We are aware that employees are, at the same time, the first and the most demanding part of the public, whose attitude helps create the external image of the HSE Company and Group. Various communication tools are used to ensure that our employees are notified regarding the latest news in the company in a timely and complete manner. In 2020, the MS Teams communication tool was most frequently used due to the COVID-19 epidemic. This tool was used by our employees to carry out their work processes, to receive and perform their tasks, keep in touch, connect and work together.

Communication and providing feedback are very important in the HSE Group, and this aspect is that much more important during the current emergency circumstances. In April, we carried out a study among the employees of the HSE Company titled '**Work from Home**'. We asked our employees how they felt, what their suggestions were and how they assess the current activities carried out by the company in response to the epidemic. Based on the feedback received from the employees, we received good insight into our work and formed the basis for defining our new method of work in the future.

We also held educational courses where employees were able to obtain new skills for working with new tools as well as new interactive and consolidating workshops focusing on effective and creative remote work.

All of the important information regarding the operation of the companies and the latest topics are available to our employees through our company newsletters, the Energija online paper, the radio, the internet, LinkedIn profiles, Twitter, Instagram and YouTube. Video pages, which are updated daily with the latest news, have been established for employees who do now work on computers. The communication with employees also takes place at events for all employees, where the Management Board presents the achievements from the previous year, significant projects and the plans for the current year.

2.10.5.5 Communication with social partners[39]

In order to achieve sustainable operations and development, the relationship with social partners, who are a link between the employees and the managers in companies, are also extremely important. Regular meetings with the representatives of the Works Council and the representatives of unions allow us to be informed fully and on an ongoing basis, and to actively include the representatives of employees in the operation of the company and the Group. Employees may submit their questions and initiatives to be processed by way of the chairperson of the Works Council or the chairperson of the union or a trade union activist.

The HSE Group also has a Joint Works Council of the HSE Group, which consists of the representatives from the works councils of HSE Group companies. The Joint Works Council cooperates with the management of HSE on managing the Group in accordance with the Worker Participation in Management Act and the Participation Agreement.

39 GRI 102-41

2.10.5.6 Care for the health of our employees[40]

The HSE Group is aware how important the care for the health of employees is. Therefore much attention is also paid to prevention. Employees are notified regarding a healthy lifestyle, the arrangement of the work environment, and healthy nutrition through various channels. The Group is also included in various medical prevention programmes and programmes intended for the employees exposed to harsh working conditions.

We use various forms of above-standard insurance to ensure that the employees and their family members have the option of reaching a doctor as soon as possible. By ensuring this, we enable our employees to return to their work environment following an illness or injury as soon as possible.

During the coronavirus crisis, employees were regularly informed of the latest news and provided with useful tips about how to best take care of their well-being. Through virtual exercise, we took care of mental and physical health, and free anonymous psychological assistance is available to all employees of the HSE Group and their family members 24/7.

2.10.5.7 Voluntary supplementary pension insurance

Voluntary supplementary pension insurance for employees is an integral part of the salary policy of the HSE Group. The employees at the parent company and all of the subsidiaries of the HSE Group are included in this pensions scheme. Therefore, as an aware employer, we try to provide our employees with greater financial security even after retirement

2.10.5.8 Family-friendly company

The companies in the HSE Group are proud holders of the Family-Friendly Company certificate. We take the responsibility that we feel for our employees seriously. We take various measures to additionally improve work process management and the quality of the work environment, thus creating better harmony between the work and family life of our employees. Due to the COVID-19 epidemic and the resulting closure of schools and kindergartens, finding a balance between work and family life was a particularly difficult challenge for many employees. However, we find that, due to all of the adjustments, we overcame the situation both in terms of the satisfaction of employees and their families as well as the aspect of work performance.

There was also a photography competition titled 'Let's Catch and Share a Moment'. Employees were invited to photograph their activities during the epidemic. The children of our employees were also invited to be creative and to make art. They were given symbolic gifts for their participation.

As a family-friendly company, Christmas time was made even more special by giving our Christmas presents to the children of our employees, just like we had done for many years.

2.10.5.9 Care for our employees in their leisure time

We also take care of our employees during their leisure time. With the help of activities organised by sports, cultural and other societies, we help them spend high-quality leisure time. Our employees can spend their annual leave at our holiday facilities in various locations across Slovenia and Croatia.

In order to adhere to the measures aimed at stopping the epidemic, the traditional New Year's Eve celebration was cancelled, but was still enjoyed virtually. We enjoyed an online comedy show that we called **#SmeHSEprileže# (Laughter feels good)**.

2.10.5.10 Exceptional leave of absence[41]

Our employees are entitled to seven days of exceptional leave of absence per year due to personal reasons. In 2020, there were 1,579 such absences, which means that approximately one half of the employees took advantage of this option one day a year.

40 GRI 403-1; 403-2; 403-3; 403-4; 403-5; 403-6
41 GRI: 401-3

2.10.5.11 Responsibility towards the society in general

During the epidemic, we additionally upgraded our responsibility towards the community in which we live, as we are committed to the sustainable operation of the HSE Group. This means that we show solidarity, we are responsible and our help is available to everyone living in our environment. WE gave two ventilators for treating COVID-19 to the Ljubljana University Clinical Centre. During the coronavirus epidemic, the ventilators will help healthcare workers to treat patients who are suffering from the most severe symptoms.

We also participated in the campaign of the Slovenian Association of Friends of Youth titled A CHAIN OF GOOD PEOPLE (VERIGA DOBRIH LJUDI), the goal of which was to create a healthy core of our society. We helped organise, prepare, and deliver warm meals to children from socially at-risk families.

We gave almost 50 computers to schools. These were distributed among children, so that they could participate in remote learning.

We did not even forget about abandoned animals. We collected a large amount of dog and cat food, which was then delivered to animal protection societies.

Our employees participate in organised clean-up campaigns and other events related to raising awareness about the importance of a healthy lifestyle in a healthy environment.

We are aware that donating blood is one of the most noble and beautiful gestures for helping our fellow humans. A small act for the one donating blood, but a major thing for whoever receives it – it could even save a life. At HSE Group companies, we support our employees who choose to donate blood – there were 966 of them in 2020. According to our estimate, this was a somewhat lower number compared to previous years, because of the COVID-19 epidemic.

We are also proud of the Mine Rescue Service, whose tradition of rescuing miners in the event of accidents or emergencies goes back more than one hundred years. Today, the Mine Rescue Service has 93 members, who continue to be regularly training in rescuing and providing first aid. The rescue service is not only available in the event of accidents in the mine, but is also a contractual partner of the Administration of the Republic of Slovenia for Civil Protection and Disaster Relief, so it responds to all accidents in caves and other accidents (e.g. in tunnels) where the courage and knowledge of the rescuers are required. Members have the necessary knowledge, they are qualified to work in places with the presence of gas and provide first aid, so they are also included in the protection and relief system at the state level. In 2016, our mine rescuers participated at the national rescue drill at the Trbovlje-Hrastnik Mine, in 2017 at Marmor Sežana, and in 2018 the Velenje Coal Mine organised a national rescue drill at its mine. In 2019, we participated at a drill in Hotavlje, while last year's drill was cancelled due to the coronavirus epidemic.

We are proud that we have carefully selected and trained individuals in our work environment, who are always willing to provide assistance in emergencies and hazardous events. We are even more pleased that there have not been as many serious rescues in recent years compared to the past.

On 2 March 2020, the (then) head of the Department of Occupational Safety and Health and head of the Mine Rescue Service at the Velenje Coal Mine, Ivan Pohorec (now the head of Production and the Chief Technical Director of the Velenje Coal Mine), received the Civil Protection Bronze Medal for his sacrificial and successful performance of protection, rescue and relief tasks.

2.10.5.12 Protection of privacy and personal data, IT security

We adhere to the General Data Protection Regulation, so we have defined data types that are processed and organised data flows. Therefore, we carefully monitor the personal data processing procedure.

Personal data is only processed if suitable legal grounds are present and in accordance with the purpose of processing. Pursuant to the General Personal Data Regulation, individuals are provided with all of the necessary personal data processing information. They are also notified of their right to be informed of their personal data, the right to have their personal data deleted, and the right to restrict or object to the processing.

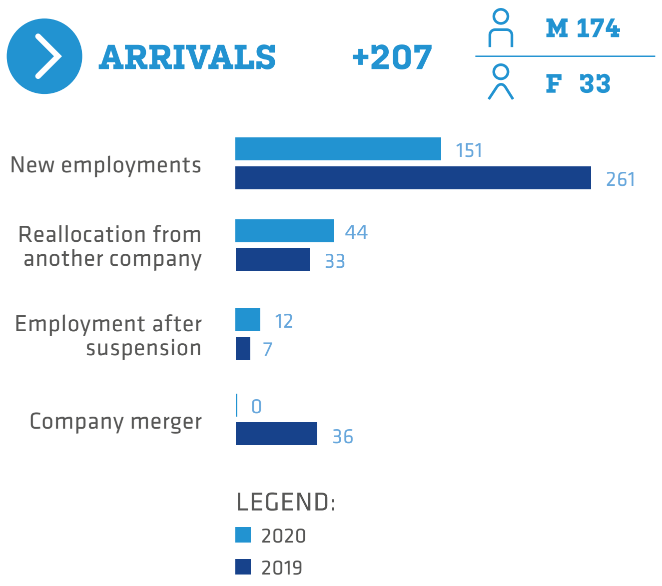
IT security is ensured by way of continuous updates and various measures. The use of software enabling access to personal data records is limited to authorised persons. Access is secured by way of an authorisation and user identification system.

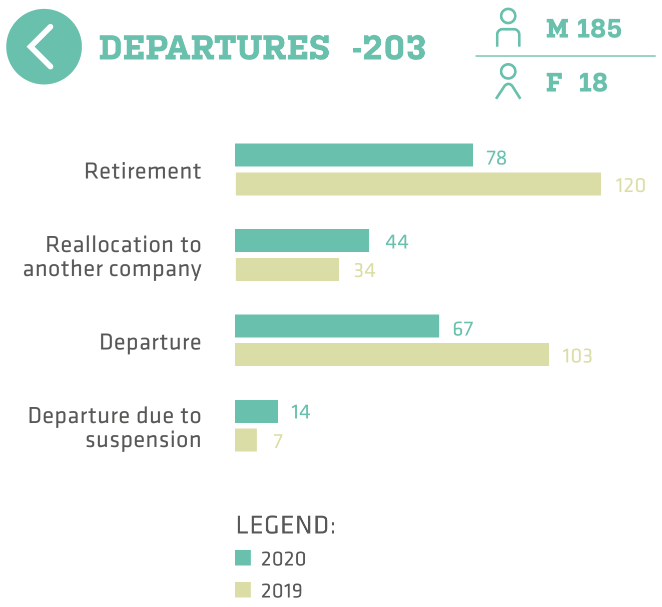
We adopted internal acts related to the protection of privacy, personal data, software and hardware. These acts govern and determine the rules for personal data processing and the processing of software and hardware

NUMBER OF EMPLOYEES IN THE HSE GROUP

COMPANY	2020	2019
HSE	211	186
HSE EDT	0	17
DEM	242	236
SENG	122	127
TEŠ	322	319
PV	1,164	1,193
HTZ	815	813
Sipoteh	39	37
PLP	36	37
RGP	151	130
HSE Invest	46	49
HSE BH	1	1
HSE MAK	0	0
HSE BE	2	2
Total	3,151	3,147

FLUCTUATION IN THE HSE GROUP[42]



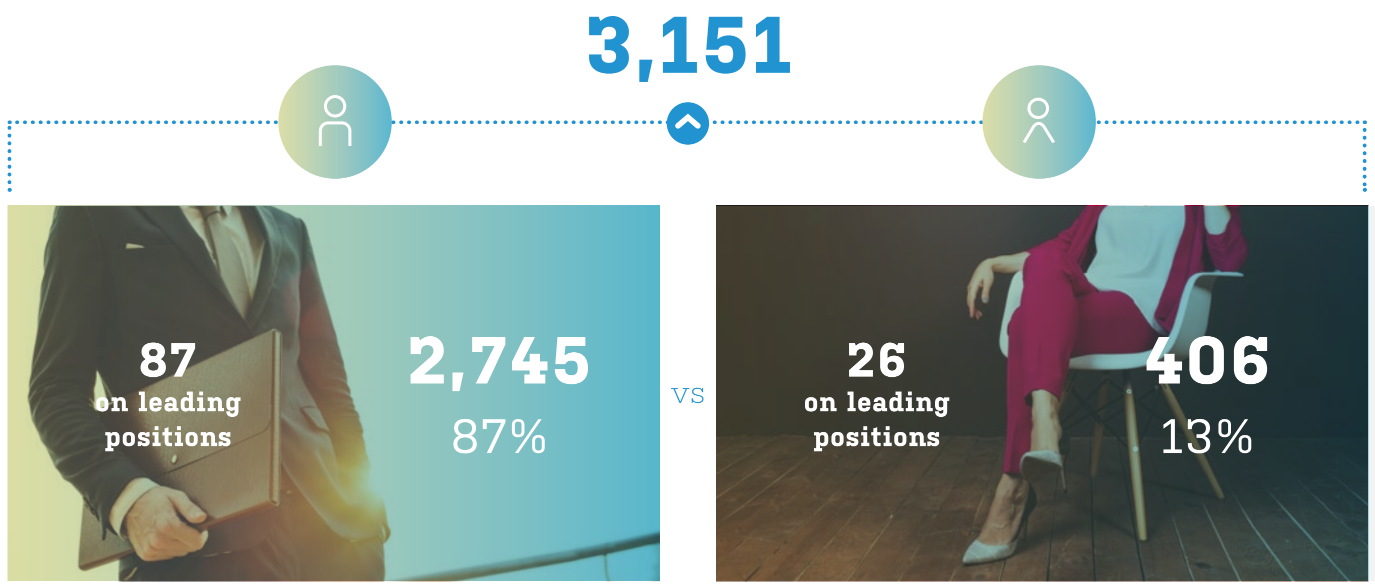


42 GRI: 401-1

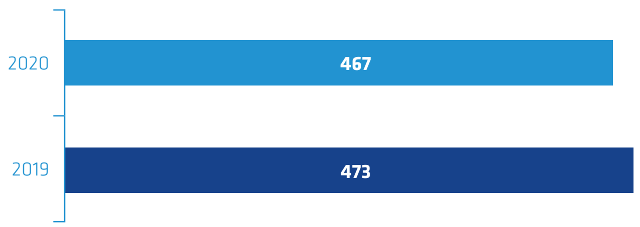
EMPLOYEES BY AGE[43]

	2020			2019			difference compared to 2019		
age class	number of employees	men	women	number of employees	men	women	number of employees	men	women
up to 30 years	380	370	10	380	373	7	+ 0	- 3	+ 3
31–40 years	799	726	73	813	739	74	- 14	- 13	- 1
41–50 years	1,123	985	138	1,118	984	134	+ 5	+ 1	+ 4
51–60 years	795	620	175	788	619	169	+ 7	+ 1	+ 6
Over 61 years	54	44	10	48	41	7	+ 6	+ 3	+ 3
Total	3,151	2,745	406	3,147	2,756	391	+ 4	- 11	+ 15

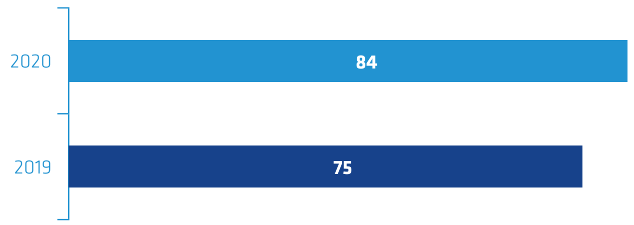
HSE GROUP EMPLOYEES BY SEX



NUMBER OF DISABLED PERSONS AS AT 31 DECEMBER



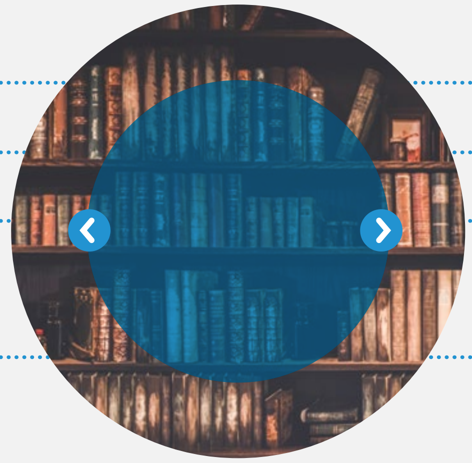
NUMBER OF STIPEND RECIPIENTS



43 GRI: 405-1

2020[44]

Difference according to 2019

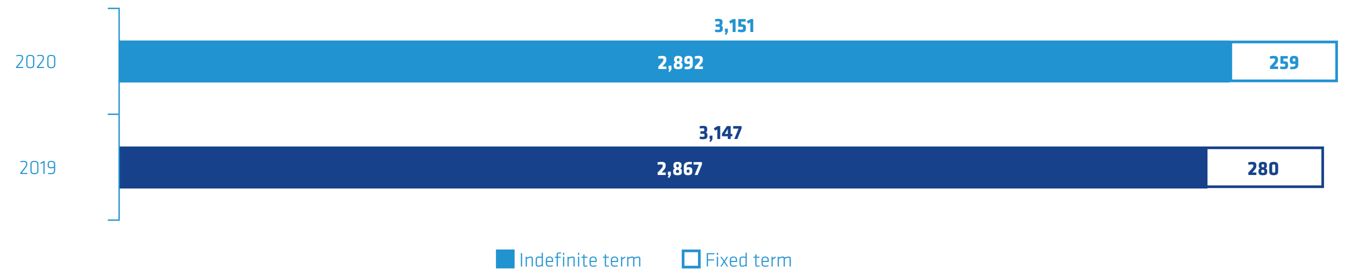


2020	Difference according to 2019
53,731 hours of training	**- 23,517**
192 internal educational courses	**- 40**
18 group workshops at the HSE Group level	**/**
18 hours of training per employee	**- 7**

NUMBER OF EMPLOYEES ACCORDING TO LEVEL OF EDUCATION[45]

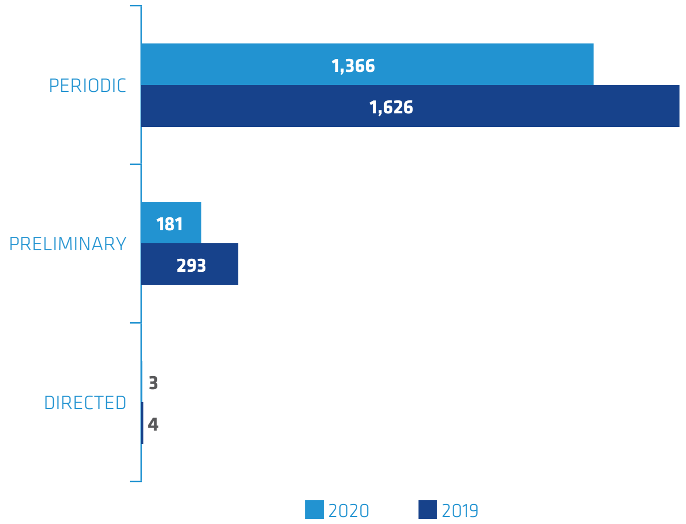
EDUCATION LEVEL	31.12.2020 HSE	31.12.2020 HSE GROUP	31.12.2019 HSE	31.12.2019 HSE GROUP	difference compared to 2019 HSE	difference compared to 2019 HSE GROUP
8/2	3	15	3	14	+ 0	+ 1
8/1	29	72	29	72	+ 0	+ 0
7	86	279	78	271	+ 8	+ 8
6/2	53	219	46	211	+ 7	+ 8
6/1	22	339	19	336	+ 3	+ 3
5	14	830	11	837	+ 3	- 7
4	4	1,061		1,068	+ 4	- 7
3		48		53	+ 0	- 5
2		107		106	+ 0	+ 1
1		181		179	+ 0	+ 2
Total	**211**	**3,151**	**186**	**3,147**	**+ 25**	**+ 4**

EMPLOYEES EMPLOYED FOR A SPECIFIED/UNSPECIFIED PERIOD

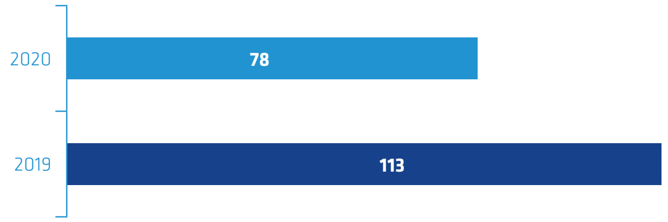


44 GRI: 404-1
45 GRI: 405-1

PREVENTIVE MEDICAL EXAMINATIONS

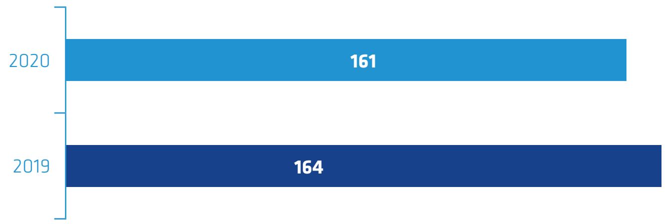


THE NUMBER OF DRILLS FOR IMPROVING EMERGENCY PREPAREDNESS



The number of drills for improving emergency preparedness was lower by one third compared to the year before. At the company DEM, the drills were not carried out due to the COVID-19 epidemic, while 23 were carried out in 2019. A risk assessment for the transmission of COVID-19 and an assessment of work from home were carried out. Furthermore, additional 25 instructions for safe work and a total of 91 activities related to preventing the spread of the virus were created. The activities included all employees.

NUMBER OF ACCIDENTS AT WORK[46]



SICK LEAVE

SICK LEAVE IN HOURS	2020	2019
Sickness benefits chargeable to the company	261,549	248,675
Sickness benefits chargeable to the HIIS	370,574	313,374
Total	**632,123**	**562,049**

In 2020, 632,123 work hours were lost due to sick leave and maternal, parental and paternal leave in the HSE Group, which accounted for 10% of the total number of regular working hours. Compared to 2019, the number of working hours lost due to sick leave and maternal, parental and paternal leave increased by 12%. The proportion of hours lost compared to the total number of hours increased by one percentage point.

ABSENTEEISM

ABSENTEEISM	2020	2019
Number of lost days in a period due to sick leave	73,675	67,409
Average number of employees	2,963	3,128
Number of all working days (per employee)	262	261
Absenteeism (medical) in %	9.5%	8.3%

46 GRI: 403-9; 403-10

2.10.6 Human rights and ethical behaviour[47]

According to the Code of Ethics of the HSE Group, we are committed to meeting the ethical and professional standards of work, behaviour and actions. We provide our employees with equal opportunities, regardless of sex, race, religion, nationality or other cultural and social differences.

We are committed to observing human rights in our operations and to implement the relevant principles of the National Action Plan of the Republic of Slovenia for Respecting Human Rights in the Economy, which was confirmed on 21 December 2020 by signing a commitment to respect human rights in the economy (hereinafter: the Commitment). The Commitment is based on the Universal Declaration of Human Rights adopted by the UN General Assembly in 1948 and on other relevant international documents in the field of human rights and international documents in the field of protecting and promoting human rights in economic activities (UN Guidelines on Respecting Human Rights in the Economy, OECD Guidelines for Multinational Enterprises, Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (ILO) and Corporate Social Responsibility Guidelines).

On the basis of the content of the Commitment, the Operational Compliance Department will, together with other departments competent for human rights protection and environmental protection, draft an action plan for implementing individual commitments and meeting their deadlines, which may be no longer than three years.

In 2020, there were no human rights violation reports in the HSE Group, nor were there any procedures related to violations of human rights and fundamental freedoms. Moreover, the competent departments did not receive any reports of harassment, discrimination, retaliatory measures, sexual or other abuse or harassment in the workplace.

2.10.6.1 Preventing and discovering fraud

The HSE Group is committed to good business practices, we respect our values and all employees are committed to ethical behaviour.

At the end of May, the Operational Compliance Department began operating within the HSE Group as a command centre for the internal control system. Its tasks are to monitor and assess the adequacy and effectiveness of regular procedures and measures adopted to eliminate any potential irregularities regarding operational compliance in the HSE Group. It adheres to the regulations of the Republic of Slovenia, the European Union and to applicable international treaties and commitments. The department also assumed the responsibility for the implementation of the Ethics Code adopted in February 2020. This Code is binding for all HSE Group companies and it sets forth the principles of fair and ethical behaviour. Its content and basic principles were suitable presented to all employees in April 2020. These principles include fairness, credibility, respect, cooperation, managing conflicts of interest, preventing money laundering and the financing of terrorism, environmental friendliness, etc.

In 2020, the Operational Compliance Department also assumed the responsibility for preventing and discovering fraud. During the time of its operations, it handled 5 cases. In some of these, it proposed measures that were suitable implemented pursuant to the proposed deadline or are still going to be implemented.

In 2020, the HSE Group did not detect any major violations of the Ethics Code or any internal fraud. Furthermore, no major cases of non-compliance were detected at the HSE Group by external supervisory authorities.

[47] GRI: 102-16; 102-17; 205-1; 205-1; 406-1; 412-1; 412-2; 415-1

2.10.6.2 Corporate security and protecting employees from COVID-19 infection

The HSE Group was immediately aware of the risk of an outbreak and the spread of the novel coronavirus. For this reason, multiple preventive and protective measures to prevent the spread of COVID-19 were adopted in February 2020, as soon as the first suspected infection in the Republic of Slovenia was reported publicly. Our employees were immediately informed of all introduced measures and the expected behaviour. Because our mission is to ensure uninterrupted electricity production (and thermal energy production in Šalek Valley), the HSE Group immediately identified the key personnel required to ensure the uninterrupted operation of the HSE Group, which would perform critical work tasks. These include the regular maintenance of production facilities, electricity production and the management centre. Work from home was introduced for all jobs for which this is possible due to their nature. In order to ensure the best possible work performance, employees working from home were given the necessary computer equipment and software. Furthermore, the measures were amended and upgraded according to national guidelines and available information.

The adopted preventive measures for preventing infections were basically divided into general preventive measures (regular hand washing and disinfection, cough hygiene, etc.), preventive measures in the workplace (ventilation, disinfecting work surfaces and surfaces frequently in contact with different people, cancelling (non) essential work trips, cancelling meetings in person, etc.), and additional measures where we restricted access and movement in areas that are key for uninterrupted electricity production only to key employees in order to prevent or restrict physical contact with other employees. Among other measures, appropriate protective face masks and hand sanitizers were immediately provided to all employees, who were regularly regarding the recommended preventive measures via e-mail, on the intranet page and on the company's bulletin boards. All announced tours of the production facilities, excursions and open-door days regularly held in individual companies were cancelled. Thermal cameras were placed at the entrances of companies. These help us or warn us if high body temperature is detected in an employee. In the event of high body temperature, another test is performed using an IR thermometer. Further measures are then taken in accordance with instructions and procedures.

Boards or teams responsible for monitoring and taking action to combat the epidemic were established in companies. Companies also keep records of how many employees were tested, how many tested positive and how many recovered from the illness.

All of the measures adopted beforehand in the HSE Group proved to be effective. This is one of the reasons why we are still successfully managing the situation. Only the Velenje Coal Mine experienced some difficulties to the lack of workers. However, suitable solutions were quickly found and the missing workers substituted. We managed to protect the HSE Group, so that our operations and production were carried out without interruptions. In general, we find that the HSE Group proved under these circumstances that we work in unity and effectively, as we managed to ensure uninterrupted production the entire time with the help of the adopted measures and the disciplined adherence to all instructions. All employees should be commended for work well done. However, we are aware that the threat of the virus is still present. For this reason, we are continually raising the awareness of our employees that preventive and protective measures must continue so that we can always fulfil the key goal of the HSE Group – the reliable production and sale of electricity.

ACCOUNTING REPORT OF THE HSE GROUP

By ensuring stable growth from a stem, we are creating a trunk of services.

3.1 Auditor's Report of HSE Group

Deloitte.

Deloitte revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenia
VAT ID: SI62560085
Tel: +386 (0) 1 3072 800
Fax: +386 (0) 1 3072 900
www.deloitte.si

INDEPENDENT AUDITOR'S REPORT
to the 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 2020, 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 2020, 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 Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules 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 Group 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.

MAKING AN
IMPACT THAT
MATTERS
since 1845

Deloitte.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of property, plant and equipment

Key audit matter	How key audit matter was addressed during audit?
As at 31 December 2020, the Group discloses property, plant and equipment in the consolidated statement of financial position in the amount of EUR 1,330,139 thousand. In the year ended 31 December 2020, the Group recognized EUR 243,509 thousand of expenses from impairments of the aforementioned assets. As required by the accounting standard IAS 36 Impairment of Assets, management performs an annual impairment test of cash-generating units to assess their recoverable amount. The recoverable amount of property, plant and equipment is determined in accordance with IAS 36 value in use, which is estimated as the present value of the expected future cash flows that the Group is expected to generate. Determining critical assumptions and planning expected cash flows requires a high degree of management judgment, and therefore an impairment test of these assets is considered a key audit matter. In the note Property, plant and equipment (2), the management provided additional information on impairments related to property, plant and equipment to the consolidated statement of financial position.	As part of the implementation of audit procedures, we assessed the adequacy of the Group's accounting policies regarding impairments of property, plant and equipment and their compliance with IFRS, and performed the following audit procedures: - We assessed whether the model used to calculate the value in use complies with the requirements of IAS 36 Impairment of Assets, and whether the assumptions used are reasonable given the current macroeconomic situation and expected future cash flows; - assessment of the competencies, abilities and objectivity of the independent management expert and verification of the expert's qualifications. In addition, we discussed the scope of his work with management; - with the help of our internal experts, we assessed whether the methodology used by the management expert was appropriate and whether the significant assumptions used were appropriate for the given purpose; - an assessment of whether the recoverable amount is properly determined as an in-use value in accordance with the requirements of IAS 36, including an assessment of the accuracy of management's past estimates, an assessment of the adequacy of methodologies and assumptions used to determine and calculate the discount rate. group used in the calculations, analysis of the sensitivity of the results of the impairment test to changes in key parameters. We also review the information in the consolidated financial statements to assess whether the disclosures regarding impairment of assets are appropriate in accordance with the requirements of the applicable financial reporting standards.

Deloitte.

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 audited 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.

Deloitte.

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.

We also provide those charged with governance with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Deloitte.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 9 August 2019. Our total uninterrupted engagement has lasted two years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 9 April 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Tina Kolenc Praznik, certified auditor.

DELOITTE REVIZIJA d.o.o.

Tina Kolenc Praznik
Certified auditor

For signature please refer to the original Slovenian version.

Ljubljana, 9 April 2021

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

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

3.2 Statement of Management's responsibility

The management is responsible for drawing up consolidated financial statements for each individual financial year according to the International Financial Reporting Standards (IFRS) adopted by the European Union and the Companies Act, so that they present a true and fair view of the HSE Group's operations.

The management legitimately expects the Group to have sufficient resources in the foreseeable future to enable it to continue its operations. The consolidated financial statements are therefore based on the premise that the HSE Group will continue its operations without a set time limit.

The responsibility of the management in drawing up consolidated financial statements includes the following:

- Properly selected and consistently applied accounting policies,
- Reasonable and rational assessments and estimates.

The management is responsible for keeping corresponding records, which present a clear and accurate picture of the HSE Group's financial position at any given time, and for making sure that the consolidated financial statements of the HSE Group are in accordance with the International Financial Reporting Standards. The management is also responsible for protecting the HSE Group's assets, as well as discovering and preventing abuses 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 the HSE Group for the financial year that ended on 31 December 2020, were accepted by the management on 9 April 2021.

Ljubljana, 9 April 2021

3.3 Introductory explanatory notes to the consolidated financial statements

The financial report of the HSE Group 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 HSE Group 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.

Deloitte revizija d.o.o. audited the consolidated financial statements with explanatory notes and prepared an independent auditor's report, which is presented at the beginning of this chapter.

3.4 Consolidated financial statements

3.4.1 Consolidated statement of financial position

in EUR

Item	Explanatory note	31.12.2020	31.12.2019
ASSETS		**1,865,305,533**	**2,073,747,513**
A. NON-CURRENT ASSETS		**1,519,896,312**	**1,791,601,321**
I. Intangible assets	1	22,964,816	24,798,588
II. Real property, plant and equipment	2	1,330,138,748	1,601,008,874
III. Right to use leased assets	3	4,024,491	4,678,163
IV. Investment property	4	16,996,181	17,557,518
VI. Other long-term financial investments and loans	5	141,736,110	140,660,755
VII. Long-term operating receivables		2,040,708	1,012,879
VIII. Other non-current assets		1,026,154	1,163,178
IX. Deferred tax receivables	6	969,103	721,364
B. CURRENT ASSETS		**345,409,221**	**282,146,192**
I. Assets included in the disposal groups		13,999	215,722
II. Inventories	8	38,722,310	33,092,936
III. Short-term financial investments and loans	9	12,310,346	12,602,021
IV. Short-term accounts receivables	10	167,145,295	142,196,584
V. Contract assets	11	407,957	457,771
VI. Current tax receivables		6,720	691,240
VII. Other current assets	12	48,329,570	50,372,320
VIII. Cash and cash equivalents	13	78,473,024	42,517,598
EQUITY AND LIABILITIES		**1,865,305,533**	**2,073,747,513**
A. EQUITY	14	**900,395,852**	**1,064,640,821**
I. Called-up capital		29,558,788	29,558,788
II. Capital reserves		561,243,183	561,243,183
III. Reserves from profit		413,856,350	413,856,350
IV. Risk hedging reserve		43,209,380	20,452,278
V. Fair value reserves		-4,947,786	-2,195,785
VI. Retained profit/loss		-142,211,136	42,105,070
VII. Conversion reserve		-549,616	-617,401
VIII. Capital of owners of non-controlling shares		236,689	238,338
B. NON-CURENT LIABILITIES		**691,454,621**	**745,967,744**
I. Retirement benefit obligations	15	23,414,723	19,988,568
II. Other provisions	16	66,506,848	54,193,524
III. Other long-term liabilities	17	1,535,699	1,639,156
IV. Long-term financial liabilities	18	596,823,215	666,419,394
V. Long-term financial liabilities from leases		2,635,007	3,452,707
VI. Long-term operating liabilities		533,306	258,786
VII. Deferred tax liabilities	7	5,823	15,609
C. SHORT-TERM LIABILITIES		**273,455,060**	**263,138,948**
II. Short-term financial liabilities	19	70,537,774	65,935,349
III. Short-term financial liabilities from leases		1,187,489	1,748,662
IV. Short-term operating liabilities	20	140,656,555	137,975,629
V. Contract liabilities		3,333	0
VI. Current tax liabilities		13,321,602	4,268,719
VII. Other short-term liabilities	21	47,748,307	53,210,589

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

3.4.2 Consolidated income statement

in EUR

Item	Explanatory note	2020	2019
OPERATING REVENUE		**1,857,466,684**	**1,728,616,033**
1. Net sales revenues	23	1,837,247,832	1,710,574,972
2. Other operating income	24	20,218,852	18,041,061
OPERATING EXPENSES		**1,995,141,838**	**1,654,515,725**
3. Costs of goods, materials and services	25	1,445,901,596	1,376,079,482
4. Labour costs	26	132,400,410	131,729,583
5. Value write-offs	27	325,551,463	86,517,293
6. Change in value of inventories of products and work in progress		-1,075,652	-814,422
7. Capitalised own products and services	28	-15,306,922	-14,224,268
8. Other operating expenses	29	107,670,943	75,228,057
OPERATING PROFIT/LOSS		**-137,675,154**	**74,100,308**
9. Financial revenue		125,167	7,079
10. Financial expenses		24,529,486	32,230,828
FINANCIAL OUTCOME	30	**-24,404,319**	**-32,223,749**
11. Shares in affiliated and jointly-controlled companies	31	1,270,007	1,349,462
PROFIT (LOSS) BEFORE TAX		**-160,809,466**	**43,226,021**
PROFIT	32	**23,369,914**	**13,498,042**
12. Tax		23,435,422	13,501,990
13. Deferred tax		-65,508	-3,948
NET PROFIT/LOSS FOR THE YEAR	33	**-184,179,380**	**29,727,979**
Owner of parent company		-184,177,731	29,730,396
Non-controlling interest		-1,649	-2,417

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

3.4.3 Consolidated statement of other comprehensive income

in EUR

Item	Explanatory note	2020	2019
Net profit/loss for the year	33	**-184,179,380**	**29,727,980**
Change in fair value reserves for real property, plant and equipment	14	-15,000	-43,000
Actuarial revenues and losses of programmes with defined employee benefit		-2,641,519	-1,451,375
Profits and losses from currency translation differences for financial statements of companies abroad	14	67,783	-137,915
Items that will subsequently not be included in the income statement		**-2,588,736**	**-1,632,290**
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows		23,572,529	-55,123,646
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows, retained in net profit/loss	14	-815,428	-16,433
Change in reserve for fair value of financial assets via other comprehensive income	14	-3,164	2,878
Items that will subsequently be included in the income statement		**22,753,937**	**-55,137,201**
Total comprehensive income for the reporting period		**-164,014,179**	**-27,041,511**
Owner of parent company		-164,012,530	-27,039,094
Non-controlling interest		-1,649	-2,417

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

3.4.4 Consolidated cash flow statement

in EUR

Item	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/loss	-184,179,380	29,727,979
Adjustments for:		
Amortisation of property, plant and equipment, intangible assets, investment property, plant and equipment and rights to use assets	79,531,862	79,764,137
Impairments/write-offs, sales of real property, plant and equipment, intangible assets and investment property	244,868,585	6,169,589
Inventories write-offs	496,137	544,915
Operating receivables write-offs	654,879	38,652
Elimination of write-off/impairment of operating receivables	-68,557	-45,741
Financial revenue	-125,167	-7,079
Financial expenses	24,529,486	32,230,828
Shares in affiliated and jointly-controlled companies	-1,270,007	-1,349,462
Profit from sale of real property, plant and equipment	-937,750	-734,688
Taxes	23,369,914	13,498,042
Operating profit before changes in net short-term assets and taxes	**186,870,002**	**159,837,172**
Changes in net short-term assets and provisions		
Change in:		
Inventories	-6,125,511	-3,202,473
Trade receivables and other assets	-24,333,274	-8,330,817
Assets classified as held for sale	201,723	578,134
Operating liabilities to suppliers and other liabilities	87,238,583	-20,187,048
Provisions	916,425	12,080,263
Profit tax paid	-13,698,019	-11,969,951
Cash from operations	**231,069,929**	**128,805,280**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interests received	2,976	3,755
Remuneration from other financing	77,411	364
Dividends received	44,780	2,960
Remuneration from sale of real property, plant and equipment	2,977,732	1,109,818
Remuneration from sales of investment property	663,971	323,795
Remuneration from reduction of short-term loans given	12,508,261	12,899,641
Remuneration from reduction of long-term loans given	0	10,000
Expenses for purchase of real property, plant and equipment	-41,551,844	-48,245,566
Expenses for purchase of intangible assets	-65,025,752	-37,342,409
Expenses for purchase of investment property	-122,938	-691,574
Expenses for leases	-542,362	-5,757,168
Expenses for purchase of subsidiaries	-12,245,874	-12,508,326
Expenses for increase of long-term loans given	-1,501	-7,443
Cash from investment	**-103,215,140**	**-90,202,153**

CONTINUES ON NEXT PAGE

in EUR

Item	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Leases	691,685	4,325,113
Remuneration from long-term loans received	0	181,440,000
Remuneration from short-term loans received	46,449,000	42,514,000
Remuneration from other long-term financial liabilities	0	669,780
Remuneration from other short-term financial liabilities	0	7,208,705
Expenses for loan interest	-19,015,635	-23,235,612
Expenses from other financial liabilities	-5,577,767	-8,865,320
Expenses for repayment of long-term loans	-59,953,945	-233,248,613
Expenses for repayment of short-term loans	-52,383,997	-42,893,838
Expenses for repayment of short-term financial liabilities	-2,108,704	-7,233,758
Expenses for repayment of long-term financial liabilities	0	-276,515
Cash from financing	**-91,899,363**	**-79,596,058**
INITIAL BALANCE OF CASH AND CASH EQUIVALENTS	**42,517,598**	**83,510,529**
Profit or loss for the period	**35,955,426**	**-40,992,931**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**78,473,024**	**42,517,598**

3.4.5 Consolidated statement of changes in equity

in EUR

	CALLED-UP CAPITAL		RESERVES FROM PROFIT			RETAINED PROFIT/LOSS				
Item	Share capital	Capital reserves	Other reserves from profit	Risk hedging reserve	Fair value reserves	Retained net earnings	Net profit for the year	Conversion reserve	Capital of minority owners	Total
Balance on 1 Jan 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 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 for the reporting period	**0**	**0**	**0**	**0**	**0**	**0**	**29,730,396**	**0**	**-2,417**	**29,727,979**
Items that will subsequently not be included in the income statement	**0**	**0**	**0**	**0**	**-1,240,247**	**-254,128**	**0**	**-137,915**	**0**	**-1,632,290**
Change in surplus from revaluation of real property, plant and equipment	0	0	0	0	-43,000	0	0	0	0	**-43,000**
Actuarial revenues and losses of programmes with defined employee benefit	0	0	0	0	-1,197,247	-254,128	0	0	0	**-1,451,375**
Profits and losses from currency translation differences for financial statements of companies abroad	0	0	0	0	0	0	0	-137,915	0	**-137,915**
Items that will subsequently be included in the income statement	**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 instrument for hedging against the variability of cash flows	0	0	0	-55,123,645	-1	0	0	0	0	**-55,123,646**
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows, retained in net profit/loss	0	0	0	-16,433	0	0	0	0	0	**-16,433**
Change in reserve for fair value of financial assets via other comprehensive income	0	0	0	0	2,878	0	0	0	0	**2,878**
B.3. Changes in equity	**0**	**0**	**0**	**0**	**0**	**-11,559,069**	**11,567,588**	**575,613**	**-147,272**	**436,860**
Allocation of the remainder of net profit of the comparative reporting period to other components of capital	0	0	0	0	0	-11,567,588	11,567,588	0	0	**0**
Other changes in equity	0	0	0		0	8,516		575,613	-147,272	**436,857**
Balance on 31 Dec 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**
Balance on 1 Jan 2020	**29,558,788**	**561,243,183**	**413,856,350**	**20,452,278**	**-2,195,785**	**12,374,674**	**29,730,396**	**-617,401**	**238,338**	**1,064,640,821**
B.2. Changes in comprehensive income	**0**	**0**	**0**	**22,757,102**	**-2,752,001**	**92,318**	**-184,177,731**	**67,785**	**-1,649**	**-164,014,176**
Entry of net profit for the reporting period	**0**	**0**	**0**	**0**	**0**	**0**	**-184,177,731**	**0**	**-1,649**	**-184,179,380**
Items that will subsequently not be included in the income statement	**0**	**0**	**0**	**0**	**-2,748,837**	**92,318**	**0**	**67,783**	**0**	**-2,588,736**
Change in surplus from revaluation of real property, plant and equipment	0	0	0	0	-15,000	0	0	0	0	**-15,000**
Actuarial revenues and losses of programmes with defined employee benefit	0	0	0	0	-2,733,837	92,318	0	0	0	**-2,641,519**
Profits and losses from currency translation differences for financial statements of companies abroad	0	0	0	0	0	0	0	67,783	0	**67,783**
Items that will subsequently be included in the income statement	**0**	**0**	**0**	**22,757,102**	**-3,164**	**0**	**0**	**2**	**0**	**22,753,940**
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows	0	0	0	23,572,530	0	0	0	2	0	**23,572,532**
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows, retained in net profit/loss	0	0	0	-815,428	0	0	0	0	0	**-815,428**
Change in reserve for fair value of financial assets via other comprehensive income	0	0	0	0	-3,164	0	0	0	0	**-3,164**
B.3. Changes in equity	**0**	**0**	**0**	**0**	**0**	**29,499,603**	**-29,730,396**	**0**	**0**	**-230,793**
Allocation of the remainder of net profit of the comparative reporting period to other components of capital	0	0	0	0	0	29,730,396	-29,730,396	0	0	**0**
Other changes in equity	0	0	0	0	0	-230,793	0	0	0	**-230,793**
Balance on 31 Dec 2020	**29,558,788**	**561,243,183**	**413,856,350**	**43,209,380**	**-4,947,786**	**41,966,595**	**-184,177,731**	**-549,616**	**236,689**	**900,395,852**

3.5 Notes to the consolidated financial statements

3.5.1 Reporting company

Consolidated financial statements for the HSE Group are drafted by the parent company, Holding Slovenske elektrarne, d.o.o. The registered head office of the parent company is Koprska ulica 92, 1000 Ljubljana, where consolidated financial statements as part of the annual report of the company and group are available.

Consolidated financial statements as of 31 December 2020 report Group operations that include the parent company and its subsidiaries, shares in group companies and shares in associated companies.

The HSE Group is the largest Slovenian producer (from hydro power plants and fossil fuels) and seller of electricity in wholesale markets in Slovenia and Europe. In Slovenia, the Group generates the primary energy source from own resources for the needs of electricity production at the coal power plant.

A business year of the Group equals a calendar year. The consolidated financial statements for the year ending on 31 December 2020 are presented below.

HSE GROUP AS AT 31 DECEMBER 2020

Company	% ownership as at 31 Dec 2020	% ownership as at 31 Dec 2019	Registered office country
HSE d.o.o.	100	100	Slovenia
DEM d.o.o.	100	100	Slovenia
SENG d.o.o.	100	100	Slovenia
TEŠ d.o.o.	100	100	Slovenia
PV d.o.o.	100	100	Slovenia
HTZ IP d.o.o.	100	100	Slovenia
RGP d.o.o.	100	100	Slovenia
SIPOTEH d.o.o.	100	100	Slovenia
PLP d.o.o.	100	100	Slovenia
HSE EDT d.o.o.	100	100	Slovenia
HSE Invest d.o.o.	100	100	Slovenia
SRESA d.o.o.	60	60	Slovenia
sHPP LOBNICA d.o.o.	65	65	Slovenia
ELPROM d.o.o.	100	100	Slovenia
HSE MAK Enery DOOEL	100	100	Macedonia
HSE BH d.o.o.	100	100	Bosnia and Herzegovina
HSE Balkan Energy d.o.o.	100	100	Serbia
HSE Balkan Energy d.o.o.	100	100	Srbija

The subsidiary TET Novi materiali d.o.o. is currently not operating or, due to its insignificance, was 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 FROM STATEMENTS OF SUBSIDIARIES

	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
TEŠ	787,421,645	553,778,804	239,223,519	-280,428,143	233,642,841
PV	153,611,813	82,109,449	109,436,286	-9,664,140	71,502,364
DEM	465,403,548	15,547,831	69,390,756	10,047,014	449,855,717
HSE BH	9,849,387	8,556,908	48,310,132	259,959	1,292,479
SENG	225,491,066	16,934,235	39,381,481	4,863,650	208,556,831
HTZ	14,009,007	13,255,728	33,035,315	-525,601	753,279
HSE MAK Energy	2,756,349	2,017,552	64,797,177	398,914	738,797
RGP	12,639,460	8,802,779	27,440,271	923,138	3,836,681
HSE Invest	2,158,678	1,566,608	4,724,645	227,983	592,070
PLP	1,537,038	589,762	2,773,646	132,619	947,276
SIPOTEH	2,093,598	881,048	3,163,106	490,507	1,212,550
HSE Balkan Energy	957,151	20,636	312,339	10,850	936,515
HSE EDT	3,122,330	1,702,129	693,435	-45,717	1,420,201
sHPP LOBNICA	619,531	2,857	27,104	1,749	616,674
SRESA	52,140	11	0	-5,653	52,129
ELPROM	51,198	20	0	-249	51,178
Total	1,681,773,939	705,766,357	642,709,212	-273,313,119	976,007,582

AFFILIATED COMPANIES

Group name	Co-owner	Registered office country	% of co-ownership	% of ownership of HSE Group
RCE d.o.o. in bankruptcy	TEŠ d.o.o.	Slovenia	8	24.5
	PV d.o.o.	Slovenia	11	
	HTZ IP d.o.o.	Slovenia	1	
	PV INVEST d.o.o.	Slovenia	4.5	
HESS d.o.o.	DEM d.o.o.	Slovenia	30.8	49
	HSE d.o.o.	Slovenia	15.4	
	SENG d.o.o.	Slovenia	2.8	

DATA ON AFFILIATED COMPANIES AS AT 31 DEC 2020

Company	Title	Activity
HESS	Cesta bratov Cerjakov 33a, Brežice	Electricity production at hydro power plants
RCE d.o.o. in bankruptcy	Preloška cesta 1, Velenje	Research and development in other areas of nature science and technology

TOTAL JOINTLY-CONTROLLED COMPANY

Company	Title	Activity	% of ownership
SOENERGETIKA d.o.o.	Stara cesta 3, 4000 Kranj	Production of electricity and heat	25

AFFILIATE

The Group has a subsidiary in the Czech Republic. It did not operate in 2020, because electricity trading was transferred to the HSE company.

3.5.2 Basis of preparation

A) STATEMENT ON CONFORMITY

In the preparation of the consolidated financial statements on 31 December 2020, the Group 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 implementation the Corporate Income Tax Act and its implementing regulations,
- HSE Corporate Accounting Rules, and
- other applicable laws.

B) ACCOUNTING ASSUMPTIONS AND QUALITATIVE FEATURES OF FINANCIAL STATEMENTS

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

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

The impacts of transactions and other business events are recognised when they actually 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 that will generate revenue 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 that 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 understanding the 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 2019.

C) BASIS FOR MEASUREMENT

The consolidated financial statements have been prepared based on historical cost, except for the following assets and liabilities, measured at their fair value.

D) FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements in this report are presented in euro (EUR) without cents; the euro is also the Company's functional currency. Due to the rounding off of value amounts, there may be insignificant deviations to the sums given in tables.

E) APPLICATION OF ESTIMATES AND JUDGMENTS

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. Estimates are reviewed on an ongoing 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 included in the following judgements at least:

- 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 4 of the consolidated income statement),
- identification of lease contracts (Note 3),
- assessment of the liquid amount of receivables (disclosure Credit risk),
- assessment of net realisable value of inventories (Note 8 of the consolidated statement of financial position),
- assessment of provisions for post-employment and other long-term employees benefits (severance payments at retirement) (Note 15 of the consolidated statement of financial position),
- assessment of other provisions (Note 16 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 2020 are as follows:

1. SE 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 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. The 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. The group assesses the amount of the provision each year. In December 2017, PV also received an external valuation assessment on the closing works, prepared by the Institute for Mining, Geotechnics and the Environment. In 2020 the company reassessed the activities of closing works from the study and formed additional provisions. With the calculation, the current market values for carrying out the defined activities based on 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 the 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), while 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 CO2 emission coupons, prepared by an external independent institution, are limited to a period of 7 years (2024-2030 period), and with the latter to a period of 31 years (2024-2054 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 based on accounting policies presented below. The mentioned accounting guidelines were used for both years, except if not determined otherwise. Where necessary, the comparable data have been adjusted to match the disclosures referring to the reporting period.

FOREIGN CURRENCY CONVERSION

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

Cash assets and liabilities denominated in a foreign currency at the end of the period are translated into the functional currency at the then valid exchange rate.

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

Foreign exchange differences are acknowledged in the income statement at net principle.

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 the 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 commences to the date when it ceases.

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 based on 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 long-term assets and they enable the implementation of the Group's activity, whereas they do not physically exist. 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.

At the initial recognition, an intangible asset is recognised at cost. The cost also includes imported or non-refundable purchased receivables less business or other discounts and all costs directly associated with the preparation of the 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 part of the cost of such asset.

Intangible assets are subsequently measured using the cost model.

The residual value of an intangible asset is an estimated amount that the Group would receive upon disposal of such an asset, after the reduction by estimated costs of disposal, if such an 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 arising on consolidation represents the excess of the purchase value over the fair value of the Group's interest of the acquired identifiable assets, liabilities and contingent liabilities of a subsidiary on the date of acquisition. Goodwill is recognised as an asset and is tested at least once a year for impairment. Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed. Upon disposal of the subsidiary, 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 calculated on a straight-line basis over the estimated useful life of each individual part (component) of the intangible asset. Amortisation is accounted at cost when the asset becomes available for use. Emission coupons are not amortised, since they are purchased for the individual periods in which they are used.

EVALUATED USEFUL LIFE IN YEARS - INTANGIBLE ASSETS

	2020	2019
Software	2–20 years	2–20 years
Licences	4–10 years	4–10 years
Other long-term property rights	4–10 years	4–10 years
Other intangible assets	4–10 years	4–10 years

Useful lives of groups of intangible assets are examined at the end of each financial year and adapted, if needed. In the event that their useful life is extended, the cost of amortisation in the current year is decreased. If the useful life period is shortened, amortisation costs increase. The adjustment of the useful life period has to be calculated in such a manner that the asset will be amortised in the new predicted useful life. The change to the useful life period is treated as a change to 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 connected to intangible assets are capitalised only if they increase the future economic benefits derived from the assets to which the costs relate. All other costs are recognised in the income statement as expenses as soon as they are incurred.

An intangible asset is exempted from the account books 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.

REAL 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. The procurement value is composed of costs that may be directly attributed to the acquisition of the individual asset. Cost also includes borrowing costs relating to the acquisition of an item of property, plant and equipment until the asset is made ready for its intended use, depending on the type of an item of property, plant and equipment and cost of dismantling.

Parts of plant and equipment with different useful lives are accounted for as separate items of property, plant and equipment. 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 that 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 the subsequent measurement of property, plant and equipment, the cost model is used.

The residual value of property, plant and equipment is the assessed amount that 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 on a straight-line basis over the estimated useful life of each individual part (component) of the property, plant and equipment. Depreciation is accounted when an asset becomes available for use. Land, quarries and assets in the process of construction are not amortised.

Assets acquired free-of-charge are depreciated, at the same time the part of long-term deferred revenue is transferred among other operating revenue, which equals the value of the calculated depreciation/amortisation.

ESTIMATED USEFUL LIFE – REAL PROPERTY, PLANT AND EQUIPMENT

	2020	2019
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
Cars	5–10 years	5–10 years
Other vehicles	4–10 years	4–10 years
Other plant and equipment	2–16 years	2–16 years

Useful lives of property, plant and equipment are examined at the end of each financial year and adapted, if necessary. If their useful life is extended, the cost of amortisation in the current year is decreased. The adjustment of the useful life period has to be calculated in a manner that the property, plant and equipment will be amortised in the new predicted useful life. The change to the useful life is treated as a change to the accounting assessment and affects only the period in which the accounting assessment was changed and for each subsequent period in the remaining useful life.

The replacement costs items of property, plant and equipment are assigned to the carrying amount of this item, if it is probable that the future economic benefits embodied with this asset will flow to the company and the cost of the item can be measured reliably. All other costs (for example maintenance costs) are recognised in the income statement as expenses as soon as they are incurred.

Profits and losses, occurring at write-off or the disposal of property, plant and equipment, are established as the difference between the net sales value and the book value of the written-off or disposed property, plant and equipment, and are recorded among operating revenue or write-offs.

The Group verifies on a yearly basis whether there is an 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.

LEASES

The Group leases real property (land and business premises), plant and equipment. At contract conclusion, the Group estimates whether it refers to a lease contract, i.e. whether the right to managing the use of the recognised asset for a certain period is transferred for payment.

On the start date, the Group recognises the right to use the assets and liabilities from the lease, which are estimated based on discounting future cash flows for the lease duration.

The value of liabilities is reduced by repayments, the value of the right to use leased assets is reduced by the calculated amortisation during the lease. Financing costs are categorised under financial expenses.

For indefinite time contracts with the right to contract termination, the HSE Group estimates in accordance with item 18 of IFRS 16 that the lease termination will not occur for at least five years, while the evaluations of longer lease cannot be made with certainty. Therefore, the indefinite time contracts are determined for a duration of five years.

Interest rates, adopted in the conclusion of leases, are not disclosed in contracts. Item 26 of standard IFRS refers the lessee to use the assumed interest rate, i.e. the interest rate for borrowing, which the Group would pay if the asset was bought and the purchase would be indebted. The Group has no such interest rates, since it arises from the analysis of financing sources that the existing sources were used to finance the current equity.

If the lessee cannot acquire data about the borrowing interest rate from the financial institution, the lessee uses the average interest rate of the concluded loan contracts with non-finance companies at credit institutions in the month of the lease, which are published by the Bank of Slovenia in its Journal.

The Group used the exemption regarding the recognition of the right to use assets for low value leases. The lease cost is recognised equally in the entire lease period.

INVESTMENT PROPERTY

Investment property is defined as the property owned by the Group in order to generate rent from lease or increase the value of long-term investment or both.

Investment property also includes property in the 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 account books.

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

LONG-TERM INVESTMENTS IN AFFILIATED AND JOINTLY-CONTROLLED COMPANIES

Investments in affiliated companies are those in which the Group has an important influence, although as a rule the distribution 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, loans and receivables and 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 party to the instrument's contractual terms.

The Group eliminates the recognition of a financial asset when contractual rights of the cash flows from the asset expire, or when the rights of contractual cash flows are transferred from a financial asset based on a business transaction in which all risks and benefits of ownership of the financial asset are transferred.

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

- financial assets at the fair value through profit or loss,
- financial assets at fair value through other comprehensive income,
- financial assets 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) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Financial assets at the 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 the 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 recognised in the income statement

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

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

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

Financial assets recognised at the fair value through other comprehensive income, which have the nature of an equity instrument, are these 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 an individual financial instrument.

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

D) FINANCIAL ASSETS AT AMORTISED COST

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

FINANCIAL LIABILITIES

The 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 recognised 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 a fair value. Loans received are measured at the amortised 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 contractual obligations are fulfilled, annulled or expired.

DERIVATIVES

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

Within the hedging framework, the Group concluded currency exchanges as well as standardised future 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 the change in goods prices, foreign exchange rates or the purchase of electricity and emission coupons in the following years.

Following the initial recognition, the derivative financial instruments are measured at the fair value, whilst the pertaining changes are treated differently with regard to whether or not the derivative financial instruments fulfil the conditions for hedge accounting.

When a derivative is defined as hedging in the 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 inn 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.

The 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 the 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 measured at the lower cost or net realisable value. The cost value consists of the purchase price, import duties and direct purchase costs. The purchase price is reduced by any discounts given. The direct purchase costs are transport costs, costs of loading, reloading and unloading, costs of monitoring goods and other costs attributable to directly purchased merchandise or materials. Purchase discounts are those that are stated on the invoice or which are given later and refer to individual purchases.

The value of finished products and work in progress includes total production costs in a narrow sense, which comprise the direct costs of materials, direct costs of services, direct labour costs, direct amortisation costs and general production costs. General production costs are the costs of materials, services, salaries and depreciation/amortisation that are accounted for in the production process, yet which may not be directly associated with emerging business effects. A part of production costs in total costs (materials, services, labour costs and amortisation) is established once per year based on data from the previous year.

The net realisable value is estimated based on the selling price in the ordinary course of business, less the estimated costs of completion and estimated distribution costs. Write-offs of damaged, expired and useless inventories are regularly performed during the year on individual items.

At least once a year, namely as at the date of drawing up of annual financial statements, the group evaluates the evidence on impairment of inventories. The impairment of inventories is assessed for each individual type of inventory. Individual types of inventories are allocated to groups of inventories with similar characteristics based on the time component of changes in inventories. The estimate of impairment for each individual group includes an expert assessment of the possibility of further use or sale.

IMPAIRMENT OF ASSETS

FINANCIAL ASSETS

Pursuant to IFRS 9, on 1 January 2018 the Group 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 to be impaired if objective evidence exists indicating that one or more events have caused a decrease in the estimated future cash flows from this asset, which can be reliably measured.

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

Impairment of Receivables and Loans Issued

If it is assessed that the carrying amount of the receivables exceeds the fair value, i.e. the recoverable value, receivables are considered to be impaired.

Final write-offs of receivables require appropriate documents: final compulsory settlement decisions, bankruptcy proceedings decisions, court decisions or other appropriate documents.

The impairment assessment is based on the expected credit losses associated with the probability of defaults on loans and receivables in the next 12 months, unless the credit risk significantly increased since the initial recognition. In these cases, the impairment assessment is based on the probability of default over the entire duration of the financial asset (LECL). 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 following 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 that are not settled within 180 days after their due date. Disputed receivables are those that comply with one of the following conditions:

- the legal collection procedure began in court,
- the decision on commencing the enforced settlement, liquidation or bankruptcy is published.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. The Group creates groups of receivables based on the maturity of receivables. In the evaluation of total impairment, we use past trends in the probability of non-fulfilment, the reimbursement period and the amount of incurred loss, which is revised for the management's evaluation as to whether the actual losses due to the current economic and credit conditions could be higher or lower than the losses foreseen in the past trends.

If all acts with the care of a good manager have been performed in order to achieve the repayment of a particular outstanding claim, or if the amount of the claim for the company would be uneconomical for the court to be recovered, the claim will be terminated in full on the basis of the management's decision.

The Group assesses the evidence of impairment for each important loan individually.

An impairment loss related to a financial asset stated at amortised cost is measured as the difference between its carrying amount and the expected future cash flows, discounted at an originally effective interest rate. Loss is recognised in the consolidated income statement among operating costs.

NON-FINANCIAL ASSETS

At each reporting date, the Group reviews the carrying value of its important non-financial assets to determine whether there is an indication of impairments. If any such indication exists, the asset's recoverable value is estimated. The non-financial assets impairment assessment is implemented once per year before the preparation 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 value of an asset or cash-generating unit is the greater of their value in use or the fair value, less the cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of cash and the risks specific to the asset. In order to test the impairment, the assets that cannot be tested individually are joined into the smallest possible group of assets, which create cash flows from further use and that are largely independent of the inflow of other assets or groups of assets (cash-generating unit). 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 these assets then disclosed in the consolidated income statement. 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.

The Group evaluates the impairment losses of previous periods at the end of the reporting period and thus determines whether the loss was reduced or even eliminated. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable value. An impairment loss is reversed only to such extent that the asset's carrying amount does not exceed the carrying amount that would have been determined after deducting the depreciation write-off, if no impairment loss had been recognised for the asset in previous years. An impairment loss in respect of goodwill is not reversed.

CAPITAL

Share capital and capital reserves include the cash and non-cash contributions of the parent 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 the capital surplus.

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

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

The fair value reserve represents the revaluation amounts of financial assets at the 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, the Collective Agreement and internal regulations, the companies in the Group are obliged to make payments arising from loyalty bonuses and severance pay upon retirement, for which provisions are formed. There are no other retirement benefits.

The provisions are formed in the amount of estimated future payments for loyalty bonuses and severance pay, discounted at the end of the financial year. The calculation is made for individual employee and includes the costs of severance pay upon retirement and the costs of all expected loyalty bonuses up to retirement. The calculation is prepared by an actuary, selected at the group level. 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 incomes.

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 the 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, due to a past event, had a legal or indirect obligation that can be reliably measured and if there is probability that settling the obligation will require an outflow of resources, enabling economic benefits.

Provision value equals the present value of expenditure that will be needed to settle a liability. Since provisions are intended for covering probable although not final liabilities, the amount recognised as a provision is the best assessment of expenditure required for settling a liability on the date of the statement of financial position. For achieving the highest provision assessment risks and uncertainties that unavoidably accompany events and circumstances are considered.

Provisions are directly decreased by the amounts of the costs or expenses they are intended to cover. This means that costs or expenses are no longer included in the consolidated income statement in the operating year.

The Group has created provisions for the closing works of the remaining excavation in the Velenje coalmine based on 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 to 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 directly decreased by the amounts of the costs or expenses they are intended to cover. This means that costs or expenses are no longer included in the consolidated income statement in the operating year. 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 in 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 based on 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 that have a period of use 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 based on 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 the terms and conditions associated with the grant. Subsequently, they are recognised in the income statement among other operating income in the useful life period 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 although 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, although 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 as yet, although they will in the future and already have 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, although it is posted under Contract Liabilities.

CONTINGENT LIABILITIES

Contingent liabilities are:

- 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

In accordance with IFRS 15, the Group uses a five-level determination model to establish when to recognise revenue and to what amount. The model determines that revenue is recognised at the transfer of goods or services management transfer to the buyer in the amount that is still justified. Considering the fulfilled criteria, the revenue is recognised:

- at the given moment or
- for a period.

The Group recognises revenue from contracts with buyers based on contracts, thus the management of goods and services is transferred to the buyer in the amount that reflects the compensation, to which the Group is entitled. Any promised service or supply of goods is considered as an independent commitment if it is different. It is different when the buyer has benefits from the performed service or supplied goods. The execution commitment is the commitment to provide a service or goods to the buyer.

Revenue is recognised when the Group fulfils its execution commitment, i.e. when the management of the service and goods is transferred to the buyer. Management means that the buyer can focus the use of an asset and receives all benefits from the asset, thus preventing others from applying and receiving the benefits from the asset.

Discounts, approved at conclusion of the contract, are distributed to all execution commitments and deferred during the duration of the contract. All subsequently approved discounts are recognised in the period for which they are approved and reduce revenue.

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, the sale of thermal energy and the sale of other products. This part also includes the sale of emission coupons arising on trading, and sale of other merchandise and materials.

If 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, 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 service.

Accrued revenue is considered in consolidated profit and loss, although it has not been charged as yet. In compliance with IFRS 15, they are recognised 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 recognised 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 the agreed-upon interest rate.

OPERATING AND FINANCIAL EXPENSES

Expenses are recognised if decreases in economic benefits during the accounting period are associated with a decrease in assets or an increase in liabilities (debts) and if the respective change can be measured reliably. Operating expenses are recognised when the costs are no longer held in inventories of products and work-in-progress or once merchandise has been sold. The costs that cannot be held in inventories and work-in-progress are, on their incurrence, recognised as operating expenses.

In the purchase value of the sold goods, we recognise the expenses, connected to the sale of electricity, and the 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 the 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 the costs of auxiliary materials for maintenance of property, plant and equipment, small tools whose useful life period does not exceed one-year, spare parts for the servicing of products after their sale, office supplies, specialised literature and other items. Costs of materials also cover 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 the gross amounts. These costs can be directly charged against the creation of products and services (costs of direct work) or they have the nature of indirect costs and are comprised in relevant purpose (functional) groups of indirect costs.
Other operating expenses occur in relation to the creation of provisions, environmental charges, concessions, donations and other duties.

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

TAXATION

Taxes comprise current income tax liabilities and deferred tax. Tax is then disclosed in the consolidated income statement. Deferred tax in recognised in the consolidated income statement and in the consolidated statement of financial position.

Tax liabilities are based on the taxable profit for the financial year. The taxable profit defers from the 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 shown in total by applying the method of obligations after the statement of financial position for temporary differences, arising from the tax values of assets and liabilities and their carrying amounts in financial statements. Deferred income tax is calculated by using tax rates (and laws), applicable on the date of the consolidated statement of financial position, which are expected to be used when the deferred tax asset is realised or the deferred tax liability is recovered.

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 tax payment in the future.

CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement shows changes in balances of cash and cash equivalents for the financial year concerned. 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

In the Annual Report, the Group does not disclose operations by segments. Segment reporting in the Annual Report is required for the Group whose debt or equity securities are publicly traded, and companies that are in the process of issuing equity or debt securities on a public securities market.

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:

- **Amendments to IAS 1 – Presentation of Financial Statements, and IAS 8 – Accounting policies, changes in accounting estimates and errors** – Amendments adopted by the EU on 29 November 2019
(applies for annual periods starting on 1 January 2020 or later),
- **Amendments to IFRS 3 –Business combinations** – Definition of a business entity, adopted by the EU on 21 April 2020
(applies to business mergers, where the date of takeover is the same as the date of the start of the first annual reporting period that starts on 1 January 2020 or later; and acquisitions of assets if they occur at the beginning of the period or after it),
- **Amendments to IFRS 9 – Financial instruments, IAS 39 – Financial instruments: recognition and measurement, and IFRS 7 – Financial instruments: disclosures** – Reference interest rate reform, adopted by the EU on 15 January 2020
(applies for annual periods that start on 1 January 2020 or later),
- **Amendments to IFRS 16 – Leases** – adopted by the EU on 9 October 2020
(apply for annual periods as of 1 June 2020 or subsequently, and for business years that start on 1 January 2020 or subsequently),
- **Amendments of references to the conceptual framework of the IFRS,** adopted by the EU on 29 November 2019
(applies to annual periods beginning on or after 1 January 2010).

The adoption of new standards, amendments to standards or explanatory notes has not led to significant changes in consolidated financial statements.

STANDARDS AND INTERPRETATIONS ISSUED BY THE IASB AND ADOPTED BY THE EU, ALTHOUGH NOT YET EFFECTIVE

When these financial statements were approved, the International Accounting Standards Committee (IASC) issued the amendments to IFRS 4 – Insurance Contracts – temporary exemption from the requirements of the IFRS 9, adopted by the EU on 16 December 2020, which have not entered into force (the date of termination of temporary exemption validity was extended to annual periods that start on 1 January 2023 or later).

NEW STANDARDS AND CHANGES TO EXISTING STANDARDS ISSUED BY THE IASC, ALTHOUGH 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 2020 (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 17 Insurance contracts** including amendments to IFRS 17
(valid for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 – Presentation of financial statements** – Categorisation of liabilities into short- and long-term
(apply for annual periods that start on 1 January 2023 or later),
- **Amendments to IAS 16 – Tangible Fixed Assets** – Profits before intended use
(apply to annual periods that start on 1 January 2022 or later),
- **Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets** – Onerous contracts – Costs of contract fulfilment
(applies to annual periods that start on 1 January 2022 or later),
- **Amendments to IFRS 3 – Business combinations** – Referrals to the conceptual framework with IFRS 3 amendments
(in effect for periods beginning on or after 1 January 2022 or after it)
- **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 9 – Financial instruments and IAS 39 – Financial instruments: recognition and measurement, IFRS 7 – Financial instruments: disclosures, IFRS 4 – insurance contracts and IFRS 16 – Leases** – Reference interest rate reform – Phase 2
(applies to yearly periods that start on 1 January 2021 or after it),
- **Amendments to various standards due to ifrs improvement (2018–2020 cycle),** which arise from the annual project for IFRS improvement (IFRS 1, IFRS 9, IFRS 16 and IAS 41), especially with the purpose of eliminating non-conformities and text explanation
(Amendments to IFRS 1, IFRS 9 and IAS 41 apply to those annual periods that start on 1 January 2022 or later. Amendment to IFRS 16 refers only to an example, therefore the date of the start of validity has not been determined as yet.)

The Group foresees that the introduction of these new standards and changes to the 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.

The Group estimates that the use of the method for the calculation of risks connected to financial assets and liabilities in accordance with IAS 39 – Financial Instruments: Recognition and Measurement, would not significantly impact the consolidated financial statements if it was used on the balance sheet date.

3.5.4 Fair value definition

With reference to the 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 for which an asset can be exchanged or the liability can be settled between two well-informed and willing parties in an arm's length business transaction.

For determining the fair value of financial instruments the following hierarchy levels of determining the fair value are considered:

- the first level includes quoted prices (unadjusted) on active markets for the same assets or liabilities,
- the second level, in addition to the quoted prices at the first level, includes the input data which are directly (i.e. as prices) or indirectly (i.e. as derivatives from prices) observable as assets or liabilities,
- the third level includes input data for assets or liabilities which is not based on the observable market data.

Quoted prices are used as a basis for determining the fair value of financial instruments. If a financial instrument is not quoted on the organised market or the market is deemed non-active, input data at the second or third level are used to assess the fair value of the financial instrument.

In order to determine the fair value of interest and currency exchanges, we use information submitted to the Company by the bank where an individual exchange 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 Disclosures to the consolidated financial statements

3.5.6.1 Consolidated statement of financial position

INTANGIBLE ASSETS (1)

in EUR

	31.12.2020	31.12.2019
Emission coupons	6,061,479	7,920,430
Other long-term property rights	4,080,083	4,054,904
Goodwill	12,823,254	12,823,254
Total	**22,964,816**	**24,798,588**

Goodwill represents more than 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

	Emission coupons	Other long-term property rights	Goodwill	Other intangible assets	Total
Purchase value on 1 Jan 2020	7,920,430	17,389,555	12,823,254	29,058	38,162,297
Acquisitions	64,437,959	587,793	0	0	65,025,752
Disposals – write-offs, sales	-66,296,910	-313,770	0	0	-66,610,680
Transfers – restatements	0	480,515	0	0	480,515
Write-offs	0	-63,221	0	0	-63,221
Purchase value on 31 Dec 2020	6,061,479	18,080,872	12,823,254	29,058	36,994,663
Written-off value on 1 Jan 2020	0	13,334,651	0	29,058	13,363,709
Disposals – write-offs, sales	0	-181,070	0	0	-181,070
Amortisation	0	910,117	0	0	910,117
Write-offs	0	-62,909	0	0	-62,909
Written-off value on 31 Dec 2020	0	14,000,789	0	29,058	14,029,847
Book value on 1 Jan 2020	7,920,430	4,054,904	12,823,254	0	24,798,588
Book value 31 Dec 2020	6,061,479	4,080,083	12,823,254	0	22,964,816

in EUR

	Emission coupons	Other long-term property rights	Goodwill	Other intangible assets	Total
Purchase value on 1 Jan 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 – restatements	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
Purchase value on 31 Dec 2019	7,920,430	17,389,555	12,823,254	29,058	38,162,297
Written-off value on 1 Jan 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
Written-off value on 31 Dec 2019		13,334,651	0	29,058	13,363,709
Book value 1 Jan 2019	7,375,403	3,581,428	12,823,254	0	23,780,085
Book value 31 Dec 2019	7,920,430	4,054,904	12,823,254	0	24,798,588

The Group purchases emission coupons for the purpose of electricity production within the Group. Due to the change in legislation, since 2013 all thermal power plants have had to buy emission allowances on the market. The initial balance of Group emission coupons is 4,117,521 coupons, 4,141,838 coupons in the amount of EUR 64,437,959 were purchased in 2020 and 4,319,796 coupons in the amount of EUR 66,296,910 were sold or spent. Thus, the group has 3,939,563 emission coupons at the end of 2020 in the value of EUR 6,061,479.

Among other long-term property rights, licensed software used by the Group for informational support has the highest value. In 2020 there were EUR 587,793 in new purchases, EUR 376,991 write-downs and disposals with a current value of EUR 133,012 and EUR 480,515 transfers and transfers, which in principle represent the transfer of assets from property, plant and equipment to intangible assets.

Increase in intangible assets includes in 2020 the upgrade of the software in the Control Centre, Open link and other software.

The amortisation of other long-term property rights in 2020 amounted to EUR 910,117. The useful lives of more important software were reviewed in 2020. 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.

Transfers and restatements refer to the transfer under property, plant and equipment.

In 2020 the Group had no impaired long-term property rights.

In 2020 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 2020 had not been brought to working condition for a long time.

The Group has no pledged intangible assets.

On 31 December 2020, the Group had EUR 122,048 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 2020, impairment testing of the cash generating unit SENG and Sipoteh was carried out from which goodwill arises. As at 31 December 2020 there were no significant changes in assumptions, therefore we assessed that the evaluation made on 30 September 2020 is sufficient.

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

GOODWILL SENG

2020	2019
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 September 2020	30 September 2019
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 6.25% adjusted to the real level of 4.27%, which was taken into account throughout the period 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.
Stock exchange prices for electricity forward contracts on HUPX for the period 2021 - 2023, with an initial price of 48.88 EUR/MWh and a price change over the period of 7.3%.	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%.
Long-term forecasts of trends in market prices for electricity (Poyry Management Consulting) for the period 2024 - 2030, with an initial price of 54.83 EUR/MWh and and a price change over the period of 14.5%.	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%.
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. 50% 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 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.
CAPEX over the projection period of EUR 42,257,000.	CAPEX over the projection period of EUR 38,546,000.
Results of impairment testing carried out	
The book value of goodwill before the impairment testing amounts to EUR 207,816,000.	The book value of goodwill before the impairment testing amounts to EUR 218,223,000.
Recoverable amount of EUR 379,724,000.	Recoverable amount of EUR 348,056,000.
Revaluation expenses due to impairment of EUR 0.	Revaluation expenses due to impairment of EUR 0.

SENSITIVITY ANALYSIS – TEST OF GOODWILL IMPAIRMENT

Goodwill	Recoverable value in EUR	Sensitivity (change) of recoverable value in EUR	
		Change in discount rate (WACC) in % points	
		-0.5	0.5
IN SENG	379,724,000	47,881,000	-37,917,000

Sipoteh does not need a goodwill impairment based on impairment testing.

PROPERTY, PLANT AND EQUIPMENT (2)

in EUR

	31.12.2020	31.12.2019
Land	25,063,551	25,506,351
Buildings	389,431,985	388,361,583
Production equipment	862,178,818	1,134,646,090
Other equipment	6,171,307	5,582,134
Real property, plant and equipment	47,293,087	46,912,716
Total	1,330,138,748	1,601,008,874

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 also important. Property, plant and equipment thus present the major part of the Group's assets.

MOVEMENT OF REAL PROPERTY, PLANT AND EQUIPMENT

in EUR

	Land	Buildings	Production equipment	Other equipment	Real property, plant and equipment	Total
Purchase value on 1 Jan 2020	**30,728,254**	**1,252,904,792**	**3,249,117,900**	**65,104,133**	**54,930,005**	**4,652,785,084**
Acquisitions	0	0	0	0	41,551,844	**41,551,844**
Disposals	-797,958	-882,977	-5,688,704	-2,597,933	0	**-9,967,572**
Transfer from investments	147,846	25,024,069	24,846,092	2,007,209	-52,025,216	**0**
Transfers – restatements	0	0	-553,859	106,469	-480,515	**-927,905**
Change in discounting of decommissioning	0	9,359,000	2,739,539	0		**12,098,539**
Foreign currency differences	0	0	0	-31	0	**-31**
Write-offs	-46	-290,868	-3,541,872	-286,813	-764,660	**-4,884,259**
Purchase value on 31 Dec 2020	**30,078,096**	**1,286,114,016**	**3,266,919,096**	**64,333,034**	**43,211,458**	**4,690,655,700**
Written-off value on 1 Jan 2020	**5,221,903**	**864,543,209**	**2,114,471,810**	**59,521,999**	**8,017,289**	**3,051,776,210**
Disposals	-213,306	-823,803	-4,499,642	-2,521,987	0	**-8,058,738**
Transfers – restatements	0	0	-1,388	102,999	0	**101,611**
Amortisation	5,948	14,984,799	60,672,154	1,302,146	0	**76,965,047**
Foreign currency differences	0	0	0	-30	0	**-30**
Impairments	0	8,738,830	234,755,170	0	0	**243,494,000**
Write-offs	0	-120,004	-3,397,742	-243,401	0	**-3,761,147**
Written-off value on 31 Dec 2020	**5,014,545**	**887,323,031**	**2,402,000,362**	**58,161,726**	**8,017,289**	**3,360,516,953**
Book value on 1 Jan 2020	**25,506,351**	**388,361,583**	**1,134,646,090**	**5,582,134**	**46,912,716**	**1,601,008,874**
Book value 31 Dec 2020	**25,063,551**	**398,790,985**	**864,918,734**	**6,171,308**	**35,194,169**	**1,330,138,747**

in EUR

	Land	Buildings	Production equipment	Other equipment	Real property, plant and equipment	Total
Purchase value on 31 Dec 2018	**30,527,370**	**1,237,427,390**	**3,227,455,484**	**85,706,474**	**60,276,441**	**4,641,393,159**
Reclassification of financial leases IFRS16	0	0	-523,724	0	0	**-523,724**
Purchase value on 1 Jan 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**
Transfer from investments	720,476	8,222,124	29,136,484	810,685	-38,889,769	**0**
Transfers – restatements	0	0	-6,097	16,152	-166,621	**-156,566**
Change in discounting of decommissioning	0	6,927,000	1,636,178	0	-8,563,178	**0**
Change in Group – PLP d.o.o.	0	411,452	3,220,834	52,486	0	**3,684,772**
Foreign currency 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**
Purchase value on 31 Dec 2019	**30,728,254**	**1,252,904,792**	**3,249,117,900**	**65,104,133**	**54,930,005**	**4,652,785,084**
Written-off value on 31 Dec 2018	**5,659,343**	**849,664,878**	**2,061,744,431**	**79,370,008**	**8,017,289**	**3,004,455,949**
Reclassification of financial leases IFRS16	0	0	-22,524	0	0	**-22,524**
Written-off value on 1 Jan 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 – restatements	0	7,062	0	-1	0	**7,061**
Change in Group – 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**
Foreign currency 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**
Written-off value on 31 Dec 2019	**5,221,903**	**864,543,209**	**2,114,471,810**	**59,521,999**	**8,017,289**	**3,051,776,210**
Book value 1 Jan 2019	**24,868,027**	**387,762,512**	**1,165,711,053**	**6,336,466**	**52,259,152**	**1,636,937,210**
Book value 31 Dec 2019	**25,506,351**	**388,361,583**	**1,134,646,090**	**5,582,134**	**46,912,716**	**1,601,008,874**

The most significant among investments in property, plant and equipment of Group companies in 2020 are the investments made in the reconstruction of production facilities and purchasing equipment for conducting the core activity in the total amount of EUR 53,650,383.

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.

Under transfers - restatements, transfers among intangible fixed assets and the right to use are considered.

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

In 2020, the useful lives 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 85,961,094 in book value.

At the end of 2020 the Group's concluded contracts for the purchase of immovable property, plant and equipment amounted to EUR 17,722,446.

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 that includes the production of electricity at TEŠ and the procurement of the energy product for this production at PV (coal mining). Accredited company valuers valued the recoverable value of assets. The Group impaired long-term assets in the amount of EUR 243,494,000.

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 AT ŠOŠTANJ THERMAL POWER PLANT

2020	2019
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 September 2020	30 September 2019
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 7.02% adjusted to the real level of 5.02%, which was taken into account throughout the period 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.
Stock exchange prices for electricity forward contracts on HUPX for the period 2021 - 2023, with an initial price of 49.88 EUR/MWh and a price change over the period of 7.3%.	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 CO_2 forward contracts on EEX for the period 2021 - 2023, with an initial price of 29.02 EUR/t and a price change over the period of 3.76%.	Stock exchange prices for CO_2 forward contracts 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%.
Long-term forecasts of trends in market prices for electricity (AFRY Management Consulting Austria GmbH) for the period 2024 - 2028, with an initial price of 54.83 EUR/MWh and and a price change over the period of 11.65%, and long-term forecasts of trends in market prices for the period 2029 - 2054, with an initial price of 63.55 EUR/MWh and and a price change over the period of 20.46%.	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 and a price change over the period of 19.65%.
Long-term forecasts of trends in market prices of CO_2 emission coupons (AFRY Management Consulting Austria GmbH) for the period 2024 - 2028, with an initial price of 20.64 EUR/MWh and and a price change over the period of 24.56%. As of 2029 the ratio between electricity and CO_2 emission coupons prices remains at the 32-35% level.	Long-term forecasts of trends in market prices of CO_2 emission coupons (Poyry Management Consulting) for the period 2023 - 2030, with an initial price of 19.00 EUR/MWh and and a price change over the period of 15.79%. As of 2031 the ratio between electricity and CO_2 emission coupons prices remains at the 33% level.
Average annual production of electricity from coal-fired power plants of 3.9 TWh over the period 2021 - 2030, 2.8 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 2020 - 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 11,295,000 in 2021 up to EUR 12,127,000 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 23,668,000 in 2018 up to EUR 44,090,000 in 2054.
CAPEX over the projection period of EUR 214,207,000.	CAPEX over the projection period of EUR 164,768,000.
Results of impairment testing carried out	
The book value of assets before the impairment testing amounts to EUR 900,916,000.	The book value of assets before the impairment testing amounts to EUR 933,963,000.
Recoverable amount of EUR 657,422,000.	Recoverable amount of EUR 1,036,978,000.
Revaluation expenses due to impairment of EUR 243,494,000.	Revaluation expenses due to impairment of EUR 0.

ASSETS AT VELENJE COAL MINE

2020	2019
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 September 2020	30 September 2019
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 8.19% adjusted to the real level of 6.17%, which was taken into account throughout the period 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 sale price of coal 2.75 EUR/GJ in the entire period until 2054.	The sale price of coal 2.75 EUR/GJ in the entire period until 2054.
Expenses for coal mine closure after the end of operation in the amount of EUR 48,191,000 (discounted to current value of EUR 6,388,000).	Expenses for coal mine closure after the end of operation in the amount of EUR 40,928,000 (discounted to current value of EUR 4,460,000).
Average annual coal production of 35,936 TJ per year in the period 2021 - 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 20,797 TJ per year is projected after 2040.	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.
CAPEX over the 2020 - 2054 projection period of EUR 304,256,000.	CAPEX over the 2020 - 2054 projection period of EUR 310,513,000.
The recoverable value of financial investments in subsidiaries and other companies in the amount of EUR 14,332,000.	The recoverable value of financial investments in subsidiaries and other companies in the amount of EUR 20,817,000.
Recoverable amount of assets unnecessary for business in the amount of EUR 17,370,000.	Recoverable amount of assets unnecessary for business in the amount of EUR 17,509,000.
We provide the assumption that the company will not be required to fulfil obligations that are not explicitly stated in the current concession contract.	We provide the assumption that the company will not be required to fulfil 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 109,586,000.	The book value of assets before the impairment testing amounts to EUR 82,647,000.
Recoverable amount of EUR 128,663,000.	Recoverable amount of EUR 92,326,000.
Revaluation expenses due to impairment of EUR 0.	Revaluation expenses due to impairment of EUR 0.

ASSETS AT HTZ

2020	2019
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 September 2020	30 September 2019
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 8.19% adjusted to the real level of 6.17%, which was taken into account throughout the period 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.
Average annual net sales revenue in the 2021 - 2031 period in the amount of EUR 24,118,000, in the 2031 - 2040 period in the amount of EUR 18,614,000, from 2041 onward in the amount of EUR 15,197,000.	Average annual net sales revenue in the 2020 - 2031 period in the amount of EUR 22,829,070, in the 2031 - 2040 period in the amount of EUR 17,400,649, from 2041 onward in the amount of EUR 14,206,124.
Average other annual operating revenue in the 2021 - 2031 period in the amount of EUR 6,845,000, in the 2031 - 2040 period in the amount of EUR 4,907,000, from 2041 onward in the amount of EUR 4,006,000.	Average other annual operating revenue in the 2020 - 2031 period in the amount of EUR 6,878,067, in the 2031 - 2040 period in the amount of EUR 4,944,146, from 2041 onward in the amount of EUR 4,036,467.
Average labour costs in the 2021 - 2031 period in the amount of EUR 22,760,000, in the 2031 - 2040 period in the amount of EUR 16,924,000, from 2041 onward in the amount of EUR 13,817,000.	Average labour costs in the 2020 - 2031 period in the amount of EUR 22,631,211, in the 2031 - 2040 period in the amount of EUR 16,880,653, from 2041 onward in the amount of EUR 13,781,592.
Average services costs in the 2021 - 2031 period in the amount of EUR 3,192,000, in the 2031 - 2040 period in the amount of EUR 2,579,000, from 2041 onward in the amount of EUR 2,106,000.	Average services costs in the 2020 - 2031 period in the amount of EUR 2,992,206, in the 2031 - 2040 period in the amount of EUR 2,373,392, from 2041 onward in the amount of EUR 1,937,669.
Average material costs in the 2021 - 2031 period in the amount of EUR 3,422,000, in the 2031 - 2040 period in the amount of EUR 2,798,000, from 2041 onward in the amount of EUR 2,284,000.	Average material costs in the 2020 - 2031 period in the amount of EUR 2,509,214, in the 2031 - 2040 period in the amount of EUR 1,953,790, from 2041 onward in the amount of EUR 1,595,100.
Recoverable amount of excess property in the amount of EUR 1,535,000.	Recoverable amount of excess property in the amount of EUR 1,819,375.
CAPEX over the projection period of EUR 17,753,000. Costs of company closure in 2054 in the amount of EUR 8,060,000 (discounted to the current value of EUR 1,068,000).	CAPEX over the projection period of EUR 18,935,803. Costs of company closure in 2054 in the amount of EUR 8,039,262 (discounted to the current value of EUR 876,037).
Results of impairment testing carried out	
The book value of assets before the impairment testing amounts to EUR 11,772,000.	The book value of assets before the impairment testing amounts to EUR 10,510,346.
Recoverable amount of EUR 15,504,000.	Recoverable amount of EUR 11,480,319.
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

in EUR

Long-term fixed assets	Recoverable value in EUR	Sensitivity (change) of recoverable value in EUR	
		Change in discount rate (WACC) in % points	
		-0.5	0.5
At Šoštanj thermal power plant	657,422,000	54,940,000	-49,750,000
At Velenje coal mine	128,663,000	3,774,000	-3,466,000
At HTZ	15,504,000	192,763	-187,095

Given the valuation of property, plant and equipment as at 31 December 2020 and the fact that the impairment tests were carried out as at the balance of 30 September 2020, the Group assessed the changed circumstances of CGU's business operations in the last month of the fiscal year 2020. It was established that relevant circumstances of business operations did not significantly change in the last quarter of 2020, showing that the valuation of property, plant and equipment as at 31 December 2020 remains unchanged in view of the balance as at 30 September 2020.

RIGHT TO USE LEASED ASSETS (3)

in EUR

	31.12.2020	31.12.2019
Right to use leased assets	4,024,491	4,678,163
Total	4,024,491	4,678,163

MOVEMENT OF THE RIGHT TO ASSET USE

in EUR

	Land	Buildings	Production equipment	Other equipment	Total
Purchase value on 1 Jan 2020	3,302,725	1,364,004	1,454,067	160,097	6,280,893
Acquisitions	0	0	542,362	0	542,362
Disposals	0	0	-209,045	0	-209,045
Transfers – restatements	0	0	549,001	0	549,001
Other	42,685	0	0	0	42,685
Purchase value on 31 Dec 2020	3,345,410	1,364,004	2,336,385	160,097	7,205,896
Written-off value on 1 Jan 2020	660,545	287,158	592,441	62,586	1,602,730
Disposals	0	0	-77,998	0	-77,998
Amortisation	677,620	287,176	629,293	62,586	1,656,675
Written-off value on 31 Dec 2020	1,338,165	574,334	1,143,736	125,172	3,181,407
Book value on 1 Jan 2020	2,642,180	1,076,846	861,626	97,511	4,678,163
Book value 31 Dec 2020	2,007,245	789,670	1,192,649	34,925	4,024,489

	Land	Buildings	Production equipment	Other equipment	Total
Purchase value on 1 Jan 2019	3,302,724	1,364,004	930,343	160,097	5,757,168
Reclassification of financial leases IFRS16	0	0	523,724	0	523,724
Purchase value on 1 Jan 2019	3,302,724	1,364,004	1,454,067	160,097	6,280,892
Acquisitions	0	0	0	0	0
Purchase value on 31 Dec 2019	3,302,725	1,364,004	1,454,067	160,097	6,280,893
Written-off value on 1 Jan 2019	0	0	0	0	0
Reclassification of financial leases IFRS16	0	0	22,524	0	22,524
Written-off value on 1 Jan 2019	0	0	22,524	0	22,524
Amortisation	660,545	287,158	569,917	62,586	1,580,206
Written-off value on 31 Dec 2019	660,545	287,158	592,441	62,586	1,602,730
Book value 1 Jan 2019	3,302,724	1,364,004	1,431,543	160,097	6,258,368
Book value 31 Dec 2019	2,642,180	1,076,846	861,626	97,511	4,678,163

INVESTMENT PROPERTY (4)

in EUR

	31.12.2020	31.12.2019
Land	2,488,470	2,424,461
Buildings	14,507,711	15,133,057
Total	16,996,181	17,557,518

The main part of investment property are apartments. In 2020, the Group generated revenues of EUR 802,421 and costs worth EUR 197,925 by leasing investment properties.

Investment properties under mortgage are recorded at EUR 4,158,254.

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 September 2020. Fair value is calculated using the method of market comparisons and using the method of capitalisation of returns (a yield-based method).

MOVEMENT OF INVESTMENT PROPERTY

in EUR

	Land	Buildings	Total
Fair value 1 Jan 2020	2,424,461	15,133,057	17,557,518
Acquisitions		45,561	45,561
Disposals	-1,031	-662,940	-663,971
Acquisitions	65,040	12,337	77,377
Impairments	0	-20,305	-20,305
Fair value 31 Dec 2020	2,488,470	14,507,710	16,996,180
Fair value 1 Jan 2019	2,263,524	14,920,375	17,183,899
Acquisitions	26,000	16,949	42,949
Transfers - distribution of RP to RPPE	0	7,062	7,062
Disposals	-12,000	-311,795	-323,795
Acquisitions	146,937	501,688	648,625
Impairments	0	-1,222	-1,222
Fair value 31 Dec 2019	2,424,461	15,133,057	17,557,518

OTHER LONG-TERM FINANCIAL INVESTMENTS AND LOANS (5)

in EUR

	31.12.2020	31.12.2019
Long-term financial investments in affiliated companies	141,134,304	139,999,792
Long-term investments in jointly-controlled companies	402,945	440,384
Long-term financial assets available for sale	160,050	163,958
Other long-term financial investments	13,690	14,690
Long-term financial investments and loans	25,121	41,931
Total	141,736,110	140,660,755

A) INVESTMENT IN AN AFFILIATED COMPANY

in EUR

	31.12.2020	31.12.2019
HESS d.o.o.	141,134,305	139,999,792
Total	141,134,305	139,999,792

MOVEMENT OF LONG-TERM FINANCIAL INVESTMENTS IN AFFILIATED COMPANIES

in EUR

	2020	2019
Balance on 1 Jan	139,999,792	138,823,264
Profits as per capital method	1,134,512	1,176,528
Balance on 31 Dec	141,134,304	139,999,792

SIGNIFICANT AMOUNTS FROM STATEMENTS OF AFFILIATED COMPANIES IN 2020

in EUR

	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
HESS d.o.o.	337,300,533	50,565,538	20,235,534	2,315,333	286,734,994

B) INVESTMENT IN A JOINTLY-CONTROLLED COMPANY

in EUR

	31.12.2020	31.12.2019
SOENERGETIKA d.o.o.	402,945	440,384
Total	402,945	440,384

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

in EUR

	2020	2019
Balance on 1 Jan	440,384	437,659
Payment of profit	-172,934	-170,209
Profits as per capital method	135,495	172,934
Balance on 31 Dec	402,945	440,384

SIGNIFICANT AMOUNTS FROM STATEMENTS OF JOINTLY-CONTROLLED COMPANIES IN 2020

in EUR

	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
SOENERGETIKA d.o.o.	2,311,439	639,138	3,492,753	541,978	1,672,300

DEFERRED TAX RECEIVABLES (6)

in EUR

	31.12.2020	31.12.2019
Provisions	504,296	439,594
Impairments	282,570	281,763
Amortisation	7	7
Other	182,230	0
Total	969,103	721,364

Deferred tax assets amount to EUR 969,103 and are recalculated using a 19% tax rate. They were formed from the expenses that affect the profit or loss of each year, although they 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 RECEIVABLES

in EUR

	Provisions	Impairments	Amortisation	Other	Total
Balance on 1 Jan 2020	439,594	281,763	7	0	721,364
Added to/deducted from profit or loss statement	64,702	807	0	182,230	247,739
Balance on 31 Dec 2020	504,296	282,570	7	182,230	969,103
Balance on 1 Jan 2019	481,283	236,062	71	0	717,416
Added to/deducted from profit or loss statement	-41,689	45,701	-64	0	3,948
Balance on 31 Dec 2019	439,594	281,763	7	0	721,364

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 assets relating to amortisation arise from differences established between the operating and tax amortisation.

Other changes in deferred tax receivables refer to the change in fair value of derivatives.

LIABILITIES FOR DEFERRED TAXES (7)

in EUR

	31.12.2020	31.12.2019
Financial assets	5,823	6,566
Other	0	9,043
Total	5,823	15,609

Deferred tax liabilities amount to EUR 5,823. 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 currency exchanges can be measured reliably.

MOVEMENT OF LIABILITIES FOR DEFERRED TAXES

in EUR

	Financial assets	Other	Total
Situation as at 1 Jan 2020	6,566	9,043	15,609
Added to/deducted from profit or loss statement	0	-9,043	-9,043
Added to/deducted from comprehensive income	-743		-743
Situation as at 31 Dec 2020	5,823	0	5,823
Balance on 1 Jan 2019	5,891	12,898	18,789
Added to/deducted from profit or loss statement	0	-3,855	-3,855
Added to/deducted from comprehensive income	675	0	675
Balance on 31 Dec 2019	6,566	9,043	15,609

INVENTORIES (8)

in EUR

	31.12.2020	31.12.2019
Material	33,224,588	27,998,838
Work in progress	2,669	10,134
Products and merchandise	5,495,053	5,083,964
Total	38,722,310	33,092,936

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 rapid repair of defects of production equipment and thus ensuring reliable production.

The highest amount among the inventories of products and merchandise refers to the inventory of coal.

The Group has no pledged inventories.

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

INVENTORY SURPLUS AND DEFICIT

in EUR

	31.12.2020	31.12.2019
Amount of partial inventory write-off due to adjustment to net market value	-465,635	-534,899
Surplus in inventory registration	3,415	11,465
Deficit in inventory registration	-13,795	-30,124
Write-offs of inventories due to the change of their quality	-30,502	-7,115

In order to adjust the value of inventories to net realisable value, the Group established an inventory correction of EUR 465,635. Due to their non-current status, the Group has written off and excluded from use EUR 30,502 of inventories.

SHORT-TERM FINANCIAL INVESTMENTS AND LOANS (9)

in EUR

	31.12.2020	31.12.2019
Short-term financial investments for financial instruments at fair value through capital	0	47,597
Short-term financial receivables and loans given to others without interest	51	51
Short-term deposits to others	12,310,295	12,554,373
Total	12,310,346	12,602,021

The majority of deposits granted to others in the amount of EUR 12,185,863 refers to the deposit, which the subsidiary TEŠ disclosed in connection to the obligations under the loan contract with EBRD; the deposit is earmarked for repaying the loan instalments in 2021. The deposit must not be used to regulate current liquidity.

SHORT-TERM TRADE RECEIVABLES (10)

in EUR

	31.12.2020	31.12.2019
Short-term operating receivables from affiliated companies	8,551	69,194
Short-term operating receivables from jointly-controlled companies	146	146
Short-term accounts receivables	167,136,598	142,127,244
Total	167,145,295	142,196,584

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

Disclosures in relation to the maturity of receivables, allowances for receivables and insuring short-term operating receivables are represented in the section on financial risk management hereunder.

CONTRACT ASSETS (11)

in EUR

	31.12.2020	31.12.2019
Accrued revenues	407,957	457,771
Total	407,957	457,771

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 (12)

in EUR

	31.12.2020	31.12.2019
Short-term advances given	3,533,596	3,024,621
Short-term trade receivables due from state and other institutions	25,797,382	30,035,899
Short-term trade receivables due from others	15,947,171	14,697,156
Short-term deferred costs or expenses	3,051,421	2,614,644
Total	48,329,570	50,372,320

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 the 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 (13)

in EUR

	31.12.2020	31.12.2019
Cash in hand and received cheques	2,093	3,732
Cash in banks	25,913,354	26,060,779
Cash en route	0	-1,950,939
Call deposits	51,103,844	17,151,315
Deposits with up to 3-month maturity	1,453,733	1,252,711
Total	78,473,024	42,517,598

EQUITY (14)

in EUR

	31.12.2020	31.12.2019
Called-up capital	29,558,788	29,558,788
Capital reserves	561,243,183	561,243,183
Other reserves from profit	413,856,350	413,856,350
Risk hedging reserve	43,209,380	20,452,278
Fair value reserves	-4,947,786	-2,195,785
Retained profit/loss	-142,211,136	42,105,070
Conversion reserve	-549,616	-617,401
Capital of owners of non-controlling shares	236,689	238,338
Total	900,395,852	1,064,640,821

CAPITAL RESERVES

in EUR

	31.12.2020	31.12.2019
Paid-in capital surplus	561,243,070	561,243,070
Amount on the basis of elimination of general revaluation capital adjustment	113	113
Total	561,243,183	561,243,183

The value of share capital, capital reserves and legal reserves did not change in 2020.

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 2020 in the value of EUR 43,209,380, the Group discloses:

- results of standardised forward contracts for electricity (forward contracts) amounting to EUR −10,848,414,
- results of standardised forward contracts for emission coupons (forward contracts) amounting to EUR 33,137,840, and
- fair value of currency exchanges in the amount of EUR −776,874.

RISK HEDGING RESERVE MOVEMENT

in EUR

	Standardised futures contracts for electricity	Forward contracts for emission coupons	Currency swaps	Total
Balance on 1 Jan 2020	-499,816	20,913,540	38,554	20,452,278
Formation, increase	11,391,025	12,224,300	0	23,615,325
Decrease	0	0	-815,428	-815,428
Transfer among expenses	-42,795	0	0	-42,795
Balance on 31 Dec 2020	10,848,414	33,137,840	-776,874	43,209,380
Balance on 1 Jan 2019	-1,678,240	77,215,610	54,986	75,592,356
Decrease	-287,757	-56,302,070	-16,432	-56,606,259
Transfer among expenses	1,466,181	0	0	1,466,181
Balance on 31 Dec 2019	-499,816	20,913,540	38,554	20,452,278

The risk hedging reserve includes trading with standard futures on the electricity markets and emission coupons. The risk hedging reserve in 2020 compared to 2019 increased by EUR 22,757,102 and refers to closing futures for the purchase of electricity and emission coupons.

In the case of standardised forward contracts for electricity, it is regarding concluded transactions for purchases and sales of electricity in foreign exchange in 2021. 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 2021 to 2023. No deferred taxes were accounted in this relation, as the company will pay an agreed-upon price during the deal's realisation.

In 2020 the Company closed the currency swaps, whose positive fair value amounted as at 31 December 2019 (inclusive of deferred taxes) to EUR 38,554. In 2020, it concluded new transactions and also partly closed some of them. The overall change in the fair value is negative and recorded at EUR 815,428. The positive fair value of open currency exchanges at the end of 2020 amounts to EUR 959,104, from which the Company charged EUR 182,223 of deferred tax liabilities. The final amount with the deferred tax taken into account is thus EUR 776,874.

MOVEMENT OF VALUE RESERVE

in EUR

	Revaluation of investment property	Financial assets at fair value through other comprehensive income	Actuarial profits/losses on severance payments upon retirement	Other	Total
Balance on 1 Jan 2020	**387,447**	**44,391**	**-2,639,187**	**11,565**	**-2,195,784**
Formation, increase	0	0	-799,308	0	-799,308
Decrease	-15,000	-9,557	-2,081,032	0	-2,105,589
Transfer to retained profit/loss	0	0	152,897	0	152,897
Balance on 31 Dec 2020	**372,447**	**34,834**	**-5,366,630**	**11,565**	**-4,947,784**
Balance on 1 Jan 2019	**430,447**	**41,514**	**-1,441,940**	**11,565**	**-958,414**
Formation, increase	0	2,877	-1,305,824	0	-1,302,947
Decrease	-43,000	0	61,308	0	18,308
Transfer to retained profit/loss	0	0	47,269	0	47,269
Balance on 31 Dec 2019	**387,447**	**44,391**	**-2,639,187**	**11,565**	**-2,195,784**

At the end of 2020, the Group held 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

	2020	2019
Net profit/loss for the year	-184,177,731	29,730,396
Retained profit/loss	41,966,595	12,374,674
Total	**-142,211,136**	**42,105,070**

In 2020 the Group generated EUR 184,177,731 loss.

Capital of the non-controlling interest represents the value of owners holding non-controlling interests in subsidiaries and is posted at EUR 236,688.

NON-CONTROLLING INTERESTS

in EUR

	31.12.2020 Non-controlling interests	1-12/2020 Share in profit/loss	31.12.2019 Non-controlling interests	1-12/2019 Share in profit/loss
SRESA d.o.o.	20,852	-2,261	23,113	-2,075
sHPP LOBNICA d.o.o.	215,836	612	215,224	-342
Total	**236,688**	**-1,649**	**238,337**	**-2,417**

The balance operating outturn is not established for the Group.

PROVISIONS FOR SEVERANCE PAYS UPON RETIREMENT AND ANNIVERSARY BONUSES (15)

in EUR

	31/12/2020	31/12/2019
Provisions for retirement benefits	19,986,797	16,922,977
Provisions for anniversary bonuses	3,427,926	3,065,591
Total	**23,414,723**	**19,988,568**

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 2020.

MOVEMENT OF RETIREMENT BENEFIT AND ANNIVERSARY BONUSES PROVISIONS

in EUR

	Provisions for severance pay	Provisions for anniversary bonuses	Total
Balance on 1 Jan 2020	16,922,977	3,065,591	19,988,568
Formation, increase	5,204,793	782,678	5,987,471
Decrease, drawing	-1,008,033	-166,878	-1,174,911
Decrease, elimination	-1,132,940	-253,465	-1,386,405
Balance on 31 Dec 2020	19,986,797	3,427,926	23,414,723
Balance on 1 Jan 2019	11,223,161	3,398,496	14,621,657
Formation, 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 on 31 Dec 2019	16,922,977	3,065,591	19,988,568

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 December 2020, 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 2021 and 2022, the rates of increase in average salaries from the autumn forecast of economic trends 2020 (Institute of Macroeconomic Analysis and Development) are taken into account. From 2023 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% to 0.7%, based on the published profitability of Slovenian government bonds as at 31 December 2020, 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 2020.

SENSITIVITY ANALYSIS FOR PROVISIONS FOR RETIREMENT BENEFITS AND ANNIVERSARY BONUSES

in EUR

	Discount rate		Salary growth	
	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for retirement benefits	116,008	-236,489	-173,163	181,089
Provisions for anniversary bonuses	3,102	-14,574	-11,545	7,402
Total 2020	119,110	-251,063	-184,708	188,491
Provisions for retirement benefits	305,684	-351,724	-299,121	314,038
Provisions for anniversary bonuses	37,807	-44,660	-39,846	41,163
Total 2019	343,491	-396,384	-338,967	355,201

OTHER PROVISIONS (16)

in EUR

	31.12.2020	31.12.2019
For legal actions	837,045	661,523
For closing works of coal mine caves	46,099,052	36,468,052
For decommissioning	15,322,108	12,489,398
For damages	1,629,598	1,645,920
Other provisions	2,619,045	2,928,631
Total	66,506,848	54,193,524

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 legal actions	For closing works of coal mine caves	For decommis-sioning	For damages	Other provisions	Total
Balance on 1 Jan 2020	661,523	36,468,052	12,489,398	1,645,920	2,928,631	54,193,524
Formation, increase	205,396	9,631,000	2,832,710	226,550	-3,226	12,892,430
Decrease, drawing	-29,874	0	0	-139,579	-294,696	-464,149
Decrease, elimination	0	0	0	-103,293	-11,664	-114,957
Balance on 31 Dec 2020	837,045	46,099,052	15,322,108	1,629,598	2,619,045	66,506,848
Balance on 1 Jan 2019	1,361,675	29,205,052	10,729,721	1,920,748	3,065,728	46,282,924
Formation, 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 on 31 Dec 2019	661,523	36,468,052	12,489,398	1,645,920	2,928,631	54,193,524

Provisions for lawsuits were allocated based on the estimation of liability from lawsuits where the group appears as defendant. Formation of these provisions also refers to the increase due to new lawsuits and charged default interest on the part of damage amounts claimed.

For 2020 PV reassessed the activity valuation and the value of closing works in December 2020 and on this basis further formulated provisions for closing works in the amount of EUR 150,000. The effect of the harmonisation of discounting of stated provisions increases by EUR 272,000 in 2020, and the provisions increased further through the increase in the value of cave buildings due to the expected closing works of EUR 9,209,000, 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 period, the company TEŠ additionally formed provisions in the amount of EUR 2,832,710. The effect of the harmonisation of discounting of the stated provisions increases by EUR 93,171 in 2019, and the provisions increased further through the increase in the value of cave buildings due to the expected closing works of EUR 2,739,539, which is due to the effect of the change in the discount rate applied in relation to the previous year.

OTHER LONG-TERM LIABILITIES (17)

in EUR

	31.12.2020	31.12.2019
Emission coupons	0	32,041
Received government grants	1,150,664	1,154,756
Other	385,039	452,359
Total	1,535,703	1,639,156

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 also include co-financing assets received in connection with a European project.

MOVEMENT OF OTHER LONG-TERM LIABILITIES

in EUR

	Emission coupons	Received government grants	Other	Total
Balance on 1 Jan 2020	32,041	1,154,756	452,359	1,639,156
Acquisitions	0	7,449,439	46,964	7,496,403
Disposals	0	-7,453,531	-111,865	-7,565,396
Foreign currency differences	0	0	0	0
Release	-32,041	0	-2,419	-34,460
Balance on 31 Dec 2020	0	1,150,664	385,039	1,535,703
Balance on 1 Jan 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
Foreign currency differences	0	0	19	19
Release	-37,967	0	0	-37,967
Balance on 31 Dec 2019	32,041	1,154,756	452,359	1,639,156

LONG-TERM FINANCIAL LIABILITIES (18)

in EUR

	31.12.2020	31.12.2019
Long-term financial liabilities to banks	596,823,215	666,419,394
Long-term financial liabilities from leases	2,635,007	3,452,707
Total	599,458,222	669,872,101

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 the markup into account. The fixed rate is 5.46%.

The values of loan principals due in 2021 are recorded as short-term liabilities to banks in the amount of EUR 69,596,179.

The Group has an approved long-term loan in the amount of EUR 50,300,000, although it was not drawn on 31 December 2020.

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 2020.

MOVEMENT OF NON-CURRENT FINANCIAL LIABILITIES

in EUR

	Long-term financial liabilities to banks	Other long-term financial liabilities	Long-term financial liabilities from leases	Total
Balance on 1 Jan 2020	666,419,394	0	3,452,708	669,872,102
Transfers to short-term liabilities	-69,596,179	0	0	-69,596,179
Acquisitions from leases	0	0	650,359	650,359
Transfers to short-term liabilities of leases	0	0	-1,500,384	-1,500,384
Other	0	0	32,324	32,324
Balance on 31 Dec 2020	596,823,215	0	2,635,007	599,458,222
Balance on 31 Dec 2018	700,788,733	342,077	4,325,116	705,455,926
Reclassification of financial leases IFRS16	0	-342,077	342,077	0
Balance on 1 Jan 2019	700,788,733	0	4,667,193	705,455,926
Acquisitions	181,440,000	0	669,780	182,109,780
Transfers to short-term liabilities	-65,829,820	0	-1,884,265	-67,714,085
Repayment	-150,909,096	0	0	-150,909,096
Other	929,577	0	0	929,577
Balance on 31 Dec 2019	666,419,394	0	3,452,708	669,872,102

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 2020. Maturities of long-term liabilities by period are disclosed within the section on liquidity risk.

SHORT-TERM FINANCIAL LIABILITIES (19)

in EUR

	31.12.2020	31.12.2019
Short-term financial liabilities to banks without interest	69,444,057	65,736,820
Short-term financial liabilities to banks for interest	58,606	117,742
Short-term derivatives	959,104	0
Other short-term financial liabilities	76,007	80,787
Short-term financial liabilities from leases	1,187,489	1,748,662
Total	71,725,263	67,684,011

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 for interest	Short-term derivatives	Other short-term financial liabilities	Short-term financial liabilities from leases	Total
Balance on 1 Jan 2020	65,736,820	117,742	0	80,787	1,748,661	67,684,010
Increases	46,449,000	4,611,573	0	5,779,622	41,326	56,881,521
Transfers from long-term liabilities	69,596,179	0	0	0	1,500,384	71,096,563
Short-term payments	-52,383,997	-4,670,709	0	-5,784,402	-2,108,704	-64,947,812
Long-term payments	-59,953,945	0	0	0	0	-59,953,945
Other	0	0	959,104	0	5,821	964,925
Balance on 31 Dec 2020	69,444,057	58,606	959,104	76,007	1,187,488	71,725,262
Balance on 31 Dec 2018	82,626,356	133,445	0	246,702	1,432,052	84,438,555
Reclassification of financial leases IFRS16	0	0	0	-140,912	140,912	0
Balance on 1 Jan 2019	82,626,356	133,445	0	105,790	1,572,964	84,438,555
Increases	42,514,000	23,410,134	0	7,208,705	0	73,132,839
Transfers from long-term liabilities	65,829,820	0	0	0	1,884,265	67,714,085
Short-term payments	-42,893,838	-23,425,837	0	-7,233,758	-1,708,568	-75,262,001
Long-term payments	-82,339,517	0	0	0	0	-82,339,517
Other	-1	0	0	50	0	49
Balance on 31 Dec 2019	65,736,820	117,742	0	80,787	1,748,661	67,684,010

SHORT-TERM OPERATING LIABILITIES TO SUPPLIERS (20)

in EUR

	31.12.2020	31.12.2019
Short-term operating liabilities to affiliated companies	1,586,265	1,635,480
Short-term operating liabilities to jointly-controlled companies	42,110	78,938
Short-term operating liabilities to suppliers	139,028,180	136,261,211
Total	140,656,555	137,975,629

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

OTHER SHORT-TERM LIABILITIES (21)

in EUR

	31.12.2020	31.12.2019
Short-term operating advance payables	681,044	305,215
Short-term operating liabilities to employees	12,863,472	13,088,357
Short-term operating liabilities to state and other institutions	24,651,867	28,947,982
Short-term operating liabilities to others	1,880,957	2,432,103
Short-term deferred revenue	3,333	0
Short-term accrued costs or expenses	7,670,967	8,436,932
Total	47,751,640	53,210,589

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 2021. The Group hereunder also discloses liabilities in connection with unused days of holiday leave. Short-term accrued costs largely refer to costs for accounted interest and bank guarantees, costs for damages and costs relating to electricity purchase.

CONTINGENT LIABILITIES (22)

in EUR

	31.12.2020	31.12.2019
Performance bonds/warranties for the rectification of defects	511,469	816,296
Bid warranties	556,569	0
Total	1,068,038	816,296

3.5.6.2 Consolidated income statement

NET SALES REVENUE (23)

in EUR

	2020	2019
On the domestic market	665,816,786	604,861,463
Electricity	638,753,016	582,756,501
Heat energy	6,907,146	6,700,411
Other products	524,871	564,355
Other goods and material	2,448,335	1,562,056
Other services	17,183,418	13,278,140
On foreign market	1,171,431,046	1,105,713,512
Electricity	1,154,774,553	1,091,470,545
Other products	308,050	371,802
Other goods and material	4,985,318	76,002
Other services	11,363,125	13,795,163
Total	1,837,247,832	1,710,574,975

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 mainly include the 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

	2020	2019
Revenue from withdrawal of provisions	265,511	967,934
Drawing deferred revenue	7,556,279	7,334,718
Elimination of impairment of receivables	68,557	45,741
Revenue from damages and contractual penalties	854,067	1,021,096
Default interest	120,376	164,418
Profit from the sale of fixed assets	937,750	539,461
Other	10,416,312	7,967,693
Total	20,218,852	18,041,061

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.

In accordance with the measures to stop the COVID-19 epidemic, the Group utilised the measure of partial pension and disability insurance payment exemption and the reimbursement of the crisis benefit for December in the total amount of EUR 5,270,184. These effects were recorded under other operating revenue.

Most of other operating revenue in the amount of EUR 4,311,356 generated on trading with standardized futures contracts in relation to electricity and emission coupons.

COSTS OF GOODS, MATERIALS AND SERVICES (25)

in EUR

	2020	2019
Purchase value of sold goods	1,330,857,567	1,258,820,543
Contingent costs of sold goods	34,707,784	42,104,635
Total purchase value of sold goods	1,365,565,351	1,300,925,178
Costs of material	23,170,957	24,286,974
Cost of supplementary material	2,846,152	2,791,855
Costs of energy	1,963,392	2,046,660
Costs of spare parts	6,408,662	5,523,649
Costs of small tools	585,145	403,817
Stationery	175,679	171,630
Expert literature	38,272	16,130
Harmonisation of costs of mat. and small tools	24,726	35,213
Costs for fire prevention	16,195	
Other	1,668,542	1,234,714
Total material costs	36,897,722	36,510,642
Costs of services from product generation	13,266,993	8,637,803
Costs of transport services	1,328,642	844,447
Costs of maintenance	10,244,144	10,741,694
Costs of rents	1,503,340	845,540
Costs of reimbursements of work-related expenses to employees	134,303	327,154
Costs of insurance and bank services	5,673,739	5,854,928
Costs of intellectual and personal services	4,318,862	4,728,926
Costs of research and development	5,733	0
Costs of fairs, advertising and administration	907,862	945,910
Costs of services of natural entities	929,426	875,844
Municipal services	3,188,259	3,289,152
Costs of mining damage	69,375	141,758
Costs of protection and supervision	10,733	39,759
Cleaning costs	12,780	9,361
Membership contributions	194,086	198,452
Real property management	255,815	229,715
Costs of shipping	1,514	2,990
Costs of deposit site regulation	1,620	110,328
Costs of copying and plotting	9,495	12,087
Other	1,381,803	807,814
Total costs of services	43,438,524	38,643,662
Total	1,445,901,597	1,376,079,482

Costs of goods sold mainly include the 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 the costs of spare parts and material for maintenance of plant and equipment.

Costs of services to a large extent include the 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.

AUDIT COSTS

in EUR

	2020	2019
Annual Report audit	99,406	98,711
Other services of providing guarantees	6,000	5,300
Total	105,406	104,011

The financial statements of the HSE Group companies in Slovenia were in 2020 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. The audit company also implemented the service for the provision of other assurances (fulfilment of bank commitments).

LABOUR COSTS (26)

in EUR

	2020	2019
Salaries	93,924,464	91,185,131
Pension insurance costs	16,058,516	15,674,309
Other insurance costs	6,690,504	6,675,669
Other labour costs	15,726,926	18,194,474
Total	132,400,410	131,729,583

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 2020, which can be utilised by 30 June 2021 and the crisis benefit in accordance with the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences accounted for EUR 1,160,944.

NUMBER OF EMPLOYEES AND AVERAGE NUMBER OF EMPLOYEES BY EDUCATIONAL STRUCTURE

Educational class	1 Jan 2020	31 Dec 2020	Average number of employees
1	179	181	180
2	106	107	107
3	50	48	49
4	1,068	1,061	1,065
5	836	830	833
6/1	334	339	337
6/2	214	219	217
7	271	279	275
8/1	72	72	72
8/2	15	15	15
Total	3,145	3,151	3,148

VALUE WRITE-OFFS (27)

in EUR

	2020	2019
Amortisation of intangible assets	910,117	713,011
Amortisation of property, plant and equipment	76,965,070	77,470,921
Amortisation of leased assets	1,656,676	1,580,206
Receivables impairments/write-offs	654,879	38,652
Inventories impairments/write-offs	496,137	544,915
Impairments in property, plant and equipment and intangible assets	243,508,849	4,221
Impairments in real property, plant and equipment	1,241,953	6,127,922
Sales in property, plant and equipment and intangible assets	117,783	37,445
Total	325,551,464	86,517,293

CAPITALISED OWN PRODUCTS (28)

in EUR

	2020	2019
Capitalised own products and services	-15,306,922	-14,224,268
Total	-15,306,922	-14,224,268

Capitalised own products and services largely comprise:

- engineering services rendered during the construction and reconstruction of HPP,
- construction works.

OTHER OPERATING EXPENSES (29)

in EUR

	2020	2019
Forming of provisions	428,722	223,910
Fee for the use of construction land	10,607,218	9,878,716
Concessions	15,978,715	16,009,266
Environmental protection expenses	77,645,411	45,365,336
Donations	483,347	392,096
Other operating expenses	2,527,530	3,358,733
Total	107,670,943	75,228,057

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 the charge for the use of construction land. The reason for the increase in environmental protection costs is the higher price of emission coupons in 2020.

FINANCIAL RESULT (30)

In 2020 the Group generated a negative financial result in the amount of EUR 24,404,319.

FINANCIAL REVENUE

in EUR

	2020	2019
Financial revenue from dividends and other profit shares	44,780	2,960
Financial revenue fromloans and deposits given	2,976	3,755
Other financial income	77,411	364
Total	125,167	7,079

FINANCIAL EXPENSES

in EUR

	2020	2019
Financial expenses for interest	18,956,499	23,219,909
Financial expenses from the sale of financial investments	0	26,684
Other financial expenses	5,572,987	8,984,234
Total	24,529,486	32,230,827

Other finance expenses largely refer to costs associated with arranged loans.

FINANCIAL REVENUE FROM SHARES IN AFFILIATED AND JOINTLY-CONTROLLED COMPANIES (31)

in EUR

	2020	2019
HESS d.o.o.	1,134,513	1,176,528
Soenergetika d.o.o.	135,494	172,934
Total	1,270,007	1,349,462

TAXES (32)

in EUR

	2020	2019
Current tax	23,435,422	13,501,990
Deferred tax	-65,508	-3,948
Total tax from profit recognised in the income statement	23,369,914	13,498,042
Deferred tax recognised in capital	-743	-9,043

Companies of the Group are liable for corporation tax, value-added tax, financial services and excise tax.

In 2020, nine 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 2020 amounted to EUR 23,369,914. Based on current tax at the end of 2020, Group companies disclose EUR 6,720 of current tax assets and EUR 13,321,602 of the 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 969,103 and EUR 5,823 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 2020, the Group companies have unused tax losses in the amount of EUR 1,191,849,638, 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.

EFFECTIVE TAX RATE CALCULATION

in EUR

	2020	2019
Profit (loss) before tax	-160,809,466	43,226,015
Calculated tax at the applicable tax rate	-30,553,799	8,212,943
Tax on revenues that lower the tax base	-71,271	-265,666
Tax on tax deductions	-1,221,735	-1,114,431
Tax on expenses that lower the tax base	-965,443	-82,684
Tax on non-deductible expenses	1,250,463	1,040,661
Tax from other changes in the tax balance sheet	-18,820	123,154
Tax from other changes in the tax balance sheet	55,082,610	5,636,778
Effect of higher/lower tax rate of companies abroad	-66,584	-48,764
Tax levied	23,435,422	13,501,991
Deferred tax	-65,508	-3,948
Total taxes	23,369,913	13,498,043
Effective tax rate	/	31.00%

NET PROFIT OR LOSS (33)

in EUR

	2020	2019
Gross operating return	1,873,849,258	1,743,654,723
Operating profit	-137,675,154	74,100,308
Financial outcome	-24,404,319	-32,223,749
Profit (loss) before tax	-160,809,466	43,226,021
Net profit/loss for the year	-184,179,380	29,727,979

In 2020, the HSE Group generated a negative net profit or loss of EUR 184,179,380.

3.5.7.3 Related entities

Related entities 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 2020.

TRANSACTIONS WITH ASSOCIATED COMPANIES

in EUR

	Sales	Purchases	Receivables as at 31 Dec 2020	Liabilities as at 31 Dec 2020
Affiliated companies	1,473,501	9,799,450	8,551	1,586,265
Total jointly-controlled company	135,615	815,602	146	42,110
Total	1,609,116	10,615,052	8,697	1,628,375

TRANSACTIONS WITH THE REPUBLIC OF SLOVENIA AND LEGAL ENTITIES DIRECTLY OWNED BY THE REPUBLIC OF SLOVENIA

in EUR

	Outstanding receivables as at 31 Dec 2020	Outstanding liabilities as at 31 Dec 2020	Revenue 1 Dec 2020	Expenses 1 Dec 2020
BORZEN d.o.o.	561,044	483,366	6,737,978	6,786,780
BSP d.d.	509,187	221,579	83,085,161	50,606,863
ECE energetska družba d.o.o.	13,671,056	1,381,820	143,917,619	17,742,026
ELES d.o.o.	3,328,328	163,651	19,904,914	1,674,866
ELEKTRO MARIBOR ENERGIJA PLUS d.o.o.	6,516,048	287,616	61,648,825	2,943,972
E3 d.o.o.	9,238,181	326,517	68,445,914	5,329,216
GEN-I d.o.o.	10,135,685	7,927,615	100,645,777	89,279,126
Energy companies – total	**43,959,530**	**10,792,164**	**484,386,187**	**174,362,850**
TALUM d.d.	1,810,947	137,011	25,575,623	1,561,235
Aluminium production	**1,810,947**	**137,011**	**25,575,623**	**1,561,235**
ZAVAROVALNICA TRIGLAV, d.d.	19,314	17,110	36,850	2,700,197
Insurance companies – total	**19,314**	**17,110**	**36,850**	**2,700,197**
SID d.d.	0	41,972,538	0	438,706
Banks – total	**0**	**41,972,538**	**0**	**438,706**
Total	**45,789,790**	**52,918,823**	**509,998,661**	**179,062,988**

3.5.7.4 Remuneration

The remuneration of managers and employees for which the tariff part of the collective agreement does not apply, 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 2020 by HSE Group companies.

REMUNERATION

in EUR

	Gross salary	Other income	Bonuses	Cost reimbursement	Meeting fees	Total
Management board members	1,255,826	133,982	46,307	24,254		1,460,369
Members of Supervisory Boards and Committeews of the Supervisory Board			1,452	2,290	220,160	223,902
Emploees not subject to the tariff part of the collective agreement	1,471,350	121,356	36,498	31,945		1,661,149
Total 2020	**2,727,176**	**255,338**	**84,257**	**58,489**	**220,160**	**3,345,420**
Management board members	1,239,599	142,256	47,772	23,766		1,453,393
Members of Supervisory Boards and Committeews of the Supervisory Board	0	0	456	3,022	243,263	246,741
Emploees not subject to the tariff part of the collective agreement	1,232,973	121,291	39,917	24,116		1,418,297
Total 2019	**2,472,572**	**263,547**	**88,145**	**50,904**	**243,263**	**3,118,431**

MANAGEMENT REMUNERATION IN 2020

in EUR

	Period	Gross salary	Other income	Bonuses	Cost reimburse-ment	Gross meeting fees	Total
Stojan Nikolić - HSE	1 Jan 2020 to 3 Nov 2020	129,379	4,717	3,020	1,763	6,000	144,879
Viktor Vračar - HSE,TEŠ	3 Nov 2020 to 31 Dec 2020	133,154	25,094,00	6,288	1,493	0	166,029
Mirko Marinčič - HSE	1 Jan 2020 to 30 Nov 2020	119,000	41,849	7,836	1,196	0	169,881
Uroš Podobnik - HSE	3 Nov 2020 to 31 Dec 2020	11,160	211	268	136	1,188	12,963
Andrej Janša - HSE	1 Jan 2020 to 31 Dec 2020	0	5,670	0	0	0	5,670
Miha Pečovnik - HSE Invest	1 Jan 2020 to 30 Apr 2020	36,132	633	2,523	614	0	39,902
Aleksander Brunčko - HSE Invest	1 May 2020 to 31 Oct 2020	44,206	3,308	1,312	673	0	49,499
Vučaj Zef, proxy HSE Invest	1 May 2020 to 31 Dec 2020	18,900	0	0	0	0	18,900
Janez Rošer - PV	29 May 2020 to 31 Dec 2020	54,000	2,878	0	2,645	0	59,523
Marko Mavec - PV	1 Jan 2020 to 29 May 2020	45,000	2,230	182	1,635	0	49,046
Mojca Letnik - PV	1 Jan 2020 to 31 Dec 2020	102,600	4,375	4,031	1,322	0	112,328
Nina Mauhler - HTZ	22 June 2020 to 31 Dec 2020	29,536	2,022	0	2,182	0	33,740
Suzana Koželjnik - HTZ	1 Jan 2020 to 21 June 2020	39,324	2,411	23	1,307	0	43,065
Iztok Kikec - Sipoteh	1 Jan 2020 to 31 Dec 2020	50,993	3,661	23	1,963	0	56,640
Damijan Kanduti - PLP	1 Jan 2020 to 31 Dec 2020	68,393	4,397	1,001	1,385	0	75,176
Anton Žagar - RGP	1 Jan 2020 to 31 Dec 2020	75,573	4,375	6,041	1,365	0	87,354
Radovan Jereb - SENG	1 Jan 2020 to 31 Dec 2020	97,373	4,717	2,066	1,273	0	105,429
Andrej Tumpej DEM	1 Jan 2020 to 31 Dec 2020	110,495	4,717	6,726	1,948	0	123,886
Mitja Tašler TEŠ	1 Jan 2020 to 31 Dec 2020	90,607	4,717	4,968	1,354	0	101,646
Ervin Renko HSE EDT	1 Jan 2020 to 31 Dec 2020	0	12,000	0	0	0	12,000
Total		1,255,826	133,982	46,307	24,253	7,188	1,467,556

INCOME OF SUPERVISORY BOARD MEMBERS IN 2020

in EUR

	Period	Gross meeting fees	Travel expenses	Bonuses	Total
Stojan Nikolić, President of SB of PV	1 Jan 2020 to 6 Nov 2020	3,767	0	121	3,888
Stojan Nikolić, Member of SB of HESS	1 Jan 2020 to 5 Nov 2020	2,112	0	0	2,112
Boštjan Jančar, Member of SB of HSE	1 Jan 2020 to 31 Dec 2020	13,700	216	121	14,037
Boštjan Markoli, Member of SB of HSE	1 Jan 2020 to 23 Oct 2020	2,897	63	121	3,081
Boštjan Markoli, Deputy President of SB of PV	1 Jan 2020 to 6 Nov 2020	11,643	11	121	11,775
Danilo Rednjak, Member of SB of PV	6 Nov 2020 to 31 Dec 2020	3,557	0	121	3,678
Uroš Podobnik, President of SB of PV	6 Nov 2020 to 31 Dec 2020	858	0	0	858
Uroš Podobnik, Member of SB of HESS	5 Nov 2020 to 31 Dec 2020	330	0	0	330
Vesna Cukrov, Member of SB of HSE	1 Jan 2020 to 31 Dec 2020	13,693	57	121	13,871
Tomaž Besek, President of SB of HSE	1 Jan 2020 to 23 Oct 2020	16,898	0	121	17,019
Marko Bahor, Deputy President of SB of PV	6 Nov 2020 to 31 Dec 2020	660	0	0	660
Robert Celec, Member of SB of HSE	23 Oct 2020 to 31 Dec 2020	2,040	59	0	2,099
Franc Dover, President of SB of HSE	28 Oct 2020 to 31 Dec 2020	2,648	206	0	2,854
Andrej Janša, Deputy President of SB of HSE	1 Dec 2020 to 31 Dec 2020	645	0	0	645
Damjan Seme, Member of SB of HSE	1 Jan 2020 to 23 Oct 2020	2,040	121	0	2,161
Janez Gutnik, Member of SB of HSE	23 Oct 2020 to 31 Dec 2020	2,040	209	0	2,249
Jernej Otič, Member of SB of HSE	1 Jan 2020 to 31 Dec 2020	14,034	759	121	14,914
Petja Rijavec, Member of SB of HSE	1 Jan 2020 to 31 Dec 2020	13,825	0	121	13,946
Barbara Gorjup, Deputy President of SB of HSE	1 Jan 2020 to 23 Oct 2020	12,603	34	121	12,758
Goran Branković, Member of SB of HSE	1 Jan 2020 to 23 Oct 2020	12,108	0	121	12,229
Miloš Pantoš, Member of SB of HSE	1 Jan 2020 to 23 Oct 2020	11,467	6	121	11,594
Total		143,565	1,741	1,452	146,758

REMUNERATION OF MEMBERS OF THE AUDIT COMMITTEE

in EUR

	Period	Gross meeting fees	Travel expenses	Total
Boštjan Jančar, Member of the Audit Committee of HSE	1 Jan 2020 to 31 Dec 2020	4,048		4,048
Boštjan Markoli, Member of the Audit Committee of PV	1 Jan 2020 to 6 Nov 2020	867	63	930
Boštjan Markoli, Member of the Audit Committee of HSE	1 Jan 2020 to 28 Oct 2020	3,788	8	3,796
Barbara Gorjup, President of the Audit Committee of HSE	1 Jan 2020 to 28 Oct 2020	4,978	23	5,001
Maja Zaman Groff, External Member of the Audit Committee of HSE	1 Jan 2020 to 28 Oct 2020	11,150	50	11,200
Romana Jontes, Member of the Audit Committee of PV	1 Jan 2020 to 31 Dec 2020	891	56	947
Danilo Rednjak, Member of the Audit Committee of PV	1 Jan 2020 to 31 Dec 2020	667		667
Marko Hočevar, Member of the Audit Committee of HSE	26 Nov 2020 to 31 Dec 2020	157		157
Andrej Janša, President of the Audit Committee of HSE	1 Dec 2020 to 31 Dec 2020	69		69
Janez Gutnik, Deputy President of the Audit Committee of HSE	3 Nov 2020 to 1 Dec 2020	376		376
Total		26,991	200	27,191

REMUNERATION OF MEMBERS OF THE PERSONNEL COMMITTEE

in EUR

	Period	Gross meeting fees	Travel expenses	Total
Franc Dover, Member of the Personnel Committee	26 Nov 2020 to 31 Dec 2020	39		39
Damjan Seme, President of the Personnel Committee	26 Nov 2020 to 31 Dec 2020	59		59
Petja Rijavec, Member of the Personnel Committee	1 Jan 2020 to 31 Dec 2020	3,124		3,124
Tomaž Besek, Member of the Personnel Committee	1 Jan 2020 to 26 Nov 2020	2,706		2,706
Barbara Gorjup, Member of the Personnel Committee	1 Jan 2020 to 31 Dec 2020	2,820	11	2,831
Boštjan Markoli, Member of the Personnel Committee	1 Jan 2020 to 26 Nov 2020	2,820	4	2,824
Vesna Cukrov, Deputy President of the Personnel Committee	26 Nov 2020 to 31 Dec 2020	43		43
Milan Pantoš, President of the Personnel Committee	1 Jan 2020 to 26 Nov 2020	4,010	4	4,014
Total		15,621	19	15,640

REMUNERATION OF MEMBERS OF THE PERSONNEL COMMITTEE

in EUR

	Period	Gross meeting fees	Travel expenses	Total
Goran Branković, President of the Restructuring Committee	1 Jan 2020 to 28 Oct 2020	5,264		5,264
Jernej Otič, Member of the Restructuring Committee	1 Jan 2020 to 31 Dec 2020	4,334	280	4,614
Robert Celec, Member of the Restructuring Committee	28 Oct 2020 to 31 Dec 2020	266		266
Damjan Seme, Member of the Restructuring Committee	28 Oct 2020 to 31 Dec 2020	266		266
Vesna Cukrov, President of the Restructuring Committee	28 Oct 2020 to 31 Dec 2020	4,423	38	4,461
Milan Pantoš, Member of the Restructuring Committee	1 Jan 2020 to 28 Oct 2020	3,701	6	3,707
Total		18,254	324	18,578

REMUNERATION OF THE MEMBERS OF THE MARKETING AND INVESTMENT COMMITTEE IN 2020

in EUR

	Period	Gross meeting fees	Travel expenses	Total
Boštjan Jančar, Member of the Marketing and Investment Committee	1 Jan 2020 to 31 Dec 2020	3,608		3,608
Goran Branković, Member of the Marketing and Investment Committee	1 Jan 2020 to 28 Oct 2020	3,524		3,524
Boštjan Makoli, Member of the Marketing and Investment Committee	1 Jan 2020 to 28 Oct 2020	3,348	2	3,350
Robert Celec, Member of the Marketing and Investment Committee	28 Oct 2020 to 31 Dec 2020	266		266
Andrej Janša, Member of the Marketing and Investment Committee	1 Jan 2020 to 31 Dec 2020	46		46
Janez Gutnik, President of the Marketing and Investment Committee	28 Oct 2020 to 31 Dec 2020	399		399
Miloš Pantoš, President of the Marketing and Investment Committee	1 Jan 2020 to 28 Oct 2020	4,538	4	4,542
Total		15,729	6	15,735

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 the 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 the 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 basis with its subsidiaries engaged in electricity production. The electricity is then 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 the 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 and the 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 64% 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 OPERATING AND FINANCIAL RECEIVABLES BY MATURITY DATES

in EUR

	Due for payment			
	Up to 2 years after the date of SFP	From 3 to 5 years after the date of SFP	More than 5 years after the date of SFP	Total
Long-term deposits to others	2,139	5,791	17,191	25,121
Long-term trade receivables	453,575	0	0	453,575
Long-term advances given	10,147	26,439	0	36,586
Long-term operating receivables from others	0	0	1,550,547	1,550,547
Total 31 Dec 2020	**465,861**	**32,230**	**1,567,738**	**2,065,829**
Long-term deposits 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 operating receivables from others	0	0	797,501	797,501
Total 31 Dec 2019	**27,711**	**203,842**	**823,257**	**1,054,810**

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY DATES

in EUR

	Due for payment						
	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)	Total
Short-term financial receivables and loans given to others	51	0	0	0	0	0	51
Short-term deposits to others	12,250,295	0	0	0	60,000	0	12,310,295
Short-term operating receivables from affiliated companies	8,551	0	0	0	0	0	8,551
Short-term operating receivables from jointly-controlled companies	146	0	0	0	0	0	146
Short-term accounts receivables	159,749,785	8,080,792	71,531	24,505	13,770	6,021,959	173,962,342
Short-term advances given	3,355,775	177,821	1,078	0	0	169,520	3,704,194
Short-term trade receivables due from state and other institutions	25,778,649	18,733	0	0	0	0	25,797,382
Short-term trade receivables due from others	15,947,171	0	0	0	0	316,163	16,263,334
Total 31 Dec 2020	**217,090,423**	**8,277,346**	**72,609**	**24,505**	**73,770**	**6,507,642**	**232,046,295**
Short-term financial receivables and loans given to others	51	0	0	0	0	0	51
Short-term deposits to others	12,554,373	0	0	0	0	0	12,554,373
Short-term operating receivables from affiliated companies	69,194	0	0	0	0	0	69,194
Short-term operating receivables from jointly-controlled companies	146	0	0	0	0	0	146
Short-term accounts receivables	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 due from state and other institutions	30,035,899	0	0	0	0	0	30,035,899
Short-term trade receivables due from others	14,697,156	0	0	0	0	559,151	15,256,307
Total 31 Dec 2019	**197,726,733**	**4,413,022**	**26,682**	**10,177**	**11,320**	**7,443,230**	**209,631,164**

MOVEMENT OF VALUE ADJUSTMENTS OF SHORT-TERM TRADE RECEIVABLES

in EUR

	2020	2019
Balance as at 1 Jan	**7,122,480**	**7,668,235**
Recovered written-off receivables	-50,947	-28,766
Allowances for receivables	660,734	31,480
Final write-offs of receivables	-419,762	-548,469
Balance as at 31 Dec	**7,312,505**	**7,122,480**

At the end of 2019, the Group has a total of EUR 7,312,505 of value allowances for doubtful and disputable short-term operating receivables.

In 2020 the Group formed allowances for short-term receivables pursuant to provisions of IFRS 9. Accordingly, the Group has already applied the new impairment model in 2018, which is not solely founded on realised credit losses, but also 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 had properly disclosed and formed allowances for short-term operating receivables in the past.

Credit risks were properly managed in 2020.

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.

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 centralised cash flow planning, implemented measures for restructuring and optimising debt maturity, proper liquidity reserve provided and an active attitude towards the financial markets, the Group's liquidity reserve was under control and ensured 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 the payment deadlines of receivables and liabilities arising from the core activity - trading with electricity, as well as the 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 the 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 2020 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 from 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 from operation in 2020 is estimated as being 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 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 2020, 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 increased the credit ratings from ''Ba2 positive'' (Moody's) to ''Ba1 positive'', both with a positive outlook.

The maturity of the Group's long-term and short-term liabilities is outlined in the following tables.

LONG-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY DATES

in EUR

	Due for payment			Total
	Up to 2 years after the date of SFP	From 3 to 5 years after the date of SFP	More than 5 years after the date of SFP	
Long-term financial liabilities to banks	110,479,859	219,277,575	267,065,781	596,823,215
Long-term financial liabilities from leases	1,120,548	1,514,459		2,635,007
Long-term operating liabilities to suppliers	430,545	0	0	430,545
Long-term operating liabilities from advances	2,400	0	44,756	47,156
Other long-term operating liabilities	33,019	0	22,586	55,605
Total 31 Dec 2020	112,066,371	220,792,034	267,133,123	599,991,528
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 operating liabilities to suppliers	0	164,236	0	164,236
Long-term operating liabilities from advances	0	0	42,296	42,296
Other long-term operating liabilities	29,192	0	23,062	52,254
Total 31 Dec 2019	69,800,569	222,175,745	378,154,573	670,130,887

The liquidity risk exposure due to financial liabilities to banks on 31 December 2020 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 2021. The source is operating revenue, while at the same time the Group has a liquidity reserve in the form of cash of EUR 78,473,024 and long-term revolving loans of EUR 50,300,000 that were unused on 31 December 2020.

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	More than 5 years after the date of sfp	
Financial liabilities to banks without interest rate hedging						
Long-term loans	-1,218,319	-68,225,737	-77,176,828	-200,595,757	-319,050,628	-666,267,269
Total	-1,218,319	-68,225,737	-77,176,828	-200,595,757	-319,050,628	-666,267,269

FOREIGN EXCHANGE 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 2020. While hedging against the 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 using derivatives as needed. The latter mainly applies 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 also occurs 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 at a minimum.

As other currencies in transactions are present to a lesser extent, the group does not prepare a sensitivity analysis to alter the exchange rates of other currencies, as the change in these rates would not have a significant impact on the Group's profit.

To convert the Group's assets and liabilities on 31 December 2020, the following exchange rates were used:

FOREIGN EXCHANGE RATES

Country	Currency code	Final currency in EUR for 2020	Final currency in EUR for 2019
Bosnia and Herzegovina	BAM	1.9558	1.9558
Croatia	HRK	7.5519	7.4395
North Macedonia	MKD	61.5590	61.4190
Serbia	RSD	117.5300	117.3800
Czech Republic	CZK	26.2420	25.4080
Hungary	HUF	363.8900	330.5300
Romania	RON	4.8683	4.7830
USA	USD	1.2271	1.1234
Great Britain	GBP	0.8990	0.8508
Bulgaria	BGN	1.9558	1.9558

EXPOSURE TO RISK OF CHANGE OF EXCHANGE RATES

in EUR

	EUR	HUF	Other currencies	Total
Long-term financial investments and loans	25,121	0	0	25,121
Long-term operating receivables	1,803,828	0	236,880	2,040,708
Short-term financial investments and loans	12,310,346	0	0	12,310,346
Short-term operating receivables	212,423,447	0	0	212,423,447
Long-term financial liabilities	-599,458,222	0	0	-599,458,222
Long-term operating liabilities	-533,306	0	0	-533,306
Short-term financial liabilities	-71,725,263	0	0	-71,725,263
Short-term operating liabilities	-178,281,796	-149,837	-749,375	-179,181,008
Net exposure of the SFT 31 Dec 2020	**-623,435,845**	**-149,837**	**-512,495**	**-624,098,177**
Long-term financial investments and loans	41,931	0	0	41,931
Long-term operating receivables	769,045	0	243,834	1,012,879
Short-term financial investments and loans	12,554,424	0	0	12,554,424
Short-term operating receivables	189,566,206	0	388,055	189,954,261
Long-term financial liabilities	-669,872,100	0	0	-669,872,100
Long-term operating liabilities	-258,640	0	-146	-258,786
Short-term financial liabilities	-67,684,011	0	0	-67,684,011
Short-term operating liabilities	-180,961,344	-103,709	-304,752	-181,369,805
Net exposure of the SFT 31 Dec 2019	**-715,844,489**	**-103,709**	**326,991**	**-715,621,207**

CONCLUDED CONTRACTS FOR CURRENCY SWAPS ACCORDING TO THE MATURITY DATE

in EUR

	31.12.2020	31.12.2019
Concluded contracts for currency swaps according to the maturity date – purchase hedging	17,564,445	10,774,892
Concluded contracts for currency swaps according to the maturity date – sale hedging	6,096,140	0

CURRENCY SWAP EFFECT

in EUR

	2020	2019
Unrealised profit of effective transactions	776,874	38,554
Realised profit of effective transactions	-	27,103
Realised loss of effective transactions	-153,292	-117,172

INTEREST RATE RISK

While hedging against the interest rate risk, the company acts in compliance with the Group's internal rules. The interest rate risk was adequately managed in 2020, with limited and reduced risks associated with interest rate changes and thus stabilised cash flows.

As at 31 December 2020, EUR 386 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 in 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 previous years, we have not entered into deals of shielding interest rate rises in 2020 and we have no so-called IRS contracts concluded.

CASH FLOW SENSITIVITY ANALYSIS WITH FINANCIAL INSTRUMENTS BEARING A VARIABLE INTEREST RATE

A change in interest rate by 50 basis points on the reporting date would result in an increase (decrease) of profit or loss by the amounts stated below. The analysis assumes that all other variables, in particular exchange rates, remain unchanged. In the 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 WITH VARIABLE INTEREST RATES

in EUR

	Net profit or loss in 2020		Net profit or loss in 2019	
	Increase by 50 bt	Decrease by 50 bt	Increase by 50 bt	Decrease by 50 bt
Financial instruments with fixed interest rates	**15,251**	**-15,251**	**0**	**0**
Financial assets	15,251	-15,251	0	0
Financial instruments with variable interest rates	**-759,010**	**532,075**	**-802,829**	**529,900**
Financial liabilities	-759,010	532,075	-802,829	529,900

PRICE RISK

The price risk derives from the fluctuation in the 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 based on key variables:

- The 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 2020, 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 the 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 to 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 the 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 based on the relevant Strategy of selling own production and purchase of emission coupons for the 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 also tends to increase the liquidity of long--term products in the region, indicating that we can also insure in terms of price more distant periods of supply. Procedures related to personal 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 the 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 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 or insuring protect long-term positions, arising on own production, against price risks and with the purpose of position trading.

In the 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. In this way, the Group financially fixes the revenue, indicating that the loss arising from the purchase of forward contracts is compensated with revenue from the physical quantity of the purchased/sold electricity or the 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 selling electricity of subsidiaries several years ahead, while the main objective of the strategy is to maximise profit and provide stable revenue from electricity sales.

In relation to this, the Group recorded at the year-end forward contracts in the amount of EUR 310,412,301. Related disclosures are provided in the section Capital.

CONCLUDED STANDARDISED FORWARD CONTRACTS

in EUR

	31.12.2020	31.12.2019
For electricity - trading - purpose of purchase	180,840,187	67,870,597
For electricity - trading - purpose of sale	129,572,114	90,042,732
Total	310,412,301	157,913,329

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 of generating revenue on the account of changes in the prices of electricity. The price exposure is reduced only in the 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 256,182,876 of open future contracts held for trading.

CONCLUDED STANDARDISED FORWARD CONTRACTS FOR TRADING

in EUR

	31.12.2020	31.12.2019
For electricity - trading - purpose of purchase	125,023,179	59,478,153
For electricity - trading - purpose of sale	131,159,697	40,947,957
Total	256,182,876	100,426,110

EMISSION COUPONS

The Group concluded forward contracts in 2020 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 2020, the Group recorded in this respect EUR 186,737,140 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

in EUR

	31.12.2020	31.12.2019
For emission coupons - trading - purpose of purchase	130,682,140	112,080,880
For emission coupons - trading - purpose of sale	56,055,000	6,142,860
Total	186,737,140	118,223,740

CAPITAL MANAGEMENT

in EUR

	31.12.2019	31.12.2018
Long-term financial liabilities	596,823,215	666,419,394
Long-term financial liabilities from leases	2,635,007	3,452,707
Short-term financial liabilities	70,537,774	65,935,349
Short-term financial liabilities from leases	1,187,489	1,748,662
Total financial liabilities	671,183,485	737,556,112
Capital	900,395,852	1,064,640,821
Financial liabilities/Capital	0.75	0.69
Cash and cash equivalents	78,473,024	42,517,598
Net financial liability	592,710,461	695,038,514
Net debt/Capital	0.66	0.65

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 maintaining 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 2020 was higher than in 2019 due to lower capital, resulting from asset impairment.

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

in EUR

	31.12.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**16,083,340**	**16,083,340**	**16,091,268**	**16,091,268**
Financial assets at fair value through other comprehensive income	16,083,340	16,083,340	16,091,268	16,091,268
Derivative financial assets at fair value	**0**	**0**	**47,597**	**47,597**
Derivatives (receivables)	0	0	47,597	47,597
Non-derivative financial assets at amortised cost	**305,272,643**	**305,272,643**	**246,128,689**	**246,128,689**
Financial receivables	12,335,467	12,335,467	12,643,952	12,643,952
Operating and other receivables	214,464,152	214,464,152	190,967,139	190,967,139
Cash and cash equivalents	78,473,024	78,473,024	42,517,598	42,517,598
Total	321,355,983	321,355,983	262,267,554	262,267,554
Non-derivative financial liabilities at amortised cost	**863,491,314**	**863,491,314**	**921,286,299**	**921,286,299**
Bank loans	666,325,878	666,325,878	732,273,956	732,273,956
Other financial liabilities	1,035,111	1,035,111	80,787	80,787
Operating and other liabilities	196,130,325	196,130,325	188,931,556	188,931,556
Total	863,491,314	863,491,314	921,286,299	921,286,299

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 the fair value.

in EUR

	31. 12. 2020				31. 12. 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Non-derivative financial assets at fair value	**35,519**	**0**	**16,047,821**	**16,083,340**	**39,427**	**0**	**16,051,841**	**16,091,268**
Financial assets at fair value through other comprehensive income	35,519	0	16,047,821	16,083,340	39,427	0	16,051,841	16,091,268
Derivative financial assets at fair value	**0**	**0**	**0**	**0**	**0**	**47,597**	**0**	**47,597**
Derivatives (receivables)	0	0	0	0	0	47,597	0	47,597
Non-derivative financial assets at amortised cost	**0**	**0**	**305,272,643**	**305,272,643**	**0**	**0**	**246,128,689**	**246,128,689**
Financial receivables	0	0	12,335,467	12,335,467	0	0	12,643,952	12,643,952
Operating and other receivables	0	0	214,464,152	214,464,152	0	0	190,967,139	190,967,139
Cash and cash equivalents	0	0	78,473,024	78,473,024	0	0	42,517,598	42,517,598
Total	**35,519**	**0**	**321,320,464**	**321,355,983**	**39,427**	**47,597**	**262,180,530**	**262,267,554**
Non-derivative financial liabilities at amortised cost	**0**	**0**	**863,491,314**	**863,491,314**	**0**	**0**	**921,286,299**	**921,286,299**
Bank loans	0	0	666,325,878	666,325,878	0	0	732,273,956	732,273,956
Other financial liabilities	0	0	1,035,111	1,035,111	0	0	80,787	80,787
Operating and other liabilities	0	0	196,130,325	196,130,325	0	0	188,931,556	188,931,556
Total	**0**	**0**	**863,491,314**	**863,491,314**	**0**	**0**	**921,286,299**	**921,286,299**

3.5.7 Events after the reporting 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 2020.

- On 15 March 2020, the Ministry of Infrastructure initiated public presentation and consideration of the National Strategy for Terminating the Use of Coal and the Restructuring of Coal Regions in accordance with the just transition principles and supplemented environmental report. An ambitious scenario for the exiting coal production has been proposed for the Savinjsko-Šaleška region (until 2033 at the latest). The coal mine in Velenje determines that the closure date is not of key importance, although the legislator must harmonise the optimisation of the excavation process and to the benefit of the local community, which procedures must be implemented until the year when the closure of the coal mine can be discussed, whereas closure works shall be conducted for at least 15 years. The public discussion will last until 15 April 2021.

  After the public discussion, the Ministry of Infrastructure shall review all comments and opinions and consider them in the renewal of the draft of the Environmental Report and Strategy and send them for approval to the Ministry of the Environment and Spatial Planning (MOP). After the MOP confirms the acceptability, the Strategy shall be submitted to the Government of the Republic of Slovenia for adoption with the aim of adopting it before the commencement of the presidency of the Republic of Slovenia to the EU Council.

  The regional plans for drawing funds from the Just Transition Fund are still in the preparation process. In the process, HSE Group actively cooperates with its project proposals, which are harmonised with the European Commission. The first tenders for the allocation of funds are expected in the first quarter of 2022.

- On 10 March, the companies HSE and TEŠ together with General Electric (GE) Group, which is the legal successor of Alstom, signed an out-of-court settlement in total value of EUR 261 million to the benefit of TEŠ. Thus, the claim with the International Chamber of Commerce for receiving damages from alleged illegal actions at construction of TEŠ 6 block was withdrew. TEŠ Company received EUR 131 million. The remaining value will be settled with an additional payment of EUR 7.7 million, the supply of a long-term maintenance and digitalisation service for TEŠ 6 block in the value of EUR 110 million and other savings and reimbursements of costs in the amount of EUR 12 million.

ACCOUNTING REPORT OF THE HSE COMPANY

By branching out our supply of services, we are striving to even higher goals.

4.1 Auditor's Report of the HSE Company

Deloitte.

Deloitte revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenia
VAT ID: SI62560085
Tel: +386 (0) 1 3072 800
Fax: +386 (0) 1 3072 900
www.deloitte.si

INDEPENDENT AUDITOR'S REPORT
to the 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 2020, 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 2020, 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 Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules 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.

MAKING AN IMPACT THAT MATTERS since 1845

Deloitte.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation in investments in subsidiaries

Key audit matter	How key audit matter was addressed
Investments in subsidiaries in the company's financial statements as at 31 December 2020 amount to EUR 867,450 thousand. In the year ended 31 December 2020, the company recognized EUR 314,250 thousand of expenses from impairment of investments in subsidiaries. As required by the accounting standard IAS 36 Impairment of Assets, management performs impairment tests annually to assess the recoverable amount of investments in subsidiaries. The recoverable amount of an investment is determined in accordance with IAS 36, value in use, which is estimated as the present value of the expected future cash flows to be generated by the subsidiary. Determining critical assumptions and planning expected cash flows requires a high degree of management judgment, and therefore testing the impairment of investments in subsidiaries is considered a key audit matter. In the note Investments in subsidiaries (4), the management provided additional information on impairments related to subsidiaries.	As part of the implementation of audit procedures, we assessed the adequacy of the company's accounting policies regarding impairments of investments in subsidiaries and their compliance with IFRS, and performed the following audit procedures: - We assessed whether the model used by management to calculate the value in use of individual investments meets the requirements of IAS 36 Impairment of Assets and IFRS 13 Fair Value, and whether the assumptions used are reasonable and can be supported given the current macroeconomic situation, and expected future performance; - assessment of the competencies, abilities and objectivity of the independent management expert and verification of the expert's qualifications. In addition, we discussed the scope of his work with management; - with the help of our internal experts, we assessed whether the methodology used by the management expert was appropriate and whether the significant assumptions used were appropriate for the given purpose; - an assessment of whether the recoverable amount is properly determined, including an assessment of the accuracy of management's past estimates, an assessment of the adequacy of the methodologies and assumptions used to determine and calculate the discount rate, a review of relevant company-generated data used in the calculations the results of the impairment test for changes in key parameters. We have also reviewed the information in the financial statements to assess whether the disclosures regarding the assessment of impairment are appropriate in accordance with the requirements of applicable financial reporting standards.

Deloitte.

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 audited 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.

Deloitte.

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.

We also provide those charged with governance with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Deloitte.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 9 August 2019. Our total uninterrupted engagement has lasted two years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 9 April 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Tina Kolenc Praznik, certified auditor.

DELOITTE REVIZIJA d.o.o.

Tina Kolenc Praznik
Certified auditor

For signature please refer to the original Slovenian version.

Ljubljana, 9 April 2021

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

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

4.2 Statement of Management's responsibility

The management is responsible for drawing up consolidated financial statements for each individual financial year according to the International Financial Reporting Standards (IFRS) adopted by the European Union and the Companies Act, so that they give a true and fair view of the HSE Group's operations.

The management legitimately expects the company to have enough resources in the foreseeable future to enable it to continue its operations. The financial statements are therefore based on the premise that the company will continue its operations without a set time limit.

The responsibility of the management in drawing up financial statements includes the following:

- Properly selected and consistently applied accounting policies,
- Reasonable and rational assessments and estimates.

The management is responsible for keeping corresponding records, which present a clear and accurate picture of the company's financial position at any given time, and for making sure that the financial statements of the company are in accordance with the IFRS, adopted by the European Union. The management is also responsible for protecting the company's assets, as well as discovering and preventing abuses and other irregularities.

The management declares that the financial statements have been compiled in accordance with the IFRS, without reservations about their application.

The financial accounts of Holding Slovenske elektrarne d.o.o. for the financial year that ended on 31 December 2020, were accepted by the management on 9 April 2021.

Ljubljana, 9 April 2021

4.3 Introductory explanatory notes to the 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.

Deloite revizija d.o.o. audited the financial statements with explanatory notes and prepared an independent auditor's report, which is presented at the beginning of the section.

4.4 Financial statements of the HSE Company

4.4.1 Statement of financial position of the HSE Company

in EUR

Item	Explanatory note	31.12.2020	31.12.2019
ASSETS		**1,246,755,842**	**1,418,699,514**
A. NON-CURRENT ASSETS		**996,450,614**	**1,187,486,164**
I. Intangible assets	1	70,968,441	40,826,749
II. Real property, plant and equipment	2	12,084,491	11,816,615
III. Right to use leased assets	3	1,811,219	1,122,914
V. Long-term financial investments in subsidiaries	4	867,450,462	985,825,813
VI. Other long-term financial investments and loans	5	42,024,442	146,759,633
VII. Long-term operating receivables	6	1,550,547	797,501
IX. Deferred tax receivables	7	561,012	336,939
B. CURRENT ASSETS		**250,305,228**	**231,213,350**
II. Inventories	8	724,119	0
III. Short-term financial investments and loans	9	331,315	4,288,633
IV. Short-term accounts receivables	10	170,650,607	156,432,704
V. Contract assets	11	2,603,167	3,042,090
VII. Other current assets	12	38,509,961	39,853,143
VIII. Cash and cash equivalents	13	37,486,059	27,596,780
EQUITY AND LIABILITIES		**1,246,755,842**	**1,418,699,514**
A. EQUITY	14	**779,976,245**	**984,344,305**
I. Called-up capital		29,558,789	29,558,789
II. Capital reserves		561,243,185	561,243,185
III. Reserves from profit		562,744,824	562,744,824
IV. Risk hedging reserve		43,209,380	20,452,278
V. Fair value reserves		–264,897	–74,525
VI. Retained profit/loss		–416,515,036	–189,580,246
B. NON-CURENT LIABILITIES		**194,003,861**	**213,876,626**
I. Retirement benefit obligations	15	1,637,433	1,195,929
II. Other provisions	16	483,927	334,875
III. Other long-term liabilities	17	215,475	324,006
IV. Long-term financial liabilities	18	190,348,485	211,151,515
V. Long-term financial liabilities from leases	19	1,318,541	861,258
VII. Deferred tax liabilities		0	9,043
C. SHORT-TERM LIABILITIES		**272,775,736**	**220,478,583**
II. Short-term financial liabilities	20	21,868,451	11,442,813
III. Short-term financial liabilities from leases	21	520,461	274,264
IV. Short-term operating liabilities	22	153,694,217	146,594,106
VI. Current tax liabilities		11,544,368	3,742,590
VII. Other short-term liabilities	23	85,148,239	58,424,810

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

4.4.2 Income statement of the HSE Company

in EUR

Item	Explanatory note	2020	2019
OPERATING REVENUE		**1,866,001,518**	**1,746,883,338**
1. Net sales revenues	25	1,860,698,020	1,740,154,682
2. Other operating income	26	5,303,498	6,728,656
OPERATING EXPENSES		**1,758,621,519**	**1,678,442,008**
3. Costs of goods, materials and services	27	1,742,868,326	1,664,392,762
4. Labour costs	28	12,913,742	11,412,626
5. Value write-offs	29	1,260,717	882,302
8. Other operating expenses	30	1,578,734	1,754,318
OPERATING PROFIT/LOSS		**107,379,999**	**68,441,330**
9. Financial revenue	31	4,650,139	15,235,001
10. Financial expenses	32	318,609,977	11,813,585
FINANCIAL OUTCOME		**-313,959,838**	**3,421,416**
PROFIT (LOSS) BEFORE TAX		**-206,579,839**	**71,862,746**
TAX	33	**20,363,086**	**11,745,030**
12. Tax		20,404,929	11,814,081
13. Deferred tax		-41,843	-69,051
NET PROFIT/LOSS FOR THE YEAR	34	**-226,942,925**	**60,117,716**
Owner of parent company		-226,942,925	60,117,716

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

4.4.3 Statement of other comprehensive income of the HSE Company

in EUR

Item	Explanatory note	2020	2019
Net profit/loss for the year	34	**-226,942,925**	**60,117,717**
Actuarial profits and losses of programmes with certain income of employees	15	-182,237	-22,483
Items that will subsequently not be included in the income statement		**-182,237**	**-22,483**
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows	14	23,572,530	-55,123,645
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows, retained in net profit/loss	14	-815,428	-16,433
Items that will subsequently be included in the income statement		**22,757,102**	**-55,140,078**
Total comprehensive income for the reporting period		**-204,368,060**	**4,955,155**

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

4.4.4 Cash flow statement of the HSE Company

in EUR

Item	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/loss	-226,942,925	60,117,717
Adjustments for:		
Amortisation of intangible assets	353,795	246,699
Amortisation of property, plant and equipment	388,133	351,809
Amortisation leases	518,515	280,706
Write-off of real property, plant and equipment	207	2,407
Operating receivables write-offs	0	660
Elimination of write-off/impairment of operating receivables	-524	-43
Loss from sale of real property, plant and equipment	67	20
Financial revenue	-4,650,139	-15,235,001
Financial expenses	318,609,977	11,813,586
Profit from sale of real property, plant and equipment	-5,199	-4,552
Taxes	20,363,086	11,745,030
Operating profit before changes in net short-term assets and taxes	**108,634,993**	**69,319,038**
Changes in net short-term assets and provisions		
Change in:		
Inventories	-724,119	2,594
Trade receivables and other assets	-13,188,834	-18,314,725
Operating liabilities to suppliers and other liabilities	57,396,071	-27,172,140
Received advance payments	-108,530	-161,744
Provisions	408,318	317,416
Profit tax paid	-12,603,151	-9,561,533
Cash from operations	**139,814,748**	**14,428,906**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interests received	676,745	929,490
Dividends received	172,934	10,170,209
Remuneration from other financing	1,341,632	882,228
Remuneration from sale of real property, plant and equipment	7,721	5,813
Remuneration from disposal of intangible assets	36,522,906	27,412,664
Remuneration from reduction of short-term loans given	2,629,500	32,235,500
Remuneration from reduction of long-term loans given	90,000	0
Expenses for purchase of real property, plant and equipment	-658,806	-254,166
Expenses for purchase of intangible assets	-67,018,393	-36,760,147
Expenses for leases	-1,206,820	-1,403,620
Expenses for purchase of subsidiaries	0	-32,076,763
Expenses for purchase of subsidiaries	-85,000,000	0
Expenses for increase of long-term loans given	-2,498,059	-46,685,500
Cash from investment	**-114,940,640**	**-45,544,292**

CONTINUES ON NEXT PAGE

in EUR

Item	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Leases	1,198,881	1,135,522
Remuneration from long-term loans received	0	180,000,000
Remuneration from short-term loans received	79,200,000	36,000,000
Expenses for loan interest	-3,951,859	-6,401,271
Expenses from other financial liabilities	-433,421	-5,387,395
Expenses for repayment of long-term loans	-11,303,030	-178,393,938
Expenses for repayment of short-term loans	-79,200,000	-36,000,000
Expenses for leases	-495,402	0
Cash from financing	**-14,984,831**	**-9,047,082**
INITIAL BALANCE OF CASH AND CASH EQUIVALENTS	**27,596,780**	**67,759,248**
Profit or loss for the period	**9,889,278**	**-40,162,468**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**37,486,059**	**27,596,780**

4.4.5 Statement of changes in equity for of the HSE Company

in EUR

	CALLED-UP CAPITAL		RESERVES FROM PROFIT			RETAINED PROFIT/LOSS		
Item	Share capital	Capital reserves	Other reserves from profit	Risk hedging reserve	Fair value reserves	Retained net earnings	Net profit/loss for the year	Total
Balance on 01/01/2019	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 comprehensive income	0	0	0	−55,140,078	−47,752	25,269	60,117,716	4,955,155
Entry of net profit for the reporting period							60,117,716	60,117,716
Items that will subsequently not be included in the income statement	0	0	0	0	−47,752	25,269	0	−22,483
Actuarial revenues and losses of programmes with defined employee benefit					−47,752	25,269		−22,483
Items that will subsequently be included in the income statement	0	0	0	−55,140,078	0	0	0	−55,140,078
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows				−55,123,645				−55,123,645
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows, retained in net profit/loss				−16,433				−16,433
B.3. Changes in equity	0	0	0	0	0	60,117,716	−60,117,716	0
Allocation of the remainder of net profit of the comparative reporting period to other components of capital						60,117,716	−60,117,716	0
Balance on 31 Dec 2019	29,558,789	561,243,185	562,744,824	20,452,278	−74,525	−189,580,246	0	984,344,305
Balance on 1 Jan 2020	29,558,789	561,243,185	562,744,824	20,452,278	−74,525	−189,580,246	1	984,344,306
B.2. Changes in comprehensive income	0	0	0	22,757,102	−190,372	8,135	−226,942,925	−204,368,060
Entry of net profit for the reporting period							−226,942,925	−226,942,925
Items that will subsequently not be included in the income statement	0	0	0	0	−190,372	8,135	0	−182,237
Actuarial revenues and losses of programmes with defined employee benefit					−190,372	8,135		−182,237
Items that will subsequently be included in the income statement	0	0	0	22,757,102	0	0	0	22,757,102
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows				23,572,530				23,572,530
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows, retained in net profit/loss				−815,428				−815,428
Balance on 31 Dec 2020	29,558,789	561,243,185	562,744,824	43,209,380	−264,897	−189,572,110	−226,942,925	779,976,244

4.5 Notes on the financial statements of the HSE Company

4.5.1 Reporting company

Holding Slovenske elektrarne d.o.o. (henceforth referred to as 'the Company') is registered in Slovenia, where it has its head office and is the parent company of the HSE Group. The registered address of the company is Koprska ulica 92, 1000 Ljubljana. The Company's main activity is electricity trading.

A business year of the Company equals a calendar year. Presented below are separate financial statements of the Company for the year ended on 31 December 2010.

4.5.2 Basis of preparation

A) STATEMENT ON CONFORMITY

In the preparation of the consolidated financial statements on 31 December 2020, 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 implementation the Corporate Income Tax Act and its implementing regulations,
- Rules on Corporate Accounting,
- other applicable laws.

B) ACCOUNTING ASSUMPTIONS AND QUALITATIVE FEATURES 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 that will generate cash in the future.

The financial statements of the Company were prepared by taking into consideration the assumption that the Company 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 financial statements have been taken into account:

- FAIR PRESENTATION AND COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS: the financial statements fairly represent the financial position, financial performance and cash flows of the Company.
- 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 that comprises similar items is presented separately in the 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 INFORMATION: 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 financial statements for the relevant period.
- AMENDMENTS OF IMPORTANT ACCOUNTING POLICIES: the same accounting bases, policies and valuation and recognition principles were observed while compiling the consolidated financial statements as for the year 2019.

C) BASIS FOR MEASUREMENT

The financial statements have been prepared based on historical cost, except for the following assets and liabilities, measured at their fair value or pay-off value.

D) FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements in this report are presented in euro (EUR) without cents; the euro is also the Company's functional currency. Due to the rounding off of value amounts, there may be insignificant deviations to the sums given in tables.

E) APPLICATION OF ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the Company's management to form certain estimates and assumptions that 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 a certain level of uncertainty, subsequent actual results can differ from assessments. Estimates are reviewed on an ongoing 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 included in the following judgements:
- Estimate of the useful life of assets subject to amortisation.

When assessing the useful life of assets, the Company takes into account expected physical exploitation, technical ageing, economic ageing and expected legal as well as 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 based on 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 based on 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 completeness 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 if the Company has a legal or indirect obligation as a result of a past event, which can be reliably measured, and if it is probable that settling the obligation will require an outflow of resources enabling economic benefits. 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 2020 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 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.
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 7 years (2024-2030 period), and with the latter to a period of 31 years (2024-2054 period). The reasons for using long-term projections for realising the testing of impairment include: the nature of the activity itself that 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.

4.5.3 Branches and the Representative office

The Company has a subsidiary in Czech Republic. It did not operate in 2020 because electricity trading was transferred to the parent company itself. The operations of the branch are included in the financial statements of the Company.

4.5.4 Significant accounting policies

The Company's financial statements were compiled based on accounting guidelines determined in continuation. The aforementioned accounting guidelines were used for both years, except if not determined otherwise. Where necessary, the comparable data have been adjusted to match the disclosures referring to the reporting period.

FOREIGN CURRENCY CONVERSION

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

Cash assets and liabilities denominated in foreign currency at the end of the period are translated into the functional currency at the then valid exchange rate.

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

Foreign exchange differences are acknowledged in the income statement at net principle.

INTANGIBLE ASSETS

Intangible assets are long-term assets and enable the implementation of the Company's activity, whereas they do not physically exist. An item of intangible assets comprises long-term property rights and emission coupons for the purposes of electricity production in the HSE Group. Emission coupons for trading are disclosed among inventories.

At the initial recognition an intangible asset is recognised at cost. The procurement value is composed of costs that may be directly attributed to the acquisition of the individual intangible asset. The company did not finance the purchases of intangible assets with loans, therefore, the procurement value does not include rental 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 calculated on a straight-line basis over the estimated useful life of each individual part (component) of the intangible asset. Amortisation is accounted at cost when the asset becomes available for use. Emission coupons are not amortised, since they are purchased for the individual periods in which they are used.

Amortisation and the useful lives of groups of intangible assets are examined at the end of each financial year and adapted, if needed. If their useful life is extended, the cost of amortisation in the current year is decreased. If the useful life period is shortened, amortisation costs increase. The adjustment of the useful life period has to be calculated in such a manner that the asset will be amortised in the new predicted useful life. The change of the useful life period 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.

EVALUATED USEFUL LIFE IN YEARS - INTANGIBLE ASSETS

	2020	2019
Software	2–20 years	2–20 years

Subsequent costs connected to intangible assets are capitalized only if they increase the future economic benefits derived from the assets to which the costs relate. All other costs are recognised in the income statement as expenses as soon as they are incurred.

REAL PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are long-term assets owned by the Company and used for the performance of its 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. The procurement value is composed of costs that may be directly attributed to the acquisition of the individual asset. Parts of plant and equipment with different useful lives are accounted for as separate items of property, plant and equipment. Borrowing costs, directly attributable to the purchase, construction or production of a qualifying asset, i.e. to the activation of an asset for use, are recognised as part of the cost of such an asset. The Company had no loans for the acquisition of fixed assets, so 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 on a straight-line basis over the estimated useful life of each individual part (component) of the property, plant and equipment.

Amortisation is accounted at procurement value when the property, plant and equipment becomes available for use. Property, plant and equipment in the process of construction are not amortised.

ESTIMATED USEFUL LIFE – REAL PROPERTY, PLANT AND EQUIPMENT

	2020	2019
Business premises	30–50 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	5 years
Cars	5 years	5 years
Other plant and equipment	3–10 years	3–10 years

Amortisation and the useful lives of groups of assets are examined at the end of each financial year and adapted, if needed. In the 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 period. The change of the useful life period is treated as a change of the accounting assessment and affects only the period in which the accounting assessment was changed and for each subsequent period in the remaining useful life.

The replacement costs for items of property, plant and equipment are assigned to the carrying amount of this item, if it is probable that the future economic benefits embodied with this asset will flow to the Company and the cost of the item can be measured reliably. All other costs (for example maintenance costs) are recognised in the income statement as expenses as soon as they are incurred.

Profits and losses, occurring at write-off or disposal of property, plant and equipment, are established as the difference between net sales value and book value of the written-off or disposed asset and are recorded among operating revenue or write-offs.

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 the following circumstances:

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

RIGHT TO USE LEASED ASSETS

The IFRS 16 standard replaces the IAS 17 – Leases and equalises the consideration of operating and financial leases with lessees. On the basis of lease contracts, the lessees record leased assets under fixed assets as assets from the right to use, i.e. in connection with liabilities from lease. Through amortisation, the value of leased assets is transferred under the costs and financing costs burden of financial expenses. This standard enables lessees two exceptions at recognition, i.e. in the case of leases of small value assets and short-term leases. The consideration of leases with the lessor does not differ from the consideration as per the IAS 17 standard.

The Company has reviewed and analysed concluded lease contracts with more than a one-year validity period. On the basis of lease costs and the duration of lease contracts, the Company has assessed the value of the right to use leased assets and liabilities from the lease, and recorded them as at 1 January 2019 in the financial position statement for a five-year period. For indefinite time contracts with the right to contract termination, the management estimates in accordance with item 18 of IFRS 16 that the lease termination will not happen for at least five years, while the evaluations of longer lease cannot be made with certainty. Therefore, the indefinite time contracts are determined for a duration of five years.

The Company used an exception with regard to recognise the right of usage for vehicles under short-term lease to 1 year in accordance with Item 5 of IFRS 16.

Interest rates, adopted at the conclusion of leases, have not been disclosed in contracts. Item 26 of standard IFRS refers the lessee to use the assumed interest rate, i.e. the interest rate for borrowing, which HSE would pay if the asset was bought and the purchase would be indebted. HSE has no such interest rates, since it arises from the analysis of financing sources that the existing sources were used to finance current equity.

If the lessee cannot acquire data about the borrowing interest rate from the financial institution, the lessee uses the average interest rate of concluded loan contracts with non-finance companies at credit institutions in the month of the lease, which are published by the Bank of Slovenia in its Journal.

On the commencement date, the Company recognises the right to use the assets and liabilities from the lease, which are estimated based on discounting future cash flows for the lease duration. With leases, the Company used an interest rate calculated as the average of interest rates for 2018, published in the Bank of Slovenia Journal, i.e. For maturity from 1 to 5 years, separated for amounts to EUR 1 million and for amounts higher than EUR 1 million. The calculated average interest rate for amounts to EUR 1 million is 2.69% and for amounts higher than EUR 1 million 1.96%.

LONG-TERM FINANCIAL 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. Investments in subsidiaries are accounted 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 that 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 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.

LONG-TERM INVESTMENTS IN AFFILIATED AND JOINTLY-CONTROLLED COMPANIES

Investments in associate companies are those in which the Company has a significant influence, its share in these companies ranges between 20% and 50%.

Investments in jointly-controlled companies are those in which the Company, together with other owners, jointly controls the operations of these companies on the basis of the contractually agreed sharing 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, loans and receivables and 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 Company eliminates the recognition of a financial asset when contractual rights of the cash flows from the asset expire or when the rights of contractual cash flows are transferred from a financial asset on the basis of a business transaction in which all risks and benefits of ownership of the financial asset are transferred.

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

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

The classification depends on the business model selected for asset management and whether the Company acquires contractual cash flows from financial instruments exclusively from the principal payments and interest on the outstanding principal amount. Apart from operating receivables that do not contain significant components of financing, the Company measures the financial asset during its initial recognition at fair value, which is increased by the cost of transaction. Operating receivables that do not contain significant components of financing are measured at the transaction price, determined in accordance with IFRS 15.

A) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank deposits of up to three months, and other current investments, as well as highly liquid 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 Bank of Slovenia, 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) AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

Financial assets recognised at the fair value through other comprehensive income, which have the nature of an equity instrument, are these 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 the fair value through other comprehensive income and that are not held for trading. The classification is stipulated by an individual financial instrument.

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

D) FINANCIAL LOANS AT THE AMORTISED VALUE

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

FINANCIAL LIABILITIES

The Company's financial liabilities include loans received and liabilities to suppliers. They are, upon initial recognition, classified as financial liabilities at the fair value through profit or loss, loans received or operating liabilities. All other financial liabilities are initially recognised 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 a fair value. Loans received are measured at the amortised 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 contractual obligations are fulfilled, annulled or expired.

DERIVATIVES

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

Within the hedging framework, the Group concluded currency exchanges as well as standardised future 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 the change in goods prices, foreign exchange rates or the purchase of electricity and emission coupons in the following years.

Following the initial recognition, the derivative financial instruments are measured at the fair value, whilst the pertaining changes are treated differently with regard to whether or not the derivative financial instruments fulfil the conditions for hedge accounting.

When a derivative is defined as hedging in the 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 to 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 Company'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.

IMPAIRMENT OF ASSETS

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 to be impaired if objective evidence exists indicating that one or more events have caused a decrease in the estimated future cash flows from this asset, which can be reliably measured.

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 owed to the company by others and disappearance of active market for such an instrument.

Impairment of Receivables and Loans Issued

If it is assessed that the carrying amount of the receivables exceeds the fair value, i.e. the recoverable value, receivables are considered to be impaired.

Final write-offs of receivables require appropriate documents: final compulsory settlement decisions, bankruptcy proceedings decisions, court decisions or other appropriate documents.

The impairment assessment is based on the expected credit losses associated with the probability of defaults on loans and receivables in the following 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 (LECL). 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 following 12 months. For 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 period of the exposure, regardless of the default period.

Doubtful receivables from others are those that are not settled within 180 days after their due date.

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

- the legal collection procedure began in court,
- the decision on commencing the enforced settlement, liquidation or bankruptcy is published.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. The Company creates groups of receivables on the basis of the maturity of receivables. In the evaluation of total impairment we use past trends in the probability of non-fulfilment, the reimbursement period and the amount of incurred loss, which is revised for the Board of Directors' evaluation as to whether the actual losses due to current economic and credit conditions could be higher or lower than the losses foreseen in past trends.

If all acts with the care of a good manager have been performed in order to achieve the repayment of a particular outstanding claim, or if the amount of the claim for the Company would be uneconomical for the court to be recovered, the claim will be terminated in full on the basis of the management's decision.

The Company assesses the evidence of impairment for each important loan individually.

An impairment loss related to a financial asset stated at amortised cost is measured as the difference between its carrying amount and the expected future cash flows, discounted at an originally effective interest rate. Loss is recognised in the income statement among operating costs.

NON-FINANCIAL ASSETS

At each reporting date, the company review the carrying value of its important non-financial assets to determine whether there is an indication of impairments. If any such indication exists, the asset's recoverable value is estimated.

The recoverable value of an asset or cash-generating unit is the greater of their value in use or the fair value, less the cost to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of cash and the risks specific to the asset. In order to test the impairment, the assets that cannot be tested individually are joined into the smallest possible group of assets, which create cash flows from further use and that are largely independent of the inflow of other assets or groups of assets (cash-generating unit).

The impairment of an asset or cash-generating unit is recognised if their carrying amount exceeds their recoverable value. Loss is recognised in the income statement among operating costs.

The Company evaluates the impairment losses of previous periods at the end of the reporting period and thus determines whether the loss was reduced or even eliminated. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable value. An impairment loss is reversed only to such extent that the asset's carrying amount does not exceed the carrying amount that would have been determined after deducting the depreciation write-off, if no impairment loss had been recognised for the asset in previous years.

Impairment losses that occurred in previous years are not eliminated in case of investments in subsidiaries, associates and jointly-controlled entities.

CAPITAL

The equity of the company is its liability to its owners, which becomes due if the company discontinues its operations, in which the capital volume is adjusted according to the currently attainable price of the total assets. It is defined by the amounts invested by the owners and the amounts that appeared during operation and belong to the owners. It is decreased by the loss from operations and payments to owners and increased by the profit generated in the period.

Share capital and capital reserves include the cash and non-cash contributions of the owner.

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 the capital surplus. This amount can only be used for the increase of the share capital.

Other reserves are purposely retained earnings from the previous years. They are designed based on a decision by 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 the case of exposure to cash flow fluctuations.

The fair value reserve includes actual gains or losses related to provisions for post-employment and other long-term employee benefits (severance payments upon retirement).

Net profit or loss includes undistributed profit or loss from the current year.

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

In accordance with the legislation, the Collective Agreement and internal regulations, the company is obliged to make payments arising from loyalty bonuses and severance pay upon retirement for which non-current provisions are formed. There are no other retirements benefits.

The provisions are formed in the amount of estimated future payments for loyalty bonuses and severance pay, discounted at the end of the financial year. The calculation is made for individual employees and includes the costs of severance pay upon retirement and the costs of all expected loyalty bonuses up to retirement. The calculation is prepared by an actuary based on a projected unit. Severance payments upon retirement and jubilee bonuses in the current year 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 Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

OTHER PROVISIONS

Provisions are recognised if the Company has a legal or indirect liability as a result of a past event, which can be reliably measured, and if it is probable that settling the obligation will require an outflow of resources enabling economic benefits.

The provision value equals the present value of expenditure that will be needed to settle a liability. Since provisions are intended for covering probable although not final liabilities, the amount recognised as a provision is the best assessment of expenditure required for settling a liability on the date of the statement of the financial position. For achieving the highest provision assessment risks and uncertainties that unavoidably accompany events and circumstances are considered.

Provisions are directly decreased by the amounts of the costs or expenses they are intended to cover. This means that costs or expenses are no longer included in the income statement in the operating year.

If such liabilities do not incur, the amount of the formed provisions is eliminated and shown among other operating revenue.

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 are amounts that do not affect income when they occur.

With the introduction of IFRS 15, non-accrued revenue is no longer part of other assets, although non-accrued income from sales contracts with customers is recognised 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 occur in the future and already have an impact on the Company's profit or loss.

With the introduction of IFRS 15, deferred revenue is no longer part of other liabilities, although deferred revenue from sales contracts with customers is recognised under Contract assets.

CONTINGENT LIABILITIES

Contingent liabilities are:

- 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 include the guarantees granted and parent guarantees.

REVENUE

In accordance with IFRS 15, the Company uses a five-level determination model that indicates when to recognise revenue and to what amount. The model determines that revenue is recognised at the transfer of goods or services management transfer to the buyer in the amount that is still justified. Considering the fulfilled criteria, the revenue is recognised:

- at the given moment or
- for a period.

The Company recognises revenue from contracts with buyers based on contracts, thus the management of goods and services is transferred to the buyer in the amount that reflects the compensation, to which the Company is entitled. Any promised service or supply of goods is considered as an independent commitment if it is different. It is different when the buyer has benefits from the performed service or supplied goods. The execution commitment is the commitment to provide a service or goods to the buyer.

Revenue is recognised when the Company fulfils its execution commitment, i.e. when the management of the service and goods is transferred to the buyer. Management means that the buyer can focus the use of an asset and receives all benefits from the asset, thus preventing others from applying and receiving the benefits from the asset.

Discounts, approved at conclusion of the contract, are distributed to all execution commitments and deferred during the duration of the contract. All subsequently approved discounts are recognised in the period for which they are approved and reduce revenue.

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. This part also includes the sale of emission coupons arising from trading.

If the Company has more positive than negative operating of 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.

Accrued revenue is considered in profit and loss, although it has not been charged as yet. In compliance with IFRS 15, they are recognised 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.

The deferred income is presented in accordance with IFRS 15 as a contract liability and is recognised 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 the sale of fixed assets, received compensations and contractual penalties and similar revenue.

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

Financial revenue comprises income from shares in investments (dividends), interest on deposits and loans granted, 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 decreases in economic benefits during the accounting period are associated with a decrease in assets or an increase in liabilities (debts) and if the respective change can be measured reliably.

Operating expenses are recognised once the merchandise has been sold.

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 that the Company 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 the materials purchased, namely costs of protection equipment, small tools, whose useful life does period not exceed one year, energy products, office material, technical literature and other materials.

The cost of materials for the original cost of purchased services, namely services for maintenance of computer programmes, 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 the consistent transfer of value of amortisable intangible assets and amortisable property, plant and equipment to the Company'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, 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 the 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 an agreed-upon interest rate. Interest revenue is recognised upon its occurrence, in the amount of an agreed-upon interest rate.

TAXATION

Taxes comprise current income tax liabilities and deferred tax. Tax is then disclosed in the income statement. Deferred tax in recognised in the income statement and in the statement of the financial position.

Tax liabilities are based on the taxable profit for the financial year. The taxable profit defers from the 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 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 shown in total by applying the method of obligations after the statement of financial position for temporary differences, arising from tax values of assets and liabilities and their carrying amounts in financial statements. Deferred tax is determined using tax rate applicable as at the statement of financial position date, and which is expected to be used when the deferred tax assets are realised or the deferred tax liability is settled.

A deferred tax asset is recognised if there is a possibility that a taxable profit will be available in 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 2020 the applicable tax rate for corporate income tax amounted to 19%, based on the currently applicable tax legislation.

CASH FLOW STATEMENT

The cash flow statement shows changes in balances of cash and cash equivalents for the financial year concerned. The cash flow statement is prepared by using the indirect method and data from the consolidated statement of the financial position, the consolidated income statement pursuant to International Financial Reporting Standards (IFRS).

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

SEGMENT REPORTING

In the Annual Report, the company does not disclose operations by segments. Segment reporting in the Annual Report is required for the Company whose debt or equity securities are publicly traded, and companies that are in the process of issuing equity or debt securities on a public securities market

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:

- **Amendments to IAS 1 – Presentation of Financial Statements, and IAS 8 – Accounting policies, changes in accounting estimates and errors** – Amendments adopted by the EU on 29 November 2019
(applies for annual periods starting on 1 January 2020 or later),
- **Amendments to IFRS 3 –Business combinations** – Definition of a business entity, adopted by the EU on 21 April 2020
(applies to business mergers, where the date of takeover is the same as the date of the start of the first annual reporting period that starts on 1 January 2020 or later; and acquisitions of assets if they occur at the beginning of the period or after it),
- **Amendments to IFRS 9 – Financial instruments, IAS 39 – Financial instruments: recognition and measurement, and IFRS 7 – Financial instruments: disclosures** – Reference interest rate reform, adopted by the EU on 15 January 2020
(applies for annual periods that start on 1 January 2020 or later),
- **Amendments to IFRS 16 – Leases** – adopted by the EU on 9 October 2020
(apply for annual periods as of 1 June 2020 or subsequently, and for business years that start on 1 January 2020 or subsequently),
- **Amendments of references to the conceptual framework of the IFRS,** adopted by the EU on 29 November 2019
(applies to annual periods beginning on or after 1 January 2010).

The adoption of new standards, amendments to standards or explanatory notes has not led to significant changes in consolidated financial statements.

STANDARDS AND INTERPRETATIONS ISSUED BY THE IASB AND ADOPTED BY THE EU, ALTHOUGH NOT YET EFFECTIVE

When these financial statements were approved, the International Accounting Standards Committee (IASC) issued the amendments to IFRS 4 – Insurance Contracts – temporary exemption from the requirements of the IFRS 9, adopted by the EU on 16 December 2020, which have not entered into force (the date of termination of temporary exemption validity was extended to annual periods that start on 1 January 2023 or later).

NEW STANDARDS AND CHANGES TO THE 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 2020 (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 17 Insurance contracts** including amendments to IFRS 17
(valid for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 – Presentation of financial statements** – Categorisation of liabilities into short- and long-term
(apply for annual periods that start on 1 January 2023 or later),
- **Amendments to IAS 16 – Tangible Fixed Assets** – Profits before intended use
(apply to annual periods that start on 1 January 2022 or later),
- **Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets** – Onerous contracts – Costs of contract fulfilment
(applies to annual periods that start on 1 January 2022 or later),
- **Amendments to IFRS 3 – Business combinations** – Referrals to the conceptual framework with IFRS 3 amendments
(in effect for periods beginning on or after 1 January 2022 or after it)
- **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 9 – Financial instruments and IAS 39 – Financial instruments: recognition and measurement, IFRS 7 – Financial instruments: disclosures, IFRS 4 – insurance contracts and IFRS 16 – Leases** – Reference interest rate reform – Phase 2
(applies to yearly periods that start on 1 January 2021 or after it),
- **Amendments to various standards due to ifrs improvement (2018–2020 cycle),** which arise from the annual project for IFRS improvement (IFRS 1, IFRS 9, IFRS 16 and IAS 41), especially with the purpose of eliminating non-conformities and text explanation
(Amendments to IFRS 1, IFRS 9 and IAS 41 apply to those annual periods that start on 1 January 2022 or later. Amendment to IFRS 16 refers only to an example, therefore the date of the start of validity has not been determined as yet.)

The Company foresees that the introduction of these new standards and changes to the 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 the method for the calculation of risks connected to financial assets and liabilities in accordance with IAS 39 – Financial Instruments: Recognition and Measurement, would not significantly impact the consolidated financial statements if it was used on the balance sheet date.

4.5.5 Fair value definition

With reference to disclosing the fair values of non-financial and financial assets and liabilities, the determination of the fair value is required either for measuring individual assets or due to additional fair value disclosures. The fair value is the amount for which an asset can be exchanged or the liability can be settled between two well-informed and willing parties in a remote business transaction.

For determining the fair value of financial instruments the following hierarchy levels of determining the fair value are considered:

- the first level includes quoted prices (unadjusted) on active markets for the same assets or liabilities,
- the 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,
- the third level includes input data for assets or liabilities that are not based on the observable market data.

Quoted prices are used as a basis for determining the fair value of financial instruments. If a financial instrument is not quoted on the organised market or the market is deemed non-active, input data at the second or third level are used to assess the fair value of the financial instrument.

In order to determine the fair value of interest and currency exchanges, we use information submitted to the Company by the bank where an individual exchange 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 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 4.5.7.5 Financial instruments and risk management), namely:

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

4.5.7 Notes on financial statements

4.5.7.1 Statement of financial position

INTANGIBLE ASSETS (1)

in EUR

	31.12.2020	31.12.2019
Emission coupons	68,420,365	38,239,693
Other long-term property rights	2,548,076	2,587,056
Total	**70,968,441**	**40,826,749**

The Company posts emission coupons among intangible assets for the purpose of covering the needs of its own electricity generation in subsidiaries of the HSE Group and software.

MOVEMENT OF INTANGIBLE ASSETS

in EUR

	Emission coupons	Other long-term property rights	Total
Purchase cost 1 Jan 2020	**38,239,693**	**7,332,562**	**45,572,255**
Acquisition	64,752,773	2,265,620	**67,018,393**
Disposals-write-offs, sales	−34,572,100	−1,950,806	**−36,522,906**
Purchase cost 31 Dec 2020	**68,420,366**	**7,647,376**	**76,067,742**
Write-off value 1 Jan 2020	**0**	**4,745,506**	**4,745,506**
Depreciation	0	353,795	**353,795**
Write-off value 31 Dec 2020	**0**	**5,099,301**	**5,099,301**
Book value 1 Jan 2020	**38,239,693**	**2,587,056**	**40,826,749**
Book value 31 Dec 2020	**68,420,366**	**2,548,075**	**70,968,441**

in EUR

	Emission coupons	Other long-term property rights	Total
Purchase cost 1 Jan 2019	**29,537,397**	**6,986,011**	**36,523,408**
Acquisition	36,686,730	73,417	**36,760,147**
Disposals-write-offs, sales	-27,984,435	273,135	**-27,711,300**
Purchase cost 31 Dec 2019	**38,239,693**	**7,332,562**	**45,572,255**
Write-off value 1 Jan 2019	**0**	**4,797,443**	**4,797,443**
Disposals-write-offs, sales	0	-298,636	**-298,636**
Depreciation	0	246,699	**246,699**
Write-off value 31 Dec 2019	**0**	**4,745,506**	**4,745,506**
Book value 1 Jan 2019	**29,537,397**	**2,188,568**	**31,725,965**
Book value 31 Dec 2019	**38,239,693**	**2,587,056**	**40,826,749**

The Company also posts emission coupons for the purposes of its own electricity generation in subsidiary TEŠ 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 following year, thus the sale and transfer of coupons to the companies TEŠ and HSE EDT is carried out in the following period. All effects from the sale are already included in the Company's profit or loss of the current year.

At the beginning of 2020, the Company had 3,911,421 emission coupons in order to satisfy the needs of its own electricity production subsidiaries. For this purpose, in 2020 the Company bought 4,017,000 and sold 4,122,074 coupons, the stock as at 31 December 2020 is 3,806,347 coupons. The sale of emission coupons to subsidiaries indicates profit for the Company in 2020 in the amount of EUR 368,135. In 2020 the Company sold a surplus of 350,000 coupons, and the profit was recorded under revenue from coupon trading.

An important value of long-term property rights includes SAP software and the eDMS documentation system.

Increase in intangible assets includes in 2020 the upgrade of the software in the Control Centre, Open link and other software.

The useful lives of more important software were reviewed in 2020. Useful life periods remain unchanged. As at 31 December 2020, the Company had EUR 46,155 commitments for website renewal software.

No pledges, financial leases or other ownership-related limitations referring to intangible assets exist.

PROPERTY, PLANT AND EQUIPMENT (2)

in EUR

	31.12.2020	31.12.2019
Land	36,311	0
Buildings	1,237,839	1,208,220
Production equipment	76,206	81,286
Other equipment	965,014	705,572
Real property, plant and equipment	9,769,121	9,821,536
Total	12,084,491	11,816,614

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 REAL PROPERTY, PLANT AND EQUIPMENT

in EUR

	Land	Buildings	Production equipment	Other equipment	Real property, plant and equipment	Total
Purchase cost 1 Jan 2020	0	1,752,137	127,009	3,012,433	9,821,536	14,713,115
Acquisition					658,806	658,806
Disposals				-59,825		-59,825
Transfers from investments	36,311	65,331		609,580	-711,222	0
Write-offs				-59,835		-59,835
Purchase cost 31 Dec 2020	36,311	1,817,468	127,009	3,502,353	9,769,120	15,252,261
Write-off value 1 Jan 2020		543,917	45,723	2,306,861		2,896,501
Disposals				-57,236		-57,236
Depreciation		35,712	5,080	347,342		388,134
Write-offs				-59,628		-59,628
Write-off value 31 Dec 2020	0	579,629	50,803	2,537,339	0	3,167,771
Book value 1 Jan 2020	0	1,208,220	81,286	705,572	9,821,536	11,816,614
Book value 31 Dec 2020	36,311	1,237,839	76,206	965,014	9,769,120	12,084,490

in EUR

	Land	Buildings	Production equipment	Other equipment	Real property, plant and equipment	Total
Purchase cost 1 Jan 2019	0	1,733,285	127,009	4,903,552	9,734,192	16,498,038
Acquisition					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 Dec 2019	0	1,752,137	127,009	3,012,433	9,821,536	14,713,115
Write-off value 1 Jan 2019		508,692	40,642	4,030,758		4,580,092
Disposals				-40,800		-40,800
Depreciation		35,225	5,081	311,504		351,810
Write-offs				-1,994,601		-1,994,601
Write-off value 31 Dec 2019	0	543,917	45,723	2,306,861	0	2,896,501
Book value 1 Jan 2019	0	1,224,593	86,367	872,794	9,734,192	11,917,946
Book value 31 Dec 2019	0	1,208,220	81,286	705,572	9,821,536	11,816,614

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 2020 the investment in hydro power plants on the Middle Sava River has not changed. In October, the Company signed a concession agreement and started harmonising all necessary procedures from the aspect of planning, permitting, administrative procedures and project management. 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. The above mentioned facts confirm that despite the delay, the investment is not endangered. Circumstances that would indicate signs of impairment signs did not occur in 2020.

A new investment was made in 2020 in the Prapretno Solar Power Plant in the amount of EUR 35,774.

In 2020 the useful lives of significant equipment were reviewed and it was established that the useful lives remain unchanged.

The Company has no registered mortgages for real property, plant or equipment. As at 31 December 2020 the Company had EUR 135,760 commitments for acquiring buildings and other equipment.

There was no impairment of devices or equipment in 2020 due to the fact that the useful life of important equipment is not longer than five years. The Company checked impairments in investments in business premises and compared market values at the end of 2020 with the book value. The Company found no significant differences between the book and market values that would indicate the need for verifying the reasons for impairment.

No pledges, finance leases or other ownership-related limitations referring to property, plant and equipment exist.

RIGHT TO USE LEASED ASSETS (3)

in EUR

	Buildings	Total
Purchase cost 1 Jan 2020	**1,403,620**	**1,403,620**
Acquisition	1,177,789	**1,177,789**
Purchase cost 31 Dec 2020	**2,581,409**	**2,581,409**
Write-off value 1 Jan 2020	**280,706**	**280,706**
Acquisition	-29,031	**-29,031**
Depreciation	518,515	**518,515**
Write-off value 31 Dec 2020	**770,190**	**770,190**
Book value 1 Jan 2020	**1,122,914**	**1,122,914**
Book value 31 Dec 2020	**1,811,219**	**1,811,219**

in EUR

	Buildings	Total
Purchase cost 1 Jan 2019	**0**	**0**
Acquisition	1,403,620	**1,403,620**
Purchase cost 31 Dec 2019	**1,403,620**	**1,403,620**
Write-off value 1 Jan 2019	**0**	**0**
Depreciation	280,706	**280,706**
Write-off value 31 Dec 2019	**280,706**	**280,706**
Book value 1 Jan 2019	**0**	**0**
Book value 31 Dec 2019	**1,122,914**	**1,122,914**

INVESTMENTS IN SUBSIDIARIES (4)

LONG-TERM FINANCIAL INVESTMENTS IN SUBSIDIARIES

in EUR

	31.12.2020	31.12.2019
DEM	387,058,979	387,058,979
SENG	152,692,250	152,692,249
TEŠ	239,028,797	399,314,819
HSE EDT	2,153,668	2,153,668
PV	84,900,000	42,989,329
HSE Invest	160,000	160,000
SRESA	60,000	60,000
HSE Balkan Energy	856,000	856,001
HSE MAK Energy	26,778	26,778
HSE BH	513,990	513,990
Total	**867,450,462**	**985,825,813**

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	Title	Country	Activity	% of ownership	% of voting rights
DEM	Obrežna ulica 170, 2000 Maribor	Slovenia	Electricity production at hydro power plants	100	100
SENG	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Electricity production at hydro power plants	100	100
TEŠ	Cesta Lole Ribarja 18, 3325 Šoštanj	Slovenia	Electricity production at thermal power plants	100	100
PV	Partizanska 78, 3320 Velenje	Slovenia	Acquisition of brown coal and lignite	100	100
HSE EDT	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production at thermal power plants	100	100
HSE Balkan Energy	Bulevar Mihaila Pupina 117, Beograd	Serbia	Electricity trading	100	100
HSE MAK Energy	Belasica no. 2, 1000 Skopje	Macedonia	Electricity trading	100	100
HSE BH	Ul. Alije Isakovića br.1, Sarajevo	Bosnia and Herzegovina	Electricity trading	100	100
***ELPROM**	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Electricity production at hydro power plants	100	100
***HTZ I.P.**	Partizanska 78, 3320 Velenje	Slovenia	Repairs of machinery and devices	100	100
***SIPOTEH**	Partizanska cesta 78, 3320 Velenje	Slovenia	Production of metal constructions	100	100
***RGP**	Rudarska cesta 6,3320 Velenje	Slovenia	Specialised construction works	100	100
***sHPP Lobnica**	Obrežna ulica 170, Maribor	Slovenia	Electricity production at hydro power plants	65	65
***PLP**	Partizanska cesta 78, 3320 Velenje	Slovenia	Wood cutting, shaving and impregnation	100	100
SRESA	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production at hydro power plants	60	60
HSE Invest	Obrežna ulica 170 a, 2000 Maribor	Slovenia	Other technical engineering and consulting	50	50

* In these companies, HSE has indirect ownerhsip.

SIGNIFICANT AMOUNTS FROM STATEMENTS OF SUBSIDIARIES

in EUR

	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
TEŠ	787,421,645	553,778,804	239,223,519	-280,428,143	233,642,841
PV	153,611,813	82,109,449	109,436,286	-9,664,140	71,502,364
DEM	465,403,548	15,547,831	69,390,756	10,047,014	449,855,717
HSE BH	9,849,387	8,556,908	48,310,132	259,959	1,292,479
SENG	225,491,066	16,934,235	39,381,481	4,863,650	208,556,831
HTZ	14,009,007	13,255,728	33,035,315	-525,601	753,279
HSE MAK Energy	2,756,349	2,017,552	64,797,177	398,914	738,797
RGP	12,639,460	8,802,779	27,440,271	923,138	3,836,681
HSE Invest	2,158,678	1,566,608	4,724,645	227,983	592,070
PLP	1,537,038	589,762	2,773,646	132,619	947,276
SIPOTEH	2,093,598	881,048	3,163,106	490,507	1,212,550
HSE Balkan Energy	957,151	20,636	312,339	10,850	936,515
HSE EDT	3,122,330	1,702,129	693,435	-45,717	1,420,201
sHPP Lobnica	619,531	2,857	27,104	1,749	616,674
SRESA	52,140	11	0	-5,653	52,129
ELPROM	51,198	20	0	-249	51,178
Total	1,681,773,939	705,766,357	642,709,212	-273,313,119	976,007,582

CHANGES OF LONG-TERM FINANCIAL INVESTMENTS IN SUBSIDIARIES

in EUR

	2020	2019
Increase in capital in TEŠ	149,649,797	31,996,818
Increase in capital in PV	46,225,000	0
Purchase of share in HSE Invest	0	80,000
Impairment of investment in TEŠ	-309,935,818	0
Impairment of investment in PV	-4,314,329	0
Liquidation of investment in HSE Adria - in liquidation	0	-102,553
Total	-118,375,350	31,974,265

MOVEMENT OF LONG-TERM FINANCIAL INVESTMENTS IN SUBSIDIARIES

in EUR

v EUR	2020	2019
Purchase value 1 Jan	1,716,447,025	1,684,472,759
Increase in capital in TEŠ	149,649,797	32,076,819
Increase in capital in PV	46,225,000	0
Liquidation of HSE Adria	0	-102,553
Purchase value 31 Dec	1,912,321,822	1,716,447,025
Written-off value 1 Jan	-730,621,212	-730,621,212
Impairment of investment in TEŠ	-309,935,818	0
Impairment of investment in PV	-4,314,329	0
Written-off value 31 Dec	-1,044,871,359	-730,621,212
Book value 1 Jan	985,825,813	953,851,547
Book value 31 Dec	867,450,463	985,825,813

The capital in TEŠ Company was increased by EUR 149,649,797, and in PV Company, the capital was increased in the amount of EUR 46,225,000. This refers to the financial receivables conversion that the Company held to TEŠ and PV companies. The increase in capital was made based on the PIT test that was carried out by an external company.

None of the subsidiaries or comparable companies are listed on the stock exchange, therefore, the reasons for a potential impairment were not applicable based on market prices. Potential reasons for impairment based on company operating results were verified along with the comparison of differences between the book value of the long-term financial investment of the company with the proportional part of the book value of total capital of subsidiaries. The tests of long-term financial assets impairments were carried out by authorised company valuers for companies that operated with a negative result or where it was found that the book value of a long-term financial investment is higher than the proportional part of the book value of total capital. Book values of total capital of subsidiaries are in all subsidiaries and after the impairment of TEŠ and PV investment higher or the same as the book value of the long-term financial investment in an individual company. For TEŠ and PV Group companies, authorised values of companies tested the impairment of long-term financial assets and also carried out the impairments of TEŠ and PV.

On 30 September 2020, the Company impaired a long-term financial investment in the TEŠ company from financial expenses in the amount of EUR 309,935,818, and in the PV company in the amount of EUR 4,314,329.

The table below shows the considered assumptions at impairment tests and the results of impairment tests:

LONG-TERM FINANCIAL INVESTMENTS AT ŠOŠTANJ THERMAL POWER PLANT

2020	2019
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 September 2020	30 September 2019
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 7.02% adjusted to the real level of 5.02%, which was taken into account throughout the period 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.
Stock exchange prices for electricity forward contracts on HUPX for the period 2021 - 2023, with an initial price of 48.88 EUR/MWh and a price change over the period of 7.3%.	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 CO_2 forward contracts on EEX for the period 2021 - 2023, with an initial price of 29.02 EUR/t and a price change over the period of 3.76%.	Stock exchange prices for CO_2 forward contracts 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%.
Long-term forecasts of trends in market prices for electricity (AFRY Management Consulting Austria GmbH) for the period 2024 - 2028, with an initial price of 54.83 EUR/MWh and and a price change over the period of 11.65%, and long-term forecasts of trends in market prices for the period 2029 - 2054, with an initial price of 63.55 EUR/MWh and and a price change over the period of 20.46%.	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 and a price change over the period of 19.65%.
Long-term forecasts of trends in market prices of CO_2 emission coupons (AFRY Management Consulting Austria GmbH) for the period 2024 - 2028, with an initial price of 20.64 EUR/MWh and and a price change over the period of 24.56%. As of 2029 the ratio between electricity and CO_2 emission coupons prices remains at the 32-35% level.	Long-term forecasts of trends in market prices of CO_2 emission coupons (Poyry Management Consulting) for the period 2023 - 2030, with an initial price of 19 EUR/MWh and and a price change over the period of 15.79%. As of 2031 the ratio between electricity and CO_2 emission coupons prices remains at the 33% level.
Average annual production of electricity from coal-fired power plants of 3.9 TWh over the period 2021 - 2030, 2.8 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 2020 - 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 11,295,000 in 2021 up to EUR 12,127,000 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 23,668,000 in 2020 up to EUR 44,090,000 in 2054.
CAPEX over the projection period of EUR 214,207,000.	CAPEX over the projection period of EUR 164,768,000.
Results of impairment testing carried out	
The book value of financial investment before the impairment testing amounts to EUR 399,314,818.	APEX over the projection period of EUR 164,768,000.
Recoverable amount of EUR 89,379,000.	Nadomestljiva vrednosti v višini 443.299.000 EUR.
Revaluation expenses due to impairment of EUR 309,935,818.	Prevrednotovalni odhodki zaradi oslabitve v višini 0 EUR.

LONG-TERM FINANCIAL INVESTMENTS AT VELENJE COAL MINE

2020	2019
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 September 2020	30 September 2019
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 8.19% adjusted to the real level of 6.17%, which was taken into account throughout the period 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 sale price of coal 2.75 EUR/GJ in the entire period until 2054.	The sale price of coal 2.75 EUR/GJ in the entire period until 2054.
Expenses for coal mine closure after the end of operation in the amount of EUR 48,191,000 (discounted to current value of EUR 6,388,000).	Expenses for coal mine closure after the end of operation in the amount of EUR 40,928,000 (discounted to current value of EUR 4,460,000).
Average annual coal production of 35,936 TJ per year in the period 2021 - 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 20,797 TJ per year is projected after 2040.	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.
CAPEX over the 2020 - 2054 projection period of EUR 304,256,000.	CAPEX over the 2020 - 2054 projection period of EUR 310,513,000.
The recoverable value of financial investments in subsidiaries and other companies in the amount of EUR 14,332,000.	The recoverable value of financial investments in subsidiaries and other companies in the amount of EUR 20,817,000.
Recoverable amount of assets unnecessary for business in the amount of EUR 17,370,000.	Recoverable amount of assets unnecessary for business in the amount of EUR 17,509,000.
We provide the assumption that the company will not be required to fulfil obligations that are not explicitly stated in the current concession contract.	We provide the assumption that the company will not be required to fulfil obligations that are not explicitly stated in the current concession contract.
Results of impairment testing carried out	
The book value of financial investment before the impairment testing amounts to EUR 42,989,329.	The book value of financial investment before the impairment testing amounts to EUR 42,989,329.
Recoverable amount of EUR 38,675,000.	Recoverable amount of EUR 63,139,000.
Revaluation expenses due to impairment of EUR 4,314,329.	Revaluation expenses due to impairment of EUR 0.

SENSITIVITY ANALYSIS FOR THE TEST OF LONG-TERM FINANCIAL INVESTMENT IMPAIRMENT

in EUR

	Recoverable value in EUR	Sensitivity (change) of recoverable value in EUR	
		Change in discount rate (WACC) in % points	
		-0.5	0.5
AT ŠOŠTANJ THERMAL POWER PLANT	89,379,000	54,940,000	-49,750,000
AT VELENJE COAL MINE	38,675,000	3,774,000	-3,467,000

OTHER LONG-TERM FINANCIAL INVESTMENTS AND LOANS (5)

in EUR

	31.12.2020	31.12.2019
Long-term financial investments in affiliated companies	40,513,942	40,513,942
Long-term investments in jointly-controlled companies	255,000	255,000
Long-term financial assets available for sale	111,000	111,000
Other long-term financial investments	500	500
Long-term financial investments and loans	1,144,000	105,879,190
Total	42,024,442	146,759,632

Among other long-term investments, the largest share is represented by long-term financial investments in affiliated companies. In 2020, the conversion of long-term loans and interest in long-term financial investment of the TEŠ and PV companies was carried out.

MOVEMENT OF OTHER LONG-TERM FINANCIAL INVESTMENTS AND LOANS

in EUR

	Long-term financial investments in affiliated companies	Long-term investments in jointly-controlled companies	Long-term assets available for sale	Other long-term financial investments	Long-term financial loans to companies in the Group	Total
Balance on 1 Jan 2020	40,513,942	255,000	111,000	500	105,879,190	146,759,632
Acquisitions					5,065,504	5,065,504
Transfers to short-term receivables					-324,000	-324,000
Increase in capital in TEŠ					-94,021,629	-94,021,629
Increase in capital in PV					-15,341,000	-15,341,000
Change in HSE EDT					-4,500	-4,500
Repayment					-109,565	-109,565
Balance on 31 Dec 2020	40,513,942	255,000	111,000	500	1,144,000	42,024,442
Balance on 1 Jan 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					-2,516,500	-2,516,500
Increase in capital in TEŠ					-31,996,763	-31,996,763
Repayment					-1,000,000	-1,000,000
Balance on 31 Dec 2019	40,513,942	255,000	111,000	500	105,879,190	146,759,632

A) LONG-TERM FINANCIAL INVESTMENTS IN AFFILIATED COMPANIES

In 2020 there were no changes in investments in affiliated 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 STATEMENTS OF AFFILIATED COMPANIES IN 2020

in EUR

	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of t otal capital
HESS	337,300,533	50,565,538	20,235,534	2,315,333	286,734,995

DATA ON AFFILIATED COMPANIES AS AT 31 DEC 2020

in EUR

	Title	Activity	% of ownership
HESS	Cesta bratov Cerjakov 33a, 8250 Brežice	Electricity production at hydro power plants	15.4

B) LONG-TERM INVESTMENTS IN JOINTLY-CONTROLLED COMPANIES

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 2020.

SIGNIFICANT AMOUNTS FROM STATEMENTS OF JOINTLY-CONTROLLED COMPANIES IN 2020

in EUR

	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
SOENERGETIKA	2,311,439	639,139	3,492,752	541,978	1,672,300

DATA ON JOINTLY-CONTROLLED COMPANIES AS AT 31 DEC 2020

in EUR

	Title	Activity	% of ownership	% of voting rights
SOENERGETIKA	Stara cesta 3, 4000 Kranj	Production of electricity and heat	25	25

C) OTHER LONG-TERM FINANCIAL 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 2020.

D) LONG-TERM FINANCIAL LOANS TO COMPANIES IN THE GROUP

LONG-TERM FINANCIAL RECEIVABLES AND LOANS GIVEN TO COMPANIES IN THE GROUP

in EUR

	31.12.2020	31.12.2019
Long-term financial receivables and loans given to companies in the Group	1,144,000	97,216,456
Long-term financial loans to companies in the Group for interest	0	8,662,734
Total	1,144,000	105,879,190

MOVEMENT OF OTHER LONG-TERM FINANCIAL INVESTMENTS AND LOANS

in EUR

	2020	2019
Balance on 1 Jan	**105,879,190**	**90,528,807**
Acquisitions	5,065,504	50,863,646
Change in HSE EDT	-4,500	0
Transfers to short-term receivables	-324,000	-3,516,500
Repayment	-109,565	0
Increase in capital in TEŠ	-94,021,629	-31,996,763
Increase in capital in PV	-15,341,000	0
Balance on 31 Dec	**1,144,000**	**105,879,190**

Long-term financial receivables and loans include loans to Group companies and related interest. The principal to HSE-EDT EUR 414,000 and to RGP EUR 730,000. The value of the long-term loans principal amounts that mature in 2020 is disclosed among short-term loans to companies in the group in the amount of EUR 324,000. The interest rate on long-term loans is determined in accordance with the transfer pricing methodology and ranges from 2.5% to 3.88%. The loan to the RGP and HSE EDT is insured with bills of exchange.

LONG-TERM OPERATING RECEIVABLES (6)

in EUR

	31.12.2020	31.12.2019
Long-term operating receivables from others	1,550,547	797,501
Total	**1,550,547**	**797,501**

The Company's long-term operating receivables from others include financial coverages extended for the purpose of electricity trading.

DEFERRED TAX RECEIVABLES (7)

in EUR

	31.12.2020	31.12.2019
Provisions	155,556	113,613
Impairments	223,219	223,319
Amortisation	7	7
Fair value of derivatives	182,230	0
Total	**561,012**	**336,939**

Deferred receivables for tax are recalculated to a 19% tax rate. They were formed from the expenses that affect the profit or loss of each year, although they 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 RECEIVABLES

in EUR

	Provisions	Impairments	Amortisation	Fair value	Total
Balance as at 1 Jan 2020	**113,613**	**223,319**	**7**	**0**	**336,939**
To debit/credit of profit or loss	41,943	-100		182,230	**224,073**
Balance as at 31 Dec 2020	**155,556**	**223,219**	**7**	**182,230**	**561,012**
Balance as at 1 Jan 2019	**90,199**	**177,618**	**71**		**267,888**
To debit/credit of profit or loss	23,414	45,701	-64		**69,051**
Balance as at 31 Dec 2019	**113,613**	**223,319**	**7**	**0**	**336,939**

The bulk of the changes in deferred tax assets in 2020 is the formation of deferred taxes on actuarial items and write-off of receivables.

INVENTORIES (8)

in EUR

	31.12.2020	31.12.2019
Material	724,119	0
Total	**724,119**	**0**

The value of inventories include inventories of protective equipment for COVID-19 needs.

SHORT-TERM FINANCIAL INVESTMENTS AND LOANS (9)

in EUR

	31.12.2020	31.12.2019
Short-term financial receivables to group companies	3,486	711,120
Short-term loans to companies in the group	324,000	3,516,500
Short-term financial receivables to companies in the Group for interest	3,829	13,415
Fair alue of currency forward transactions	0	47,597
Total	**331,315**	**4,288,632**

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 RGP, that falls due in 2021.

MOVEMENT OF SHORT-TERM FINANCIAL RECEIVABLES AND LOANS

in EUR

	2020	2019
Balance on 1 Jan	**4,241,036**	**1,888,344**
Acquisitions	86,833,988	1,335,370
Transfers from long-term receivables	324,000	3,516,500
Increase in capital in TEŠ	-55,628,168	0
Increase in capital in PV	-30,884,000	0
Other	4,500	-55
Repayment	-4,560,041	-2,499,123
Balance on 31 Dec	**331,315**	**4,241,091**

On 31 December 2020, there were no grounds for impairment of short-term financial receivables and loans.

SHORT-TERM TRADE RECEIVABLES (10)

in EUR

	31.12.2020	31.12.2019
Short-term operating receivables from group companies	12,451,322	21,729,431
Short-term operating receivables from affiliated companies	2,090	2,583
Short-term operating receivables from jointly-controlled companies	146	146
Short-term accounts receivables	158,197,049	134,700,544
Total	170,650,607	156,432,704

Short-term trade receivables in the amount of EUR 1158,197,049 consist mostly of receivables from the sale of electricity in Slovenia and abroad.

SHORT-TERM OPERATING RECEIVABLES FROM GROUP COMPANIE

in EUR

		31.12.2020	31.12.2019
DEM	Slovenia	91,179	131,252
SENG	Slovenia	3,786,658	2,800,718
TEŠ	Slovenia	978,046	5,125,515
HSE EDT	Slovenia	30,268	26,290
PV	Slovenia	865,888	1,764,371
HTZ	Slovenia	24	0
RGP	Slovenia	502	121
HSE Invest	Slovenia	12,100	11,215
HSE Balkan Energy	Serbia	5,783	160,134
HSE MAK Energy	Macedonia	1,933,204	5,849,953
HSE BH	Bosnia and Herzegovina	4,747,670	5,859,862
Total		12,451,322	21,729,431

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 risk.

CONTRACT ASSETS (11)

	31.12.2020	31.12.2019
Contract assets	2,603,167	3,042,090
Total	2,603,167	3,042,090

Contract assets include income not yet charged although taken into account in the operating result.

OTHER SHORT-TERM ASSETS (12)

in EUR

	31.12.2020	31.12.2019
Short-term advances given	1,456,035	1,445,649
Short-term trade receivables due from state and other institutions	19,356,349	22,057,193
Short-term trade receivables due from others	15,621,139	14,447,254
Short-term deferred costs or expenses	2,076,438	1,903,047
Total	38,509,961	39,853,143

Most of the 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.

Most of the short-term trade receivables due refer to exceeding the overdraft, which was authorised for operations in connection to derivatives.

Short-term deferred costs and expenses primarily relate to transactions arising in connection to electricity trading.

CASH AND CASH EQUIVALENTS (13)

in EUR

	31.12.2020	31.12.2019
Cash en route	0	-1,950,939
Cash in banks	15,008,482	16,632,989
Call deposits	21,023,844	11,662,019
Deposits with up to 3-month maturity	1,453,733	1,252,711
Total	37,486,059	27,596,780

For the purposes of carrying out its activities, the Company holds bank accounts in Slovenia and abroad and discloses EUR 15,088,482 in cash and EUR 22,477,577 in deposits.

On 31 December 2020, the Company had no approved overdraft on bank accounts.

CAPITAL (14)

in EUR

	31.12.2020	31.12.2019
Called-up capital	29,558,789	29,558,789
Capital reserves	561,243,185	561,243,185
Other reserves from profit	562,744,824	562,744,824
Risk hedging reserve	43,209,380	20,452,278
Fair value reserves	-264,897	-74,525
Retained profit/loss	-416,515,035	-189,580,245
Total	779,976,246	984,344,305

CAPITAL RESERVES

in EUR

	31.12.2020	31.12.2019
Paid-in capital surplus	561,243,072	561,243,072
Amount on the basis of elimination of general revaluation capital adjustment	113	113
Total	**561,243,185**	**561,243,185**

The value of the share capital, capital reserves and legal reserves did not change in 2020.

Among the hedge reserves on 31 December 2020 in the value of EUR 43,209,380, the Company discloses:

- results of standardised forward contracts for electricity (forward contracts) amounting to EUR 10,848,414,
- results of standardised forward contracts for emission coupons (forward contracts) amounting to EUR 33,137,840, and
- fair value of currency exchanges in the amount of EUR −776,874.

RISK HEDGING RESERVE MOVEMENT

in EUR

	Standardised futures contracts for electricity	Forward contracts for emission coupons	Currency swaps	Total
Balance as at 1 Jan 2020	**-499,816**	**20,913,540**	**38,554**	**20,452,278**
Formation, increase	11,391,025	12,224,300		**23,615,325**
Decrease			-815,428	**-815,428**
Transfer to expenditure	-42,795			**-42,795**
Balance as at 31 Dec 2020	**10,848,414**	**33,137,840**	**-776,874**	**43,209,380**
Balance as at 1 Jan 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 Dec 2019	**-499,816**	**20,913,540**	**38,554**	**20,452,278**

The risk hedging reserve decreased in 2020 by EUR 22,757,102 relative to the previous year. This decrease is mainly at the expense of closing contracts to purchase emission coupons for December 2020. The risk hedging reserve includes trading with standard futures on the electricity markets and emission coupons.

In the case of standardised forward contracts for electricity, it is related to concluded transactions for the purchases and sales of electricity in foreign exchange in 2021. In the case of standardised forward contracts for emission coupons, it is related to concluded transactions for the purchases and sales of emission coupons in foreign exchange for the period from 2021 to 2023. No deferred taxes were accounted for in this relation, as the company will pay an agreed-upon price during the realisation of the deal.

In 2020, the Company closed the currency exchanges, whose positive fair value amounted as at 31 December 2019 (inclusive of deferred taxes) to EUR 38,554. In 2020, it concluded new transactions and also partly closed some of them. The overall change in the fair value is negative and recorded at EUR 815,428. The negative fair value of open currency exchanges at the end of 2020 amounts to EUR 959,104, from which the Company charged EUR 182,223 of deferred tax liabilities. The final balance with considered deferred tax amounts to EUR 776,875.

MOVEMENT OF VALUE RESERVE

in EUR

	Actuarial profits/losses on severance payments upon retirement	Total
Balance as at 1 Jan 2020	**-74,525**	**-74,525**
Formation, Increase	3,267	**3,267**
Decrease	-185,504	**-185,504**
Transfer to retained profit or loss	-8,135	**-8,135**
Balance as at 31 Dec 2020	**-264,897**	**-264,897**
Balance as at 1 Jan 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 Dec 2019	**-74,525**	**-74,525**

The fair value reserve in the total value of EUR 264,897 disclosed at the year-end of 2019 includes actual loss arising on accounted severance payments upon retirement paid to employees. The actual loss increased in 2020 by EUR 190,372. According to the actuarial calculation, retained earnings or losses increased due to reversal of severance payments upon retirement by EUR 8,135.

BALANCE SHEET PROFIT OR LOSS

in EUR

	2020	2019
Net profit/loss for the year	-226,942,925	60,117,717
Retained profit/loss	-189,572,110	-249,697,962
Balance sheet profit or loss	**-416,515,035**	**-189,580,245**

At the end of the year, the Company shows a net loss in the amount of EUR 226,942,925, which is the result of impairments of DFN in the amount of EUR 314,250,147. Without this impairment, the Company's net result would amount to EUR 87,307,222. Negative retained 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 2020 in the amount of EUR 8,135. The total capital and other reserves from profit exceeds the negative retained result.

The Company's total capital in 2020 decreased by EUR 204,368,061, i.e.:

- net operating income for the period in the amount of EUR −226,942,925,
- retained net operating income in the amount of EUR 8,135,
- change in the risk hedging reserve in the amount of EUR 22,757,102, and
- change in the fair value reserve in the amount of EUR −190,373.

PROVISIONS FOR SEVERANCE PAYS UPON RETIREMENT AND ANNIVERSARY BONUSES (15)

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 made for individual employee and includes the costs of severance pay upon retirement and the costs of all expected loyalty bonuses up to retirement.

in EUR

	31.12.2020	31.12.2019
Provisions for retirement benefits	1,517,283	1,113,339
Provisions for anniversary bonuses	120,149	82,590
Total	1,637,432	1,195,929

The Company posts provisions for severance payments upon retirement and jubilee bonuses, which have been allocated based on actuarial calculation on 31 December 2020.

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:

- mortality tables,
- employee 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 2023 on,
- salary growth rate in the Company,
- discount rate, which is defined as at 31 December 2020 at 0.3% and shows the return of high quality business bonds on 30 December 2020, nominated in EUR.

MOVEMENT OF RETIREMENT BENEFIT AND ANNIVERSARY BONUSES PROVISIONS

in EUR

	Provisions for severance pay	Provisions for anniversary bonuses	Total
Balance on 1 Jan 2020	1,113,338	82,590	1,195,928
Costs of interest	7,464	550	8,014
Cost of office	130,370	12,099	142,469
Cost of office	83,874	12,221	96,095
Actuarial gains and losses – change in item	185,504	19,667	205,171
Actuarial gains – elimination	-3,266	-382	-3,648
Payment of income in the year	0	-6,597	-6,597
Balance on 31 Dec 2020	1,517,284	120,148	1,637,432
Balance on 1 Jan 2019	728,726	220,738	949,464
Costs of interest	11,275	914	12,189
Cost of office	112,385	10,177	122,562
Cost of office	267,213	-125,510	141,703
Actuarial gains and losses – change in item	0	0	0
Actuarial gains – elimination	-106,231	-17,785	-124,016
Actuarial losses – formation and use	128,714	11,960	140,674
Payment of income in the year	-28,744	-17,904	-46,648
Balance on 31 Dec 2019	1,113,338	82,590	1,195,928

Change in actual revenues and losses in the amount of EUR 190,373 arising from severance payment upon retirement is disclosed in the movement of the fair value reserve.

SENSITIVITY ANALYSIS FOR PROVISIONS FOR RETIREMENT BENEFITS AND ANNIVERSARY BONUSES

in EUR

	Discount rate		Salary growth	
	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for retirement benefits	65,313	-100,324	-101,512	108,348
Provisions for anniversary bonuses	3,835	-5,984	-6,243	6,574
Total 2020	69,148	-106,308	-107,755	114,922
Provisions for retirement benefits	80,294	-73,071	-73,795	78,897
Provisions for anniversary bonuses	4,660	-4,316	-4,498	4,742
Total 2019	84,954	-77,387	-78,293	83,639

OTHER PROVISIONS (16)

in EUR

	31.12.2020	31.12.2019
For legal actions	483,926	334,875
Total	483,926	334,875

MOVEMENT OF OTHER PROVISIONS

in EUR

	For legal actions	Total
Balance as at 1 Jan 2020	334,875	334,875
Formation, increase	149,051	149,051
Balance as at 31 Dec 2020	483,926	483,926
Balance as at 1 Jan 2019	311,675	311,675
Formation, increase	23,200	23,200
Balance as at 31 Dec 2019	334,875	334,875

Among other provisions, the Company only posts additional payments made in 2020 for default interest, which belong to a principal of EUR 290,000.

OTHER LONG-TERM LIABILITIES (17)

in EUR

	31.12.2020	31.12.2019
Other long-term liabilities	215,475	324,006
Total	215,475	324,006

MOVEMENT OF OTHER LONG-TERM LIABILITIES

in EUR

	Other	Total
Balance as at 1 Jan 2020	324,006	324,006
Disposals	-108,531	-108,531
Balance as at 31 Dec 2020	215,475	215,475
Balance as at 1 Jan 2019	485,750	485,750
Acquisition	223,154	223,154
Disposals	-384,898	-384,898
Balance as at 31 Dec 2019	324,006	324,006

Among other long-term liabilities, the Company posts, in principle, 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 these projects in 2020.

LONG-TERM FINANCIAL LIABILITIES (18)

in EUR

	31.12.2020	31.12.2019
Long-term financial liabilities to banks	190,348,485	211,151,515
Total	190,348,485	211,151,515

The Company's long-term financial liabilities to banks include long-term loans in the total amount of EUR 190,348,485. The values of long-term loan principals due in 2021 are recorded as short-term liabilities to banks in the amount of EUR 20,803,030. In 2020, the Company paid EUR 11,303,030 of long-term loans.

The Company's contracts on long-term loans include bank covenants, which were fully met as at 31 December 2020.

MOVEMENT OF NON-CURRENT FINANCIAL LIABILITIES

in EUR

	Long-term financial liabilities to banks	Total
Balance as at 1 Jan 2020	211,151,515	211,151,515
Transfers to current liabilities	-20,803,030	-20,803,030
Balance as at 31 Dec 2020	190,348,485	190,348,485
Balance as at 1 Jan 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 Dec 2019	211.151.515	211.151.515

The Company has EUR 50,000,000 long-term revolving loan that was not drawn on 31 December 2020.

The loans bear interest at the variable interest rate, which is based on the 3-month or 6-month Euribor which, in the case of a negative Euribor equals 0 and a markup, ranged between 0.97% and 1.88%.

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 2020.

Long-term loans to banks are secured by bills of exchange and the business share.

Further details are provided in the section on interest rate risk.

LONG-TERM LIABILITIES ARISING FROM FINANCIAL LEASE (19)

in EUR

	31.12.2020	31.12.2019
Long-term financial liabilities from leases	1,318,541	861,258
Total	1,318,541	861,258

MOVEMENT OF LONG-TERM FINANCIAL LIABILITIES FROM LEASES

in EUR

	Long-term financial liabilities from leases
Balance as at 1 Jan 2020	861,258
Acquisitions	971,952
Transfers to short-term liabilities	-520,461
Other	5,792
Balance as at 31 Dec 2020	1,318,541
Balance as at 1 Jan 2019	1,403,620
Transfers to short-term liabilities	-274,264
Repayment	-268,098
Balance as at 31 Dec 2019	861,258

SHORT-TERM FINANCIAL LIABILITIES (20)

in EUR

	31.12.2020	31.12.2019
Short-term financial receivables to companies in the Group for interest	4,754	0
Short-term financial liabilities to banks without interest	20,803,030	11,303,030
Short-term financial liabilities to banks for interest	25,556	59,117
Short-term derivatives	959,104	0
Other short-term financial liabilities	76,007	80,665
Total	21,868,451	11,442,812

The majority of short-term financial liabilities represents the short-term part of principals of long-term loans, which mature in 2021 and amount to EUR 20,803,030.

MOVEMENT OF SHORT-TERM FINANCIAL LIABILITIES

in EUR

	Short-term financial receivables to companies in the Group without interest	Short-term financial receivables to companies in the Group for interest	Short-term financial liabilities to banks without interest	Short-term financial liabilities to banks for interest	Short-term derivatives	Other short-term financial liabilities	Total
Balance as at 1 Jan 2020	0	0	11,303,030	59,117	0	80,665	11,442,812
Increase	39,200,000	58,164	40,000,000	4,072,811		1,149,721	84,480,696
Transfers from long-term liabilities			20,803,030				20,803,030
Short-term repayments	-39,200,000	-53,410	-40,000,000	-4,106,372		-1,154,379	-84,514,161
Long-term repayments			-11,303,030				-11,303,030
Other					959,104		959,104
Balance as at 31 Dec 2020	0	4,754	20,803,030	25,556	959,104	76,007	21,868,451
Balance as at 1 Jan 2019	0	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 Dec 2019	0	0	11,303,030	59,117	0	80,665	11,442,812

SHORT-TERM FINANCIAL LIABILITIES FROM LEASES (21)

in EUR

	31.12.2020	31.12.2019
Short-term financial liabilities from leases	520,461	274,264
Total	520,461	274,264

MOVEMENT OF SHORT-TERM FINANCIAL LIABILITIES

in EUR

	Short-term financial liabilities from leases	Total
Balance as at 1 Jan 2020	274,264	274,264
Transfers from long-term liabilities	520,461	520,461
Long-term repayment	-274,264	-274,264
Balance as at 31 Dec 2020	520,461	520,461
Balance as at 1 Jan 2019	0	0
Long-term repayment	274,264	274,264
Balance as at 31 Dec 2019	274,264	274,264

SHORT-TERM OPERATING LIABILITIES (22)

in EUR

	31.12.2020	31.12.2019
Short-term operating liabilities to companies in the group	42,074,795	35,897,802
Short-term operating liabilities to affiliated companies	1,585,616	1,630,861
Short-term operating liabilities to jointly-controlled companies	42,110	78,938
Short-term operating liabilities to suppliers	109,991,695	108,986,503
Total	153,694,216	146,594,104

Among short-term operating liabilities to suppliers, the company mostly includes liabilities for electricity purchased in Slovenia and abroad.

SHORT-TERM OPERATING LIABILITIES TO COMPANIES IN THE GROUP

in EUR

		31.12.2020	31.12.2019
DEM	Slovenia	10,186,090	10,693,000
sHPP Lobnica	Slovenia	4,246	6,026
SENG	Slovenia	8,098,440	8,110,834
TEŠ	Slovenia	15,694,002	7,475,149
HSE EDT	Slovenia	48,378	6,488
PV	Slovenia	83	144
HTZ	Slovenia	19,166	17,418
HSE Invest	Slovenia	155,999	96,963
HSE Balkan Energy	Serbia	25,271	202,713
HSE MAK Energy	Macedonia	1,185,810	3,618,717
HSE BH	Bosnia and Herzegovina	6,657,310	5,670,350
Total		42,074,795	35,897,802

OTHER SHORT-TERM LIABILITIES (23)

in EUR

	31.12.2020	31.12.2019
Short-term operating advance payables	605,193	84,128
Short-term operating liabilities to employees	1,351,149	1,189,694
Short-term operating liabilities to state and other institutions	15,900,062	19,606,123
Short-term operating liabilities to others	14,068	12,369
Short-term accrued costs or expenses	67,277,767	37,532,496
Total	85,148,239	58,424,810

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 2020 and are included in the income statement, in 2020 the company did not receive the invoice or accounts for those. Most expenses arise purchases of electricity for 2020 from a subsidiary. Other expenses are deviations from schedules for the month of December 2020 and interest on loans taken out, for which the Company has not yet received the accounts in 2020.

CONTINGENT ASSETS AND LIABILITIES (24)

in EUR

	31.12.2020	31.12.2019
Guarantees and parent warranties for subsidiaries in Slovenia	80,995,555	104,383,357
Bank warranties for subsidiaries in Slovenia	635,331	572,811
Bank and parent warranties for subsidiaries abroad	781,117	841,405
Total	82,412,003	105,797,573

Contingent liabilities include the guarantees granted and parent guarantees. The Company issued a supporting letter to ensure financial and other support to HSE MAK in the implementation of its activity for at least the following 12 months.

GUARANTEES AND PARENT WARRANTIES FOR SUBSIDIARIES IN SLOVENIA

in EUR

Beneficiary	Debtor	Type of warranty	Validity	Contingent liability on 31 Dec 2020	Contingent liability on 31 Dec 2019
EBRD*	TEŠ	Warranty for EBRD loan	For credit contract validity period	80,571,429	104,011,837
Petrol d.d.	HSE	Warranty for liabilities of PV, TEŠ, SENG and DEM to Petrol d.d.	31.12.2020	199,468	247,928
Geoplin d.o.o.	TEŠ	Warranty statement	30.01.2020	224,658	123,592
Total				80,995,555	104,383,357

* The principal of the loan is disclosed as contingent liability.

Guarantees and parent warranties reduced in comparison to 2019 due to the repayment of the principal of EBRD loan.

4.5.7.2 Income statement

NET SALES REVENUE (25)

in EUR

	2020	2019
On the domestic market	638,158,320	597,671,103
Electricity	635,527,594	595,255,160
Other goods and material	832,418	384,658
Other services	1,798,307	2,031,285
On foreign market	1,222,539,700	1,142,483,579
Electricity	1,208,438,582	1,129,088,695
Other goods and material	4,691,779	0
Other services	9,409,339	13,394,884
Total	1,860,698,020	1,740,154,682

The Company generates, in the main, net sales revenue through the sale of electricity. The revenue from the sale of electricity accounts for 99.10% of all net sales revenue. The net sales revenue is higher compared to 2019 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 INCOME (26)

in EUR

	2020	2019
Elimination of impairment of receivables	524	43
Revenue from damages and contractual penalties	9,104	62,332
Default interest	382,331	382,457
Profit from the sale of fixed assets	5,199	4,552
Profit from derivatives due to trading with electricity and emission coupons	4,311,356	6,019,262
Other	594,984	260,010
Total	5,303,498	6,728,656

Most of the other operating revenue refers to profits from trading with standardised futures contracts in relation to electricity and emission coupons.

COSTS OF GOODS, MATERIALS AND SERVICES (27)

in EUR

	2020	2019
Purchase value of sold goods	1,699,938,825	1,614,284,245
Contingent costs of sold goods	34,723,597	42,102,762
Total purchase value of sold goods	1,734,662,422	1,656,387,007
Costs of energy	43,116	50,313
Costs of small tools	4,851	9,495
Other	650,576	311,844
Total material costs	698,543	371,652
Costs of transport services	96,397	59,314
Costs of maintenance	900,932	924,944
Costs of rents	298,328	241,598
Costs of reimbursements of work-related expenses to employees	45,277	113,709
Costs of insurance and bank services	1,209,553	1,476,525
Costs of intellectual and personal services	1,867,332	2,206,799
Costs of fairs, advertising and administration	564,657	579,330
Costs of services of natural entities	292,369	282,045
Costs of protection and supervision	499	454
Membership contributions	41,299	47,198
Costs of maintenance of rented equipment and premises	582,083	158,220
Costs of other services	1,608,635	1,543,967
Total costs of services	7,507,361	7,634,103
Total	1,742,868,326	1,664,392,762

The purchase value of the sold goods, which represents 98.59% of all operating expenses, comprises electricity purchase costs and the costs related to this.

The largest amounts among the costs of material refer to professional literature, costs of energy, costs of office stationery and the costs of COVID-19 protective equipment.

Costs of services mostly include costs for professional services, maintenance costs of computer hardware and software, and the costs of insurance and bank services. Other costs of mostly refer to IT costs.

RENTAL COSTS

in EUR

	2020	2019
Amortisation of rights to use	518,515	387,211
Financing expenses	43,085	33,151
Rental costs	89,886	65,192
Total	651,486	485,554

HSE used an exception with regard to recognising the right of usage for vehicles under short-term lease to 1 year in accordance with Item 5 of IFRS 16 in the amount of EUR 51,627.

AUDIT COSTS

in EUR

	2020	2019
Annual Report audit	13,000	13,000
Other certification services	500	500
Total	13,500	13,500

Apart from auditing the annual report, the company Deloitte revizija d.o.o. received no other payments from the Company in 2020.

LABOUR COSTS (28)

in EUR

	2020	2019
Salaries	9,769,328	8,486,391
Pension insurance costs	1,251,800	1,111,880
Other insurance costs	601,592	641,907
Other labour costs	1,291,022	1,172,448
Total	12,913,742	11,412,626

Labour costs include the costs of salaries and other remuneration of employees, including the employer's contributions. Costs of compensations for unused holiday leave in 2020, which can be utilised by 30 June 2021, are also accounted for. Employee benefits expense increased in comparison with 2019 due to a higher average number of employees.

NUMBER OF EMPLOYEES AND AVERAGE NUMBER OF EMPLOYEES BY EDUCATIONAL STRUCTURE

Educational class	1 Jan 2020	31 Dec 2020	Average number of employees
1	0	0	0
2	0	0	0
3	0	0	0
4	4	4	4
5	14	14	14
6/1	23	22	23
6/2	50	53	52
7	80	86	83
8/1	29	29	29
8/2	3	3	3
Total	203	211	207

VALUE WRITE-OFFS (29)

in EUR

	2020	2019
Amortisation of intangible assets	353,795	246,699
Amortisation of property, plant and equipment	388,134	351,809
Receivables impairments/write-offs	0	661
Impairments in real property, plant and equipment	207	2,406
Sale of real property, plant and equipment	66	21
Amortisation of leased premises	518,515	280,706
Total	1,260,717	882,302

Value write-offs refer to the amortisation of the Company's assets and amortisation of rented premises.

OTHER OPERATING EXPENSES (30)

in EUR

	2020	2019
Forming of provisions	149,052	23,200
Fee for the use of construction land	88,022	11,263
Donations	140,044	75,300
Other operating expenses	1,201,616	1,644,555
Total	1,578,734	1,754,318

The majority of the other operating expenses comprises contractual for systemic services.

FINANCIAL REVENUE (31)

in EUR

	2020	2019
Financial revenue from dividends and other profit shares	172,934	10,170,209
Financial revenue from loans and deposits given	3,843,207	4,344,318
Other financial income	633,998	720,475
Total	4,650,139	15,235,002

Finance income from shares and interests comprises profit pay-outs of subsidiary Soenergetika in the amount of EUR 172,934.

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 (32)

in EUR

	2020	2019
Financial expenses for interest	3,923,052	6,412,162
Financial expenses from impairment of financial investments	314,250,147	0
Financial expenses from the sale of financial investments	0	26,684
Other financial expenses	393,693	5,353,451
Other financial expenses	43,085	21,289
Total	318,609,977	11,813,586

Interest-related financial expenses comprise interest on short-term and long-term loans received from banks (EUR 3,864,888), and accounted interest on short-term loans from HSE Group companies (EUR 58,164).

The loss from the impairment of financial investments comprises the impairment of investment in TEŠ and PV.

Other finance expenses refer to the costs of the withholding tax for foreign loans and the costs of raising long-term loans.

TAXES (33)

in EUR

	2020	2019
Current tax	20,404,929	11,814,081
Deferred tax	-41,843	-69,051
Total tax from profit recognised in the income statement	20,363,086	11,745,030
Deferred tax recognised in capital		-9,043

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 2020 is paid at a 19% rate on the tax base in the Company's tax assessment.

Current tax of the Company in 2020 amounted to EUR 20,404,929. Based on the tax assessment for 2019, the Company paid EUR 8,860,561 prepayment of corporate income tax. At the end of 2020, the Company discloses a liability in the amount of EUR 11,544,368.

Deferred taxes include deferred tax assets. Allocation and drawdown per value are shown in the disclosure of deferred tax assets (explanatory note 7 in the Statement of the 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 table below.

EFFECTIVE TAX RATE CALCULATION

in EUR

	2020	2019
Profit (loss) before tax	107,670,308	71,862,747
Calculated tax at the applicable tax rate	20,457,359	13,653,922
Tax on revenues that lower the tax base	-37,046	-1,948,431
Tax on tax deductions	-168,508	-148,499
Tax on expenses that lower the tax base	-629	-4,499
Tax on non-deductible expenses	168,655	166,694
Tax from other changes in the tax balance sheet	-14,902	94,894
Tax levied	20,404,929	11,814,081
Deferred tax	-41,843	-69,051
Total taxes	20,363,086	11,745,030
Effective tax rate	18.91%	16.34%

As at 31 December 2020, temporary deductible differences for which deferred tax assets were not formed are recorded at EUR 914,708,537 due to impairments of financial investments 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 of disposing of these investments in the foreseeable future.

NET PROFIT OR LOSS (34)

in EUR

	2020	2019
Gross operating return	1,866,896,638	1,746,883,338
Operating profit	107,379,999	68,441,330
Financial outcome	-313,959,838	3,421,417
Profit (loss) before tax	-206,579,839	71,862,747
Net profit/loss for the year	**-226,942,925**	**60,117,717**

The Company ended 2020 with a negative net result of EUR 226,942,925, which is entirely the result of impairment of investments in TEŠ and PV in the total amount of EUR 314.250.147. Without this impairment, the Company would end the year with a net profit of EUR 87,307,222.

4.5.7.3 Related entities

Related companies are subsidiaries, associates and jointly-controlled entities that are controlled either 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 2020. For financial receivables and loans granted and received, the balance at the end of 20120is presented (principal amount with interest). Revenue from parent guarantees granted in 2020 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 on the Statement of financial position).

The situation of outstanding receivables from associated people 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 ASSOCIATED COMPANIES

in EUR

	Sales	Purchases	Loans, guarantees and warranties given with interest	Received loans with interest	Revenue for given parent guarantees
DEM	412,709	67,060,343		2,377	
sHPP Lobnica		16,008			
SENG	10,969,101	38,847,948		2,377	
TEŠ	4,535,636	227,921,061	2,327		548,066
HSE EDT	132,513	273,016	559,873		
PV	4,074,411	510			
HTZ	331	73,534			
RGP	17,749	92,111	913,115		9,176
HSE Invest	59,638	249,363			
HSE Balkan Energy	159,197	312,013			
HSE MAK Energy	25,918,447	47,176,572			
HSE BH	35,787,231	40,219,399			
Total 2020	**82,066,963**	**422,241,878**	**1,475,315**	**4,754**	**557,242**

Sales and purchase prices for services are defined based on 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 2020 the Company concluded no transactions with the Government of the Republic of Slovenia. In 2020 the Company paid no dividend to the owner.

DATA ON ASSOCIATED COMPANIES – AFFILIATED COMPANIES

in EUR

	Sales	Purchases	Loans, guarantees and warranties given with interest	Received loans with interest	Revenue for given parent guarantees
HESS	17,410	9,799,450			
Total 2020	**17,410**	**9,799,450**	**0**	**0**	**0**

DATA ON ASSOCIATED COMPANIES – JOINTLY-CONTROLLED COMPANIES

in EUR

	Sales	Purchases	Loans, guarantees and warranties given with interest	Received loans with interest	Revenue for given parent guarantees
SOENERGETIKA	120	815,602			
Total 2020	**120**	**815,602**	**0**	**0**	**0**

TRANSACTIONS WITH THE REPUBLIC OF SLOVENIA AND LEGAL ENTITIES DIRECTLY OWNED BY THE REPUBLIC OF SLOVENIA

in EUR

Business partner	Outstanding receivables as at 31 Dec 2020	Outstanding liabilities as at 31 Dec 2020	Revenue 1 Dec 2020	Expenses 1 Dec 2020
BORZEN d.o.o.	520,326	483,366	6,223,326	6,786,780
BSP d.o.o.	509,187	221,579	83,085,161	50,606,863
ECE d.o.o.	13,671,056	1,380,499	143,917,619	17,724,686
ELES d.o.o.	2,271,071	161,932	18,844,621	1,659,271
ELEKTRO MARIBOR ENERGIJA PLUS d.o.o.	6,516,048	287,525	61,648,425	2,943,026
E3 d.o.o.	9,238,181	326,517	68,445,913	5,329,216
GEN ENERGIJA d.o.o.	113,326	13,104	1,252,944	100,392
GEN-I d.o.o.	10,135,685	7,927,563	100,645,777	89,277,632
Energy companies – total	**42,974,880**	**10,802,085**	**484,063,786**	**174,427,866**
TALUM d.d.	1,810,947	137,011	25,575,623	1,561,235
Aluminium production	**1,810,947**	**137,011**	**25,575,623**	**1,561,235**
AVTENTA d.o.o.	0	28,178	0	139,830
Other – total	**0**	**28,178**	**0**	**139,830**
SID d.d.	0	35,878,788	0	372,434
Banks – total	**0**	**35,878,788**	**0**	**372,434**
Total	**44,785,827**	**46,846,062**	**509,639,409**	**176,501,365**

The table shows transactions with entities that are either 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 2020 exceed EUR 2 million), except for 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

The remuneration of managers and employees for which the tariff part of the collective agreement does not apply, 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 includes the gross attendance fees of all members with travel expenses for the performance of their duties in the supervisory board and supervisory board commissions.

In 2020 the Company approved no advances and loans nor issued any guarantees to the members of the company. At the end of 2020, 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

	Salary	Other income	Bonuses	Cost reimbursement	Meeting fees	Total
Members of the Management Board	392,693	57,141	17,412	4,588	7,188	479,022
Members of the Supervisory Board and of the Supervisory Board Committees			1,089	2,108	203,554	206,751
Employees not subject to the Collective Agreement	476,671	21,966	10,971	15,284	0	524,892
Total 2020	**869,364**	**79,107**	**29,472**	**21,980**	**210,742**	**1,210,665**
Members of the Management Board	296,952	43,672	11,628	4,395	9,938	366,585
Members of the Supervisory Board and of the Supervisory Board Committees			1,498	2,959	219,725	224,182
Employees not subject to the Collective Agreement	331,633	15,706	16,561	7,743	0	371,643
Total 2019	**628,585**	**59,378**	**29,687**	**15,097**	**229,663**	**962,410**

REMUNERATION OF THE MANAGEMENT

in EUR

	Gross salary	Other remuneration – vacation pay and PDPZ	Other remuneration – severance and other	Bonuses	Cost reimbursement	Meeting fees	Total
Nikolić Stojan, General Director to 3 Nov 2020	129,379	4,717		3,020	1,763	6,000	144,879
Vračar Viktor, General Director since 3 Nov 2020	133,154	4,694		6,288	1,493		145,629
Marinčič Mirko, Business Director to 3 Nov 2020	119,000	4,717	37,132	7,836	1,196		169,881
Podobnik Uroš, Business Director since 3 Nov 2020	11,160	211		268	136	1,188	12,963
Janša Andre, Business Director			5,670				5,670
Total remuneration	**392,693**	**14,339**	**42,802**	**17,412**	**4,588**	**7,188**	**479,022**

For Members of the Management Board Stojan Nikolić and Uroš Podobnik, the meeting fees consider the amounts of meeting fees received as the members of the Supervisory Board at PV.

REMUNEARION OF SUPERVISORY BOARD MEMBERS

in EUR

	Meeting fee gross/ meeting	Bonuses	Meeting fee gross/ basic payment	Gross meeting fee	Net meeting fee	Travel expenses	Total
Celec Robert, Member of SB of HSE since 23 Oct 2020	825	0	1,215	2,040	1,484	59	2,099
Dover Franc, President of SB of HSE since 28 Oct 2020	825	0	1,823	2,648	1,926	206	2,854
Janša Andrej, President of SB of HSE since 1 Dec 2020	275	0	370	645	469	0	645
Seme Damijan, Member of SB of HSE since 23 Oct 2020	825	0	1,215	2,040	1,484	121	2,161
Gutnik Janez, Member of SB of HSE since 23 Oct 2020	825	0	1,215	2,040	1,484	209	2,249
Otič Jernej, Member of SB of HSE	3,299	121	10,735	14,034	10,207	759	14,914
Jančar Boštjan, Member of SB of HSE	2,965	121	10,735	13,700	9,963	216	14,037
Rijavec Petja, Member of SB of HSE	3,090	121	10,735	13,825	10,055	0	13,946
Besek Tomaž, President of SB of HSE since 28 Oct 2020	2,618	121	14,280	16,898	12,290	0	17,019
Gorjup Barbara, Deputy President of SB of HSE until 23 Oct 2020	2,131	121	10,472	12,603	9,166	34	12,758
Markoli Boštjan, Member of SB of HSE to 23 Oct 2020	2,123	121	9,520	11,643	8,468	11	11,775
Pantoš Miloš, Member of SB of HSE to 23 Oct 2020	1,947	121	9,520	11,467	8,340	6	11,594
Cukrov Vesna, Member of SB of HSE	2,870	121	10,823	13,693	9,959	57	13,871
Brankovič Goran, Member of SB of HSE to 23 Oct 2020	2,588	121	9,520	12,108	8,806	0	12,229
Total	27,206	1,089	102,178	129,384	94,101	1,678	132,151

REMUNERATION OF MEMBERS OF THE AUDIT COMMITTEE

in EUR

	Meeting fee gross/ meeting	Meeting fee gross/ basic payment	Gross meeting fee	Net meeting fee	Travel expenses	Total
Hočevar Marko, Member of the Audit Committee since 26 Nov 2020	0	157	157	114	0	157
Janša Andrej, President of the Audit Committee since 1 Dec 2020	0	69	69	50	0	69
Gutnik Janez, Deputy President of the Audit Committee from 3 Nov to 1 Dec 2020	0	376	376	273	0	376
Jančar Boštjan, Member of the Audit Committee	1,364	2,684	4,048	2,944	0	4,048
Markoli Boštjan, Member of Audit Committee to 28 Oct 2020	1,408	2,380	3,788	2,755	8	3,796
Gorjup Barbara, President of the Audit Committee to 28 Oct 2020	1,408	3,570	4,978	3,620	23	5,001
Zaman Groff Maja, Member of the Audit Committee to 28 Oct 2020	1,478	9,672	11,150	8,109	50	11,200
Total	5,658	18,908	24,566	17,865	81	24,647

REMUNERATION OF MEMBERS OF THE PERSONNEL COMMITTEE

in EUR

	Meeting fee gross/ meeting	Meeting fee gross/ basic payment	Gross meeting fee	Net meeting fee	Travel expenses	Total
Dover Franc, Member of the Personnel Committee since 26 Nov 2020	0	39	39	29	0	39
Seme Damjan, President of the Personnel Committee since 26 Nov 2020	0	59	59	43	0	59
Rijavec Petja, Member of the Personnel Committee	440	2,684	3,124	2,272	0	3,124
Besek Tomaž, Member of the Personnel Committee to 26 Nov 2020	440	2,266	2,706	1,968	0	2,706
Gorjup Barbara, Member of the Personnel Committee of HSE	440	2,380	2,820	2,051	11	2,831
Markoli Boštjan, Member of Personnel Committee to 26 Nov 2020	440	2,380	2,820	2,051	4	2,824
Pantoš Miloš, President of the Personnel Committee to 26 Nov 2020	440	3,570	4,010	2,916	4	4,014
Cukrov Vesna, Deputy President of the Personnel Committee since 26 Nov 2020	0	43	43	31	0	43
Total	2,200	13,421	15,621	11,361	19	15,640

REMUNERATION OF THE MEMBERS OF THE RESTRUCTURING COMMITTEE

in EUR

	Meeting fee gross/ meeting	Meeting fee gross/ basic payment	Gross meeting fee	Net meeting fee	Travel expenses	Total
Celec Robert, Member of the Restructuring Committee since 28 Oct 2020	0	266	266	193	0	266
Seme Damjan, Member of the Restructuring Committee since 28 Oct 2020	0	266	266	193	0	266
Otič Jernej, Member of the Restructuring Committee	1,650	2,684	4,334	3,152	280	4,614
Pantoš Miloš, Member of the Restructuring Committee to 28 Oct 2020	1,392	2,309	3,701	2,692	6	3,707
Cukrov Vesna, President of the Restructuring Committee since 28 Oct 2020	1,606	2,817	4,423	3,217	38	4,461
Brankovič Goran, President of the Restructuring Committee to 28 Oct 2020	1,694	3,570	5,264	3,829	0	5,264
Total	6,342	11,912	18,254	13,276	324	18,578

REMUNERATION OF THE MEMBERS OF THE MARKETING AND INVESTMENT COMMITTEE

in EUR

	Meeting fee gross/ meeting	Meeting fee gross/ basic payment	Gross meeting fee	Net meeting fee	Travel expenses	Total
Celec Robert, Member of the Marketing and Investment Committee since 28 Oct 2020	0	266	266	193	0	266
Janša Andrej, Member of the Marketing and Investment Committee since 1 Dec 2020	0	46	46	34	0	46
Gutnik Janez, President of the Marketing and Investment Committee since 28 Oct 2020	0	399	399	290	0	399
Jančar Boštjan, Member of the Marketing and Investment Committee	807	2,801	3,608	2,624	0	3,608
Markoli Boštjan, Member of the Marketing and Investment Committee to 28 Oct 2020	968	2,380	3,348	2,435	2	3,350
Pantoš Miloš, President of the Marketing and Investment Committee to 28 Oct 2020	968	3,570	4,538	3,300	4	4,542
Brankovič Goran, Member of the Marketing and Investment Committee to 28 Oct 2020	1,144	2,380	3,524	2,563	0	3,524
Total	3,887	11,842	15,729	11,439	6	15,735

4.5.7.5 Financial instruments and Risk Management

This section is related to the chapter Financial Risk Management and the chapter on financial risks in the operations 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 based on 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.

OPERATING RECEIVABLES

in EUR

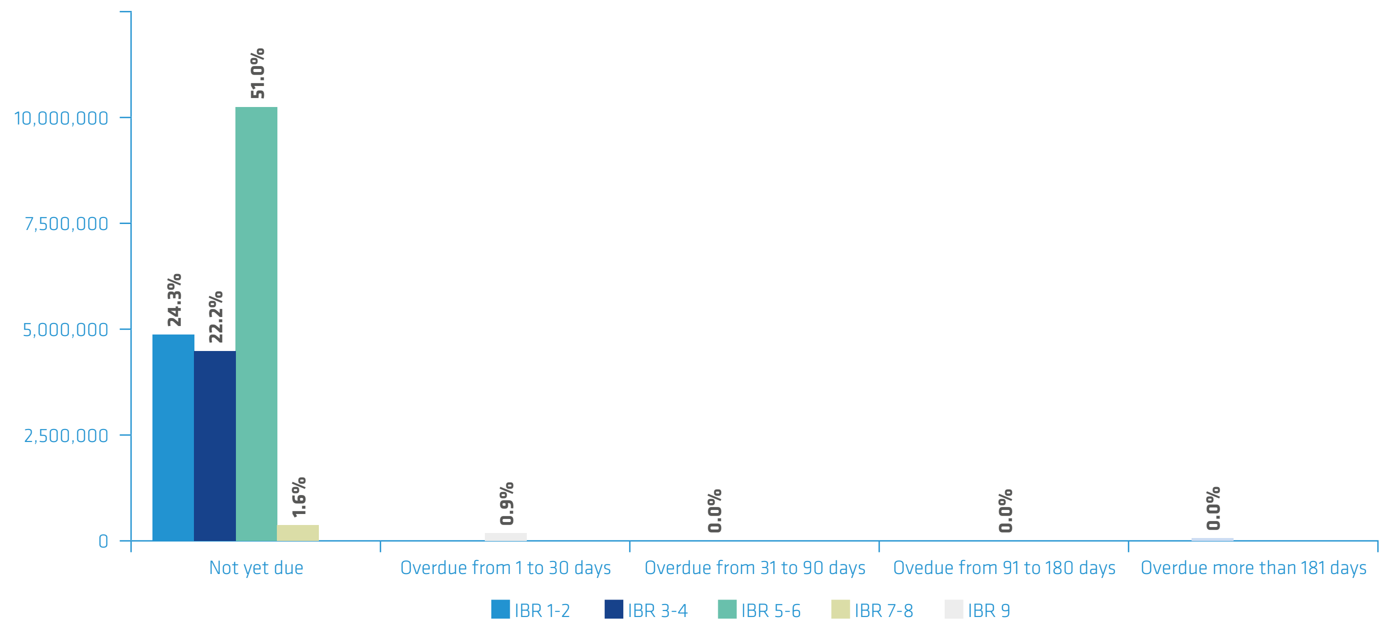
	Receivables	Hedged receivables	%	Non-hedged receivables	%
Short-term receivables due from group companies	12,451,322	11,703,928	94	747,394	6
Short-term receivables due from affiliated companies	2,090	2,090	100	0	0
Short-term receivables due from jointly-controlled companies	146	146	0	0	0
Short-term trade receivables	158,197,049	133,703,072	85	24,493,976	15
Total as at 31 Dec 2020	**170,650,607**	**145,409,237**	**85**	**25,241,370**	**15**
Short-term receivables due from group companies	17,040,905	14,145,662	83	2,895,243	17
Short-term receivables due from affiliated companies	2,583	2,583	100	0	0
Short-term receivables due from jointly-controlled companies	146	146	0	0	0
Short-term trade receivables	134,700,544	114,556,800	85	20,143,743	15
Total as at 31 Dec 2019	**151,744,178**	**128,705,191**	**85**	**23,038,987**	**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 a good credit rating and from partners who 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.

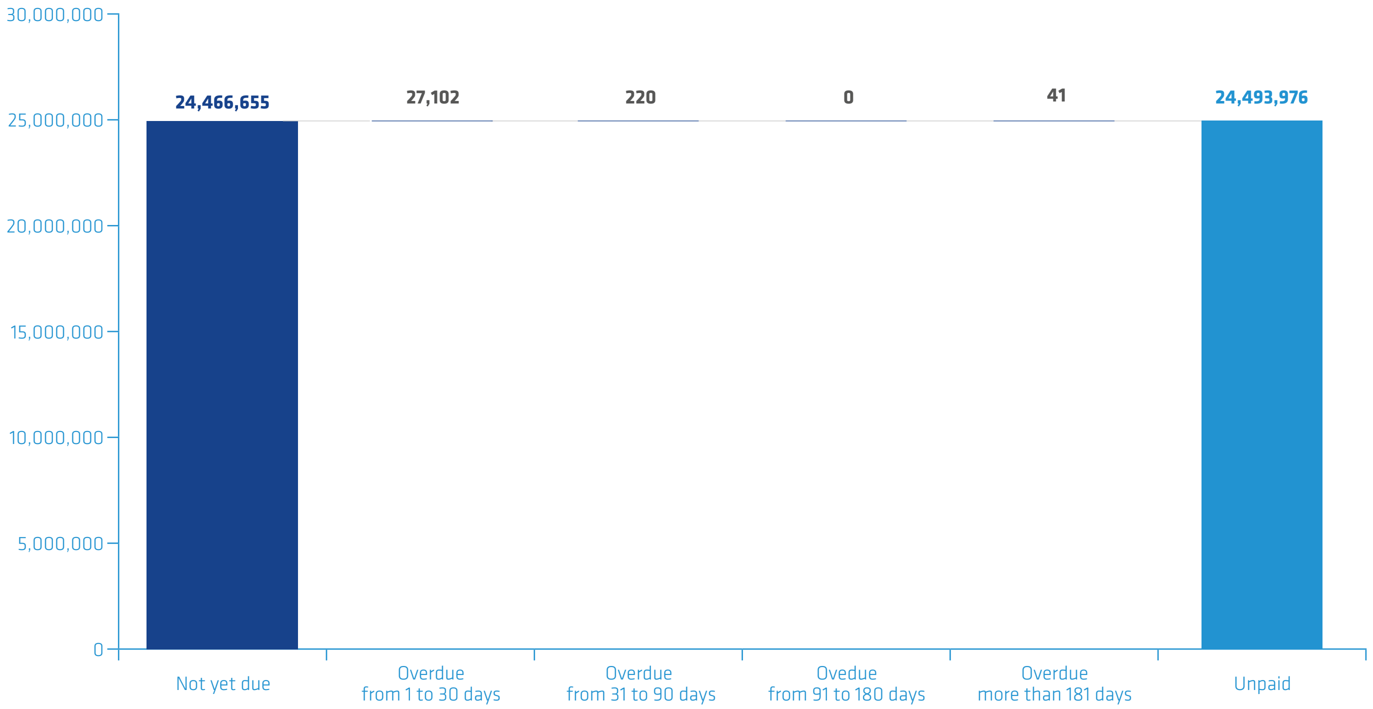
The following analysis shows the unsecured short-term trade receivables as at 31 December 2020 in respect of the internal customer classification by credit ratings, the age structure of unsecured receivables and the structure of receivables by country.

Based on granting a credit rating to individual partners (IBR) and their guarantors (i.e. in the 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 2020



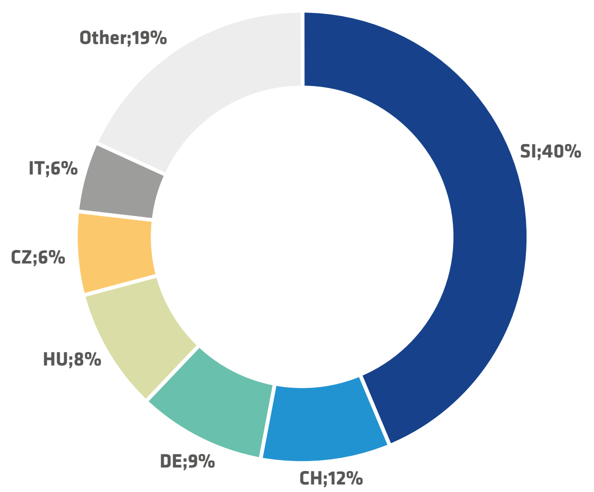
NON-HEDGED TRADE RECEIVABLES BY AGE STRUCTURE AS AT 31 DEC 2020



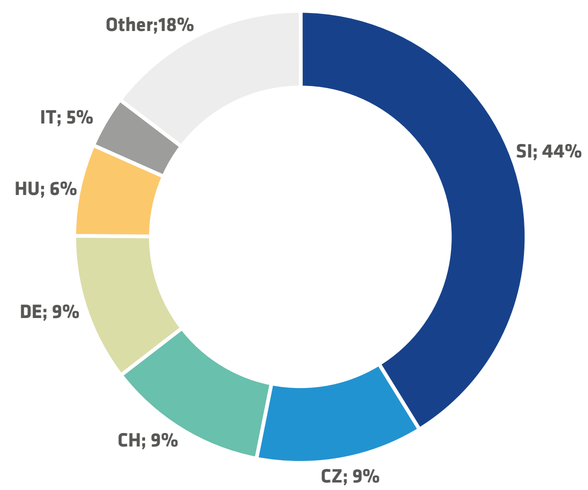
With respect to 2019, the overall value of business receivables from customers increased slightly, however, through careful management of partners, we maintained the values of unsecured receivables at the corporate receivables level as at 31 December 2019. Trade receivables from customers in Slovenia as at 31 December 2020 represent 40% of all trade receivables or 4% less than in 2019.

TRADE RECEIVABLES BY COUNTRIES AS AT 31 DECEMBER 2020 AND 2019

2020



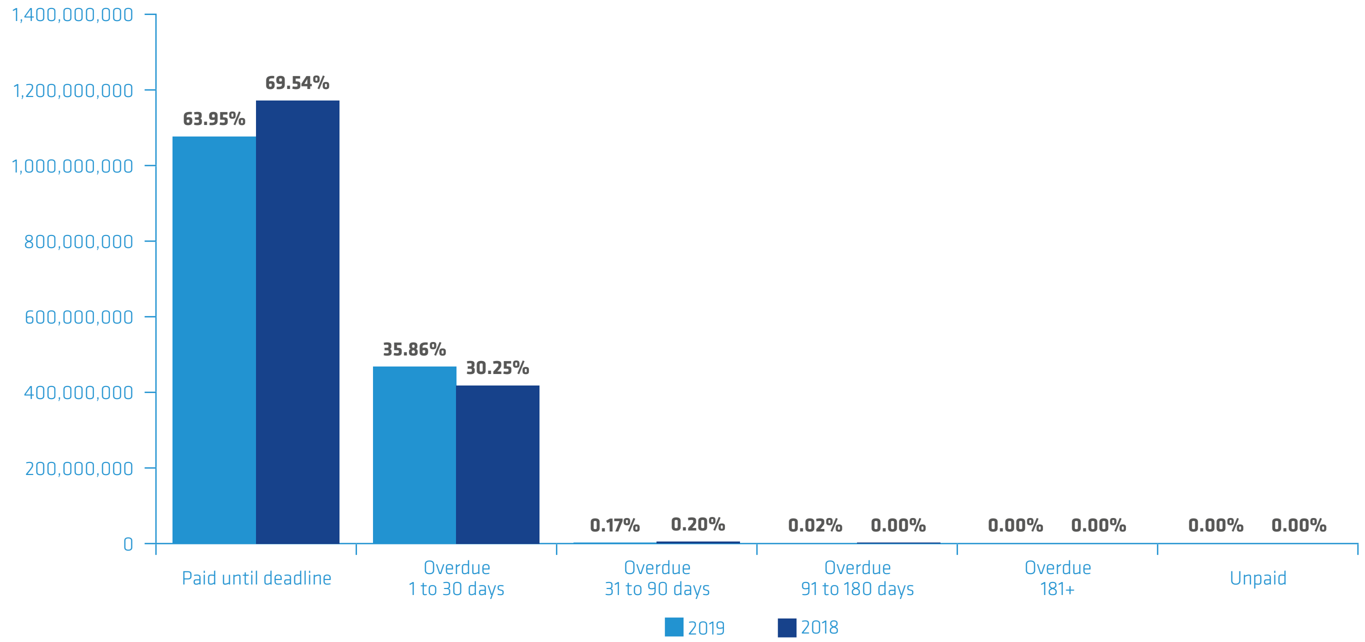
2019



The analysis of the partners' repayment dynamics and the payment discipline in 2018 and 2019 (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 2019



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, we do not expect any loss arising from trade receivables from customers for the Company as at 31 December 2020.

We herewith conclude that the calculated ECL, given the total value of the 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 into account the trade liabilities as at 31 December 2020, 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 2020.

As at 31 December 2020, 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.

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY DATES

in EUR

	Due for payment					
	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 operating receivables from groups comapnies	12,088,501	362,821				12,451,322
Short-term operating receivables from associates	2,090					2,090
Short-term operating receivables from jointly controlled companies	146					146
Short-term trade receivables	151,983,008	7,304,390				159,287,398
Short-term advance payments	1,456,035					1,456,035
Short-term operating receivables from state and other institutions	19,356,349					19,356,349
Short-term operating receivables from others	15,621,139					15,621,139
Total 31 Dec 2020	200,507,268	7,667,211	0	0	0	208,174,479
Short-term operating receivables from groups comapnies	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 Dec 2019	189,170,369	4,977,378	235,054	41	1,090,307	195,473,149

LIQUIDITY RISK

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. In 2020, the HSE Company successfully reduced the risk of short-term solvency with continuous harmonisation of the maturity of receivables and liabilities and the timely recovery of due receivables.

At the end of the year, the company's liquidity reserve that comprises unused approved long-term revolving loans and available cash, amounted to EUR 50,000,000 in the form of long-term revolving loans with maturity in August 2022 and EUR 37,486,059 in cash. This reserve is intended for regulating cash flows and it significantly reduces the Company's and HSE Group's liquidity risk.

On 31 December 2020, the Company settled all due short-term liabilities.

The maturity of long-term operating and financial liabilities of the Company in the following years is presented in the tables below. A part of the long-term loans due in one year, is recorded under short-term financial liabilities.

LONG-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY DATES

in EUR

	Due for payment			
	Up to 2 years after the date of SFP	From 3 to 5 years after the date of SFP	More than 5 years after the date of SFP	Total
Long-term financial liabilities to banks	66,606,061	114,772,727	8,969,697	190,348,485
Long-term financial liabilities from leases	1,040,924	277,617		1,318,541
Total 31 Dec 2020	67,646,985	115,050,344	8,969,697	191,667,026
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 Dec 2019	21,083,605	100,489,774	90,439,394	212,012,773

The liquidity risk exposure due to financial liabilities to banks on 31 December 2020 is shown in the table below. Amounts in the table are not discounted and include contractually envisaged interest rates and the 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	More than 5 years after the date of SFP	Total
Financial liabilities to banks without interest rate hedging						
Long-term loans	-1,000,000	-19,803,030	-66,606,061	-114,772,727	-8,969,698	-211,151,516
Total 31 Dec 2020	-1,000,000	-19,803,030	-66,606,061	-114,772,727	-8,969,698	-211,151,516
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 Dec 2019	0	-11,303,030	-20,803,030	-99,909,091	-90,439,394	-222,454,545

The Company secured additional liquidity in 2020 within the framework of HSE Group's cash management, relating to the free cash flows of DEM and SENG.

Based on the centralised cash flow planning, implemented measures for restructuring and optimising 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 2020 and thus the liquidity risk was appropriately managed.

FOREIGN EXCHANGE RISK

Currency risk is a risk associated with transactions involving foreign currencies and is subject to changes in exchange rates. The currency risk in operations is minimal, since the majority of inflows and outflows are in domestic currency - EUR. In 2020, 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 minimal amounts and therefore the Company does not perform sensitivity analysis for the change in foreign exchange rates, since the change in the exchange rate would not significantly affect the profit or loss.

The Company constantly monitors the currency risk and regularly reports on its management. Additionally, the Company continuously follows developments on the money market, changes in prices and the values of currency hedging contracts.

To convert the Company's assets and liabilities on 31 December 2020, the following exchange rates were used:

FOREIGN EXCHANGE RATES

Country	Currency code	Final currency in EUR for 2020	Final currency in EUR for 2019
Czech Republic	CZK	26.2420	25.4080
Hungary	HUF	363.8900	330.5300
Romania	RON	4.8683	4.7830
USA	USD	1.2271	1.1234
Great Britain	GBP	0.8990	0.8508
Bulgaria	BGN	1.9558	1.9558
Turkey	TRY	/	/
Croatia	HRK	7.5519	7.4395
Serbia	RSD	117.5300	117.3800
North Macedonia	MKD	/	/

EXPOSURE TO RISK OF CHANGE OF EXCHANGE RATES

in EUR

	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	1,144,000			1,144,000
Long-term trade receivables	1,313,667		236,880	1,550,547
Short-term finncial receivables and loans	331,315			331,315
Short-term trade receivables	207,084,130			207,084,130
Long-term financial receivables	-190,348,485			-190,348,485
Long-term financial receivables from leases	-1,318,541			-1,318,541
Short-term financial receivables	-21,868,451			-21,868,451
Short-term financial receivables from lesases	-520,461			-520,461
Short-term operating liabilities	-170,246,753	-149,837	-749,375	-171,145,965
Net exposure of the SFT 31 Dec 2020	-174,429,579	-149,837	-512,495	-175,091,911
Long-term financial receivables and loans	105,879,190			105,879,190
Long-term trade receivables	553,667		243,834	797,501
Short-term finncial receivables and loans	4,241,036			4,241,036
Short-term trade receivables	194,097,202		285,598	194,382,800
Long-term financial receivables	-211,151,515			-211,151,515
Long-term financial receivables from leases	-867,424			-867,424
Short-term financial receivables	-11,442,812			-11,442,812
Short-term financial receivables from lesases	-268,098			-268,098
Short-term operating liabilities	-166,698,615	-103,709	-304,752	-167,107,076
Net exposure of the SFT 31 Dec 2019	-85,657,369	-103,709	224,680	-85,536,398

CONCLUDED CONTRACTS FOR CURRENCY SWAPS

in EUR

	31.12.2020	31.12.2019
Concluded contracts for currency swaps according to the maturity date – purchase hedging	17,564,445	10,774,892
Concluded contracts for currency swaps according to the maturity date – sale hedging	6,096,140	

CURRENCY SWAP EFFECT

in EUR

	2020	2019
Unrealised profit of effective transactions		38,554
Realised loss of effective transactions	776,875	
Realised profit of effective transactions		27,103
Realised loss of effective transactions	-153,292	-117,172

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 exchange 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 exchanges and the impact on the amount of financial expenses, whereby it should be emphasised that the Euribor value was negative throughout 2020. The Company concluded contracts for long-term loans in such 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 the 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 2020.

Interest-bearing and non-interest bearing financial assets and liabilities are outlined in the table below:

FINANCIAL INSTRUMENTS WITH VARIABLE INTEREST RATES

in EUR

	31.12.2020	31.12.2019
Financial liabilities	211,151,516	222,454,545

CASH FLOW SENSITIVITY ANALYSIS WITH FINANCIAL INSTRUMENTS BEARING A VARIABLE INTEREST RATE

A change in the variable interest rate by 50 basis points on the reporting date would result in an increase (decrease) in profit or loss by the amounts stated below. The analysis assumes that all other variables, in particular exchange rates, remain unchanged. Due to the negative values of market interest rates of Euribor in 2020, we used in our sensitivity analysis only a markup/increase of +0.50 b. p. In the 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 2020 was taken into account (average value of the 3-month Euribor 0.427%; average value of 6-month Euribor 0.367%).

FINANCIAL INSTRUMENTS WITH VARIABLE INTEREST RATES

in EUR

	Net profit or loss 2020		Net profit or loss 2019	
	Increase by 50 bt	Decrease by 50 bt	Increase by 50 bt	Decrease by 50 bt
Financial instruments bearing the variable interest rate	-223,538	0	-265,891	n/a
Financial liabilities	-223,538	0	-265,891	n/a

Fixed interest rates are agreed on 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 futures with the purpose of insuring the protection of long-term positions, arising on own production, against price risks and with the purpose of position trading.

In the sales and purchase of electricity with a physical supply, the Company simultaneously concludes future contracts with the position contrary quantity and the same maturity or future contracts with a maturity that is in line with the planned quantity of its own production. In this way, the Company financially fixes the revenue, indicating that the loss arising from the purchase of forward contracts is compensated with revenue from the 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 production in subsidiaries. Thus, the Company is already selling the 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 year-end forward contracts in the amount of EUR 310,412,301. Related disclosures are provided in the section Capital.

The purchase or sales of a futures contract with the purpose of position trading in the time of open position increases the price exposure of the Company since it is concluded with the intention of generating revenue on the account of changes in the prices of electricity. The price exposure is reduced only in the case of concluding diametric forward contracts or physical contracts. At the end of the year, the Company recorded EUR 256,182,876 of open future contracts held for trading.

CONCLUDED STANDARDISED FORWARD CONTRACTS FOR HEDGING

in EUR

	31.12.2020	31.12.2019
For electricity - trading - purpose of purchase	180,840,187	67,870,597
For electricity - trading - purpose of sale	129,572,114	90,042,732

CONCLUDED STANDARDISED FORWARD CONTRACTS FOR TRADING

in EUR

	31.12.2020	31.12.2019
For electricity - trading - purpose of purchase	125,023,179	59,478,153
For electricity - trading - purpose of sale	131,159,697	40,947,957

EMISSION COUPONS

The Company concluded forward contracts in 2020 for the purchase and sale of emission coupons in order to insure the 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 2020, the Group recorded in this respect EUR 186,737,140 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

in EUR

	31.12.2020	31.12.2019
For emission coupons - trading - purpose of purchase	130,682,140	112,080,880
For emission coupons - trading - purpose of sale	56,055,000	6,142,860

CAPITAL MANAGEMENT

in EUR

	31.12.2020	31.12.2019
Long-term financial liabilities	190,348,485	211,151,515
Long-term financial liabilities from leases	1,318,541	861,258
Short-term financial liabilities	21,868,451	11,442,812
Short-term financial liabilities from leases	520,461	274,264
Total financial liabilities	214,055,938	223,729,849
Capital	779,976,247	984,344,305
Financial liabilities/Capital	**0.27**	**0.23**
Cash and cash equivalents	37,486,059	27,596,780
Net financial liability	176,569,879	196,133,069
Net debt/Capital	**0.23**	**0.20**

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, partners and potential investors while also maintaining the future development of activities.

The Company monitors changes in capital using the financial leverage ratio, which is calculated by dividing the total net liabilities by the 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 financial leverage ratio at the end of 2020 was higher than in 2019 due to lower capital, resulting from asset impairment.

FAIR VALUE

The Company estimates that the carrying amount is a sufficient approximation for its financial instruments, except for derivatives, which are recorded at the fair value.

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

in EUR

	31.12.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**111,500**	**111,500**	**111,500**	**111,500**
Financial assets available for sale	111,500	111,500	111,500	111,500
Derivative financial assets at fair value	**0**	**0**	**47,597**	**47,597**
Derivatives (receivables)	0	0	47,597	47,597
Non-derivative financial assets at amortised cost	**247,596,051**	**247,596,051**	**332,944,904**	**332,944,904**
Financial receivables	1,475,315	1,475,315	110,167,823	110,167,823
Operating and other receivables	208,634,677	208,634,677	195,180,301	195,180,301
Cash and cash equivalents	37,486,059	37,486,059	27,596,780	27,596,780
Total	**247,707,551**	**247,707,551**	**333,056,404**	**333,056,404**
Non-derivative financial liabilities at amortised cost	**395,536,713**	**395,536,713**	**394,156,384**	**394,156,384**
Bank loans	211,177,071	211,177,071	222,513,662	222,513,662
Other financial liabilities	1,035,111	1,035,111	80,665	80,665
Operating and other liabilities	183,324,531	183,324,531	171,562,057	171,562,057
Total	**395,536,713**	**395,536,713**	**394,156,384**	**394,156,384**

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

in EUR

	31.12.2020	Financial assets and liabilities at fair value by hierarchy as at 31 Dec 2020			
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-derivative financial assets at fair value	**111,500**	**111,500**			**111,500**
Financial assets available for sale	111,500	111,500			111,500
Non-derivative financial assets at amortised cost	**247,596,051**	**247,596,051**			**247,596,051**
Financial receivables	1,475,315	1,475,315			1,475,315
Operating and other receivables	208,634,677	208,634,677			208,634,677
Cash and cash equivalents	37,486,059	37,486,059			37,486,059
Total	**247,707,551**	**247,707,551**			**247,707,551**
Non-derivative financial liabilities at amortised cost	**395,536,713**	**395,536,713**			**395,536,713**
Bank loans	211,177,071	211,177,071			211,177,071
Other financial liabilities	1,035,111	1,035,111			1,035,111
Operating and other liabilities	183,324,531	183,324,531			183,324,531
Total	**395,536,713**	**395,536,713**			**395,536,713**

4.5.8 Events after the reporting date

After the date of the statement of the financial position no important events took place that would influence the financial statements of the Company.

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 separately monitor its activity of electricity production in the SPP.

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 2020 (Energy act)

in EUR

Item	Trading with electricity	SE production	Total
ASSETS	**1,246,540,457**	**215,385**	**1,246,755,842**
A. NON-CURRENT ASSETS	**996,374,407**	**76,207**	**996,450,614**
I. Intangible assets	70,968,441		70,968,441
II. Real property, plant and equipment	12,008,284	76,207	12,084,491
III. Right to use leased assets	1,811,219		1,811,219
IV. Long-term financial investments in subsidiaries	867,450,462		867,450,462
V. Other long-term financial investments and loans	42,024,442		42,024,442
VI. Long-term operating receivables	1,550,547		1,550,547
VIII. Deferred tax receivables	561,012		561,012
B. CURRENT ASSETS	**250,166,050**	**139,178**	**250,305,228**
II. Inventories	724,119		724,119
III. Short-term financial investments	331,315		331,315
IV. Short-term accounts receivables	170,650,225	382	170,650,607
V. Contract assets	2,603,167		2,603,167
VI. Other current assets	38,509,961		38,509,961
VIII. Cash and cash equivalents	37,347,263	138,796	37,486,059
EQUITY AND LIABILITIES	**1,246,540,457**	**215,385**	**1,246,755,842**
A. EQUITY	**779,760,929**	**215,316**	**779,976,245**
I. Called-up capital	29,558,789		29,558,789
II. Capital reserves	561,096,840	146,345	561,243,185
III. Reserves from profit	562,744,824		562,744,824
IV. Risk hedging reserve	43,209,380		43,209,380
V. Fair value reserves	-264,897		-264,897
VI. Retained profit/loss	-416,584,007	68,971	-416,515,036
B. NON-CURENT LIABILITIES	**194,003,861**	**0**	**194,003,861**
I. Retirement benefit obligations	1,637,433		1,637,433
II. Other provisions	483,927		483,927
III. Other long-term liabilities	215,475		215,475
IV. Long-term financial liabilities	190,348,485		190,348,485
V. Long-term financial liabilities from leases	1,318,541		1,318,541
VI. Deferred tax liabilities	0		0
C. SHORT-TERM LIABILITIES	**272,775,667**	**69**	**272,775,736**
II. Short-term financial liabilities	21,868,451		21,868,451
III. Short-term financial liabilities from leases	520,461		520,461
IV. Short-term operating liabilities	153,694,217		153,694,217
VI. Current tax liabilities	11,544,368		11,544,368
VII. Other short-term liabilities	85,148,170	69	85,148,239

4.5.9.2 Income statement for 2020 (Energy act)

in EUR

	Trading with electricity	SE production	2020
OPERATING REVENUE	**1,866,875,863**	**20,775**	**1,866,896,638**
1. Net sales revenue	1,860,677,245	20,775	1,860,698,020
4. Other operating income	6,198,618	0	6,198,618
OPERATING EXPENSES	**1,759,508,291**	**8,348**	**1,759,516,639**
5. Costs of goods, materials and services	1,742,865,058	3,268	1,742,868,326
6. Labour costs	12,913,742		12,913,742
7. Value write-offs	1,255,637	5,080	1,260,717
8. Other operating expenses	2,473,854		2,473,854
OPERATING PROFIT/LOSS	**107,367,572**	**12,427**	**107,379,999**
9. Financial revenue	4,650,139	0	4,650,139
10. Financial expenses	318,609,977	0	318,609,977
FINANCIAL OUTCOME	**-313,959,838**	**0**	**-313,959,838**
PROFIT (LOSS) BEFORE TAX	**-206,592,266**	**12,427**	**-206,579,839**
TAXES	**20,360,725**	**2,361**	**20,363,086**
11. Current tax	20,402,568	2,361	20,404,929
12. Deferred tax	-41,843		-41,843
NET PROFIT/LOSS FOR THE YEAR	**-226,952,991**	**10,066**	**-226,942,925**
Majority owner	-226,952,991	10,066	-226,942,925

The income statement regarding the production of solar power at the solar power plant was 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 Cash flow statement 2020 (Energy act)

in EUR

	Trading with electricity	SE production	2020
FINANCIAL FLOWS FROM OPERATING ACTIVITIES			
Net profit/loss	-226,952,991	10,066	-226,942,925
Adjustments for:			
Amortisation of intangible assets	353,795		353,795
Amortisation of property, plant and equipment	383,053	5,080	388,133
Amortisation of leases	518,515		518,515
Write-off of real property, plant and equipment	207		207
Operating receivables write-offs	0		0
Elimination of write-off of operating receivables	-524		-524
Loss from sale of real property, plant and equipment	67		67
Financial revenue	-4,650,139		-4,650,139
Financial expenses	318,609,977		318,609,977
Profit from sale of real property, plant and equipment	-5,199		-5,199
Taxes	20,360,725	2,361	20,363,086
Operating profit before changes in net short-term assets and taxes	**108,617,486**	**17,507**	**108,634,993**
Changes in net short-term assets and provisions			
Change in:			
Inventories	-724,119		-724,119
Trade receivables and other assets	-13,189,554	720	-13,188,834
Operating liabilities to suppliers and other liabilities	57,396,731	-660	57,396,071
Received advance payments and other liabilities	-108,530		-108,530
Provisions	408,318		408,318
Profit tax paid	-12,600,790	-2,361	-12,603,151
Cash from operations	**139,799,542**	**15,206**	**139,814,748**
FINANCIAL FLOWS FROM INVESTMENT ACTIVITIES			
Interests received	12,515,527		12,515,527
Remuneration from other financing	172,934		172,934
Dividends received	1,341,632		1,341,632
Remuneration from sale of real property, plant and equipment	7,721		7,721
Remuneration from disposal of intangible assets	36,522,906		36,522,906
Remuneration from reduction of short-term loans given	88,504,500		88,504,500
Remuneration from reduction of long-term loans given	98,251,015		98,251,015
Expenses for purchase of real property, plant and equipment	-658,806		-658,806
Expenses for purchase of intangible assets	-67,018,393		-67,018,393
Expenses for purchase of leases	-1,206,820		-1,206,820
Expenses for purchase of subsidiaries	-195,874,797		-195,874,797
Expenses for purchase of subsidiaries	-85,000,000		-85,000,000
Expenses for increase of long-term loans given	-2,498,059		-2,498,059
Cash from investment	**-114,940,640**	**0**	**-114,940,640**

CONTINUES ON NEXT PAGE

in EUR

	Trading with electricity	SE production	2020
FINANCIAL FLOWS FROM FINANCING			
Leases	1,198,881		1,198,881
Remuneration from short-term loans received	79,200,000		79,200,000
Expenses for loan interest	-3,951,859		-3,951,859
Expenses from other financial liabilities	-433,421		-433,421
Expenses for repayment of long-term loans	-11,303,030		-11,303,030
Expenses for repayment of short-term loans	-79,200,000		-79,200,000
Expenses for leases	-495,402		-495,402
Cash from financing	**-16,183,712**	**0**	**-14,489,429**
INITIAL BALANCE OF CASH AND CASH EQUIVALENTS	**67,635,658**	**123,590**	**67,759,248**
Profit or loss for the period	10,369,473	15,206	10,384,679
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**78,005,131**	**138,796**	**78,143,927**

APPENDICES

The blooming of our success creates seeds for further growth.

5.1 GRI index

Indicator	Disclosure	Chapter
GRI 100: STANDARD DISCLOSURES		
GRI 101: BASIS 2018		
GRI 102: GENERAL DISCLOSURES		
Organisation presentation		
102-1	Organisation name	About the Company
102-2	Primary activities, trademarks, products and services	Presentation of the HSE Group
102-3	Organisation head office	Statement on corporate governance
102-4	Countries where the organisation operates	Presentation of the HSE Group
102-5	Ownership and legal form	Statement on corporate governance
102-6	Markets where organisation is present	Presentation of the HSE Group
102-7	Size of organisation (the number of employees, the number of activities, sales revenue, liabilities/capital, the number of products or services)	Highlights of Group oeprations and HSE Company Presentation of HSE Group
102-8	Data on employees (Type of employee, gender, region)	Presentation of the HSE Group Sustainable operations and development: Human Resources Management
102-9	Supplier chain management	Sustainable operations and development: Social aspect
102-10	Significant changes during reporting period	Chronology of important events of the HSE Group in 2020 Highlights of Group operations and HSE Company Analysis of Group and HSE Company operations
102-11	Explanation whether the organisation uses the precautionary principle	Sustainable operations and development: Environmental aspects
102-13	Membership in organisations and associations	Sustainable operations: Social aspect
102-14	Letter by the management	Letter by the management
Ethics and integrity		
102-15	Key impacts, risks and opportunities	Statement on corporate governance HSE Group risk management
102-16	Values, principles, standards, rules of conduct, such ethical code, compliance of operations, corporate integrity	Sustainable operations and development: Social aspect
102-17	Education about ethical operation and mechanisms of reporting unethical conduct	Sustainable operations and development: Social aspect
Management		
102-18	Management structure	Statement on corporate governance
102-20	Management's responsibility for economic, environmental and social topics	Statement on corporate governance Sustainable operations and development:
102-22	Management and committee structure	Statement on corporate governance
102-23	Highest ranking manager	Letter by the management
102-24	Method of appointment and selection for the highest management body	Statement on corporate governance
102-25	Prevention of conflict of interest	Risk management of the HSE Group Sustainable operations and development: Social aspect
102-28	Evaluation of management performance	Report of the Supervisory Board
102-30	Efficiency of managing economic, environmental and social risks	Risk management of the HSE Group Sustainable operations and development

Indicator	Disclosure	Chapter
The inclusion of stakeholders		
102-40	The list of groups of stakeholders cooperating with the organisation	Sustainable operations and development: Social aspect
102-41	Collective contracts in Group	Sustainable operations and development: Social aspect
102-42	Starting poitns for recognising and selecting stakeholders cooperating with the organisation	Sustainable operations and development: Social aspect
102-43	Approaches in including stakeholders and the frequency of cooperating with them	Sustainable operations and development: Social aspect
Data about the report		
102-45	List of entities included in the consolidated financial statements	Presentation of the HSE Group
102-46	Process of definig the content of the report and the delimitation of aspects	Risk management of the HSE Group Sustainable operations and development
102-48	The effects of changes of data from preliminary reports and reasons for changes	Highlights of the Group and HSE companies operations HSE Group Income Statement Analysis Sustainable operations and development
102-49	Significant changes compared to previous reporting period with regard to the delimitation of scope and aspects	Highlights of the Group and HSE companies operations Presentation of the HSE Group Sustainable operations and development
102-53	Contact data for issues connected to the report	Statement on non-financial reporting
102-54	Statement of conformity with the GRI Standard	Statement on non-financial reporting
102-55	Index according to GRI guidelines	Index
GRI 103: Topic management		
Managerial approach		
103-1, 103-2, 103-3	Key topics and their limits, management's approach and approach evaluation	Statement on corporate governance Electricity economy market environment Company and HSE Group operations performance analysis HSE Group risk management HSE Group development strategy Sustainable operations and development
GRI 200: ECONOMIC EFFECTS		
GRI 201: Economic aspects		
Economic performance		
201-1	Immediately created and distributed economic value (revenue, operational costs, salaries and employee bonuses, payments of capital owners, payments to the state (taxes), donations and other investments in the community)	Group and company operations highlights HSE company and Group performance analysis Sustainable operations and development Financial report
201-2	Financial consequences and other risks due to climate change	Electricity economy market environment Risk management of the HSE Group Sustainable operations and development: Environmental aspects
201-4	State financial aid (Subsidies, tax relief, warranties)	Transparency of financial relations
GRI 203: Indirect economic effects		
203-1	Investments in infrastructure and service (impact on the local community)	HSE Group development strategy HSE development and investment policy Sustainable operations and development

Indicator	Disclosure	Chapter
GRI 205: Anti-corruption operation		
205-1	Number of identified corruption risks	Risk management of the HSE Group Sustainable operations and development: Social aspect
205-2	Communication and education on anti-corruption operation	Sustainable operations and development: Social aspect
GRI 300: ENVIRONMENTAL IMPACTS		
GRI 301: Materials		
301-1	Use of materials by weight and volume	Sustainable operations and development: Environmental aspects
GRI 302: Energy		
302-1	Consumption of energy in the organisation	Sustainable operations and development: Environmental aspects
302-2	Consumption of energy outside the organisation	Sustainable operations and development: Environmental aspects
302-3	Energy intensity	Sustainable operations and development: Environmental aspects
302-4	Energy consumption decrease	Sustainable operations and development: Environmental aspects
GRI 303: Water		
303-1	Consumption of water by sources (Surface, groundwater, municipal)	Sustainable operations and development: Environmental aspects
303-2	Sources of used water	Sustainable operations and development: Environmental aspects
303-4	Wastewater	Sustainable operations and development: Environmental aspects
303-5	Consumption of water	Sustainable operations and development: Environmental aspects
GRI 304: Biodiversity		
304-1	Locations in protected areas with protected biodiversity	Sustainable operations and development: Environmental aspects
304-2	Impacts of activity on biodiversity in protected areas	Sustainable operations and development: Environmental aspects
304-3	Protected and restored habitats	Sustainable operations and development: Environmental aspects
GRI 305: Emissions		
305-1	Direct greenhouse gas emissions	Sustainable operations and development: Environmental aspects
305-2	Indirect greenhouse gas emissions	Sustainable operations and development: Environmental aspects
305-3	Other indirect greenhouse gas emissions	Sustainable operations and development: Environmental aspects
305-4	Intensity of greenhouse emissions	Sustainable operations and development: Environmental aspects
305-5	Reduction of greenhouse emissions	Sustainable operations and development: Environmental aspects
305-7	NO_x, SO_2 and other important emissions	Sustainable operations and development: Environmental aspects

Indicator	Disclosure	Chapter
GRI 306: Sewage and waste		
306-3	Waste by type and method of removal by weight	Sustainable operations and development: Environmental aspects
306-5	Waste for removal	Sustainable operations and development: Environmental aspects
GRI 307: Conformity of environmental management		
307-1	Financial value of fines and the number of non-financial sanctions due to non-conformity with environmental legislation	Sustainable operations and development: Environmental aspects
GRI 400: SOCIAL EFFECTS		
GRI 401: Employment		
401-1	New recruitment and fluctuation of employees	Sustainable operations and development: Human Resources Management
401-3	Number of employees that utilised parental leave (by gender)	Sustainable operations and development: Human Resources Management
GRI 403: Occupational health		
403-1	Occupational Health and Safety Management System	Sustainable operations and development: Human Resources Management
403-2	Definition of hazards, risk assessment and investigations of accidents	Sustainable operations and development: Social aspect
403-4	Cooperation of employees and raising awareness of occupational safety	Sustainable operations and development: Social aspect
403-5	Education about occupational safety	Sustainable operations and development: Social aspect
403-6	Promotion of employee health	Sustainable operations and development: Human Resources Management
403-9	Injuries at work (number, reasons, gravity)	Sustainable operations and development: Human Resources Management
403-10	Occupational diseases (number, reasons, type of diseases)	Sustainable operations and development: Human Resources Management
GRI 404: Training and education		
404-1	Average number of training hours per year per employee by gender and employee category	Sustainable operations and development: Human Resources Management
404-2	Programmes for upgrading skills and knowledge transfer programmes	Sustainable operations and development: Human Resources Management
404-3	Proportion of employees who regularly receive evaluations of their work and personal progress, by gender and category	Sustainable operations and development: Human Resources Management
404-4	Training and education	Sustainable operations and development: Human Resources Management
GRI 405: Diversity and equal opportunities		
405-1	Structure of management bodies and employee structure by categories (age, gender, other relevant indicators)	Statement on corporate governance Sustainable operations and development: Human Resources Management
GRI 406: Non-discrimination		
406-1	Number of discrimination reports and corrective measures	Sustainable operations and development: Social aspect
GRI 412: Human rights		
412-1	Number of cases, reviewed due to violation of human rights	Sustainable operations and development: Social aspect
412-2	Education of employees about human rights and methods of reporting abuse	Sustainable operations and development: Social aspect

Indicator	Disclosure	Chapter
GRI: 413 Cooperation with local communities		
413-1	Cooperation with local communities, impact assessment and development programmes	Sustainable operations and development: Environmental aspects Sustainable operations and development: Social aspect
413-2	Activities with actual and potentially negative impacts on the local community	Sustainable operations and development: Environmental aspects
GRI 415: Public policies		
415-1	Contributions to public policies	Sustainable operations: Environmental aspects
GRI 419: Socio-economic conformity		
419-1	Non-conformity with laws and rules in the social and economic field (penalties, fines, pending procedures)	Sustainable operations and development: Social aspect

5.2 Abbreviations

AC	Audit Committee
AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
ARRS	Slovenian Research Agency
ARSO	Environmental Agency of the Republic of Slovenia
DEM	Dravske elektrarne Maribor d.o.o.
EBIT	Operating profit
EBITDA	Operating profit with value write-offs
ECB	European Central Bank
EE	Electricity
EIA	Environmental impact assessment
EIB	European Investment Bank
ELES	ELES d.o.o., Electricity Transmission System Operator
EPS	Electric power system
EU	European Union
EU ETS	European Union Emissions Trading System
EUE	Efficient use of energy
EUR/€	Euro
FFC	Family-Friendly Company
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
HESS	Hidroelektrarne na Spodnji Savi d.o.o.
HPP	Hydro power plant
HSE	Holding Slovenske elektrarne d.o.o.
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
HSW	Health and safety at work
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

IP	Investment programme
IPID	Investment project identification document
ISDA	International Association of Exchanges and Derivatives
ISMS	Information security management system
ISO	International Standardisation Organisation
ISO/IEC	Information Security Management System
IT	Information technology
JTF	Just Transition Fund
MESP	Ministry of the Environment and Spatial Planning
MF	Ministry of Finance
MIC	Marketing and Investment Committee
MSR	Market Stability Reserve
MZI	Ministry of Infrastructure
NEK	Nuklearna elektrarna Krško d.o.o.
NEPN	National Energy Climate Plan of the Republic of Slovenia
NSP	National Spatial Plan
OHSAS	Occupational health and safety management system
OPEC	Organisation of Petroleum Exporting Countries
PC	Personnel Committee
PHPP	Pumping hydro power plant
PLP	PLP Lesna industrija d.o.o. Velenje
PoI	Certificates of origin
PV	Premogovnik Velenje d.o.o.
RC	Restructuring Committee
RES	Renewable energy sources
RGP	RGP Rudarski gradbeni program d.o.o.
SB	Supervisory Board
SDH	Slovenski državni holding d. d.
SENG	Soške elektrarne Nova Gorica d.o.o.
SFP	Statement of financial position
sHPP	Small hydro power plant
SIPOTEH	SIPOTEH Strojna in proizvodna oprema d.o.o.
SODO	Electricity Distribution System Operator
SONDO	System operation instructions for electric power distribution network
SOPO	Transmission network system operator
SPP	Solar power plant
SRESA	Srednjesavske elektrarne d.o.o.
SRF	Solid Recovered Fuels
STC	Slovenian Technical Consent
TEŠ	Termoelektrarna Šoštanj d.o.o.
TPP	Thermal power plant
UN	United Nations
USA	United States of America
USD	American dollar
VAT	Value added tax
WPP	Wind power plant
ZGD	Companies Act
ZIUZEOP	Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy
ZPFOLERD	Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act
ZPIZ	Pension and Disability Insurance Institute of the Republic of Slovenia
ZSDH	Slovenian Sovereign Holding Act

5.3 Bussines cards

HOLDING SLOVENSKE ELEKTRARNE D.O.O.

Viktor Vračar, Managing Director
Uroš Podobnik, Business Director
Marko Štrigl, Business Director

Koprska ulica 92
1000 Ljubljana, Slovenia
+ 386 1 47 04 100
hse@hse.si
www.hse.si

DRAVSKE ELEKTRARNE MARIBOR D.O.O.

Andrej Tumpej, Director

Obrežna ulica 170
2000 Maribor, Slovenia
+ 386 2 300 50 00
info@dem.si
www.dem.si

SOŠKE ELEKTRARNE NOVA GORICA D.O.O.

Radovan Jereb, Director

Erjavčeva ulica 29
5000 Nova Gorica, Slovenia
+ 386 5 33 96 310
seng@seng.si
www.seng.si

SREDNJESAVSKE ELEKTRARNE D.O.O.

Matjaž Eberlinc, Director

Ob železnici 27
1420 Trbovlje, Slovenia
/
/
/

TERMOELEKTRARNA ŠOŠTANJ D.O.O.

Viktor Vračar, Managing Director
Mitja Tašler, Director

Cesta Lole Ribarja 18
3325 Šoštanj, Slovenia
+386 3 89 93 100
info@te-sosanj.si
www.te-sosanj.si

PREMOGOVNIK VELENJE D.O.O.

Janez Rošer, Managing Director
Aleš Logar, Director

Partizanska cesta 78
3320 Velenje, Slovenia
+ 383 3 89 96 100
info@rlv.si
www.rlv.si

HTZ VELENJE I.P.

Nina Mauhler, Director

Partizanska cesta 78
3320 Velenje, Slovenia
+ 386 3 89 84 001
htz@rlv.si
www.htz.si

SIPOTEH D.O.O.

Iztok Kikec, Director

Partizanska cesta 78
3320 Velenje, Slovenia
+ 386 3 89 96 419
info@sipoteh.si
www.sipoteh.si

PLP D.O.O.

Damijan Kanduti, Director

Partizanska cesta 78
3320 Velenje, Slovenia
+ 386 3 89 96 200
info-plp@rlv.si
www.plp.si

RGP D.O.O.

Marko Ranzinger, Managing Director
Zef Vučaj, Director

Rudarska cesta 6
3320 Velenje, Slovenia
+ 386 3 89 82 170
info@rgp.si
www.rgp.si

HSE – ENERGETSKA DRUŽBA TRBOVLJE D.O.O.

Ervin Renko, Director

Ob železnici 27
1420 Trbovlje, Slovenia
+ 386 3 56 51 200
info@hse-edt.si
www.hse-edt.si

HSE INVEST D.O.O.

Jure Šimic, Director

Obrežna ulica 170
2000 Maribor, Slovenia
+ 386 2 30 05 992
info@hse-invest.si
www.hse-invest.si

SOENERGETIKA D.O.O.

Aleš Ažman, Director

Stara cesta 3
4000 Kranj, Slovenija
+ 386 4 20 83 531
/
/

HSE BE D.O.O.

Irena Stare, Director
Drago Skornšek, Director

Milutina Milankovića 27
11070 Beograd, Serbia
+ 381 11 311 55 86
balkan.energy@hse.si
/

HSE BH D.O.O.

Zlatko Sahadžić, Director

Ulica Alije Isakovića br.1
71000 Sarajevo, Bosna in Hercegovina
+ 387 33 266 495
hse.bh@hse.si
/

HSE MAK ENERGY DOOEL

Primož Pogačnik, Director
Drago Skornšek, Director

Blvd. »Ilinden« No. 47/1-2
1000 Skopje, North Macedonia
/
info@hse.si
/

HSE SUBSIDIARY IN PRAGUE

Drago Skornšek, Head of Subsidiary

Ujezd 409/19
118 00 Praha 1 – Mala Strana, Czech Republic
+ 42 60 32 52 259
hse.praha@hse.si
/