reliable power of energy

for 20 years

hse Group

2021 Annual report

HSE Group

20 years of existence and operations of the HSE Group

reliable
electricity supply

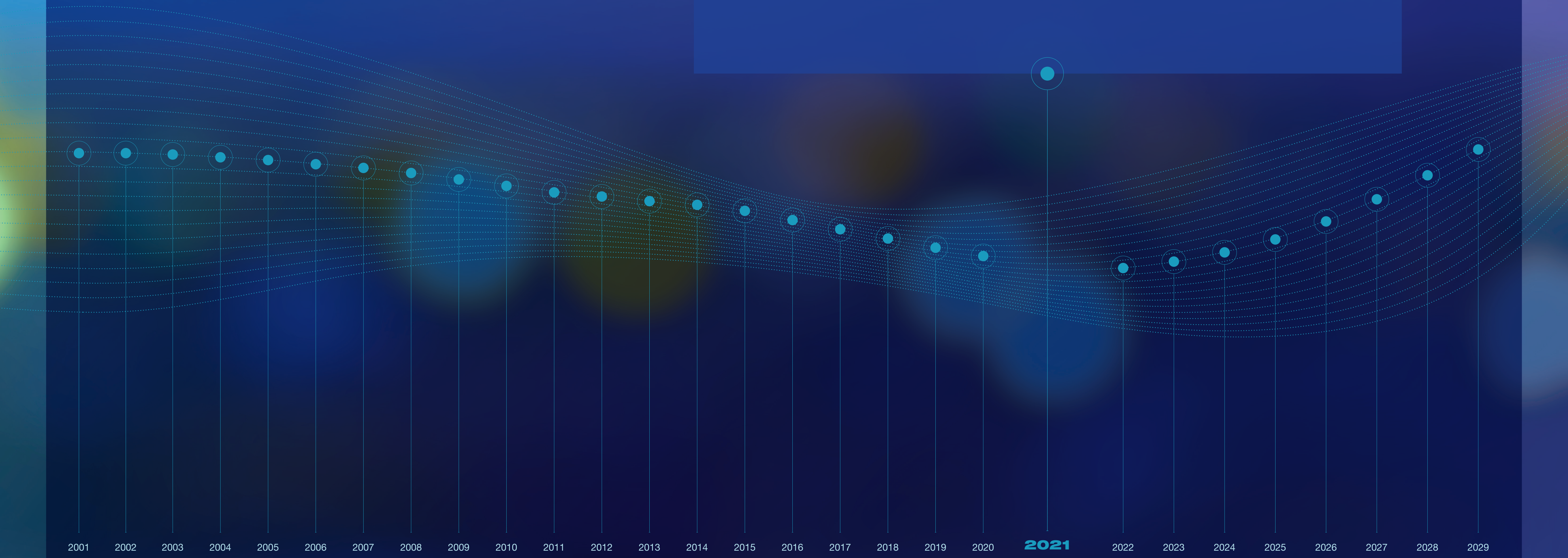
Shortage of goods

High raw material and energy product prices

COVID-19

Invasion of Ukraine and the energy crisis

Agenda 2030 (UN), Paris Agreement, European Green Deal



HSE in 2021

Highest net sales revenue of the HSE Group

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Entering the retail market

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Baa3 credit rating upgrade

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Challenging geomechanical working conditions in the mine

more on page 42

Out-of-court settlement with GE

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Extremely challenging market conditions

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Green transition and digitalisation

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SE Prapretno – the largest solar power plant

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Fit for 55

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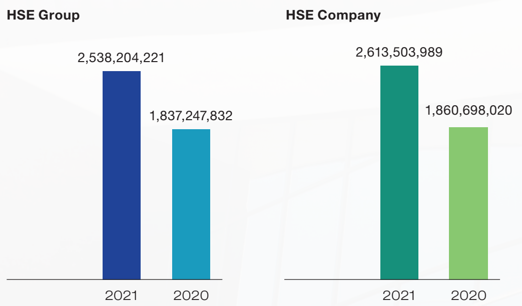
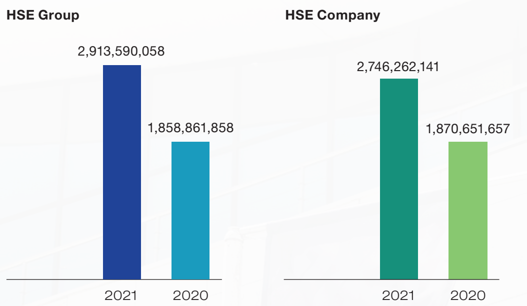
1.1 Operating highlights of the HSE Group and the HSE Company[1]

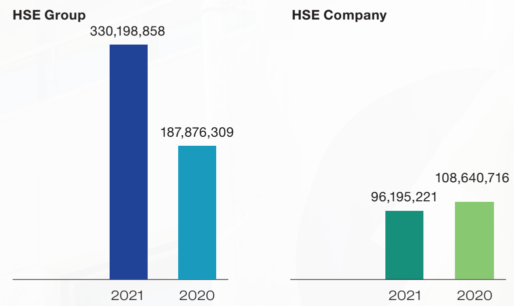
Net sales revenue in EUR



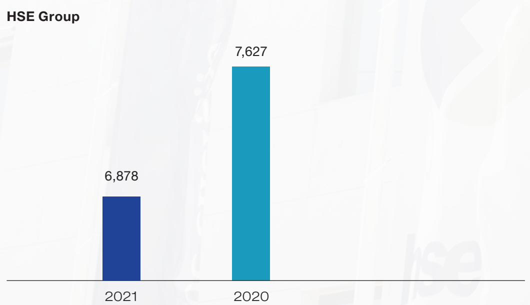
Revenue in EUR



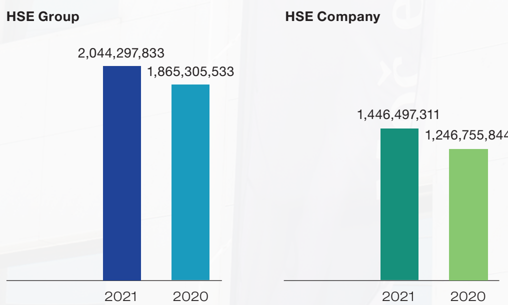
EBITDA in EUR



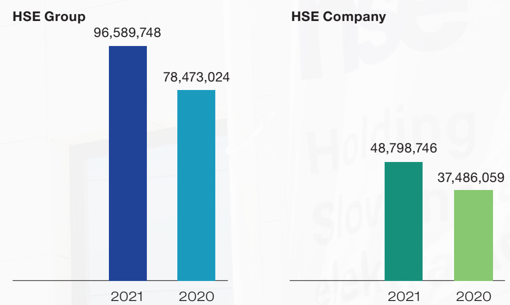
Produced electricity in GWh



Assets in EUR



Cash in EUR



1 GRI: 120-7; 201-1.

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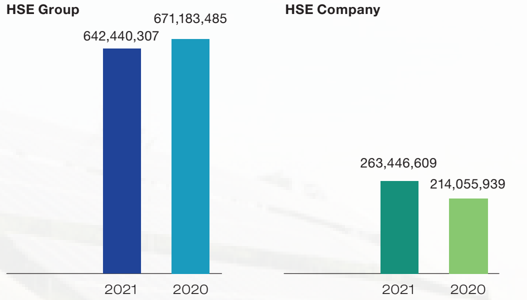
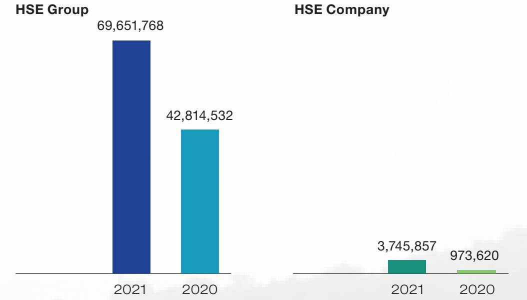
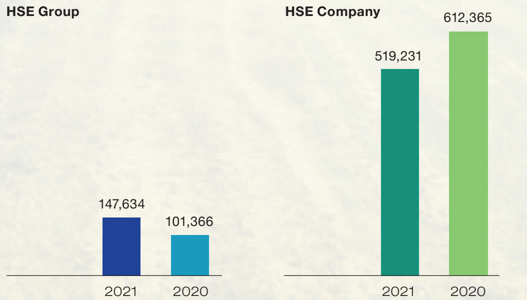
Total indebtedness in EUR



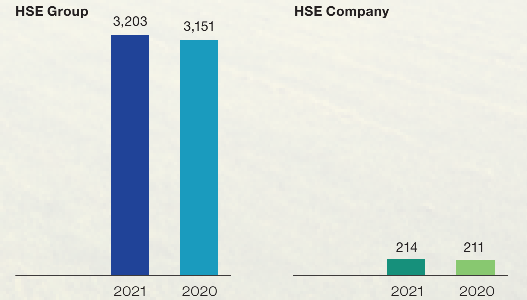
Investments in EUR



Added value per employee in EUR



Employees



1.2 Letter by the management[2]

The future belongs to us

These are the **words** usually used by the HSE Group to describe not only our activity, but also our strategic edges, i.e. reliability, stability, and efficiency.

The **objectives** pursued in our operations are focused on sustainable growth, development, and competitiveness.

Actions steering us towards attaining these objectives are based on creativity and innovativeness, pro-activity, and the pursuit of continuous improvements.

All of the above is combined to form the mission of HSE Group companies, which is to provide for safe, reliable, competitive, sustainable, and viable generation of electricity.

Largely thanks to the committed efforts of all our stakeholders, we were able to accomplish our mission in 2021, wrapped up by this Annual report. In 2021, we generated a record EUR 2.5 billion in or a whopping 43 per cent higher net revenue from sales than planned. The consolidated EBITDA amounted to a good EUR 330 million or 143 per cent more than planned, which is exclusively due to reaching an out-of-court settlement with the General Electric Group related to the investment in Block 6 of TEŠ.

The HSE Group continues to remain the largest electricity generator in Slovenia. Particularly the first half of the year was characterised by an exceptional hydrology, allowing HSE Group hydro-electric power plants to perform extremely well by generating 1.8 TWh in electricity or 448 GWh more than during the same period last as early as in May 2021. In this regard it is worth noting that Soške elektrarne Nova Gorica were able to generate more than 100 GWh in renewable electricity for the first time in history on a monthly basis in May 2021. Together with the Avče pump-fed hydroelectric power station and the Hubelj Solar Power Plant, it managed to generate almost 125 GWh thereof. Throughout 2021, the HSE Group generated 7.1 TWh in electricity (including the 49 per cent of generated electricity of HESS), accounting for more than 65 per cent of electricity generated in Slovenia and for more than 70 per cent of the Slovenian renewable electricity generation structure. As many as 44 per cent of all generated electricity was generated from Velenje coal powering the Šoštanj Thermal Power Plant (TEŠ). Whereas 56 per cent of electricity was generated from renewable sources by Dravske elektrarne Maribor, Soške elektrarne Nova Gorica and Lower Sava power plants. In view of high availability of generation infrastructure, favourable market conditions and an efficient management of the covid-19 epidemic, the generation of electricity and the resulting supply of Slovenia therewith was never jeopardised.

The challenging but also exceptional year of 2021 will be one for the history books of the HSE Group. Successfully completed projects, the expansion of the Group and integration of new members and markets in addition to generation records, each in their own way contributed to good operational results paving our way for the future.

Marko Štrigl, M.Sc.
CBO of HSE

The excellent operational results of the HSE Group can be primarily credited to the team work of our dedicated and motivated employees. In 2021, it contributed to many positive stories, including the successfully concluded out-of-court settlement with General Electric, which gives me my greatest source of pride.

Uroš Podobnik
CBO of HSE

We have put another dynamic and challenging and, in the light of our objectives and challenges at the end, successful year behind us. Even during the twentieth year of our existence we were able to retain the status of the biggest generator of electricity in Slovenia and the central pillar of its safe, reliable, and environment-friendly generation.

Viktor Vračar, PhD
CEO of HSE

2 GRI: 102:14.

Viktor Vračar
PhD, CEO of HSE

Uroš Podobnik
CBO of HSE

Marko Štrigl
M.Sc., CBO of HSE

Last year was also characterised by many successfully completed projects. We are extremely proud of the successfully completed EUR 261 million out-of-court settlement with General Electric, allowing the Šoštanj Thermal Power Plant to be largely compensated for the damage incurred in relation to the construction of Block 6. The admission of a new company into the HSE Group was also an important milestone.

ECE will expedite our plans related to selling electricity to end users and to developing comprehensive energy solutions. In June, an agreement to acquire Energija plus was signed.

In addition, the construction of new renewable source generation capacities was resumed. The foundation stone of the currently largest solar power plant in Slovenia which sent the first electricity into the network in Spring 2022 was also laid. The Prapretno solar power plant is a prime example of using a degraded area and thus of a just transition of a former coal-mining region towards a location generating renewable electricity. The green transformation of the Central Sava Valley (Zasavje) Region will be further augmented with the construction of hydro-electric power plants on the Middle Sava, a project as part of which challenging comprehensive environmental assessment studies were carried out in 2021.

There is a challenging period ahead of us, during which the coal-mining region restructuring collaboration will be at the forefront. In compliance with the National Coal Phase-Out and Coal-Mining Region Restructuring Strategy in compliance with just transition principles, adopted by the Government of the Republic of Slovenia in January 2022, a plan of investments in technologies which will seek to preserve and continue to develop the strategic energy location in the Šalek Valley will be drawn up. The social security of employees until 2033, when a complete coal phase-out is foreseen, and also for the duration of closure works following that year, comes first. At the same time, aware of our role and responsibility towards all stakeholders and the environment, our development investments will be focused on alternative renewable electricity generation capacities, on ensuring reliable operations of our generation facilities, protecting the environment, the safety and satisfaction of employees, the owner, and all our other key stakeholders that form part of our operations.

It appears that facing the coronavirus epidemic will continue to remain one of our challenges in 2022. Our operations and business processes were adjusted thereto in a way that allowed them to continue without interruption and in compliance with our plans. Credit for this goes primarily to more than three thousand of employees of the HSE Group, who ensured that, in spite of changed working conditions, our results were exceeded. Credit for results achieved in 2021 that we can be proud of goes to our employees, owner, Members of the Supervisory Board and all other key stakeholders.

In 2021, the HSE Group commemorated the twentieth anniversary of its existence and operations. During this time, several milestones, each of which contributed to our visibility, reputation and performance in its own way, were attained. The construction of hydro-electric power plants on the Lower Sava, the construction of the Avče pump-fed hydroelectric power station, and Block 6 of TEŠ, the signing of a concession agreement for the construction of hydro-electric power plants on Middle Sava, setting up the currently biggest solar power plant in Slovenia, the expansion of our trading activities that allow us to be currently present on all main European futures and daily electricity exchanges, and more than three hundred satisfied business partners are achievements that rank us among significant players in the European energy industry. We not only “believe: committed to continuous development and improvements” but we are also “positive” that we will continue to remain one of the top players in the energy industry upon the commemoration of our fortieth anniversary in twenty years’ time. In word, objective, and deed.

Done in Ljubljana, on 20 May 2022

Marko Štrigl, M.Sc.
CBO of HSE

Uroš Podobnik
CBO of HSE

Viktor Vračar, PhD
CEO of HSE

1.3 Report of the Supervisory Board[3]

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

Pursuant to the Companies Act, the Articles of Association of the limited liability company HSE d.o.o., the Rules of Procedure of the Supervisory Board of HSE d.o.o., and the Corporate Governance Code for Companies with State Capital Investments, the Supervisory Board of HSE d.o.o. hereby issues the 2021 Report of the Supervisory Board of HSE d.o.o.

1.3.1 Mode and scope of reviewing the management and operations of HSE in the 2021 financial year

In 2021, the Supervisory Board held sixteen sessions in total, out of which thirteen ordinary, one extraordinary, and two correspondence sessions. The participation of Members of the Supervisory Board of HSE can be seen in the table included in the Governance Declaration. The Supervisory Board of HSE received regular updates the operating activities and results of the HSE Group and HSE and the implementation of the decisions of the Supervisory Board, deliberated on legal transactions and business matters of subsidiaries, for which prior consent from the Supervisory Board was required under the Articles of Association, the legal transactions between the HSE, PV and TEŠ that required the permission of the Supervisory Board in compliance with the Slovenian Sovereign Holding Act (ZSDH-1) and other business and strategically important areas with a material effect on the medium-term and long-term interests of the HSE Group and HSE. All decisions at the sessions of the Supervisory Board were adopted by unanimous consent, save in cases where there were any grounds for non-voting or the abstention of any Member of the Supervisory Board. On a regular basis, the Supervisory Board of HSE received regular updates from the Management Board of HSE on the development of the vertical integration project, the operations of the HSE Group and HSE and reports on the implementation of operating optimisation and streamlining measures, liquidity, borrowing, receivables, reports on risk management in the HSE Group or other HSE Group companies, commitments of HSE or other HSE Group companies related to bank agreements, and the implementation of decisions of the sole company member.

The Supervisory Board of HSE gave its consent to the 2022 Business Plan of the HSE Group, an additional indicative plan for 2023 and 2024 and its revision in November 2021. It confirmed the 2020 annual reports of the HSE Group and HSE and the 2022 Work Plan of the Internal Audit Department in addition to regularly taking note of its audits and of the quarterly work reports of the Internal Audit Service. The Supervisory Board of HSE intensively continued focusing its activities aimed at controlling the liquidity and borrowing of the HSE Group and HSE, whereby special attention was paid to monitoring the conditions in the 'thermal energy division', i.e. of PV Group companies and in TEŠ. Within the scope of its supervisory function, the Supervisory Board of HSE obtained answers to questions posed in addition to the usual materials provided for Supervisory Board sessions.

The Supervisory Board of HSE also kept up-to-date on the course of negotiations and, in the end, consented to concluding a EUR 261 million out-of-court settlement concluded by HSE and TEŠ with the legal successor of Alstom, the General Electric (GE) Group whereby the Šoštanj Thermal Power Plant compensated for a major part of the damage incurred in relation to the construction of Block 6.

In 2021, the Supervisory Board of HSE regularly took note of the so-called vertical integration project and consented to submitting a binding offer for the acquisition of a 51 per cent participating interest in Energija plus d.o.o., before consenting to the conclusion of an acquisition agreement after negotiations had been completed.

The Supervisory Board of HSE 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 Board, within the scope of its powers and responsibilities laid down by law and the Articles of Association and taking into consideration the Reference Corporate Governance Code for Companies with State Capital Investments (November 2019 and March 2021 versions, SDH, d.d.). The Management Board of the Company kept the Supervisory Board of HSE regularly apprised of the decisions of the founder, important projects, court/arbitration proceedings and significant events in HSE and the HSE Group.

At the beginning of 2022, the Supervisory Board assessed itself and adopted appropriate decisions. The Members of the Supervisory Board of HSE review their work done so far and adopt improvements for their work after the end of the financial year on an annual basis through a self-assessment procedure of the Supervisory Board. Wherever there is a conflict of interest in the decision-making process, Members of the Supervisory Board recuse themselves from taking part in votes.

1.3.2 Operation of the Audit Committee of the Supervisory Board of HSE

In 2021, the Audit Committee of the Supervisory Board of HSE d.o.o. (AC) operated in the following composition:

- **Mr. Andrej Janša**,
  President of the AC since 28 October 2020,
  Bachelor's degree (Level 2 of the Bologna Process);
- **Mr. Janez Gutnik**,
  Member of the AC since 28 October 2020,
  Bachelor's degree (Level 2 of the Bologna Process);
- **Mr. Boštjan Jančar**,
  Member of the AC, representative of employees,
  Master's degree (Level 2 of the Bologna Process)
- **Marko Hočevar**, PhD
  External Member since 26 November 2020,
  PhD degree (Level 3 of the Bologna Process).

In 2021, the Audit Committee of the Supervisory Board held eight ordinary, two extraordinary, and one correspondence session(s) that all Members of the Audit Committee of the Supervisory Board of HSE d.o.o. attended or voted by ballot. The Members of the Supervisory Board who are not Members of the Audit Committee were kept apprised of the work of the Audit Committee by being granted access to the minutes of its session. In addition, the President of the AC also regularly reported on the work and findings of the AC at the sessions of the Supervisory Board. The Audit Committee deliberated on issues in compliance with the Companies Act (ZGD-1), Work Recommendations for Audit Committees, Rules of Procedure of the Audit Committee, the 2021 Work Plan of the Audit Committee of the Supervisory Board, and decisions of the Supervisory Board of HSE. The AC consisting of Mr. Janša, Mr. Hočevar, PhD, Mr. Gutnik, and Mr. Jančar, self-assessed their work at the beginning of 2022 and also adopted a decision on the basis thereon.

1.3.3 Operation of the HR Committee of the Supervisory Board of HSE

The permanent HR Committee of the Supervisory Board of HSE operated in 2021. It held four regular sessions. Its role is to provide technical HR assistance to the Supervisory Board. It proposed 2021 Criteria for the calculation of variable remuneration of the Management Board of HSE d.o.o., the Managerial function replacement policy in HSE Group companies to the Supervisory Board of HSE and reviewed the meeting of the adopted Management Board criteria for 2020.

3 GRI: 102-28.

1.3.4 Operation of the Restructuring Committee of the Supervisory Board of HSE

In 2021, the permanent Restructuring Committee of the Supervisory Board of HSE operated. One extraordinary session was held. The Committee served as expert support to the Supervisory Board in relation to restructuring the HSE Group. It deliberated on issues in accordance with the Rules of Procedure and decisions of the Supervisory Board of HSE. It deliberated on the reports of the General Managers of subsidiaries on the potential restructuring of their respective companies, what the restructuring programme would entail and the potential solutions for the financial position of the company they see.

1.3.5 Operation of the Marketing and Investment Committee of the Supervisory Board of HSE

In 2021, the permanent Marketing and Investment Committee of the Supervisory Board of HSE operated. It held two ordinary, two extraordinary, and one correspondence session. The Committee provided expert support to the Supervisory Board of HSE in relation to marketing and investments. It deliberated on issues in accordance with its Rules of procedure and decisions of the Supervisory Board. It took note of the 2022 Business Plan for the HSE Group and HSE with an additional 2023 and 2024 indicative plan that focused mainly on key investments. It took note of the changes to the investment planning, implementing, and monitoring system in the HSE Group and HSE and to related organisational regulations. Inter alia, it delivered a favourable opinion for investments in improving the generating efficiency and improving the availability of Block 6 of TEŠ and consented to several planned RSE investments. At several sessions, it deliberated on providing sufficient protection to electricity generation in the face of volatile electricity and emission allowance prices and related sales and marketing activities.

1.3.6 Opinion on the work of the Management Board in 2021

In accordance with the law and good practice, the Supervisory Board of HSE comprehensively supervised the management and operations of the HSE Group and HSE in 2021. Members of the Management Board participated in the meetings of the Supervisory Board of HSE, extensively reported on each item in cooperation with the heads of other professional departments of HSE and answered additional questions of Members of the Supervisory Board. The Management Board and the President of the Supervisory Board also regularly communicated outside the sessions of the Supervisory Board of HSE. Professional departments of HSE organised meetings, introduced real-time technical improvements and provided administrative and organisational support to the Supervisory Board of HSE. The Supervisory Board regularly monitored and assessed the work of the Management Board when deliberating on periodic business results and project implementation, compared the operations of the HSE Group and HSE d.o.o. with past operations and planned objectives, and took note of the reports by external experts on individual HSE Group companies. The Management Board diligently and passionately worked towards achieving the set operating objectives and optimal budgeting in the HSE Group and its companies and it cooperated with the Supervisory Board of HSE well.

1.3.7 Opinion on the operations of the Group and Company in 2021

Despite harsh epidemic-related conditions, the HSE Group was able to ensure reliable electricity supply throughout the entire year of 2021. On account of a high incidence of sick leave and challenging geomechanical conditions in the Velenje Coal Mine, coal power generation fell by 17% compared to 2020. Occasional coal extraction issues and the almost three-month-long overhaul of Block 6 led to a 13% lower generation by the thermal power plant. Hydro power generation fell by 7% on account of below-average precipitation levels during the second half of 2021. The deviation is even higher due to an above average hydrology in the preceding year (2020). In total, the generation units of the HSE Group generated 10% less electricity compared to 2020 and provided for 19% in sales volume which remained at the same level as the preceding year. The HSE Group shifted its trading activities towards financial products which resulted in a 7% lower quantitative volume. In spite of that, its net revenue from sales of electricity increased by 38% (higher average sales prices). In 2021, we witnessed sky-rocketing prices of electricity and energy products that were more pronounced during the second half of the year when joined by a high volatility of prices and lower generation. The missing volumes were procured by the HSE Group on the market at high prices, generating an 8% lower gross margin with the sales of electricity. High prices and the shift of our trading activities towards financial products are reflected in high other operating revenue showing the netting benefits of electricity trading futures contracts (EUR 123,959,224) and in other operating expenses showing the netting benefits of valuing physical contracts at fair value - at end of 2021 prices (EUR 161,377,066).

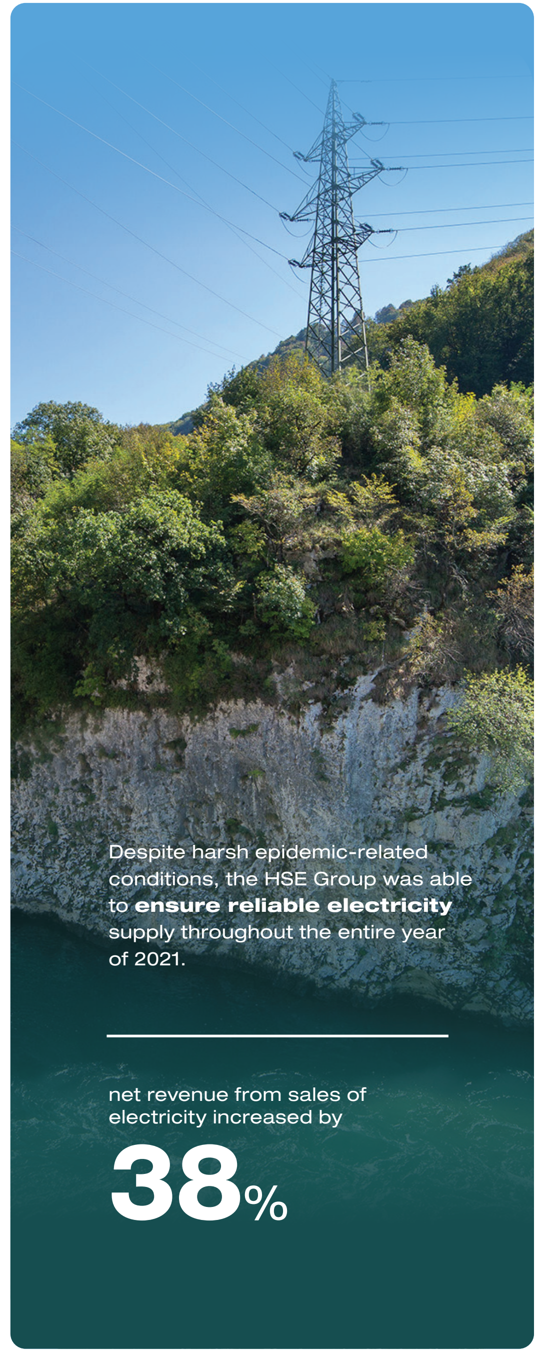
In March 2021, HSE and TEŠ signed an out-of-court settlement with the legal successor of Alstom, the General Electric (GE) Group, in favour of TEŠ. TEŠ thus generated EUR 231,824,032 in revenue from compensations, as a result of which the HSE Group generated an exceptional EUR 330,198,857 EBITDA which was 76% higher than in 2020. Resulting from a good organisation of work and timely adopted measures, the epidemic did not significantly affect the operations of the HSE Group.

All cost items were higher compared to the preceding year. Costs of materials rose by 52% on account of a higher consumption and growth in prices. The costs of steel arch support, fuel oil, and construction materials increased the most. Costs of services increased by 30%. The costs of outsourcing to RGP and HSE Invest, which were partially covered by revenue, and costs of services provided by lawyers increased the most. Labour costs increased by 5%. Higher labour costs were affected by the adjustment or raise of base gross salaries, the computed variable business performance, resulting from higher than planned operations, severance pay on operational grounds, a higher holiday allowance, and the integration of ECE in the consolidated financial statements of the HSE Group. Higher prices caused a 34% and 40% increase in costs of CO_2 emission allowances and concession fees, respectively, leading to a 29% increase in other costs.

Due to the changed market conditions, i.e. the movement of the future prices of electricity and CO_2 emission allowances, the reduction of the economic life of the thermal energy division from 2054 to 2033, the impairment of the assets of HSE Group companies in the amount of EUR 164,491,000 related to the thermal energy division of the HSE Group was carried out on the basis of assessments according to IFRS 36. In spite of the above, the HSE Group generated EUR 88,313,624 in operating profit (EBIT). In 2020, a loss had been generated.

The net flow was negative on account of debt financing. In 2021, the HSE Group generated EUR 46,969,876 in net profit.

At the end of 2021, the assets of the HSE Group increased by 10%. Other current assets accounted for the majority of that increase as highly volatile electricity and CO_2 emission allowance prices required additional financial coverage; in addition to current trade receivables on account of higher prices; and non-current operating receivables arising from receivables from the out-of-court settlement with the General Electric Group. Non-current assets fell by 4% from impairment.



Other current liabilities on the account of higher liabilities resulting from the valuation of physical contracts for electricity trading purposes at fair value at the high prices at the end of 2021, and current trade liabilities on account of higher prices, account for the majority of liabilities.

At the end of 2021, capital was lower by 9%, despite net profits of the HSE Group. It fell due to the risk hedging reserve as part of the effects of electricity and CO_2 emission allowance futures are shown (futures serving to hedge the sales of self-generated electricity).

Bank indebtedness fell by 5%. TEŠ repaid the fixed part of the loan taken out from EBRD (EUR 28,757,143) early. SENG repaid its loans with SID and NKBM early. On account of a higher daily volatility of prices of electricity and CO_2 emission allowances present during the last quarter of 2021, the HSE Group required higher liquidity. These arise from the daily provision of financial coverage arising from futures contracts that serve to hedge physical contracts in the future, meaning that the futures-related liquidity deficit is only temporary. In light of the foregoing, HSE drew down EUR 70,000,000 in revolving loans at the end of 2021.

The HSE Group's investments amounted to EUR 70 million. The investments necessary to ensure reliability and operational safety at generation units were the most common.

In 2021, HSE generated the highest net revenue from sales, exceeding the EUR 2.6 billion limit. Compared to 2020, it was 40% higher on account of higher prices. The sales volumes of electricity fell by 8%. This was mainly caused by the continuing trend of shifting trading activities on electricity markets towards financial products. On account of an exceptionally low hydro power generation during the second half of 2021, HSE was forced to compensate for the missing volumes of electricity with more expensive procurements on the market, reflected in a 9% lower gross margin, 13% lower EBIT, and 11% lower EBITDA.

The parent company, HSE d.o.o., used valuations by certified valuers to recognise the impairment of EUR 59,530,797 in non-current investments in compliance with IFRS 36 which caused a negative financial result. Despite the impairments, HSE generated EUR 18,881,097 in net profit in 2021. Without the investment impairment, the HSE Group would have generated EUR 78,411,894 in profit.

At the end of 2021, the assets of the company were 16% higher compared to the preceding year, primarily due to the effect of growing prices which, in turn, affected higher receivables and required additional financial coverage. In addition, HSE successfully entered the retail market by acquiring a 51 per cent participating interest in ECE and launched major investments (hydro-electric power plants on Middle Sava and the Prapretno solar power plant). HSE's investments amounted to EUR 3.7 million. An impairment of investments was reflected in a 6% lower balance of non-current investments in subsidiaries.

Other current liabilities arising from the fair value of physical contracts for electricity trading purposes at high prices at the end of 2021 accounted for the highest increase in liabilities. Even though the Company generated profit, its capital fell by 15%. This was caused by reducing the hedging reserve on account of closing futures from hedges to procure electricity in December 2021. As at 31 December 2021, the total indebtedness increased by 23% compared to the end of 2020. EUR 70,000,000 in revolving loans were drawn. All non-current loans were repaid in compliance with the respective loan agreements.

1.3.8 Determining balance sheet loss

According to audited data, HSE Company d.o.o. generated EUR 397,615,260 in total balance sheet loss in the 2021 financial year. The total value of investments fell by EUR 18,899,775 million compared to 2020.

1.3.9 Review and confirmation of the 2021 Annual Report of HSE and the HSE Group including the opinion on the Auditors' report and the Auditor's letter to the Management Board

Pursuant to paragraph 3 of Article 272 of the Companies Act (ZGD-1), the Management Board of HSE d.o.o. submitted to the Supervisory Board of HSE the 2021 Annual Report of the HSE Group and the Company, including the auditor's 2021 reports, which was deliberated on by the Supervisory Board of HSE at Session 28 of the Supervisory Board of HSE d.o.o. held on 30/05/2022.

Deloitte revizija d.o.o. audited the 2021 Annual Report of the HSE Group and HSE. On 20 May 2022 it issued its opinion that the financial statements of the HSE Group and HSE present a true and fair view of the financial position of the HSE Group and HSE and comply with IFRSs. At its Session 16, held on 26/05/2022, the Audit Committee of the Supervisory Board of HSE d.o.o. deliberated on the audited 2021 Annual Report of the HSE Group and HSE, 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 Audit Committee of the Supervisory Board of HSE was also apprised of the findings and recommendations stated in the Letter to the Management of HSE d.o.o., issued and compiled by the Deloitte revizija d.o.o. audit company following the completion of the 2021 audit process. The Audit Committee had no objections to the 2021 Annual Report of the HSE Group and HSE. For this reason, it proposed that the Supervisory Board of HSE adopt the decision to confirm the 2021 Annual Report of the HSE Group and HSE in accordance with Article 282 of the Companies Act (ZGD-1). Pursuant to the independent auditor's opinion, the position of the Audit Committee of the Supervisory Board of HSE, the data and disclosures in the 2021 Annual Report of the HSE Group and HSE, the HSE Supervisory Board believes the auditor to have carried out their 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 2021, and their income statement and the cash flow statements for the year then ended are in accordance with the International Financial Reporting Standards as adopted by the European Union.

The Supervisory Board of HSE has no objections to the auditor's report. The Supervisory Board of HSE also has no other objections to the 2021 Annual Report of the HSE Group and HSE that would in any way prevent it from making the decision to confirm it. For this reason, the HSE Supervisory Board adopted the 2021 Annual Report of the HSE Group and HSE 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 Management Board of the Company submitted the 2021 Annual Report to the Supervisory Board of HSE.

Done in Šoštanj, on 30 May 2022

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

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2.1 Chronology of important events of the HSE Group in 2021[4]

January

On **12 January**, Member of the Management Board of HSE, Marko Štrigl, M.Sc., became the President of the Supervisory Board of PV.

On **22 January**, the Supervisory Board of PV appointed Aleš Logar as a new member of the Management Board of PV. He took over finances, general affairs and development. He took up office on 1 March 2021.

On **23 January**, Jure Šimic, M.Sc., was appointed the new CEO of HSE Invest.

Aiming at strengthening its position of the biggest generator of renewable electricity in Slovenia, DEM signed a letter of intent for establishing a pilot geothermal power plant in the Municipality of Lendava with its two partners, Petrol and Nafta Lendava. The project will be the first application of a Slovenian patent and is an important milestone for harnessing geothermal energy at abandoned natural gas-oil wells in Slovenia and throughout the world.

February

On **10 February**, PV reached a new coal production milestone – record progress was made at a single coal face in a single day. At the G4/8 coal face located in the north wing of the Preloge mine, 9.4 metres in daily advance of heading or the biggest daily of heading throughout the entire history of operations of the coal mine was made. The previously biggest progress had been made in PV in February 2012 (8.6 metres).

On **15 February**, the General Assembly of RGP appointed a new two-member Management Board of the company, consisting of its CEO, Marko Ranzinger, and its General Manager, Zef Vučaj.

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

March

On **10 March**, HSE and TEŠ signed an out-of-court settlement with the legal successor of Alstom, the General Electric (GE) Group, in a total value of EUR 261 million benefiting TEŠ. Thus, the claim before the International Chamber of Commerce seeking damages for alleged unlawful conduct during the construction of Block 6 of TEŠ was withdrawn.

On **18 March**, the Moody's credit rating agency upgraded the long-term credit rating of HSE from Ba1 'Stable' to Ba1 'Positive'.

On **23 March**, vaccination of employees against covid-19 began in HSE Group companies. In compliance with the resources at our disposal and the vaccination strategy, employees working in generation facilities were vaccinated first.

For the purpose of standardisation and harmonisation of articles of association, new articles of association of TEŠ, DEM, HSE-EDT, PV and SENG entering into force as of the date of entry into the Companies Register were drawn up.

4 GRI: 102-10.

April

On **April 8**, an amendment to the articles of association of HSE Invest – a EUR 60,000 increase in share capital – was entered. Its new members are: HESS (13.2%), TEŠ (1.3%) and PV (1.3%). And its remaining members are: HSE (42.1%), DEM (21.05%) and SENG (21.05%). The HSE Group has an 86.8 per cent participating interest in HSE Invest. HSE Invest was restructured into an infrastructure company.

On **8 April**, HSE and HSE Invest signed a master agreement for services related to the implementation of the Suhadol, Trbovlje and Renke hydro-electric power plant investment project until the construction permit is obtained, constituting the official resumption of further activities on the Middle Sava hydro-electric power plant project. This is a long-term agreement foreseeing the implementation of all procedures until the construction permit is obtained for all three hydro-electric power plants within a period of three years.

On **9 April**, the Independent Auditor's Report on the audit of the financial statements of the HSE Group and HSE and its subsidiaries for 2020.

Given the decision of the Government of the Republic of Slovenia on an eleven-day lockdown of the country related to measures aimed at containing the spread of the new coronavirus, the Management Board of HSE decided to minimise the number of employees per organisation unit, as required for unimpeded operations; and to have the remainder of employees to work from home. The minimum number of employee restriction applied until 11 April 2021. Even though only a minimum and restricted number of employees remained at their workplace, our power plants continue to provide for reliable generation and unimpeded supply of electricity and compensated for the loss of generated electricity caused by a 35-day overhaul of the Krško Nuclear Power Plant (NEK).

May

On **4 May**, a final construction permit for the 3 MW Prapretno solar power plant, located in a re-cultivated and closed part of the Prapretno landfill of non-hazardous waste close to Hrastnik, was obtained.

In May, RGP started to render cargo loading and unloading services at the Liquid and Break Bulk Terminal profit centre of the Koper Port.

On **7 May**, the National Council of the Republic of Slovenia and HSE organised a consultation on the conditions to be met for drawing up a good PV closure law. It was attended by everyone involved in drawing up an optimal law: representatives of the HSE Group and trade unions; ministries with whom the text of the law will be harmonised; and representatives of the economy and local residential communities of PV and TEŠ employees.

On **May 8**, the second regular overhaul of the 600 MW Block 6 commenced in TEŠ, including maintenance work subject to equipment manufacturers' programmes and some other warranty repairs. During the overhaul, electricity and heat for the Šalek Valley were generated by block five and one gas unit.

On **11 May**, RCE - razvojni center energija, under receivership, was deleted from the Companies Register on the basis of a final decision on the completion of receivership proceedings before the District Court of Celje.

On **20 May**, the Ministry of Infrastructure amended the National coal phase-out and coal-mining region restructuring strategy on the basis of comments received during public consultation. In addition to the environmental report and all appendices, it was sent to the Ministry of the Environment and Spatial Planning for making an admissibility decision. Among the three proposed coal phase-out years, 2033 was selected.

On **May 31**, DEM obtained a construction permit for the construction of a new building, the Zlatoličje solar power plant - segment five.

Pursuant to the Cultural Heritage Protection Act, the Ministry of Culture of the Republic of Slovenia issued a decision entering "Jump over the Skin" into the Register of Intangible Cultural Heritage.

June

On **4 June**, the Supervisory Board of DEM held its constituent meeting, unanimously electing Viktor Vračar, PhD, as President, and Urška Gašperlin, M.Sc., as Vice President. Marjan Kirbiš is the representative of employees in the Supervisory Board of DEM.

On **4 June**, the Supervisory Board of SENG held its constituent meeting, unanimously electing Uroš Podobnik as President, and Kristina Rovšek as Vice President. Boštjan Čopi is the representative of employees in the Supervisory Board of SENG.

On **9 June**, the Management Board of HSE and Elektro Maribor signed an agreement on the sales or acquisition of a majority (51 per cent) participating interest in Energija plus, engaged in the sales of electricity and services. HSE will enter Energija plus upon consent of the Competition Protection Agency.

On **18 June**, the General Manager of DEM, Andrej Tumpej, and the Mayor of the Urban Municipality of Maribor, Aleksander Saša Arsenović, officially inaugurated a sustainable amphitheatre on the left bank of the Mariborski otok hydro-electric power plant pool.

On **23 and 24 June**, HSE successfully championed its quality management system (ISO 9001:2015), its occupational health and safety management system (ISO 45001:2018) and its information security system (ISO 27001:2013). Based on the findings of external auditors, the successfully maintained and continuously improved management system introduced is efficient.

On **23 June**, the Supervisory Board of TEŠ held its constituent meeting, electing Drago Skornšek as President and Tomaž Pestotnik as Deputy President. Aleš Redanjak is the representative of employees in the Supervisory Board of TEŠ.

On **30 June**, TEŠ repaid the fixed part of the non-current loan from EBRD amounting to EUR 28.8 million early.

In June, SENG repaid two non-current loans in full, namely the EUR 5.7 million loan from SID banka and the EUR 2.7 million loan from NKBM.

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July

On **1 July**, the CEO of HSE, Viktor Vračar, PhD, and the CIO of HSE, Marko Bahor, M.Sc., on the first day of the Slovenian presidency of the Council of the EU, presented the renewable energy project, i.e. the Prapretno solar power plant, to around seventy members of the foreign press.

On **3 July**, the start of construction of the largest Slovenian solar power plant, Prapretno, was marked by laying its foundation stone.

On **7 July**, the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUPGT) was adopted, facilitating the extension of mining rights, whose concession relationships expire in either 2021 or 2022, by 18 months, as proposed by the concessionaire. Within the foreseen deadline, until 14 August 2021, PV filed for extending its mining rights under ZIUPGT.

On **13 July**, the National Assembly of the Republic of Slovenia adopted the Act on the Promotion of the Use of Renewable Energy Sources.

On **14 July**, the European Commission unveiled its fourteen legislative acts of its "Fit for 55" package, intended to have the EU reduce its greenhouse gas emissions by 55 per cent until 2030 (compared to 1990), allowing it to head towards a climate-neutral society by 2050. The proposed revision of EU emission trading rules expands them to the maritime and road sectors and building. With a view to increasing the efficiency of the existing EU ETS system, the existing mechanisms (LRF, MSR) will become more stringent, causing an accelerated reduction in CO_2 emission allowances in circulation during the following decade.

On **14 July**, SDH took note of the 2020 HSE annual report and the HSE Group consolidated annual report, including both auditor's reports and a report of the Supervisory Board on reviewing the annual report. SDH granted a discharge to the Management and Supervisory Boards of HSE.

On **14 July**, SDH appointed Mr. Denis Bele as Member of the Supervisory Board of HSE, for a 4-year term, commencing on 2 September 2021.

On **21 July**, the Ministry of Infrastructure published the proposed Energy Policy Act for public consultation which ended on 1 September 2021. The proposed draft of the energy policy setting act thus no longer contains a provision on drawing up an Energy Concept of Slovenia (EKS), which has been replaced by a Long-term Climate Strategy (ReDPS50) and NEPN. This is the final sectoral act being carved out of the existing Energy Act that is thus finally repealed. The proposed act does not contain any significant novelties which shall be entered if the objectives of the "Fit for 55" package are to be attained.

On **27 July**, nine stamps, including a stamp of PV depicting a mine inside the Velenje coal mine, were issued commemorating the 70th anniversary of the Slovenian Geological Society.

In July, the HSE Sonce website (www.hsesonce.si), presenting solar projects of the HSE Group, was launched.

August

An information raising awareness on a drowning hazard began operating at the Solkan dam on the Soča River on **3 August**. This is one of the measures foreseen by the improved safety agreement for the Soča River area in Solkan.

In mid-August**,** DEM began constructing the Zlatoličje, segment five, solar power plant, on the left shore of the Zlatoličje hydro-electric power plant drainage channel. The project is worth a good two million euros. Almost 6,000 photovoltaic modules of almost 2.7 MWp in power output and of approximately 3,000 MWh in planned annual generated electricity, will be installed on the unexploited steep slope of the drainage channel.

At the end of August, the government approved the Gas Supply Act which was sent to the National Assembly. Our proposal to have gas clearly highlighted in the act as an important transitory energy product, relevant primarily for including gas projects in the revision of the National Energy and Climate Plan (NEPN) of the Republic of Slovenia, was accepted.

September

On **1 September**, the Competition Protection Agency issued a favourable decision whereby it does not oppose the concentration between HSE and ECE and states that the intended concentration complies with competition rules.

On **3 September**, the Day of HSE, marked by celebrating the 20th anniversary of the founding of HSE, was organised.

On **7 September**, the articles of association of HSE were amended and entered into force as of the date of entry into the Companies Register on 15 September 2021. The amendments refer to establishing supervisory boards in subsidiaries.

On **9 September**, SENG and Salonit Anhovo concluded an agreement on examining joint collaboration renewable energy opportunities. The erection of a solar power plant and a hydrogen production technology are planned.

On **13 September**, the Minister of Infrastructure of the Government of the Republic of Slovenia, Jernej Vrtovec, visited PV and TEŠ with his team. Accompanied by the Management Board of HSE, he inspected the extractions at the coal face at the -110/B angle in the Pesje mine, almost 500 metres underground, and took note of the company's financial and business restructuring plan. This was followed by a visit to TEŠ and the 127-metre-high 600 MW Block 6.

On **14 September**, the Moody's credit rating agency upgraded the credit rating of HSE from Ba1 (Positive) to Baa3 (Stable). The upgrade confirmed the ability of the HSE Group, as the leading generator of electricity in Slovenia, to honour its financial obligations set and maintain credit indicators at an appropriate level.

On **16 September**, the General Manager of DEM and the Mayor of the Urban Municipality of Maribor signed a later of intent for collaborating in reviving the bank of the Drava River through Maribor or the "Drava Promenade" project.

On **24 September**, PV was awarded a silver prize for its "Magnetic Extraction of Ferromagnetic Foreign Matter from Coal Transport" innovation at the tender of the Savinja-Šalek Chamber of Commerce for the best regional innovations. This innovation will serve to significantly improve the coal transport process from underground parts of the coal mine to the surface.

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Oktober

On **1 October**, our subsidiary TET Novi materiali, in regular liquidation since 26 February by judicial decision, was deleted from the Companies Register.

On **1 October**, DEM commemorated seventy years of existence. The "Drava, river, larger than life - The history and importance of Drava River Power Plants in Maribor for the region and country" exhibition was opened on Leon Štrukelj Square, intended to present the company and its activities to the wider public.

HSE officially entered the electricity retail market on **14 October** by acquiring a 51 per cent participating share in ECE. The combined know-how of both companies will bring about a new partner providing them with state-of-the-art and competitive energy products and services for end users in Slovenia.

On **20 October**, the National Assembly confirmed the Energy Supply Act, including articles facilitating the introduction of CRM in compliance with EU rules. It entered into force on 13 November 2021.

On **21 October**, DEM and HSE Invest signed an agreement for drawing up project, tender, and investment documentation for the reconstruction of the Formin hydro-electric power plant and the Markovci dam, signifying the beginning of a multi-annual project. The value of the works to be completed by the commissioned designer HSE Invest and its sub-contractors is a good EUR 3.5 million. The foreseen completion of all contractual obligations is at the end of 2026.

On **22 October**, TEŠ and PV were visited by the Minister of the Interior, Aleš Hojs. Accompanied by the management boards of both companies and of HSE, he inspected production at the thermal power plant and the coal mine. The on-site visit was intended to review the security measures in place in major energy infrastructure locations in the country and the level of collaboration with state authorities, as both energy locations are included on the list of facilities of national importance.

On **27 October**, the District Court of Celje issued a decision on entering the acquisition of a 51 per cent participating interest of ECE by HSE in the Companies Register.

The HSE Group sought to convince Slovenian officials for months that the current Fit for 55 reform of the EU ETS that also includes the operation of the Modernisation Fund serves as an opportunity to have Slovenia also included therein as an eligible party. Our efforts proved fruitful, as we were able to make Slovenia strive to establish appropriate solutions to changes of the Modernisation Fund, that would expand to include Slovenia as an eligible partner, as part of negotiations with other EU Member States on the final content of the Fit for 55 acquis communautaire. This was also entered into the official position of the Republic of Slovenia, adopted by the Government of the Republic of Slovenia on 14 October.

November

At its session, held on **4 November**, the Government approved the proposed new Environmental Protection Act (ZVO-2). The Act provides for a more comprehensive regulation of waste management. Key administrative procedures, namely the preliminary environmental impact assessment procedure, the environmental permit issue procedure, etc., were simplified.

Since **5 November**, RGP has a new CEO, Iztok Černoša.

On **17 November**, the Minister of Infrastructure, Jernej Vrtovec, inspected the reconstruction site of the Hubelj small hydro during a working visit. The minister highlighted that a greater energy efficiency, improvement of technologies and an increased share of renewable energy sources would contribute to a reduced use of conventional energy sources, which are one of the key factors causing climate change.

On **30 November**, the Supervisory Board of HSE consented to the appointment of new management boards of TEŠ, DEM, HSE EDT and HSE BH by the Management Board of HSE. The new Management Board of DEM consists of two members, providing for better planet and management of numerous renewable electricity generation projects, namely of CEO, Aleksander Brunčko, and General Manager, Damjan Seme, M.Sc. The new two-member Management Board of TEŠ consists of Matjaž Vodušek, M.Sc., and Mitja Tašler. The term of the existing General Manager of HSE EDT, Ervin Renko, was extended by four years. The existing General Manager of HSE BH, Zlatko Sahadžić, also received consent for another, maximum two-year term.

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2.2 Important events after the end of the period considered

December

On **2 December**, the final strategic Energetika.NET conference on a sustainable future of the Slovenian and European energy industry was held. It was also attended by the CEO of HSE, Viktor Vračar, PhD, who touched on combining low-carbon energy sources with hydrogen economy.

On **9 December**, the first Delegated Regulation establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as sustainable (the so-called EU taxonomy) was confirmed. Criteria for producing and storing hydrogen, generating energy using photovoltaic technology, generating energy from solar energy, wind energy, water energy, geothermal energy, non-fossil gas and liquid renewable fuels and for storing electricity were adopted.

On **15 December**, the second part of the Fit for 55 legislative packages, containing proposed legislation on establishing a market for renewable and low-carbon gases, including hydrogen, and proposed legislation in reducing methane emissions which will have a significant effect on the operations of underground coal mines both in terms of monitoring methane emissions and methane emission reduction obligations, was published.

On **16 December**, the public consultation of the proposed 2022-2027 Water Management Plan was launched. This includes an overview of activities whose operations can have a hazardous effect on waters (including hydro-electric power plants) and lays down the required measures to achieve an appropriate water condition.

In December, employees joined forces in a socially responsible way by helping the “Safe House”, filling piggy banks and collecting packages for the charity “Christmas Anna's Star” campaign. HSE added 40 EUR per donated package. By joining forces, EUR 560 were raised, 36 packages with food or necessities, intended for mothers and children in the “Safe House” were made and EUR 1,500 was donated to The Malči Beličeva Youth Home.

In December, the University of Ljubljana awarded its research achievement prizes for 2021. One of the top ten in terms of excellence was also our study entitled “Using machine learning to improve electricity price projections”, involving also our employee in the sales and trading department. Using machine learning methods in projecting electricity prices can have a significant effect on the profitability of operations of electricity market participants.

On **31 December**, the European Commission adopted the proposal of having gas and nuclear technology included on the sustainable technologies list. Its proposal will be deliberated on by EU Member States which have to express a view on the proposal to have gas and nuclear technology included in EU Taxonomy. Nuclear technology is opposed by Germany, Luxembourg and primarily Austria, which has also announced it would be taking legal action against the proposal.

January

On **11 January**, the Government of the Republic of Slovenia adopted the Act Amending the Mining Act which, inter alia, governs the option of deviating from all the prescribed conditions for the extension of a concession right for exploiting mineral resources in specific cases, such as large extraction areas, applicable also to PV. This will enable to extend the mining right of PV to generate coal even without complying with the condition of the pre-obtained right of carrying out mining works on the land. The HSE Group had fought for the regulation of such a deviation for a long time. The concession right of PV expires in July 2023 and an extension shall be filed no later than six months prior.

On **13 January**, the Government of the Republic of Slovenia adopted the National Coal Phase-Out Strategy, indicating 2033 as the coal phase-out and exit year. This is the first and essential step for the actual commencement of the restructuring process of the thermal power division of the HSE Group and region under just transition principles, which will be followed in the following months by the adoption of all the required closure and restructuring legislation and by obtaining European funds for implementing just transition projects.

Together with Polish, Czech, Romanian, German, French, Greek, and Spanish partners, PV collaborated in 2021 in tendering for global projects awarded by the Research Fund for Coal and Steel (RFCS). On 31 January, they were notified by the European Commission that their tendered GREEN JOBS project (exploiting the competitive edges of the coal mine approaching closure for creating as many green and premium jobs) to be launched in July this year, had been successful. The entire R&D-oriented project amounts to EUR 2.2 million. Joint co-financing by the RFCS will amount to EUR 1.3 million, out of which EUR 130 thousand will be received by PV.

On **28 January**, tests on the PB1 gas block at the HSE EDT location in Trbovlje were carried out. Since 2 February, PB1 has been operating as normal again.

February

On **2 February**, the European Commission published technical screening criteria for determining the sustainability of gas projects.

On **2 February**, Tjaša Prinčič was appointed Member of the Supervisory Board of HSE by the Management Board of the Slovenian Sovereign Holding. Her four-year term began on 3 February 2022.

On **11 February**, the Competition Protection Agency of the Republic of Slovenia published a public market test of a proposed corrective action forming part of appraising the concentration of HSE and Energija plus. It lasted until 22 February.

On **23 February**, the Ministry of the Environment and Spatial Planning published proposed amendments to the Climate Change Fund Spending Programme, spending EUR 3 million in 2022 and 2023 for drawn up the required scientific bases for drawing up a national spatial plan for Middle Sava hydro-electric power plants.

Since **25 February**, the HSE Group has been carrying out additional information security activities related to an increased risk of cyber-attacks on our key generation facilities and working processes of HSE Group companies in view of the strained situation in Ukraine. A 24/7 IT team on call to control our IT has been established.

March

At the beginning of March, several meetings were held with the Ministry of Defence and the Ministry of the Interior on cyber-attacks and guidelines on how to secure IT processes in HSE Group companies.

A "proof of concept" for the OSMOSE project was successfully carried out **3 March** between 11.30 AM and 12.30 PM, whereby the partners of the WP6 project working group successfully made bidding offers, collected them and activated them close to the time of supply. This proved the concept of near real-time cross-border market trading by using actual data on the grid, which is a step forward compared to the current way of determining transmission capacities held for trading.

As of **4 March**, the HSE Group has been in alert state for continuous operation and generation of electricity and thermal energy purposes (this includes manual manipulation of generation facilities).

At the beginning of March, we were given the consent of the Ministry of Health and the Administration of the Republic of Slovenia for Civil Protection and Disaster Relief to the sharing of the National Radio Network for HSE Group companies in the event of disruptions to the telecommunication lines to provide for continuous operation and generation of electricity and thermal energy in the Republic of Slovenia.

On **8 March**, the European Commission adopted the REPower EU document, proposing a package of measures to reduce the dependency of the European Union on Russian gas, including the regulation of retail prices, temporary fiscal measures for extra profits and a drastic acceleration of using renewable energy.

After more than two years, the PB1 gas block resumed its operations, generating 769 MWh in electricity. On **10 March**, a successful test run of the PB2 was carried out. If needed, it is ready to operate.

At its meeting, held on **18 March**, the Government of the Republic of Slovenia adopted its position on the new EU regulation on methane emissions reduction in the energy sector, published by the Commission on 15 December 2021 as part of the second part of the Fit for 55 packages, intended to achieve the targets of the European Green Deal. In its position, the Government expressed material concerns that will be advocated for during the Council of EU coordination process. Slovenia will thus strive to have the closing or already closed mines exempt from the aforementioned regulation or to have them foreseen as exceptions for which this regulation shall not apply, as the issue of expediency of costs required to provide for the implementation of the regulation compared to the actually reduced methane emissions has arisen. Currently, methane venting out of mines is a safety measure required to provide for the occupational health and safety of miners. The position of the Republic of Slovenia is fully in line with the proposals and position of the HSE Group on the inadmissibility of more stringent requirements of the proposed new methane emission legislation which will have an effect on the operations of PV.

April

On **8 April**, the largest solar power plant in Slovenia, Prapretno, was opened. The first electricity was sent into the system during its start-up and functional tests as early as 28 March 2022. It was connected to the distribution network in collaboration with Elektro Ljubljana. On sunny days, the Prapretno solar power plant currently generates more than 10 MWh in electricity per day. Its 6,748 modules are expected to generate more than 3 GWh in electricity per year. This would suffice for the annual supply of electricity to approximately eight hundred households. The power plant was opened through a ceremonial ribbon-cutting by the Prime Minister of the Republic of Slovenia, Janez Janša, the CEO of HSE, Viktor Vračar, PhD, and the Mayor of the Municipality of Hrastnik, Marko Funkl.

On **April 22**, representative of the Slovenian Police and HSE signed an Agreement on mutual collaboration in providing security measures to manage security risks and providing for the safety of persons and property in addition to more efficient addressing of the aftermath of crimes, offences, extraordinary events and other security phenomena in HSE Group companies. The Agreement results from several years of successful collaboration in ensuring the security of operating and business processes of the HSE Group, related to the continuous operation of its generation facilities.

2.3 Transparency of financial relations[5]

In 2021, HSE was reimbursed for the costs of rapid testing amounting to EUR 8,240. The funds received from the co-financing of training (KOC Energy Project) amounted to EUR 24,013. The recognised costs of the European OSMOSE project amounted to EUR 84,571, while the recognised costs of the FARCROSS project amounted to EUR 18,598.

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 About HSE[6]

Company profile of HSE

Full company name	**Holding Slovenske elektrarne d.o.o.**
Abbreviated name	HSE d.o.o.
Legal form	Limited liability company
Address	Koprska ulica 92, 1000 Ljubljana, Slovenia
Telephone number	+ 386 1 47 04 100
Fax number	+ 386 1 47 04 101
Entry into the Companies Register	District Court of Ljubljana, reg. entry no. 1/35036/00
Share capital	EUR 29,558,789.00
Size	Large corporate entity
Ownership structure	100% owned by the Republic of Slovenia
Year of establishment	2001
Tax number	99666189
VAT ID No.	SI99666189
Registration number	1662970000
EIC code	11XHSE-SLOVENIAG
ACER code	A0000476J.SI
LEI code	549300KRZTPE6IXQYU97
E-mail address	info@hse.si
URL	www.hse.si

Governance of the parent company as at 31 December 2021

General Assembly

100% owned by the Republic of Slovenia
Representative: Slovenski državni holding d.d.

Supervisory Board

Representatives of capital
Franc Dover, M.Sc. (President),
Andrej Janša (Deputy President)
Denis Bele
Robert Celec, PhD
Janez Gutnik

Representatives of employees
Petja Rijavec, M.Sc.
Jernej Otič
Boštjan Jančar

Management Board

Viktor Vračar, PhD, CEO
Uroš Podobnik, CBO
Marko Štrigl, M.Sc., CBO

Audit Committee

Andrej Janša (President)
Marko Hočevar, PhD
Boštjan Jančar
Janez Gutnik

Marketing and Investment Committee

Janez Gutnik (President)
Robert Celec, PhD
Andrej Janša
Boštjan Jančar

HR Committee

Denis Bele (President)
Franc Dover, M.Sc.
Petra Rijavec, M.Sc.

Restructuring committee

Robert Celec (President)
Denis Bele
Jernej Otič

6 GRI: 102-1; 102-3; 102-5; 102-18; 102-22; 102-23.

2.5 Corporate governance declaration[7]

Pursuant to paragraph 5 of Article 70 of the Companies Act, Holding Slovenske elektrarne d.o.o., Koprska ulica 92, 1000 Ljubljana (HSE) declares the following with regard to the period from 1 January 2021 to 31 December 2021.

The Management and Supervisory Boards of HSE hereby declare that the company was governed in 2021 in accordance with laws and other regulations, the Articles of Association of the HSE Limited Liability Company, and the recommendations listed in the Corporate Governance Code for Companies with State Capital Investments. In compliance with Article 60.a of the Companies Act, the Management and Supervisory Boards of HSE hereby declare that the annual report and its constituent elements, including the Corporate Governance Declaration, have been compiled and published in compliance with the Companies Act and the International Financial reporting Standards. The Corporate Governance Declaration is a constituent element of the annual report and can be accessed via the company's website (htpp://www.hse.si).

1. Statement of compliance with the Corporate Governance Code for Companies with State Capital Investments (SSH Code) and recommendations and expectations of the Slovenian Sovereign Holding (SSH Recommendations)

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

HSE applied the Corporate Governance Code for Companies with State Capital Investments of the Slovenian Sovereign Holding, joint-stock company, as its benchmark code in 2021 (SSH Code, November 2019 and March 2021, hereinafter referred to as "the Code"), 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. To a large extent, the Company took the Code mutatis mutandis into account in its operations, taking into consideration its activities and other specific features of the Company. In 2021, in accordance with the comply-or-explain principle, the company fully observed the majority of the recommendations contained in the Code that refer to companies which are 100 per cent owned by the state. The deviations are clarified in the sections below:

- **Recommendation 6.5.1:** The recommendation is applied mutatis mutandis. The Supervisory Board shall determine the competency profile for a Supervisory Board member for a specific procedure by taking into account direct legal grounds – Article 21 of the Slovenian Sovereign Holding Act. This Act was not published on the Company's website.
- **Recommendation 6.9:** This recommendation is applied only in part. The selection procedure for Supervisory Board members and the formulation of a General Meeting decision on the appointment of Supervisory Board members shall be transparent (the decision shall be made at a meeting of the Supervisory Board of HSE), but shall not be defined in advance.
- **Recommendation 6.9.1:** The recommendation is not applied. The Supervisory Board is appointed by the owner.
- **Recommendation 6.10.2:** The recommendation is applied mutatis mutandis. The existing decision adopted by the founder in 2021 regarding payments made to the Supervisory Board members shall be in accordance with the guidelines arising from the decision found in Appendix 2 of the Code.
- **Recommendation 6.10.3:** HSE does not apply the part of the recommendation referring to D&O insurance. The Members of the Supervisory Board of HSE shall be entitled to be included in the collective D&O insurance of the HSE Group. Pursuant to tax rules, they shall be eligible for a tax bonus.
- **Recommendation 6.13:** At the beginning of 2022, the Supervisory Board assessed itself and adopted appropriate decisions.
- **Recommendation 8.5:** HSE does not take this recommendation into account as we consider the publication of a financial calendar in a single-member LLC to be pointless as financial calendars are intended primarily for the public disclosure or publication of financial statements and operating disclosures of companies owned by several company members/shareholders. The Slovenian Directors' Association is also of the opinion that single-member companies regularly receiving report also beyond public disclosures should not have to draw up and publish a financial calendar.
- **Recommendation 9.2.6:** In view of replacement employment procedures that took place for longer than planned, not all internal audit inspections were carried out in 2021 (one less than planned was carried out).
- **Recommendation 9.2.7:** The recommendation is only partially applied, as their complexity requires certain recommendations to be implemented in an extended period of time.

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

During its operations in 2021, to a large extent, the Company took the recommendations of the Slovenian Sovereign Holding (August 2020) mutatis mutandis into account in its operations, taking into consideration its activities and other specific features of the Company. Following the 'comply or explain' principle, the Company fully complied with a significant part of the recommendations. The deviations are clarified in the sections below:

- **Recommendation 3.6:** This recommendation is applied only in part. The part of the recommendation referring to the energy and related product trading is not followed. The trading agreements of a transaction-management contract nature, such as trading agency agreements, are not reported publicly, as they constitute a trade secret. The publication of the conducted legal transactions listed in the recommendation shall be carried out in line with the Public Information Access Act.
- **Recommendation 4.5:** The recommendation is not applied. The Company does not publish its trade collective agreement as the representatives of its employees have not consented thereto. Links to trade collective agreements are published.
- **Recommendation under Point 5:** This recommendation is not fully applied. In November 2021, four HSE Group companies (HSE, DEM, SENG and TEŠ) carried out a self-assessment subject to the European EFQM excellence model, according to which all four companies are excellent Slovenian companies. During the self-assessment, all four companies found many opportunities for improvements which will be implemented into their operations in the future.

2. Information on the operations of the General Assembly, composition and work of management and supervisory bodies

In 2021, HSE was governed by the Slovenian Sovereign Holding as the sole company member in accordance with the Articles of Association. The HSE management and supervisory bodies are the Management and Supervisory Boards. On 27 February 2020, HSE revised its diversity policy in management and supervisory bodies and published it on its website. The aim of the diversity policy in the management and supervisory bodies of Holding Slovenske elektrarne d.o.o. is to improve the performance of the Supervisory and Management Boards as a whole. The diversity policy is mainly carried out by applying a suitable recruitment and selection procedure for candidates for membership of the Supervisory and Management Board. It is important to use methods that allow us to attract a wide enough range of different candidates. Both the Supervisory Board and the sole company member endeavour to achieve the objectives of the diversity policy. The diversity policy has established the frameworks allowing for a proper composition of the management and supervisory body given the specific features of HSE, that the members thereof have the required know-how and experience required for an in-depth understanding of the activity of both the Company and the HSE Group and the related key risks in addition to pursuing the main objectives. The policy strives to achieve an optimal equal representation of both genders and continuity in the sense that it pursues the objective of not replacing all Members of the Management or Supervisory Boards at the same time. It is also important that the Members of the Supervisory Board 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 available candidates, the Supervisory Board, the founder and the Works' Council of HSE carry out the diversity policy of management and supervisory bodies in the HSE Company to the best possible extent. The gender diversity in the Supervisory Board is as follows: 77.78%: 22.22%, and in the Management Board: 100%: 0% in favour of male members.

Founder in the role of the General Assembly

The founder is in the possession of the role and capacities of a General Assembly in accordance with the Articles of Associa-

7 GRI: 102:15; 102-16; 102-20; 102-24; 102-46; 103-1; 103-2; 103-3; 405-1.

tion of HSE, the Companies Act and the legislation in force. In compliance with Article 526 of the Companies Act, the founder shall record its decisions in the decision book. In 2021, the Founder acted in compliance with the powers conferred thereto in the Articles of Association, which have been made publicly available (Agency of the Republic of Slovenia for Public Legal Records and Related Services – AJPES). A few key powers are listed below:

- adopting business policy foundations and the Development Plan of HSE and the HSE 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 distributable profit,
- deciding on using return of subsequent capital contributions,
- deciding on the use, distribution, and cessation of participating interest,
- appointing and discharging Supervisory Board members, except for those elected by the Works' Council,
- deciding on the establishment of companies and the acquisition of majority participating interest in other companies at the proposal of the Management Board and having received the consent of the Supervisory Board,
- deciding on how to dispose of participating interest and shares in companies deemed in respective decrees on the strategy of managing capital investment as strategic or important investments,
- deciding on how to dispose of and encumber participating interest/shares in subsidiaries and associates at the proposal of the Management Board and having received the consent of the Supervisory Board,
- granting discharge to the Management and Supervisory Boards,
- deciding on entering into agreements and other transactions, with which the company undertakes to transfer to another person, in return for payment or free of charge with one or more related transactions amounting to 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 powers laid down in further detail in the Articles of Association and applicable legislation.

Work of the Supervisory Board

In 2021, the Supervisory Board worked in compliance with its powers conferred thereto by the Companies Act, ZSDH-1, The Articles of Association of HSE, The Rules of Procedure of the Supervisory Board of HSE and the Corporate Governance Code of Companies with State Capital Investments as the code of reference (subject to the 'comply-or-explain' principle). The Articles of Association of HSE specify the composition, a four-year term of office and powers of the Supervisory Board. The Supervisory Board had nine members in 2021. Six members represented the interests of the founder and three members the interests of employees (the latter are appointed and discharged pursuant to the Worker Participation in Management Act). Between 30 November 2021 and 31 December 2021, the Supervisory Board consisted of eight members following the termination of the term of one Member. Members of the Supervisory Board can be appointed for a four-year term and can be reappointed after the expiry of their term. The composition and work of the Supervisory Board are presented in the report on the Supervisory Board as well as the work of all Supervisory Board committees providing professional assistance to the work of the Supervisory Board (Audit Committee of the Supervisory Board of HSE, Restructuring Committee of the Supervisory Board of HSE, the Marketing and Investment Committee of the Supervisory Board of HSE, the HR Committee of the Supervisory Board of HSE).

Work of the Management Board

In accordance with the Articles of Association of HSE and a decision of the Supervisory Board, the company is managed and represented by the Management Board at its own risk. Between 1 January 2021 and 31 December 2021, the Management Board consisted of three members, namely: Viktor Vračar, PhD, CEO; Uroš Podobnik, CBO, and Marko Štrigl, M.Sc., CBO.

External committee members

Name and surname	**Marko Hočevar, PhD**
Committee	AC since 26/11/2020
Participation at committee meetings with regard to total number of meetings	100%
Gender	male
Nationality	Slovenian
Education	PhD
Birth year	1962
Professional profile	Business and financial accounting, audit
Membership in supervisory bodies in companies not connected to the company	Member of Hidria holding d.d. SB

Management structure in 2021

Name and surname	**Viktor Vračar, PhD**	**Uroš Podobnik**	**Marko Štrigl, M.Sc.**
Function (president, member)	Business director to 03/11/2020, General director since 03/11/2020	Business director since 03/11/2020	Business director since 01/12/2020
Area of work in management	Business director to 03/11/2020, General director since 03/11/2020	Business director	Business director
First appointment	01/05/2019 - Business director, 03/11/2020 - General director	03/11/2020	01/12/2020
End of function/ Term of office	03/11/2024	03/11/2024	01/12/2024
Gender	male	male	male
Nationality	Slovenian	Slovenian	Slovenian
Birth year	1971	1980	1983
Education	PhD and Electrotechnical Engineer	Graduate in law, bar exam	M.Sc.
Professional profile	Management, organisation, investment, development, restructuring	Law, corporate management, management	Finance and banking
Membership in supervisory bodies in companies not connected to the company	/	/	Bodočnost Maribor d.o.o.

Composition of the supervisory board and its committees in 2021

Name and surname	Franc Dover, M.Sc.	Andrej Janša	Robert Celec, PhD	Janez Gutnik	Denis Bele	Boštjan Jančar	Jernej Otič	Petja Rijavec, M.Sc.	Damjan Seme, M.Sc.	Vesna Cukrov
Function (president, deputy, SB member)	SB President	Deputy President of SB	SB Member	SB Member	SB Member	SB Member	SB Member	SB Member	SB Member	SB Member
First appointment	23/10/2020 - SB Member, 28/10/2020 - SB President	23/10/2020 - SB Member, 28/10/2020 - Deputy President of SB	23/10/2020	23/10/2020	2/9/2021	9/5/2013	30/6/2014	2/7/2018	23/10/2020	1/9/2017
End of function/ Term of office	23/10/2024	23/10/2024	23/10/2024	23/10/2024	2/9/2025	2/7/2022	2/7/2022	2/7/2022	30/11/2021	1/9/2021
Capital/Employee representative	Capital representative	Capital representative	Capital representative	Capital representative	Capital representative	Employee representative	Employee representative	Employee representative	Capital representative	Capital representative
Participation at SB meetings with regard to total number of SB meetings	100%	100%	100%	100%	7 of 8	100%	100%	100%	100%	7 of 8
Gender	male	male	male	male	male	male	male	female	male	female
Nationality	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian	Slovenian
Birth year	1965	1978	1975	1964	1978	1971	1976	1971	1980	1967
Education	Master of Tech. Science	Bachelor of Economics	PhD in Economics	Bachelor of Economics	Specialist of Management	Master of Business	Bachelor of Elect. Tech. Science, Master of Economics and Business	Master of Communicology	Master of Electrical Engineering	Graduate in law, bar exam
Professional profile	Technology, mechanical engineering, management, environment, management, supervision	Management, organisation, management and supervision	Management, organisation, project management	Business economics (organisation, plan, analyses), organisation unit management and work process management, financial and project management	Management, organisation, management, supervision, environment	Finances	Electrical engineering, electricity production	Public relations	Power electronics (energy)	Legal, investments
Independence as per article 23 of the code (Yes/No)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Conflict of interest in business year (Yes/No)	No	No	No	No	No	No	No	No	Yes, was self-eliminated in the matter	Yes, was self-eliminated in the matter
Membership in supervisory boards of other companies	Yes, President of the Supervisory Board of UNIOR Kovaška industrija d.d.	/	/	/	/	/	/	/	/	/
Membership in committees	PC	AC, MIC	RC, MIC	AC, MIC	RC, PC	AC, MIC	RC	PC	RC, PC	RC, PC
Committee president/ member	PC - member since 26/11/2020	AC - president since 28/10/2020, MIC - member since 28/10/2020	RC - president since 13/10/2021, MIC - member	MIC - president since 28/10/2020, AC - member since 28/10/2020	PC - member since 13/10/2021, RC - member since 13/10/2021	AC - member, MIC - member	RC - member	PC - member	RC - member since 28/10/2020, PC - president since 26/11/2020	RC - member to 28/10/2020, RC - president since 28/10/2020, PC - deputy president since 26/11/2020
Participation at committee meetings with regard to total number of meetings	PC - 100%	AC and MIC - 100%	RC and AC - 100%	AC and MIC - 100%	PC - 100%, during the term There were no sessions of the RC in 2021	AC and MIC - 100%	RC - 100%	PC - 100%	RC and PC - 100%	PC and RC - 100%

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

3. Description of the main features of its internal control and risk management systems in the Company as related to the financial reporting process

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, the ISO 9001 quality management standard, the ISO 45001 occupational health and safety standard, the ISO/IEC 27001 information security management standard, the 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 organisational unit. The internal control system is supported by the information security system that, inter alia, provides for proper restrictions and supervision of the network and precise, timely, and complete processing of data.

The system of internal controls in the company allows for a planned and systematic use of procedures and methods, whose functioning assures accuracy, reliability and completeness of data and information and the drawing up of accurate and fair financial statements, prevent and detect deficiencies in the system and ensure compliance with laws and regulations, the governing bodies' acts and systemic rules of the Company.

The Management Board of the Company is responsible for keeping adequate accounts and for establishing and ensuring the functioning of internal controls and internal accounting controls, the selection and application of accounting policies. An internal controls system is set up by considering the three lines of defence principle:

- assessing the environment and risks (carried out by 'risk owners'),
- establishing the control method – setting up a control system (carried out by various professional services),
- controlling the operation of the system and introducing improvements (carried out by the Internal Audit Department).

The internal control system is set up by pursuing the following main objectives:

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

An independent risk management organisational unit and a risk management committee were established in the Company with the aim of comprehensive risk management and providing high-quality information to the Management and Supervisory Boards on the management and supervision of the Company. The risk management department is responsible for establishing and continually operating the risk management system. Furthermore, it provides operational and coordination support to the Risk Management Committee and its sub-committees that supervise the comprehensive risk management system and propose corresponding amendments.

The Internal Audit Department established in the Company operates in accordance with the adopted Rules of Procedure of the HSE Group Internal Audit which were revised in 2021. Its mission and purpose, i.e. to provide assistance to both the Company and the HSE Group in implementing their strategic and business objectives set, are pursued through systematic and methodical assessments and improvements to the effectiveness and efficiency of risk management, control procedures and governance of the Company and the HSE Group. The Internal Audit Department is a separate organisational unit organisationally reporting to the Management Board of HSE and functionally reporting to the Audit Committee or the Supervisory Board of HSE, which allows for its organisational independence. Internal auditing is conducted in the entire HSE Group in accordance with the hierarchy of internal auditing rules.

In 2021, the Internal Audit Department carried out internal audit procedures and other activities pursuant to the approved annual work plan. Within the scope of the performed procedures, the Internal Audit Department reviewed the existence, operation and efficiency of the internal control system in implementing 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 governing the HSE Group, risk management and developing the internal control system. Special attention was paid by the Internal Audit Department to monitoring the implementation of audit recommendations, training and education and ensuring the high-quality and professional operation of the internal audit function in the HSE Group. The Internal Audit Department reported on its work to the Management Board of HSE, the Supervisory Board and Audit Committee of HSE, and the Audit Committees to the DEM, SENG, TEŠ and PV subsidiaries. Internal audits are developed and implemented through a quality assurance and improvement programme intended to provide for effectiveness and efficiency and compliance of operations with professional practices in force.

4. Description of the business compliance and integrity system

As of mid-2020, our Business Compliance Department has also been operating. Its operations within the internal controls system are specified by the Rules adopted in January 2021. Its main task is to manage the risks arising from non-compliance with legislation. The main substantive areas in which the compliance department operates include managing the internal control system, preventing corruption and fraud, implementing the Code of Ethics of the HSE Group, managing conflicts of interest, communicating with or reporting to external institutions and supervisory bodies in accordance with the internal delineation of tasks with other key and business functions within the HSE Group and collective integrity-enhancing activities.

Done in Ljubljana, on 20 May 2022

Viktor Vračar, PhD,
CEO of HSE

Marko Štrigl, M.Sc.,
CBO of HSE

Uroš Podobnik
CBO of HSE

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

2.6 Presentation of the HSE Group[8]

The HSE Group is the biggest generator and seller of self-generated domestic electricity on the wholesale market in Slovenia and the biggest generator of renewable electricity. Our remaining activities include lignite mining, the provision of system services required for the functioning of the electricity system in Slovenia and managing and implementing energy and environmental projects.

We strive for safe, reliable, competitive and profitable generation of electricity performed via our experienced and committed employees in an efficient and responsible way towards the natural and social environment we operate in.

Generated electricity is sold to our customers on the domestic and European wholesale market. Electricity and all of its derivatives and related products are traded in at different energy exchanges across Europe. We are present in 24 European countries, including Slovenia. At the end of 2021, we also entered the retail market in Slovenia.

Associates of the HSE Group as at 31 December 2021

Holding Slovenske elektrarne d.o.o.

production

Dravske elektrarne Maribor d.o.o.
(HSE 100.0%)

→ **MHE Lobnica d.o.o.**
(DEM 65.0%)

Soške elektrarne Nova Gorica d.o.o.
(HSE 100.0%)

Hidroelektrarne na spodnji Savi d.o.o.
(HSE 15.4%, DEM 30.8%, SENG 2.8%)

Srednjesavske elektrarne d.o.o.
(HSE 60.0%)

Termoelektrarna Šoštanj d.o.o.
(HSE 100.0%)

HSE - Energetska družba Trbovlje d.o.o.
(HSE 100.0%)

Premogovnik Velenje d.o.o.
(HSE 100.0%)

HTZ I.P. d.o.o.
(PV 100.0%)

Sipoteh d.o.o.
(PV 100.0%)

PLP d.o.o.
(PV 100.0%)

international network

HSE BE d.o.o.
(HSE 100.0%)

HSE BH d.o.o.
(HSE 100.0%)

HSE MAK ENERGY DOOEL
(HSE 100.0%)

HSE subsidiary in Prague

investments

SOENERGETIKA d.o.o.
(HSE 25.0%)

HSE Invest d.o.o.
(HSE 42.1%, DEM 21.05%, SENG 21.05%, HESS 13.2%, PV 1.3%, TEŠ 1.3%)

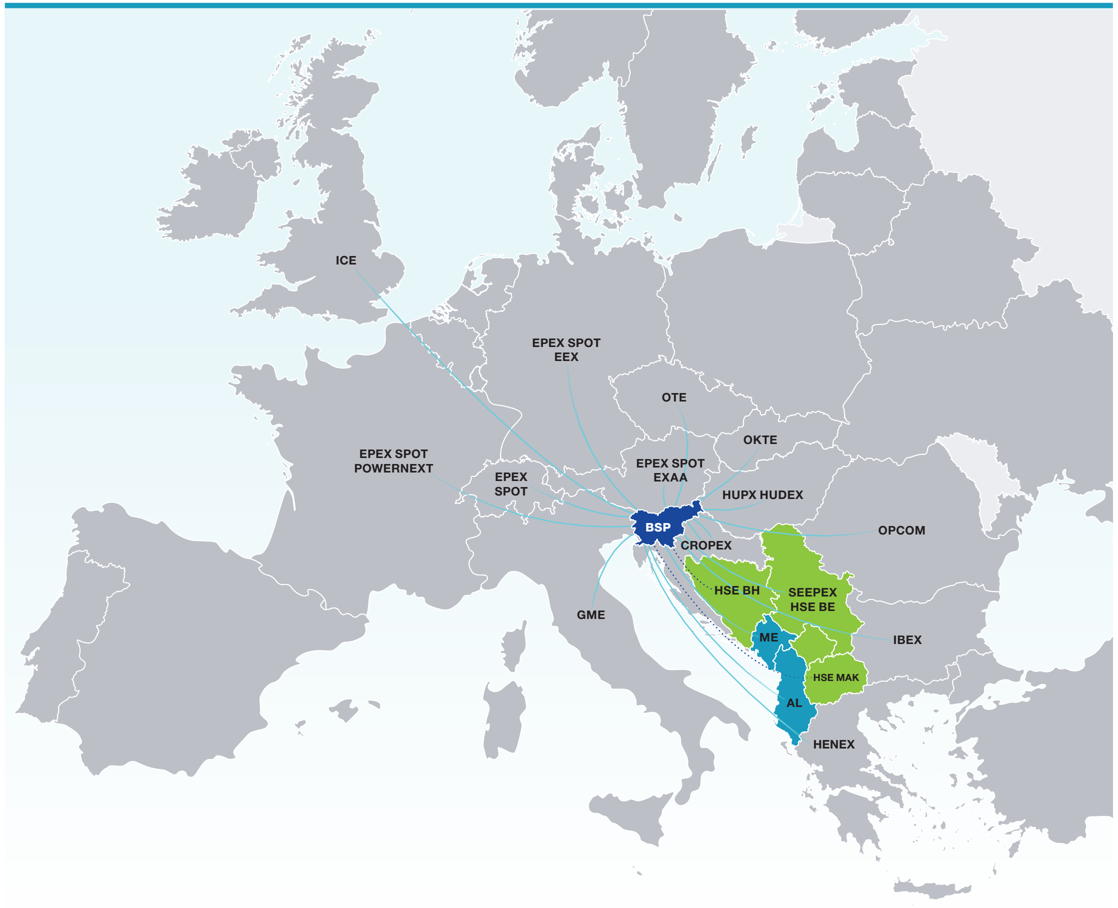
RGP d.o.o.
(PV 4.0%, DEM 86.9%, SENG 4.0%, TEŠ 5.1%)

sales to end customers

ECE d.o.o.
(HSE 51.0%)

8 GRI: 102-2; 102-4; 102-6.

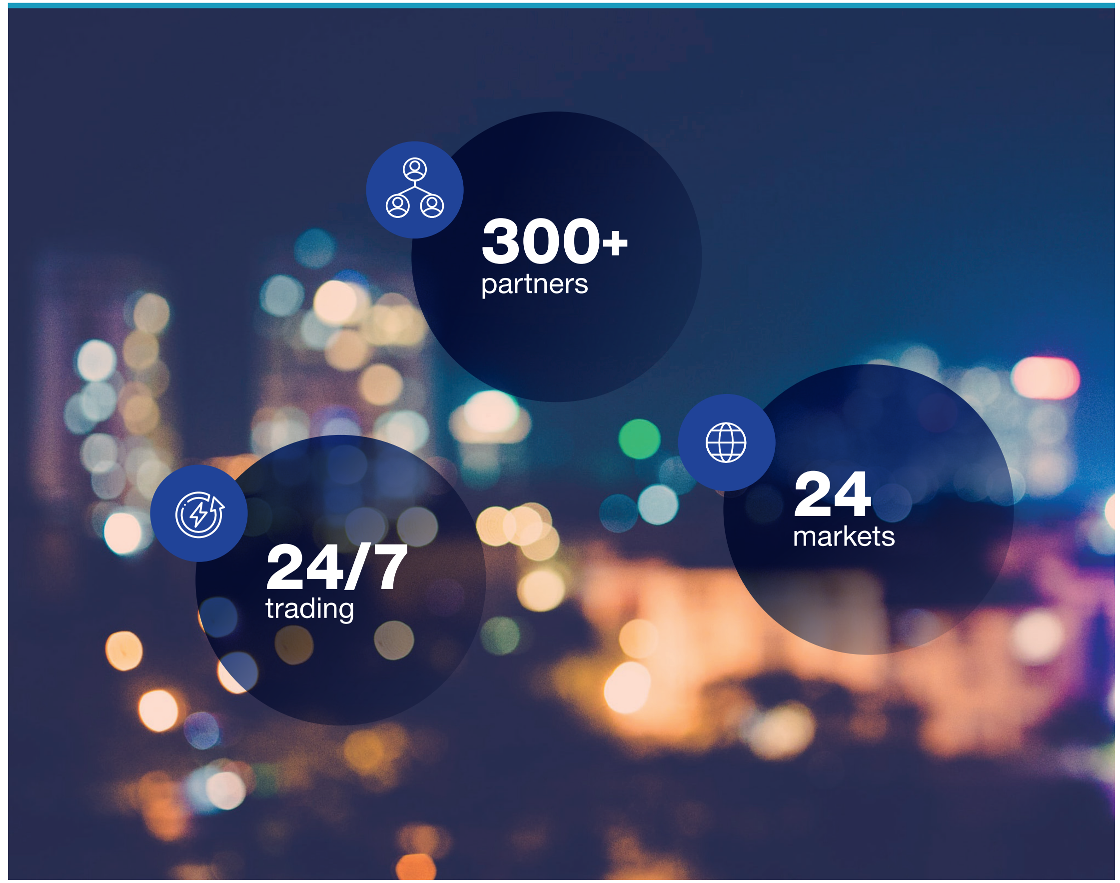
The HSE Group in Western, Central and South-Eastern European Markets



- Market including the energy exchange
- Market excluding the energy exchange
- Present with the company

We are members of and thus present at all main European futures and daily electricity exchanges. An increase in renewable electricity generation and the development of smart networks favour intraday trading that is performed 24 hours per day, all days of the week. Our portfolio of controllable electricity generation sources makes us one of the main intraday electricity traders in South-Eastern Europe.

Trading and sales



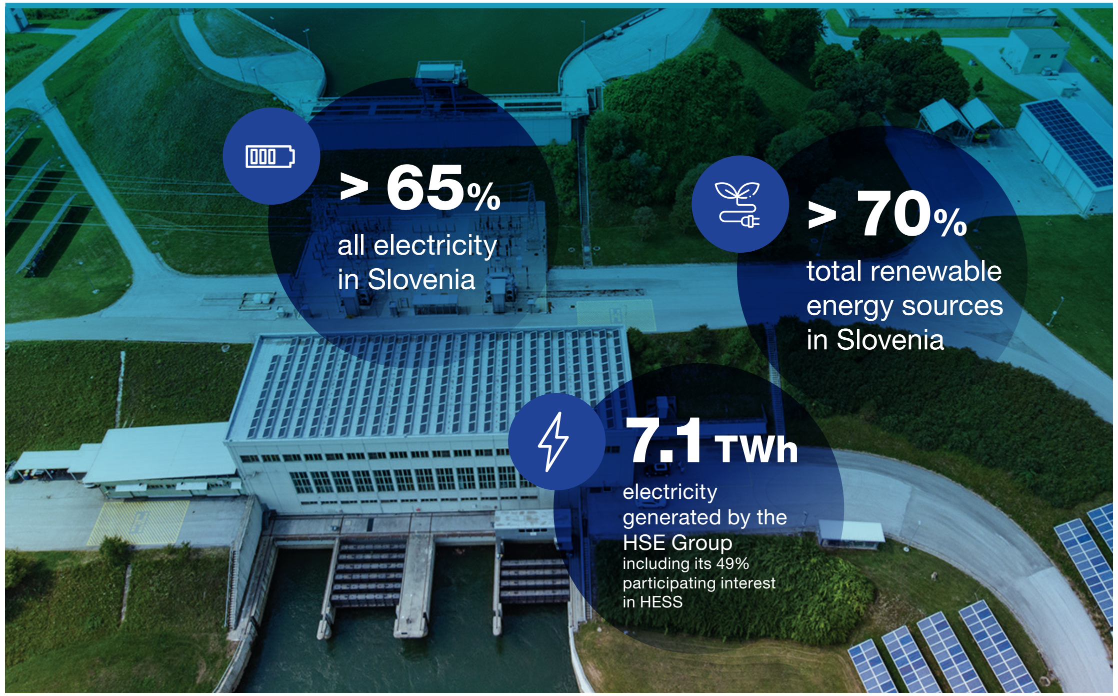
Various types of structured electricity products, tailored to the needs of the business needs of the respective partner, are offered on a bilateral basis. A business relationship with more than 300 partners in Europe has been established. In Slovenia, electricity is sold to major electricity providers and large end consumers that attach great importance to premium services and competitive electricity prices.

Our balanced production portfolio makes us a key pillar for reliable electricity supply in Slovenia by ensuring stable operations of the electricity system and serving as a key energy group for attaining Slovenia's renewable energy objectives.

We are the single largest generator of renewable electricity in Slovenia. In 2021, more than half of self-generated electricity was generated from renewable energy – hydro-power systems, the Avče pump-fed hydroelectric power station, small-scale hydro, and solar power plants.

The remaining electricity in the HSE Group is generated 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.

Generation of



Number of generating units and capacities at the threshold of generating units

We also have our very own primary energy source: lignite. PV (the Velenje Coal Mine) is a modern coal mine that exploits coal underground. Annually, more than 3 million tonnes of coal, used in the generation of electricity and thermal energy, are extracted.

Our power plants are controlled remotely and managed via a joint, high-performance, and world-class integrated management system that allows for concerted operations of the HSE Group in the electricity market, also under the virtual power plant concept.

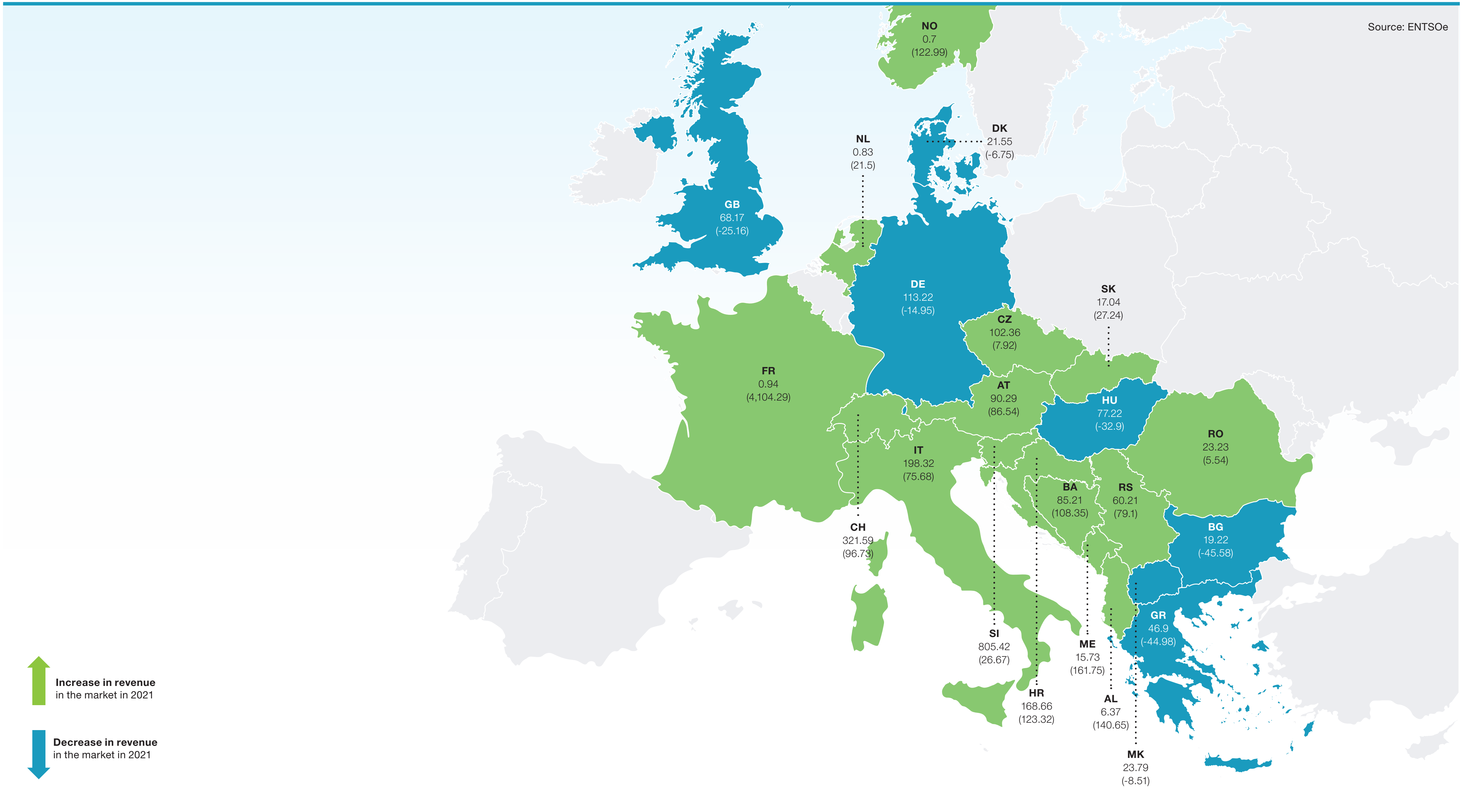
The HSE Group's activities encompass managing energy and the environment and the processes and risks related thereto.

A wide array of activities fall into the following main groups:

- the generation of electricity and thermal energy,
- the extraction of lignite,
- the sale and trade in electricity and thermal energy, futures contracts for electricity, CO_2 emission allowances, gas, etc.,
- the optimisation of production in the HSE Group,
- the provision of system services required for the functioning of the electricity system in Slovenia,
- the management and implementation of energy 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 conduct towards our key stakeholders. Our communications with them are open, ongoing, transparent, and proactive.

Revenue from sales of the parent company of the HSE Group in EUR million in 2021 and change compared to 2020 expressed in percentages



Business model

SALE OF ELECTRICITY ON THE DOMESTIC MARKET	2021	2020
Sale of electricity in GWh	11,645	12,116
Share of sale on the domestic market	31%	30%

SALE OF ELECTRICITY ON THE FOREIGN MARKETS	2021	2020
Sale of electricity in GWh	26,032	28,666
Share of sale on foreign markets	69%	70%

HOLDING SLOVENSKE ELEKTRARNE D.O.O.

	2021	2020
Number of employees	214	211

OTHER SOURCES OF ELECTRICITY	2021	2020
Purchase of electricity in GWh	30,799	33,155
Share of other sources	82%	81%

HESS	2021	2020
Production of electricity in GWh (49% share)	269	257

* Excluding the 49% participating share in the generation in HESS.

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

*** The business model for both years also includes data for the Lobnica small hydro (the company is also included in the consolidated statements of the HSE Group).

SALE OF ELECTRICITY

PURCHASE OF ELECTRICITY

OWN PRODUCTION RESOURCES	2021	2020
Production of electricity in GWh *	6,878	7,627
Share of self-generated sources	18%	19%
Number of employees**	1,838	1,850
Power in MW	1,915	1,915

HYDRO PRODUCTION AND OTHER RES 54%	2021	2020
Number of employees	370	364
Production of electricity in GWh	3,711	3,987
Power in MW	929	929
Units	72 turbines 5 solar power plants	72 turbines 5 solar power plants

THERMO PRODUCTION 46%	2021	2020
Number of employees	316	322
Production of electricity in GWh	3,166	3,640
Power in MW	986	986
Units	2 blocks 4 gas turbines	2 blocks 4 gas turbines

DEM	2021	2020
Number of employees	246	242
Production of electricity in GWh	2,911	3,202
Power in MW	592	592
Units	31 turbines 4 solar power plants	31 turbines 4 solar power plants

SENG	2021	2020
Number of employees	124	122
Production of electricity in GWh	800	785
Power in MW	337	337
Units	39 turbines 1 solar power plant	39 turbines 1 solar power plant

MHE LOBNICA ***	2021	2020
Number of employees	0	0
Production of electricity in GWh	0	0
Power in MW	0	0
Units	2 turbines	2 turbines

PV	2021	2020
Number of employees	1,152	1,164
Coal production at TJ	30,036	36,230

TEŠ	2021	2020
Number of employees	316	322
Production of electricity in GWh	3,166	3,640
Power in MW	928	928
Units	2 blocks 2 gas turbines	2 blocks 2 gas turbines

HSE EDT	2021	2020
Number of employees	0	0
Production of electricity in GWh	0	0
Power in MW	58	58
Units	2 gas turbines	2 gas turbines

2.7 Market environment of the electricity industry[9]

In 2021, the market environment of the electricity market and its other related markets was characterised by economic recovery after the covid-19 pandemic and the continuation of measures intended to reduce the effect of the SARS-CoV-2 virus. During the second half of the year, market conditions were more heavily affected by the fossil fuel energy crisis than the virus itself. A sharp rise in gas, coal, and CO_2 emission allowance prices led to changes in electricity generation source ratios. More electricity was generated by coal-fired power plants and less electricity by gas-fired power plants. Low levels of generated renewable electricity in Central Europe and hydro-electric power plants in Central-Eastern and South-Eastern Europe at the end of the year led to an additional rise in electricity prices.

ECONOMIC GROWTH IN EUROPE

2021
5.2%

2020
–5.1%

Resulting from the economic recovery after covid-19 and support to the economy.

EURIBOR 12 M INTEREST RATE

2021
–0.501%

2020
–0.499%

Movement range: [–0.518, –0.443]

The ECB insists on the policy of low interest rates in the light of helping the economy recover following the covid-19 pandemic.

EXCHANGE RATE

2021
1.1326

2020
1.2271

Movement range: [1.1206, 1.2338]

The energy crisis more significantly affected Europe.

The US economy recovered faster after the covid-19 pandemic.

OIL PRICES

2021
79 $/Bbl

2020
52 $/Bbl

Movement range: [51, 87]

The recovery after the pandemic resulted in growth in consumption.

OPEC+ agreement on progressively increasing reduced production not following demand.

Slower production growth also experienced by the US.

GAS PRICES

2021
79 EUR/MWh

2020
16 EUR/MWh

Movement range: [15, 141]

Reduced levels of gas supplied from Russia.

Exceptionally low gas reserves in Europe caused by an extended heating season.

High demand for LNG by Asia at significantly higher prices.

COAL PRICES

2021
99 $/t

2020
63 $/t

Movement range: [63, 193]

China banned the import of Australian coal. During the second half of the year, coal was cheaper for electricity-generating purposes than gas.

A shift in the trade routes caused high shipping prices.

ENERGY FROM WATER IN SOUTH-EASTERN EUROPE

2021
57.5 TWh

2020
41.5 TWh

In South-Eastern Europe, hydro generation increased by 33% in 2021 compared to 2020. The high levels of growth are primarily due to a low hydrology in 2020 and a higher than average hydrology in 2021.

RENEWABLE ENERGY IN GERMANY

2021
160 TWh

2020
176 TWh

In Germany, as the leading country with the most renewable energy sources in Europe, the installed power of RES (OVE) was increased by approximately 14 GW in 2021.

German solar power plants generated 46.6 TWh or 2% more compared to 2020.

Wind power generation in Germany amounted to 114 TWh in 2021 or 13 per cent less than in 2020.

CO_2 PRICES

2021
79.4 EUR/t

2020
29.9 EUR/t

Movement range: [31, 89]

The arrival of many speculators on the CO_2 emission allowance market in view of the ambitious regulation plans of the European Union.

A higher consumption of CO_2 emission allowances due to lower renewable electricity generation and increased coal electricity generation due to its competitiveness compared to gas (the gas to coal switch).

9 GRI: 102-15; 103-1; 103-2; 103-3; 201-2.

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Average electricity prices

Electricity supply market prices kept rising throughout most of the year for the day ahead. The levels of growth were that much higher due to exceptionally low prices in 2020. The highest growth of prices was achieved during the final quarter of 2021 on account of the European energy crisis which caused a sharp rise in gas, coal, and oil prices. Electricity prices were also negatively affected by CO_2 emission allowance prices and low renewable electricity generation in Germany.

Electricity supply prices for products closest in time were quoted on significantly higher levels than those more remote in time. This suggests that a normalisation of the situation is expected in the future but at much higher levels than we were used to in the past.

DE
2021
97 EUR/MWh
2020
31 EUR/MWh

HU
2021
114 EUR/MWh
2020
39 EUR/MWh

SI
2021
115 EUR/MWh
2020
38 EUR/MWh

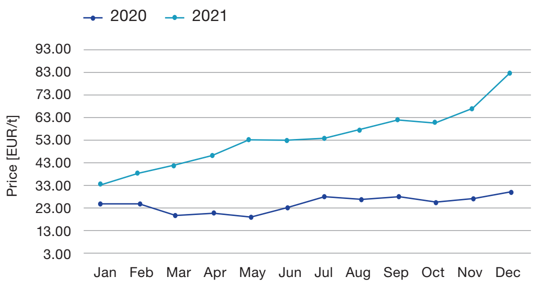
IT
2021
125 EUR/MWh
2020
39 EUR/MWh

RO
2021
111 EUR/MWh
2020
40 EUR/MWh

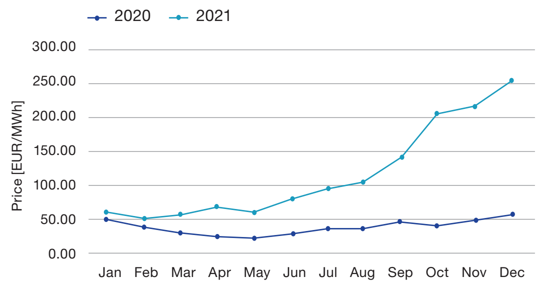
GR
2021
116 EUR/MWh
2020
45 EUR/MWh

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

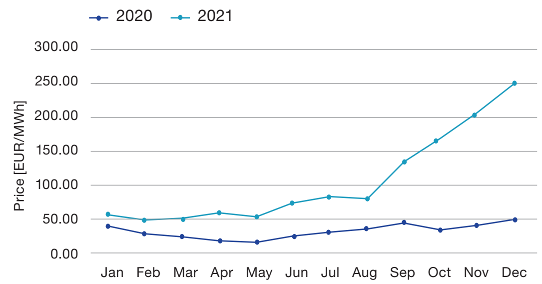
Average monthly prices of CO_2 emission allowances delivered in December within the year of delivery



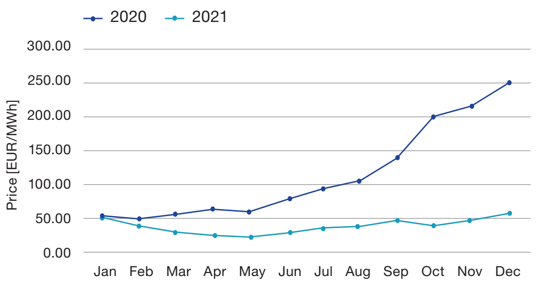
Average monthly price of electricity BSP – SOUTHPOOL (Slovenia)



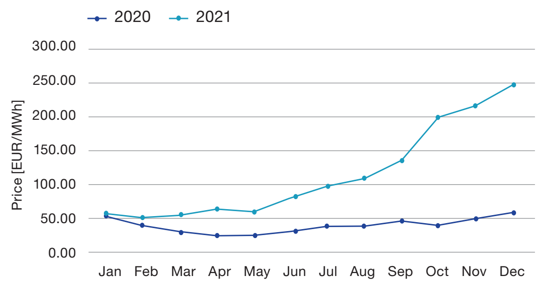
Average monthly price of electricity EPEX (Austria)



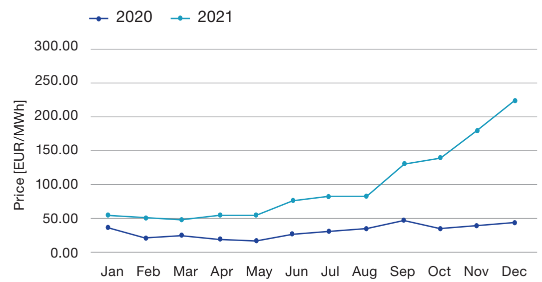
Average monthly price of electricity CROPEX (Croatia)



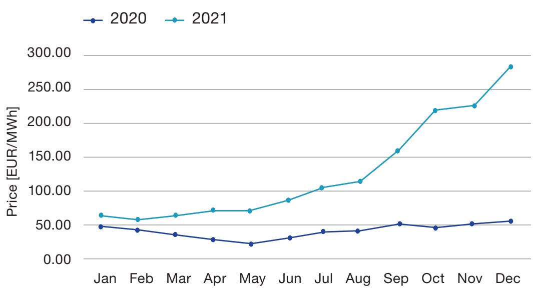
Average monthly price of electricity HUPX (Hungary)



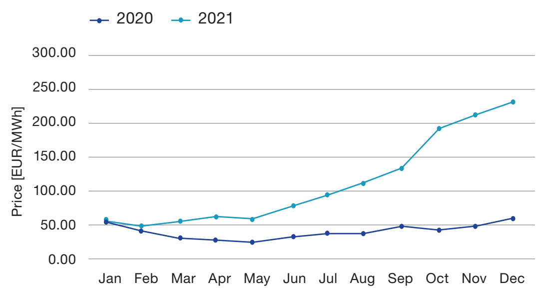
Average monthly price of electricity EPEX SPOT DE/AT (Germany)



Average monthly price of electricity GMW PUN (Italy)



Average monthly price of electricity OPCOM (Romania)



Balance of European electricity markets in 2021 and a change in the balance compared to 2020 in TWh

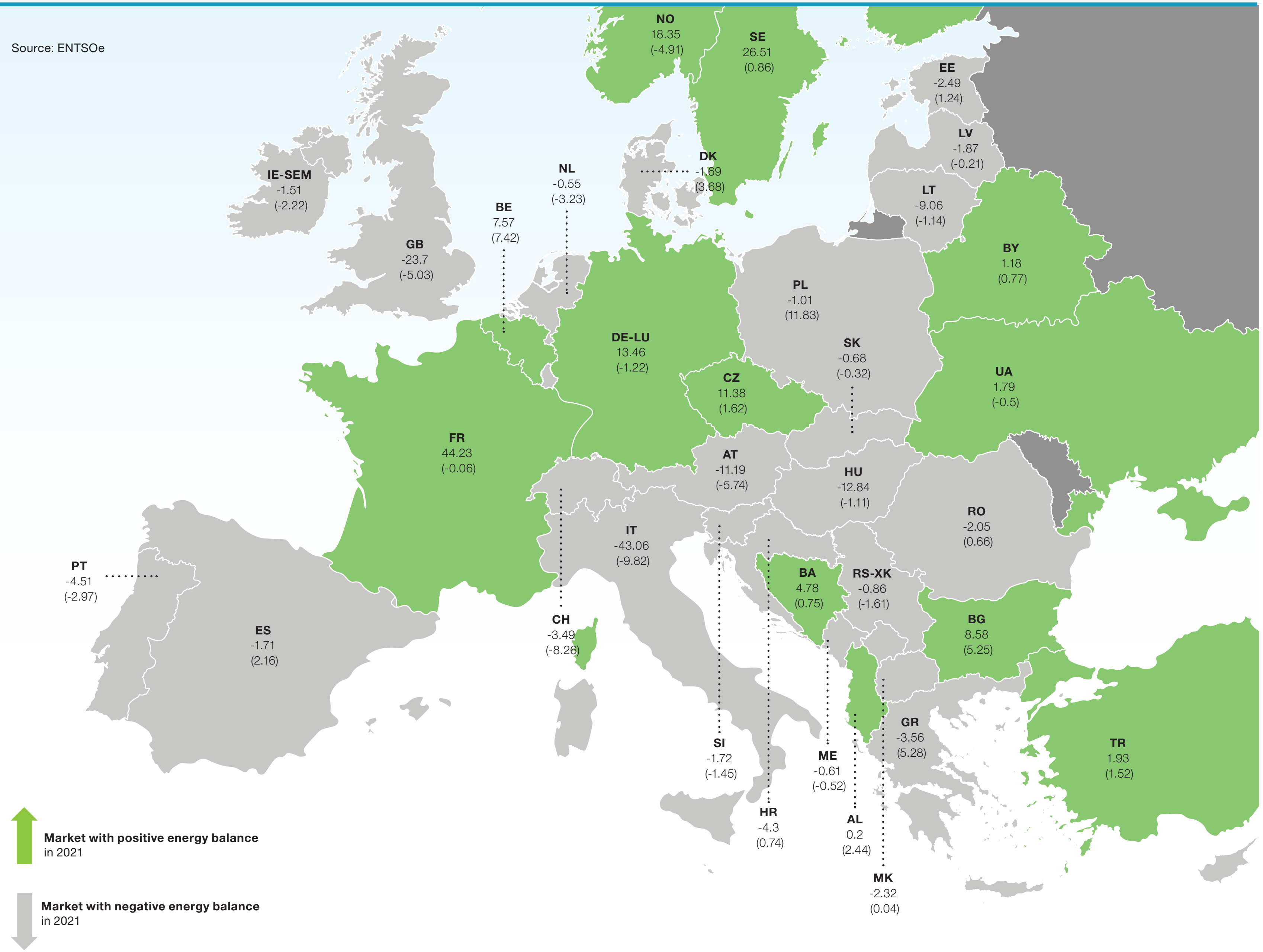
The first quarter of 2021 was characterised by under-average wind power generation in North-Western Europe, a low availability of French nuclear power plants until the beginning of March and lower generation of German thermal electricity units as some coal-fired power plants had been either closed at the end of 2020 or these had not been able to bear the variable costs of self-generated electricity. Both caused a lower balance of France and Germany at the beginning of the year. The hydrology in Sweden was exceptionally high.

The second quarter of 2021 was most strongly characterised by extremely below-average temperatures in a large part of Europe, resulting in an extremely above-average consumption of electricity. The low wind power generation in Germany continued. The price hike of gas in June caused the first cases of gas-to-coal-switching for electricity generation purposes. An exceptionally high hydrology during the second quarter in South-Eastern Europe helped some countries in the region generate a positive balance or at least a much higher balance than in the same period in 2020.

The energy product crisis and the associated exceptional rise in gas and coal prices on the global and European markets significantly changed the ratio between electricity generation sources and dominated the developments on the electricity market during the third and fourth quarters of 2021. Coal power generation in Germany was higher during the last two quarters of 2021, namely by 65% during the third and by 35% during the fourth quarter. On the contrary, the generation in gas-fired power plants was lower, namely by 45% during the third and by 20% during the fourth quarter compared to the same period in 2020. During the third quarter of 2021, nuclear-fired power plants generated more electricity than during the same period in 2020, in France by 30% and in Belgium by 70%; during the last quarter, only Belgium increased its nuclear power generation by 35% compared to the last quarter of 2020.

Countries, whose electricity generation is heavily dependent on gas-fired power plants, such as Italy, Austria and Great Britain, achieved a much lower balance in 2021 compared to 2020. On the contrary, the balance of countries whose electricity generation is heavily dependent on coal-fired power plants, such as Poland, improved.

In 2021, the electricity areas of Ireland and Northern Ireland were merged into a single IE-SEM zone (Ireland - IE - Single Electricity Market - SEM).



Achieved average annual daily price of electricity in European markets in 2021 (in EUR/MWh) and change compared to 2020

In 2021, a substantial increase in prices, primarily during the last quarter of 2021, was witnessed. The annual growth rate is that much higher due to exceptionally low prices in 2020.

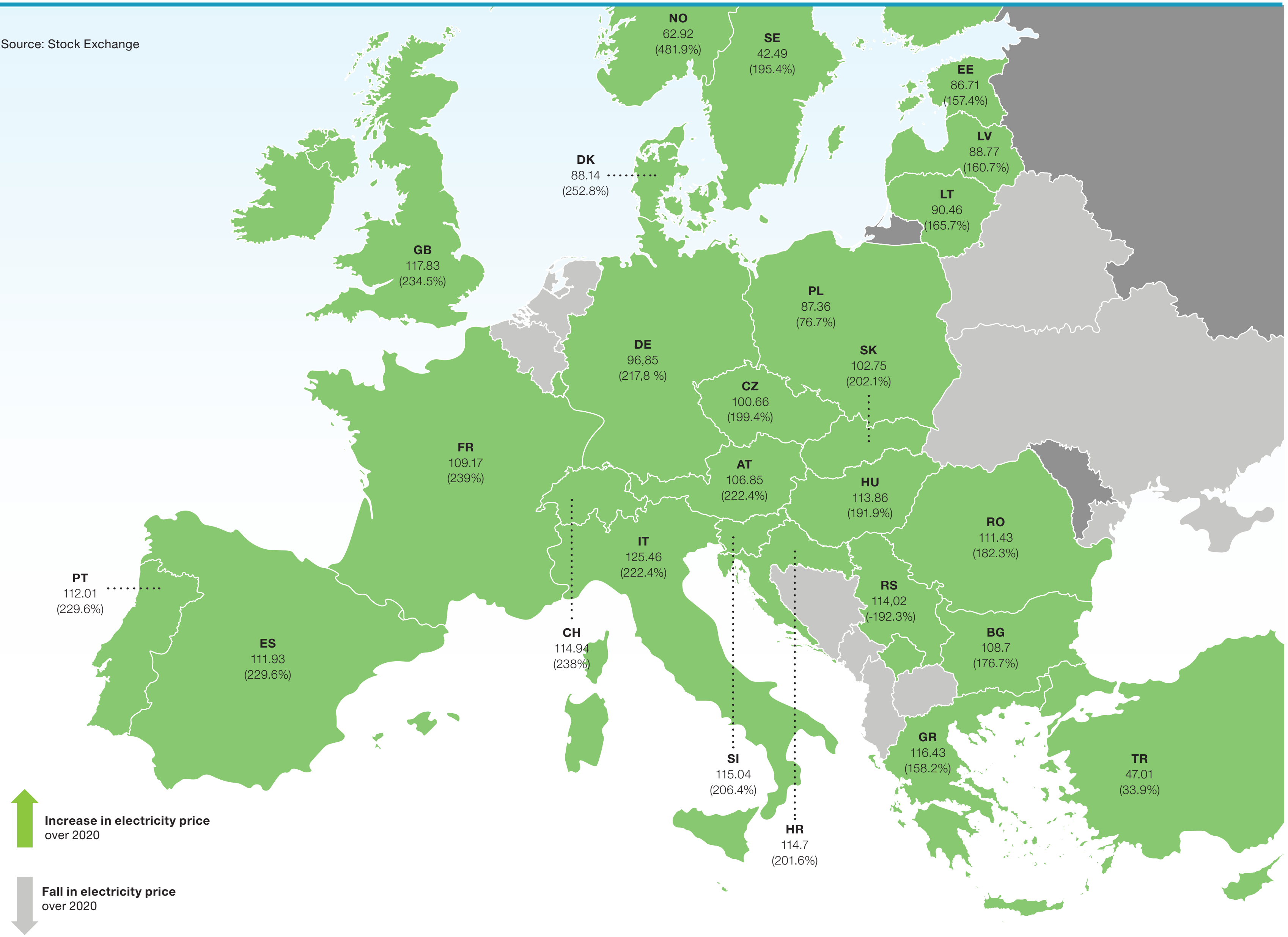
The highest increase in prices was witnessed in Western European and Scandinavian countries. In addition to an increase in consumption in the entire European Union compared to 2020, higher prices of CO_2 emission allowances, lower wind power generation in Germany and, during the second half of 2021, primarily higher gas prices, contributed greatly thereto.

During the first quarter, regional prices followed a similar pattern to Austrian prices that they were also the most dependent on. During the second quarter, regional prices rose primarily during the peak hours of the day and moved even closer to Italian prices. This was enhanced by a period of low temperatures, an increase in consumption and regular overhauls of power plants. During the third quarter, regional prices were close to Italian prices even during off-peak hours. So much electricity was sometimes needed during the evening that regional prices exceeded the price levels of electricity in Italy. In addition to high prices on the Western market, this was also due to a relatively hot summer, a worse hydrology and reduced cross-border transmission capacities from neighbouring markets. The last quarter was characterised by price records, mainly caused by high gas prices and CO_2 emission allowances. During that period, regional prices fluctuated between Austrian and Italian prices.

In mid-June 2021, the Czech, Slovakian, Hungarian, Romanian, and Polish markets were coupled to the already existing coupled market area, contributing to an optimised energy flow between countries and smaller inter-market price differences. At the end of the third quarter of 2021, the Romanian and Bulgarian markets were also successfully coupled to the existing zone, closing the loop of couple countries around the region. When or if the remaining Balkan countries will be joining in is not known just yet.

In 2022, changes to the calculation model of cross-border transmission capacities (CBTC), namely from the current NTC (of calculating CBTC without taking into account physical flows) to the FB model (of calculating CBTC on the basis of power flows), are expected.

Source: Stock Exchange

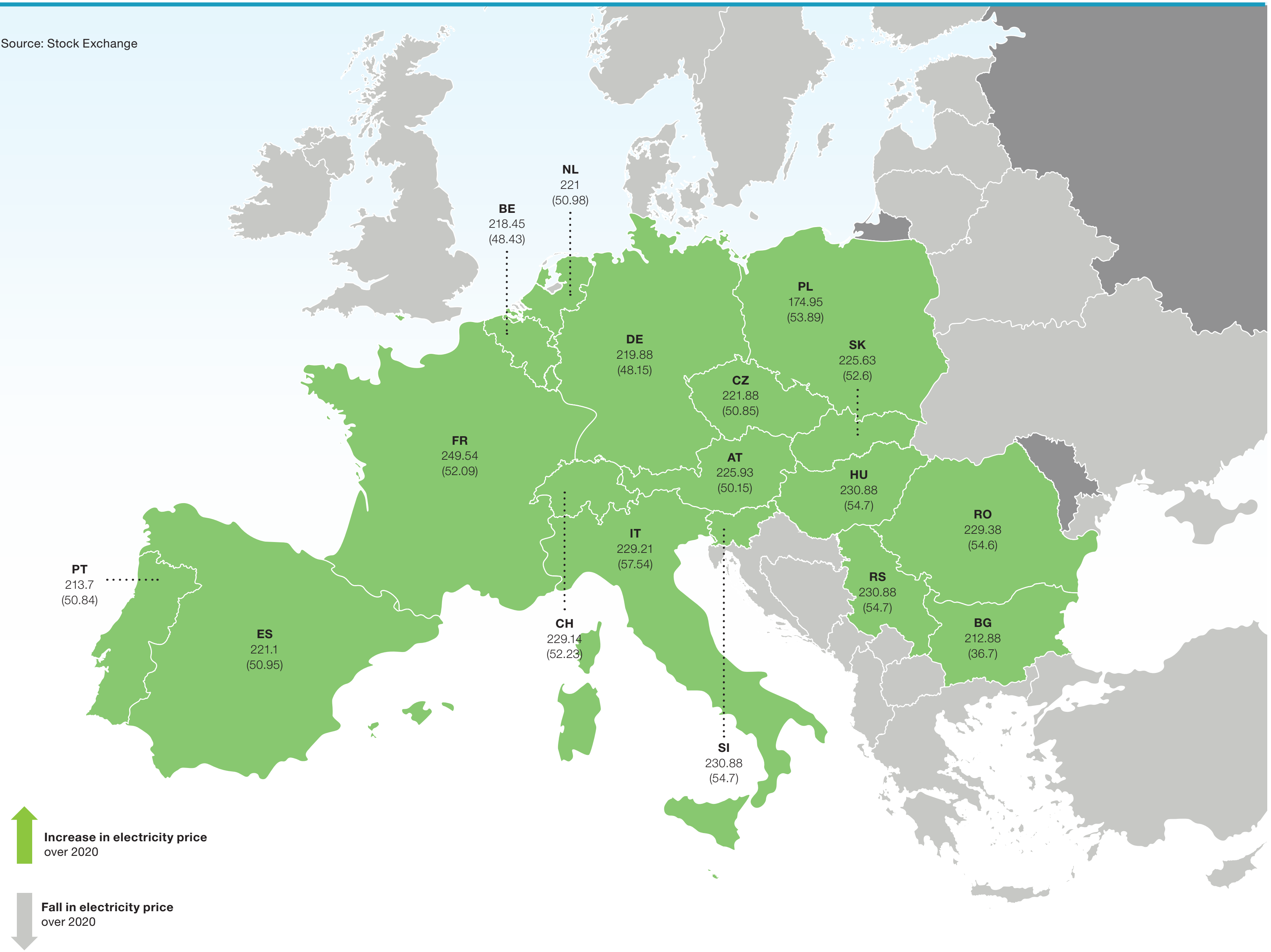


Forward prices of baseload electricity for delivery in 2022 at the end of 2021 and for delivery in 2021 at the end of 2020 (in EUR/MWh)

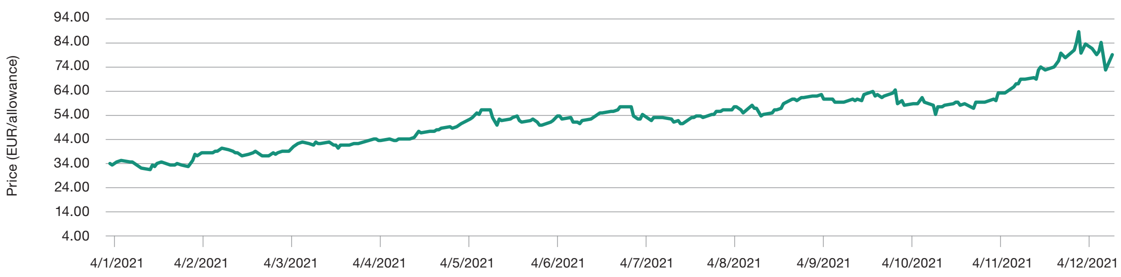
In 2021, forward prices of baseload electricity were more than four times greater in almost all European countries than in 2020. The main reasons were a high growth in energy product and CO_2 emission allowance prices and extremely low prices in 2020. The annual TTF contract (the gas price index in The Netherlands) for delivery in 2022 rose by more than 300% in value compared to 2021; the annual API2 contract (the coal price index in Rotterdam) for delivery in 2022 by just under 40%, whereas the December monthly 2021 contract for CO_2 emission allowances rose by almost 300% in 2021.

During the first three quarters of 2021, an extremely high LNG (liquefied natural gas) demand on account of a cold winter and hot summer in Eastern Asia and of replenishing empty inventories, contributed the most to the growth in gas prices. In Europe, extremely below-average temperatures caused the heating season to be extended until the end of May and led to extremely low inventory levels in Europe. The far too low level of gas inventories persisted until the end of 2021, exerting upward pressure on gas and, as a result, electricity prices. The second important reason for growing gas prices during the last two quarters of 2021 was a reduced level of gas supplied from Russia which, despite extremely high TTF prices, fell even further during the fourth quarter. Hand in hand with gas, coal prices also pushed higher, as caused by high demand in Asia, restricted Australian coal imports to China and generation and transport issues in some important coal-exporting countries (Indonesia, South Africa, Columbia). In addition, the consumption of coal also increased in the European market during the second and third quarters on account of gas-to-coal-switching. Growing electricity prices were additionally caused by average to below-average water power generation in North-Western Europe, which fell by 13% in 2021 compared to 2020 in Germany. A high hydrology during the first and second quarter in North-Eastern Europe, which had been inhibiting a sharp rise in prices in the area during the second half of the year, fell during the third and fourth quarters, resulting in further increases in prices in the region during the second half of 2021. Throughout the second half of the year, sudden TTF price movements on account of the news related to the certification of the Nord Stream 2 pipeline followed one after the other. At the end of 2021, the mild beginning of winter and full gas storage facilities in Asia led to a subsiding demand for LNG. In addition, China implemented a few measures which had an effect on an extreme rise in its own coal power generation and allowed the use of already imported coal from Australia. When intermediate bulk shipping prices and the prices of CO_2 emissions allowances also stabilised in December, the final days of December 2021 were characterised by major price corrections of energy products and electricity which fell from the highest peaks ever.

Source: Stock Exchange



CO_2 emission allowance prices in EUR/allowance (Delivery: December 2021)



2021 marked the beginning of the fourth period of trading in CO_2 emission allowances lasting until 2030. 2021 was a special year. The price of emission allowances almost tripled, increasing to up to 90 EUR/t from levels slightly below 30 EUR/t, marking an absolute price record in the entire history of the EU ETS (European trading scheme, used for trading in CO_2 emission allowances). During the first three quarters, the price experienced constant growth which changed into an almost exponential growth during the last quarter.

The most important factors underlying such price developments include strong regulatory climate commitment implementation support of the European Union and the operation of the MSR (Market Stability Reserve) mechanism, a continuous influx of new market participants, a delayed beginning of sales of CO_2 emission allowances at primary auctions and higher prices of the remaining energy products. The USA also announced that it would confirm the expedience of a global containment of emissions as the then newly-elected President, Joe Biden, signed the country's intent to re-join the Paris Climate Agreement on 20 January 2021.

The growth of CO_2 emission allowance prices was affected by the growth in gas prices. Low inventories in storage facilities resulting from an above-average cold spring, concerns regarding a lack of supply as Russia had failed to utilise its transit capacities via Ukraine, and unplanned maintenance works at Norwegian gas beds were the main factors involved in the increase in gas prices and the resulting higher profitability of coal-fired power plants. Limited LNG imports into Europe also played its parts as the majority of cargo was diverted to Asia in order to cover its high demand.

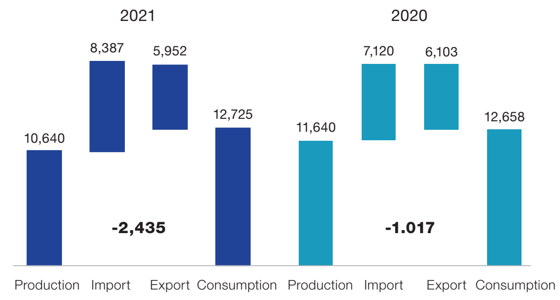
The long-awaited "Fit for 55" proposals were unveiled on 14 July. The changes and measures are to put Europe on its way of reducing its greenhouse gas emissions by 55% until 2030 compared to their 1990 levels. A wide range of proposals, primarily intended to revise the existing legislation and to establish a new mechanism (CBAM or the Carbon Border Adjustment Mechanism) was focused on extremely ambitious objectives which are to strengthen EU ETS even further.

As important members of the European family expressed evident dissatisfaction with high prices, accusing financial players of manipulating emission allowance prices, ESMA conducted adequate due diligence of the market and wrote in its report that no irregularities had been identified on the emission market and that no market interventions are required.

During the last quarter of 2021, the CO_2 emission allowance market found itself almost in a state of emergency considered unprecedented even by traders and analysts present on this market since the establishment of the EU ETS scheme.

Major movements began as early as the beginning of October when extremely high price hikes were experienced by the electricity and gas markets which made many electricity traders close their positions or have them closed by the bank itself as they found themselves unable to provide for initial and variation margins with their clearing banks. The stressed gas market conditions (low inventories in European storage facilities, non-delivery of gas from Russia, geo-political tensions related to Ukraine) led to a repeated scenario in December in a, however, much more intense way. Electricity and gas prices rose to unprecedented levels. The price of emission allowances exceeded the 90 EUR/t threshold. In our opinion, the most important causes of such conditions the fact, that the costs of electricity generated in gas-fired power plants significantly exceeded the costs of electricity generated in coal-fired power plants, in the strong commitments of the European Union to reduce emissions into the environment and a high interest of institutional and individual investors in emission allowance market investments; in particularly taking into account that an exceptional rise in prices led to the inclusion of emission allowances in 2021 onto a list of the most profitable investments closely monitored by the entire global financial public.

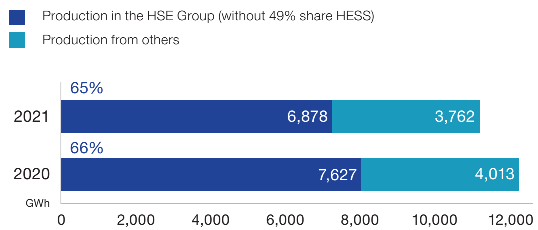
Slovenian electricity market in GWh



Source: Monthly ELES report

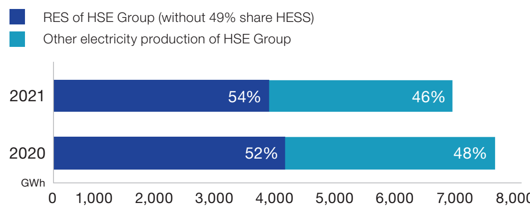
In 2021, Slovenia generated 1 TWh or 9% less electricity than in 2020. Our thermal generation units and the Krško Nuclear Power Plant (both NEK and Block six were overhauled in 2021) generated significantly less electricity. Hydro power generation was also lower. A higher consumption of electricity is also responsible for a somewhat worse balance.

Generation in the HSE Group compared to the total electricity generation in Slovenia

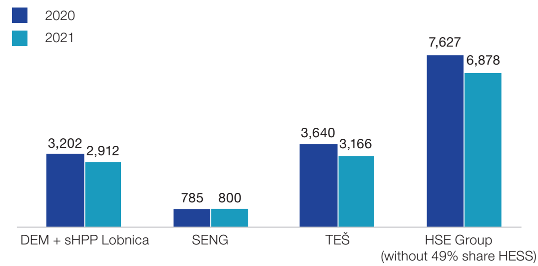


In 2021, the generation of the HSE Group was lower than planned, resulting from the overhaul of Block 6 of TEŠ and a worse hydrology. Coal power generation was lower on account of challenging geomechanical conditions in the mine and increased rates of sick leave due to the covid-19 epidemic.

The proportion of renewable energy sources in the generation in the HSE Group



Generated threshold electricity in the HSE Group in GWh



Compared to the preceding year, the generation of the HSE Group fell by 10%, namely hydro power generation by 269 GWh or 7%, generation by the pump-fed hydroelectric power station by 7 GWh or 2%, and thermal generation by 474 GWh or 13%.

Despite turbulent developments on the electricity and other raw material markets, the HSE Group strove to generate maximum electricity from its units. Despite covid-19 infections, the group continued to operate on a continuous basis.

The HSE Group responded properly to the challenging conditions and a high oscillation of prices on the market by adjusting its position in the face of increasing financial trading funding needs.

In 2021, the HSE Group contributed

65%

to the total generation of electricity in Slovenia.

Following a major fragmentation of the synchronous European mainland area in January 2021, an efficient operation of the frequency maintenance system service provided for the continuous operation of the Slovenian transmission network and generation in Slovenia.

2.8 Business performance analysis of the HSE Group and the HSE Company in EUR[10]

HSE GROUP	2021	2020
Value of assets	2,044,297,833	1,865,305,533
Amount of total capital	817,033,848	900,395,852
Net profit/loss	46,969,876	-184,179,380
EBITDA	330,198,858	187,876,309

HSE COMPANY	2021	2020
Value of assets	1,446,497,311	1,246,755,844
Amount of total capital	666,757,957	779,976,244
Net profit/loss	18,881,097	-226,942,925
EBITDA	96,195,221	108,640,716

DEM	2021	2020
Value of assets	470,273,556	465,403,548
Amount of total capital	451,793,347	449,855,717
Net profit/loss	1,816,548	10,047,014
EBITDA	18,464,365	28,658,166

SENG	2021	2020
Value of assets	221,939,849	225,491,066
Amount of total capital	207,577,164	208,556,831
Net profit/loss	3,848,990	4,863,650
EBITDA	14,856,198	16,782,641

SRESA*	2021	2020
Value of assets	49,946	52,140
Amount of total capital	49,927	52,129
Net profit/loss	-2,202	-5,653
EBITDA	-2,202	-5,654

* The company was established for the purpose of constructing hydro-electric power plants on Middle Sava. The holder of the concession right is HSE. As such, investment activities are carried out through it.

HESS (49% share of HSE – not consolidated)	2021	2020
Value of assets	333,654,540	337,300,533
Amount of total capital	289,752,033	286,734,994
Net profit/loss	2,381,695	2,315,333
EBITDA	12,161,172	12,317,136

TEŠ	2021	2020
Value of assets	757,931,933	787,421,645
Amount of total capital	241,010,274	233,642,841
Net profit/loss	7,130,518	-280,428,143
EBITDA	219,026,119	22,314,011

HSE EDT	2021	2020
Value of assets	2,834,011	3,122,330
Amount of total capital	1,559,642	1,420,201
Net profit/loss	139,444	-45,717
EBITDA	421,386	229,057

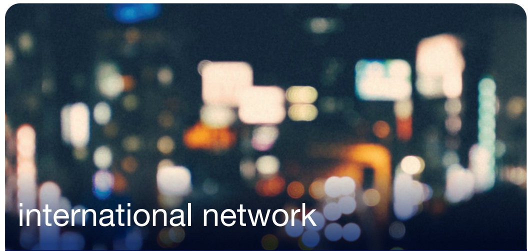
PV	2021	2020
Value of assets	150,439,445	153,611,813
Amount of total capital	34,808,804	71,502,364
Net profit/loss	-36,254,068	-9,664,140
EBITDA	-16,852,162	6,365,491

SIPOTEH	2021	2020
Value of assets	2,398,575	2,093,598
Amount of total capital	1,329,837	1,212,550
Net profit/loss	399,038	490,507
EBITDA	460,324	583,008

HTZ	2021	2020
Value of assets	16,362,668	14,009,007
Amount of total capital	566,834	753,279
Net profit/loss	-18,564	-525,601
EBITDA	1,022,394	1,033,802

PLP	2021	2020
Value of assets	1,914,356	1,537,038
Amount of total capital	1,007,479	947,276
Net profit/loss	140,571	132,619
EBITDA	246,493	205,493

10 GRI: 102-10; 102-45; 201-1; 201-2.



international network

HSE BE	2021	2020
Value of assets	731,270	957,151
Amount of total capital	717,004	936,515
Net profit/loss	21,280	10,850
EBITDA	24,843	12,711

HSE BH	2021	2020
Value of assets	22,867,303	9,849,387
Amount of total capital	1,523,441	1,292,479
Net profit/loss	230,964	259,959
EBITDA	257,306	289,278

HSE MAK	2021	2020
Value of assets	5,181,616	2,756,349
Amount of total capital	983,189	738,797
Net profit/loss	244,056	398,914
EBITDA	271,173	443,239

investments

SOENERGETIKA (25% share of HSE – not consolidated)	2021	2020
Value of assets	2,110,072	2,311,439
Amount of total capital	1,591,192	1,672,300
Net profit/loss	460,870	541,978
EBITDA	1,261,218	1,335,789

HSE INVEST	2021	2020
Value of assets	2,908,449	2,158,678
Amount of total capital	802,780	592,070
Net profit/loss	171,500	227,983
EBITDA	369,672	441,660

RGP	2021	2020
Value of assets	13,927,414	12,639,460
Amount of total capital	1,940,457	3,836,681
Net profit/loss	-1,876,256	923,138
EBITDA	-434,450	2,055,021

sales to end customers

ECE*	2021 (annual level)	2021 (consolidated)
Value of assets	52,779,906	52,779,906
Amount of total capital	18,652,289	18,652,289
Net profit/loss	335,497	-3,641,991
EBITDA	724,997	-3,622,777

* ECE was integrated into the HSE Group at the end of October 2021. Throughout 2021, it generated EUR 335 thousand in profit (EUR 1.2 million EBITDA). Between November and December 2021, it generated EUR -3.6 million in loss and EBITDA as taken into account in the consolidated statements of the HSE Group.

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2.8.1 Business performance analysis of the HSE Group[11]

2.8.1.1 Key data of the HSE Group

KEY DATA	UNIT OF MEASURE	2017	2018	2019	2020	2021	IND 2021/2020
Net sales revenue	EUR	1,587,759,985	1,471,965,221	1,710,574,972	1,837,247,832	2,538,204,221	138
Net profit/loss	EUR	8,213,665	-11,802,603	29,727,979	-184,179,380	46,969,876	/
Revenue	EUR	1,612,033,834	1,491,669,217	1,729,972,574	1,858,861,858	2,913,590,058	157
EBIT = Operating profit or loss	EUR	56,437,024	30,442,789	74,100,308	-137,675,154	88,313,624	/
EBITDA	EUR	138,235,820	128,129,727	160,617,601	187,876,309	330,198,857	176
Assets	EUR	2,138,362,354	2,134,733,707	2,073,747,513	1,865,305,533	2,044,297,833	110
Capital	EUR	1,038,307,041	1,091,245,475	1,064,640,823	900,395,852	817,033,848	91
Bank indebtedness	EUR	851,175,060	783,548,534	732,273,957	666,325,878	635,896,321	95
Total indebtedness	EUR	851,439,217	784,137,313	737,556,113	671,183,485	642,440,307	96
Investments	EUR	49,208,528	57,444,700	40,971,390	42,814,532	69,651,768	163
Electricity produced	GWh	7,034	7,320	7,155	7,627	6,878	90
Electricity sold (physical business)	GWh	36,987	30,629	33,638	39,664	36,785	93
Electricity sold (physical and financial business)	GWh	38,931	36,465	53,823	94,471	99,442	105
Employees at the end of the year	number	3,093	3,074	3,147	3,151	3,203	102

KEY DATA	UNIT OF MEASURE	2017	2018	2019	2020	2021
Self-financing ratio		48.56	51.12	51.34	48.27	39.97
Non-current financing ratio		88.21	86.91	87.31	85.34	69.80
Operating fixed assets rate		79.57	77.80	78.63	72.76	58.54
Non-current investment ratio		87.08	85.36	86.36	81.43	71.26
Equity to operating fixed assets ratio		0.61	0.66	0.65	0.67	0.68
Immediate solvency ratio		0.30	0.35	0.21	0.33	0.17
Quick ratio		0.94	0.98	0.93	1.11	0.87
Current ratio		1.09	1.12	1.07	1.26	0.95
Operating efficiency ratio		1.04	1.02	1.04	0.93	1.03
Net profitability ratio of ROE capital	%	0.8	-1.1	2.8	-18.7	5.5
Net profitability ratio of ROA assets	%	0.4	-0.6	1.4	-9.4	2.4
Added Value	EUR	258,115,028	251,427,464	291,532,762	319,201,067	469,031,717
Added value per employee	EUR	83,223	81,685	93,725	101,366	147,634
Debt-to-capital ratio		0.82	0.72	0.69	0.75	0.79
Total financial liabilities / EBITDA		6.16	6.12	4.59	3.57	1.95
EBITDA / Financial expenses from received loans		4.96	4.91	6.92	9.91	20.50
Total financial liabilities / Assets		0.40	0.37	0.36	0.36	0.31
Net financial liability	EUR	789,745,775	700,626,784	695,038,514	592,710,461	545,850,559
Net financial liabilities / EBITDA		5.71	5.47	4.33	3.15	1.65
Net financial liability / Capital		0.76	0.64	0.65	0.66	0.67

11 "In compliance with IFRS 9.2.6, the HSE Group shall account for electricity procurement and sales contracts for the purpose of trading as financial instruments, as, for these contracts, the Group usually has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin (in compliance with the rules of IFRS 9 on contract settling net). In compliance with IFRS 9.2.4, such contracts shall be accounted for as derivatives as they are measured at fair value through profit or loss.

The effect of a change in the accounting policy applying retroactively to 2020 in the amount of EUR 1,292,361 accounts for an intangible value. For this reason, the change has not been entered into our accounts as an adjustment item of the preceding year.

The contracts that the HSE Group has concluded and that it continues to hold for the purpose of receipt or delivery of a non-financial item in compliance with the entity's expected procurement, sale or usage requirements, such as sales contracts for HSE Group self-generated electricity (so-called 'own-use' contracts), shall continue to be recognised in the financial statement in compliance with IFRS 15 on the effective date of the respective contract."

The operational analysis shall be read together with the Accounting Report of the HSE Group.

2.8.1.2 Analysis of the profit and loss statement of the HSE Group[12]

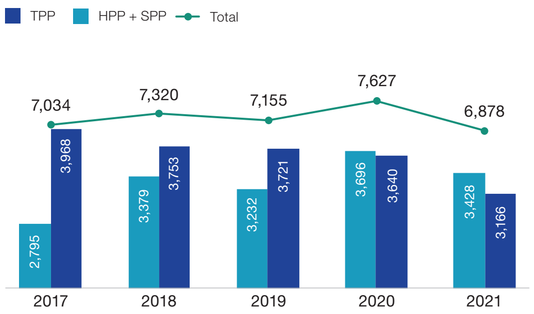
Despite harsh epidemic-related conditions, the HSE Group was able to ensure reliable electricity supply throughout the entire year of 2021. The tasks of the HSE Management Centre was able to continuously perform its tasks. All our system service provision objectives set were also attained. A high incidence of sick leave was caused by the epidemic. As challenging geomechanical conditions also arose in the mine in 2021, our **coal power generation** fell by 17%. Occasional coal extraction issues and the almost three-month-long overhaul of Block 6 led to a 13% lower generation by the **thermal power plant.** The weather conditions during the first half of 2021 were favourable. In reaching a high level of availability of our generation facilities, the **hydro power generation** was above average. During the second half of 2021, the level of precipitation was below average, causing a 7% lower annual hydro power generation in our hydro-electric power plants compared to 2020. The deviation is higher due to an above average hydrology in the preceding year (2020). Together with solar power plants, hydro-electric power plants generated 52% of all electricity generated by the HSE Group (including the 49% participating interest in HESS generation) or 2 per cent more compared to the preceding year. In total, the generation units of the HSE Group (excluding the 49% participating interest in HESS generation) generated 10% less electricity compared to 2020 and provided for 19% in sales volume which remained at the same level as the preceding year.

The HSE Group shifted its trading activities towards financial products which resulted in a 7% lower **quantitative volume**. In spite of that, its **net revenue from sales of electricity** increased by 38% (higher average sales prices). In 2021, we witnessed sky-rocketing prices of electricity and energy products that were more pronounced during the second half of the year when joined by a high volatility of prices and lower generation. In order to ensure reliable electricity supply also in lower generation conditions, the HSE Group obtained the missing quantities on the market at high prices, allowing it to generate an 8% lower **electricity** gross margin[13]. High prices and the shift of our trading activities towards financial products are reflected in high **other operating revenue** showing the netting benefits of electricity trading futures contracts (EUR 123,959,224) and in **other operating expenses** showing the netting benefits of valuing physical contracts at fair value - at end of 2021 prices (EUR 161,377,066). Revenue from sales of electricity accounted for the biggest, 85%, share, or 12 per cent less than the year before on account of higher revenue from damages. **Revenue from the sale of merchandise and materials** in the foreign market rose by 53%. The majority is accounted for by the sales of emission allowances. The HSE Group generated 31% **revenue from services** related to electricity. It rose by 28% compared to the preceding year.

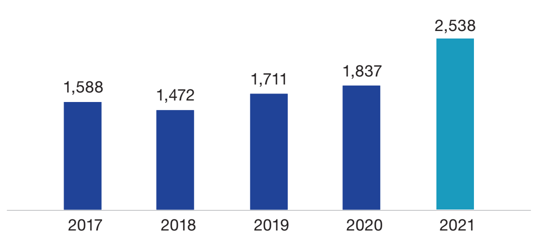
Revenue from sales of **thermal energy** increased by 43% (a higher volume and price).

Other revenue: In March 2021, HSE and TEŠ signed an out-of-court settlement with the legal successor of Alstom, the General Electric (GE) Group, in favour of TEŠ. TEŠ thus generated EUR 231,824,032 in **revenue from compensations** (all compensations account for 84% of other revenue). By providing construction, mining, and maintenance works and by receiving rents, the HSE Group generated EUR 27,923,628 or 48% more in **revenue from services** than in 2020 which can be primarily attributed to a higher revenue of RGP (accounting for 10% of revenue from services). **Revenue accruing from the exploitation of the appropriation** intended to cover the salaries of the disabled employees of HTZ rose by 4% (3% share). The remainder of revenue of the HSE Group was generated through the sales of products, merchandise, and disinvestments (1% greater compared to the year before; 4% share).

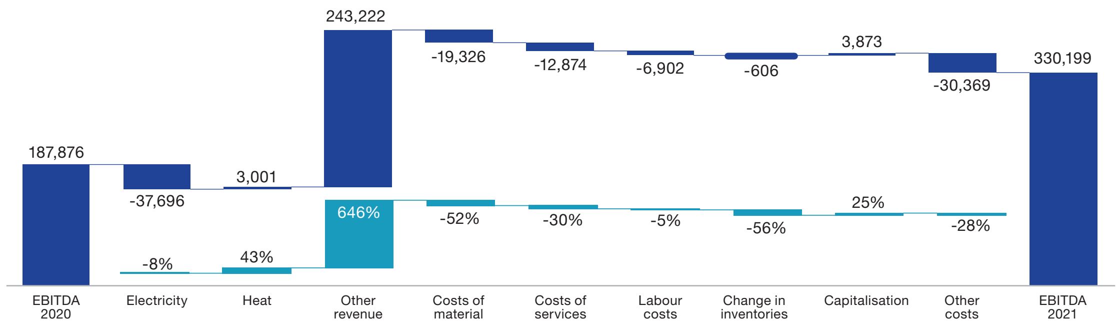
Generated electricity in GWh



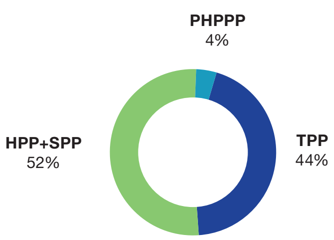
Net revenue from sales of electricity in EUR million



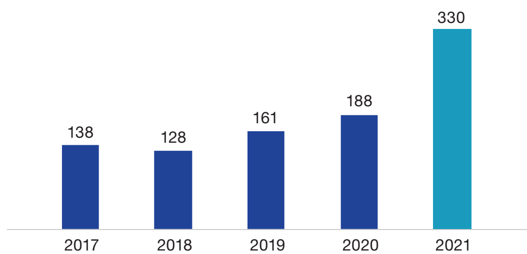
Changes in the HSE Group EBITDA in 2021 compared to 2020 in EUR thousand



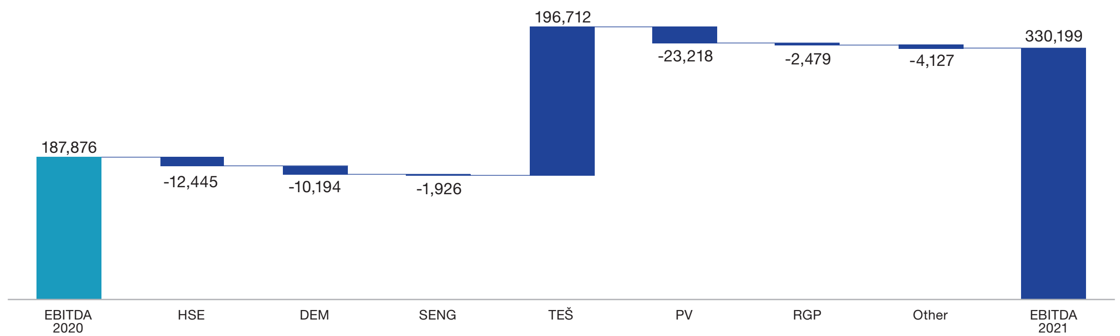
Structure of electricity generated by the HSE Group in 2021



EBITDA in EUR million

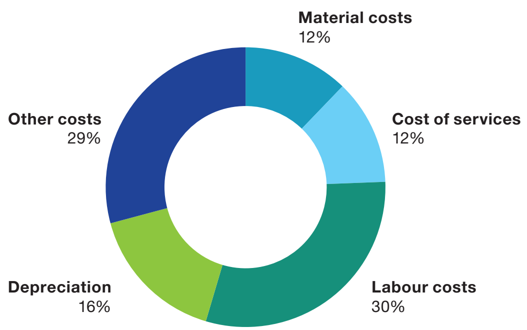


Change in EBITDA in 2021 compared to 2020 by HSE Group company in EUR thousand

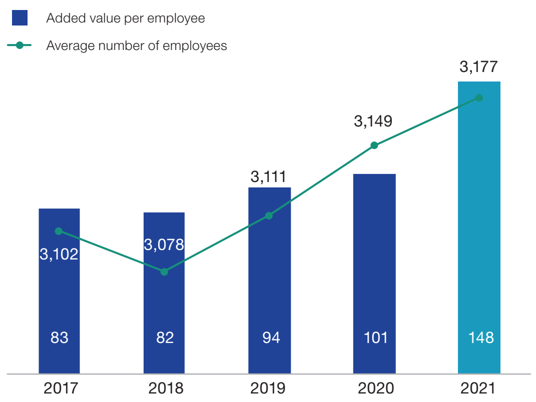


12 Unless stated otherwise, this section shall clarify operating deviations in 2021 compared to 2020.
13 For more detailed notes to the reduced gross margin please refer to Section 2.8.2 "Business Performance Analysis of HSE".

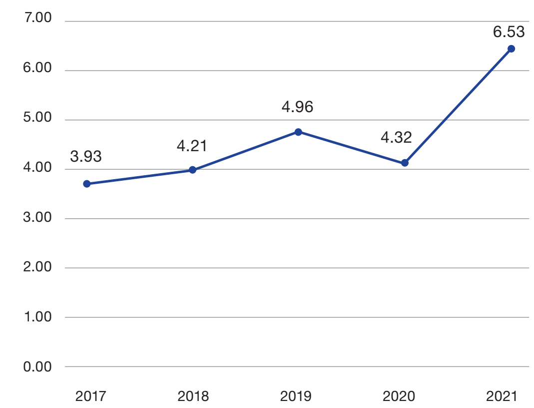
Structure of costs in 2021



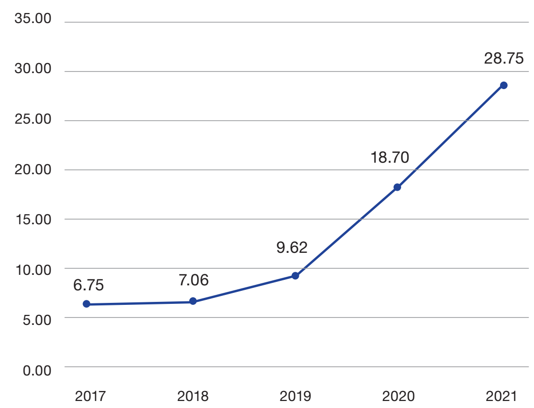
Added value per employee and average number of employees



Costs of concession fees in EUR/MWh



Cost of emission allowances in EUR



All cost items were higher compared to the preceding year. **Costs of materials** rose by 52% on account of a higher consumption and growth in prices. The **costs of steel arch support** used by PV increased the most, by 81%, resulting from more roadway drifting, a higher consumption of new steel arch supports compared to restored supports and higher prices caused by a significant rise in prices on raw material markets in 2021 (18% share). The following also increased: **energy products** by 24% (25% share), **spare parts** for fixed assets by 11% (13% share), **building material and anchoring** – primarily for RGP projects (by 31%), covered in part by revenue (10% share), **electrical and machine materials** by 109%, resulting from the construction of solar power plants – on the other hand, the Group shows capitalised own products (9%) and **wood costs**, which increased by 27% (7% share). Costs of materials accounted for 12% of all costs or 3 per cent more compared to the preceding year.

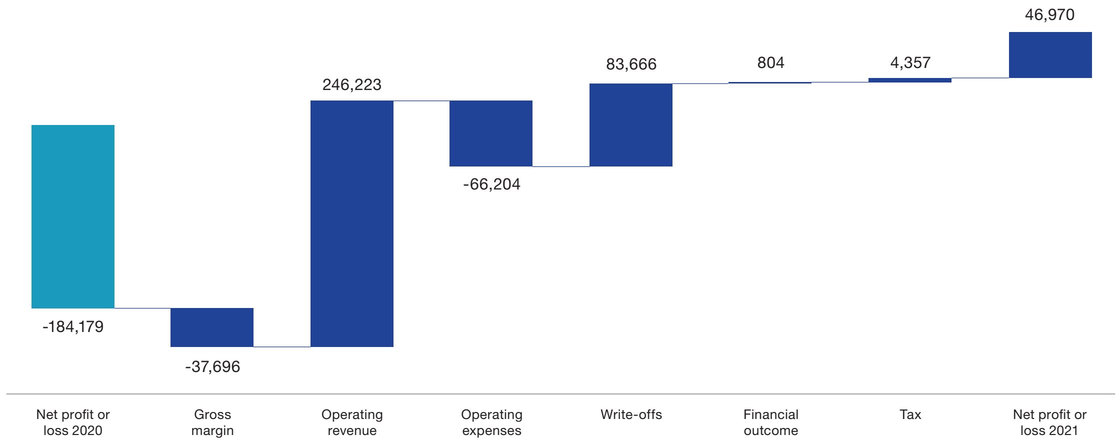
Costs of services were 30% higher. The costs of outsourcing to RGP and HSE Invest, which were partially covered by revenue, and costs of services provided by lawyers increased the most. **Costs of services from product generation** increased by 34% (32% share). On account of the concluded out-of-court settlement, most lawyers' fees also became payable. **Costs of intellectual and personal services** rose by 137% or EUR 5,928,252 (18% share). Taking into account the simultaneously generated revenue from re-invoicing services provided by lawyers (EUR 2,245,312), the costs of intellectual services increased by 85% or EUR 3,682,940. Costs of maintenance fell by 9% (17% share). **Costs of insurance and bank services** increased by 13%. The partial increase in the costs of bank services is due to the early repayment of loans (11% share). The costs of transport services, rental of hardware and software and public utility services (22% share) account for the majority of the increase (26%) in **costs of other services**. Costs of services accounted for 12% of all costs or 1 per cent more than in 2020.

Labour costs increased by 5%. Higher labour costs are shown by all HSE Group companies. The biggest increase was observed in PV. The consolidation of ECE began in November. HSE, DEM, SENG, RGP, Sipoteh and HSE Invest also had a higher number of employees. Higher labour costs were also affected by the adjustment or raise of base gross salaries, the computed variable business performance, resulting from higher than planned operations), severance pay on operational grounds and a higher holiday allowance. Added value per employee increased by 46%, due to higher operating revenue and a lower average number of employees. Labour costs accounted for 30% or 3 per cent more than during the preceding year of the structure of costs.

Capitalised own products and services were realised primarily by construction and engineering services required by its own investments primarily implemented by RGP and HSE Invest. They increased by 25% compared to 2020. On the other hand, higher costs of materials and labour are also shown.

Higher prices caused a 34% and 40% increase in costs of **emission allowances and concession fees**, respectively, leading to a 29% or EUR 30,297,315 increase in **other costs.** The costs of emission allowances have been increasing from one year to the next. Costs of **ground exploitation fees** also increased by 8%. Other costs accounted for as many as 29% of all costs in the structure of costs or 3% more than in 2020.

Change in net profit or loss of 2021 compared to 2020 in EUR thousand



On account of the received compensation, the HSE Group achieved an exceptional **EBITDA** in 2021 which would have been 52% lower than in the preceding year of 2020 had it not been for this revenue. In 2021, higher own prices of generation units and a lower gross margin on the sales of electricity had a negative effect on EBITDA.

On the basis of valuations and in relation to the adopted coal mine closure act, EUR 164,491,000 in impairment of assets (primarily for TEŠ and also for PV) were recognised. Following the **write-offs**, the HSE Group realised a EUR 88,313,624 **EBIT** which had been negative in 2020. Depreciation fell by 6% on account of the impairment of assets as early as 2020.

As at 31 December 2021, 31% of assets or 5% less compared to the preceding year of 2020 of the HSE Group were financed by bank loans. Financial expenses fell by 3%. **The net flow** was negative on account of debt financing. In 2021, the HSE Group generated **net profits.**

2.8.1.3 Analysis of the definitive financial statement of the HSE Group

At the end of 2021, the assets of the HSE Group increased by 10%, out of which current assets increased by 70%, whereas non-current assets fell by 4% from impairment.

Assets increased primarily on account of: **other current assets** by EUR 125,981,879 as a high volatility in electricity and CO_2 emission allowances required additional financial coverage (9% share); **current trade receivables** by EUR 99,963,473 on account of higher prices (13% share), **non--current operating receivables** on account of receivables from the EUR 95,502,329 out-of-court settlement with the GE Group and **cash and cash equivalents** by 23% (5% share). The following also increased: **intangible assets** by 8% on account of a higher balance of CO_2 emission allowances (1% share), **non-current investments in associates** by 1% – an increase on account of the attribution of profits under the equity method (7% share). **Tax assets** also increased by EUR 2,993,097 EUR in addition to **investment property** from revaluation by EUR 1,383,837 EUR (1% share).

Property, plant and equipment accounted for 57% of assets and decreased by 12% from impairment. Investments were yet to follow the depreciation of assets. Nevertheless, the share of investments in depreciation was much higher than during preceding years. **Current investments** fell by 52%. These account for the earmarked deposits which was reduced on account of early repayment of the fixed part of the loan taken out from EBRD. **Inventories** fell by 5% on account of lower inventories of coal, spare parts, and maintenance materials (2% share).

Other current liabilities experienced the highest growth of all liabilities by increasing by EUR 203,839,599 (12% share). They increased on account of the following: higher liabilities from valuing physical contracts used for trading in electricity at fair value caused by higher prices at the end of 2021, an increase in current accrued costs of concession fees and other costs and higher VAT liabilities. Higher prices caused an increase in **current trade payables** by EUR 83,286,211 EUR (11% share) – current trade receivables also increased. **Other provisions** increased by 10%. On the basis of a new estimate, additional provisions for closure works were set up (4% share). **Provisions for termination and jubilee benefits** increased by 5%, having been set up on the basis of an actuarial calculation (1% share).

At the end of 2021, **capital** was lower by 9% despite net profits of the HSE Group. It fell due to the risk hedging reserve as part of which the effects of electricity and CO_2 emission allowance futures are shown. Capital accounted for 40% in the structure of liabilities or 8% less than as at 31 December 2020.

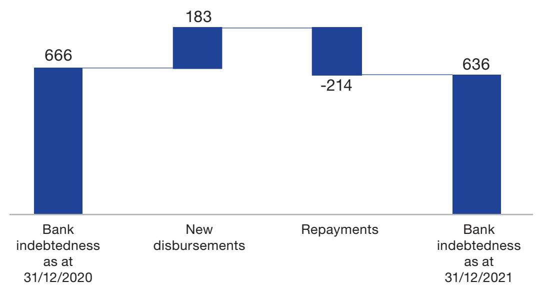
Bank indebtedness fell by 5%. TEŠ repaid the fixed part of the loan taken out from EBRD (EUR 28,757,143) early. SENG repaid its loans taken out from SID and NKBM early. A high daily volatility of electricity and CO_2 emission allowance prices, present during the last quarter of 2021, the HSE Group required higher liquidity, arising from the daily provision of a financial coverage for futures used to hedge physical contracts in the future, meaning that futures-related liquidity deficits are only temporary. In light of the foregoing, HSE drew down EUR 70,000,000 in revolving loans at the end of 2021.

The solvency and capital adequacy risk is strongly present with the PV Group. The Group is namely highly exposed to an insolvency risk on account of loss-making operations, also due to the impairment of assets during preceding years, the failure to realise generation plans, uncertain and challenging conditions on procurement markets and the limited maximum long-term coal sales price.

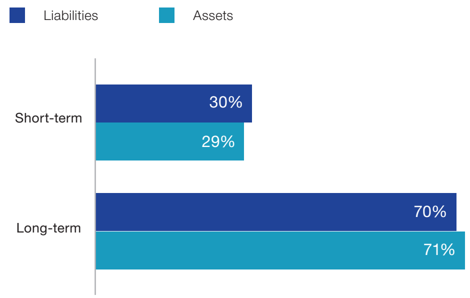
On account of unrelieved losses of the preceding years and a EUR 161.1 million impairment of non-current assets, the loss brought forward from the preceding years exceeded one half of its share capital as at 31 December 2021, rendering TEŠ presumably insolvent. Procedures to have the share capital reduced in a simplified procedure by EUR 383 million (its transfer to capital reserves) to EUR 195.6 million (our financial commitments to EBRD require a minimum EUR 193.3 million in share capital) to do away with the presumable insolvency are already underway. This measure will allow the company to restore its solvency and capital adequacy.

The Management Boards of all HSE Group are continuously in charge of monitoring solvency and liquidity indicators and of taking prompt action in compliance with ZFPPIPP.

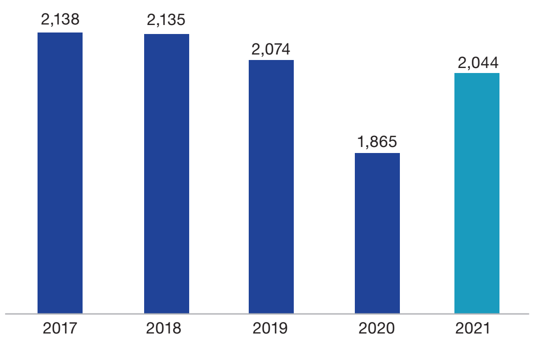
Changes in bank indebtedness in EUR million



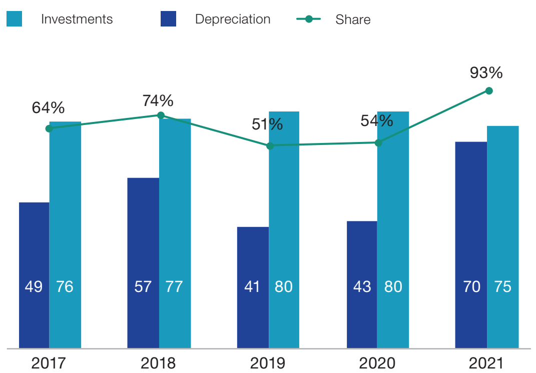
Financial position structure as at 31 December 2021



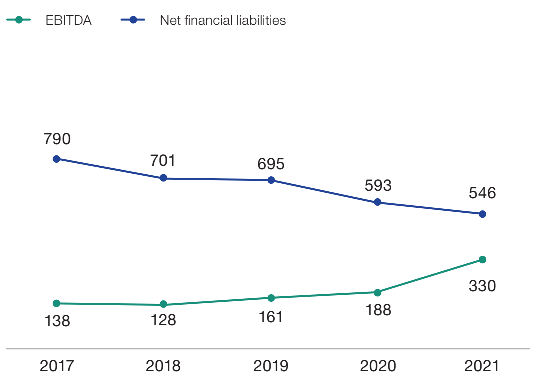
Assets of the HSE Group in EUR million



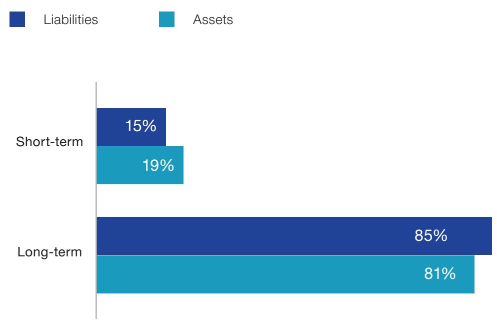
Investments as a share of depreciation



EBITDA and net financial liabilities in EUR million



Financial position structure as at 31 December 2020



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2.8.1.4 Comparison of 2021 operations to the 2021 plan of the HSE Group

The year 2021 proved a challenging financial year for the HSE Group. Nevertheless, its financial results exceeded our plans. Organising our work during the epidemic proved extremely challenging and was reflected in an 8% fall in generation. PV experienced the most issues, having to also face extremely challenging geomechanical working conditions. The thermal power plant generated less electricity than planned, whereas hydro-electric power plants and the Avče pump-fed hydro-electric power station generated more electricity than planned. Sales volumes matched our planned sales volumes. Net revenue from sales increased by 43% on account of higher prices. After years of negotiations, an out-of-court settlement was finally successfully negotiated between TEŠ, HSE and the GE Group. The HSE Group realised unplanned revenue from compensations, leading to a 71% better EBIT and 143% better EBITDA. Had it not been for the received compensation, EBITDA would have been lower than planned on account of the higher own price of generation facilities and more expensive procurements of missing volumes of electricity on the market caused by a lower generation during the second half of 2021 when prices were high. Costs of materials increased by 49% on account of higher prices and consumption. The biggest deviation was experienced by the costs of steel arch supports of the coal mine. Labour costs increased by 11%. This was caused by the failure to reach an agreement with social partners in the coal mining division. Costs of services increased by 5% on account of higher costs of intellectual services (success fees for lawyers related to the out-of-court settlement) and costs of generation products and services. Despite ending the financial year with a 274% higher net profit, the capital of the HSE Group fell by 26%. This was affected by unplanned, but nevertheless expected impairments of assets.

TEŠ and SENG repaid its loans early. Bank indebtedness fell by 9%. 82% of the planned investments were realised.

KEY DATA	UNIT OF MEASURE	2021	PN 2021	IND 2021/PN 2021
Net sales revenue	EUR	2,538,204,221	1,770,478,975	143
Net profit/loss	EUR	46,969,876	12,574,629	374
Revenue	EUR	2,913,590,058	1,784,416,724	163
EBIT = Operating profit or loss	EUR	88,313,624	51,769,127	171
EBITDA	EUR	330,198,857	135,939,500	243
Assets	EUR	2,044,297,833	2,033,808,977	101
Capital	EUR	817,033,848	1,101,103,740	74
Bank indebtedness	EUR	635,896,321	697,623,972	91
Total indebtedness	EUR	642,440,307	705,895,179	91
Investments	EUR	69,651,768	84,898,635	82
Electricity produced	GWh	6,878	7,474	92
Electricity sold (physical business)	GWh	36,785	36,654	100
Employees at the end of the year	number	3,203	3,178	101


The thermal power plant generated less electricity than planned, whereas hydro-electric power plants and the **Avče** pump-fed hydro-electric power station generated more electricity than planned.

2.8.2 Business performance analysis of HSE[14]

2.8.2.1 Key data of the HSE

KEY DATA	UNIT OF MEASURE	2017	2018	2019	2020	2021	IND 2021/2020
Net sales revenue	EUR	1,610,687,897	1,481,938,763	1,740,154,682	1,860,698,020	2,613,503,989	140
Net profit/loss	EUR	19,737,615	9,486,268	60,117,717	-226,942,925	18,881,097	/
Revenue	EUR	1,657,588,300	1,519,177,749	1,762,118,339	1,870,651,657	2,746,262,141	147
EBIT = Operating profit or loss	EUR	50,171,197	54,454,367	68,441,333	107,379,999	93,931,330	87
EBITDA	EUR	51,015,920	55,340,293	69,323,634	108,640,716	96,195,221	89
Assets	EUR	1,321,084,847	1,381,683,132	1,418,699,514	1,246,755,842	1,446,497,311	116
Capital	EUR	905,369,121	979,389,150	984,344,305	779,976,245	666,757,957	85
Bank indebtedness	EUR	236,468,415	219,469,011	222,513,663	211,177,071	260,391,594	123
Total indebtedness	EUR	236,622,267	219,574,520	223,729,850	214,055,939	263,446,609	123
Investments	EUR	1,746,764	1,247,046	899,352	973,620	3,745,857	385
Electricity produced	GWh	7,034	7,320	7,155	7,627	6,878	90
Electricity sold (physical business)	GWh	37,799	31,158	34,538	40,782	37,677	92
Electricity sold (physical and financial business)	GWh	39,743	36,994	54,723	95,589	100,334	105
Employees at the end of the year	number	174	176	186	211	214	101
EBITDA margin	%	3.2	3.7	4.0	5.8	3.5	60
Self-financing ratio		68.53	70.88	69.38	62.56	46.09	
Non-current financing ratio		85.20	84.94	84.46	78.12	57.19	
Operating fixed assets rate		2.97	3.16	3.79	6.81	7.45	
Non-current investment ratio		84.68	81.93	83.68	79.88	67.73	
Equity to operating fixed assets ratio		23.06	22.44	18.31	9.19	6.19	
Immediate solvency ratio		0.15	0.34	0.14	0.14	0.08	
Quick ratio		0.99	1.17	1.03	0.90	0.74	
Current ratio		1.03	1.20	1.05	0.92	0.75	
Operating efficiency ratio		1.03	1.04	1.04	1.06	1.04	
Net profitability ratio of ROE capital	%	2.2	1.0	6.1	-25.7	2.6	
Net profitability ratio of ROA assets	%	1.5	0.7	4.3	-17.0	1.4	
Added Value	EUR	60,913,789	65,840,151	80,736,259	121,554,458	110,336,512	
Added value per employee	EUR	376,011	376,229	446,057	612,365	519,231	
Debt-to-capital ratio		0.26	0.22	0.23	0.27	0.40	
Total financial liabilities / EBITDA		4.64	3.97	3.23	1.97	2.74	
EBITDA / Financial expenses from received loans		6.38	7.08	10.81	27.69	27.16	
Total financial liabilities / Assets		0.18	0.16	0.16	0.17	0.18	
Net financial liability	EUR	209,894,393	151,815,272	196,133,069	176,569,880	214,647,863	
Net financial liabilities / EBITDA		4.11	2.74	2.83	1.63	2.23	
Net financial liability / Capital		0.23	0.16	0.20	0.23	0.32	

14 "In compliance with IFRS 9.2.6, the Company shall account for electricity procurement and sales contracts for the purpose of trading as financial instruments, as, for these contracts, the Company usually has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin (in compliance with the rules of IFRS 9 on contract settling net). In compliance with IFRS 9.2.4, the Company shall account for these contracts as derivatives and measure them at fair value through profit or loss.

The contracts that the Company has concluded and that it continues to hold for the purpose of receipt or delivery of a non-financial item in compliance with the entity's expected procurement, sale or usage requirements, such as sales contracts for HSE Group self-generated electricity (so-called 'own-use' contracts), shall continue to be recognised in the financial statement in compliance with IFRS 15 on the effective date of the respective contract."

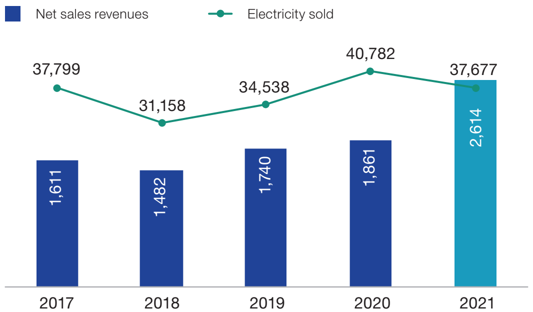
This constitutes a change in the accounting policy. The effect of a change in the accounting policy applying retroactively to 2020 in the amount of EUR 1,292,361 accounts for an intangible value. For this reason, the change has not been entered into our accounts as an adjustment item of the preceding year.

The operational analysis shall be read together with the Accounting Report of the HSE Group.

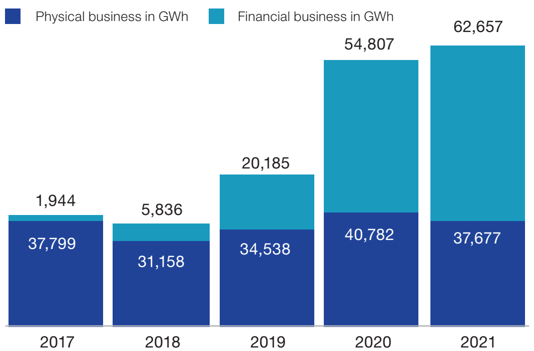
2.8.2.2 Analysis of the profit and loss statement of HSE[15]

2021 was characterised by extremely challenging market conditions. The prices of electricity, energy products, and CO_2 emission allowances grew exponentially. A high price volatility arose particularly during the second half of the year. The highest net revenue from sales in the history of the company was generated and the EUR 2.6 billion threshold was exceeded. More than 99% thereof were generated by the **sales of electricity** which increased by 40% on account of higher prices. As much as 76% of **revenue from sales of services** was generated from electricity energy sales services (EUR 12,394,676 or 28% more than in 2020). Higher revenue from sales of emission allowances led to a 55% higher **revenue from sales of merchandise and materials.**

Net revenue from sales in EUR million and electricity sales volumes in GWh



Electricity sold in GWh

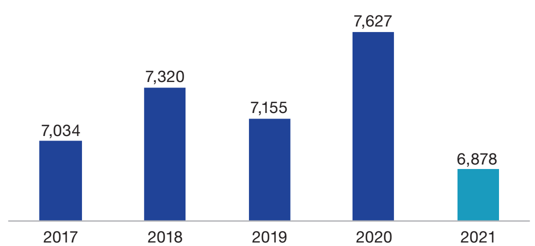


15 Unless stated otherwise, this section shall clarify operating deviations in 2021 compared to 2020.

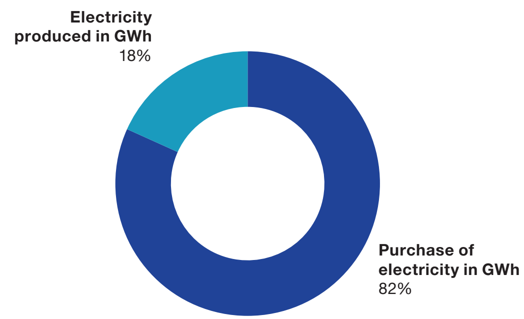
The sales volumes of electricity fell by 8%. This was mainly caused by the continuing trend of shifting trading activities on electricity markets towards financial products.

18% of 1 per cent less sales volume was generated compared to the preceding year of 2020. Hydro power generation (excluding the 49% participating interest in the HESS generation) fell by 269 GWh compared to the preceding year owing to below-average precipitation rates during the second half of the year. In 2021, a regular overhaul of Block 6 was carried out. Occasional coal extraction issues also arose, resulting in 474 GWh less electricity generation by the thermal power plant. The generation of the Avče pump-fed hydro-electric power station also fell by 7 GWh. **The generation** of the HSE Group fell by 10% and was the lowest during the last five years.

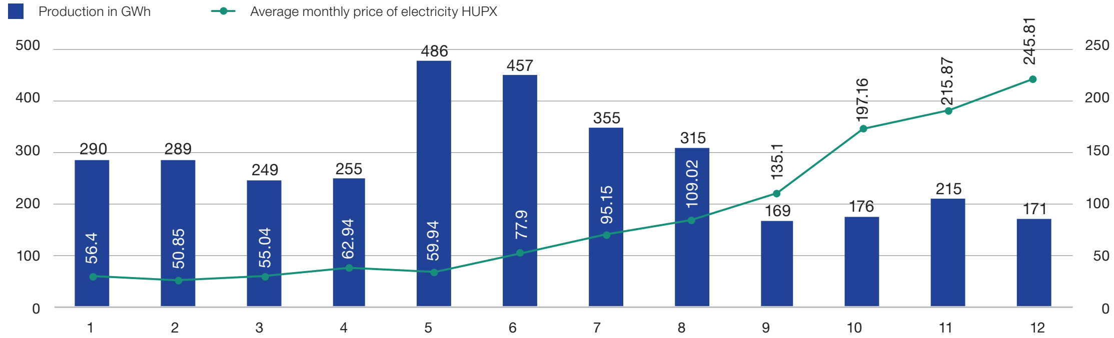
Generated electricity in GWh



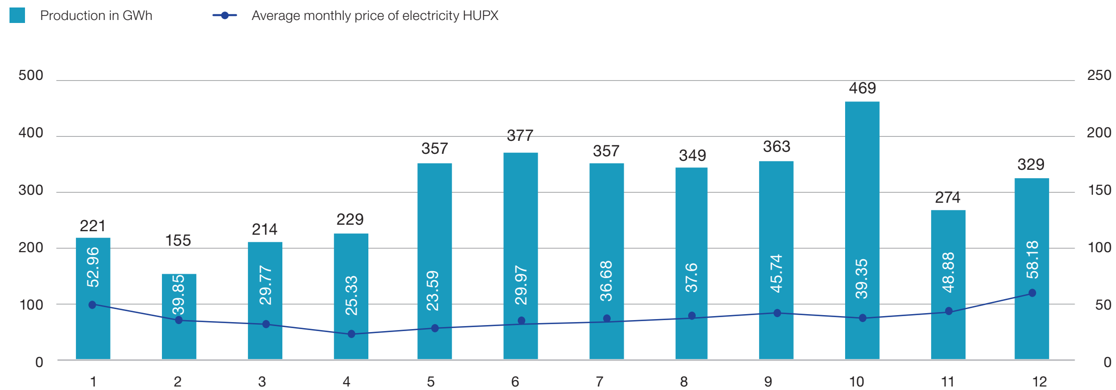
Share of generated and procured electricity in 2021



Monthly generation in hydro-electric power plants in GWh and average monthly price of electricity in 2021



Monthly generation in hydro-electric power plants in GWh and average monthly price of electricity in 2020



On account of a lower generation, HSE was forced to compensate for the missing volumes of electricity with more expensive procurements on the market, reflected in the higher **cost of goods sold** by 42%. Compared to the preceding year, the Company achieved a lower added value in the sales of self-generated electricity and a better price ratio result in trading. In light of the foregoing, **the gross margin** fell by 9%. The decrease is even bigger as the hydrology during the first half of the year was still above average, whereas it was low during the second half of 2021, exactly when electricity was marked by high prices.

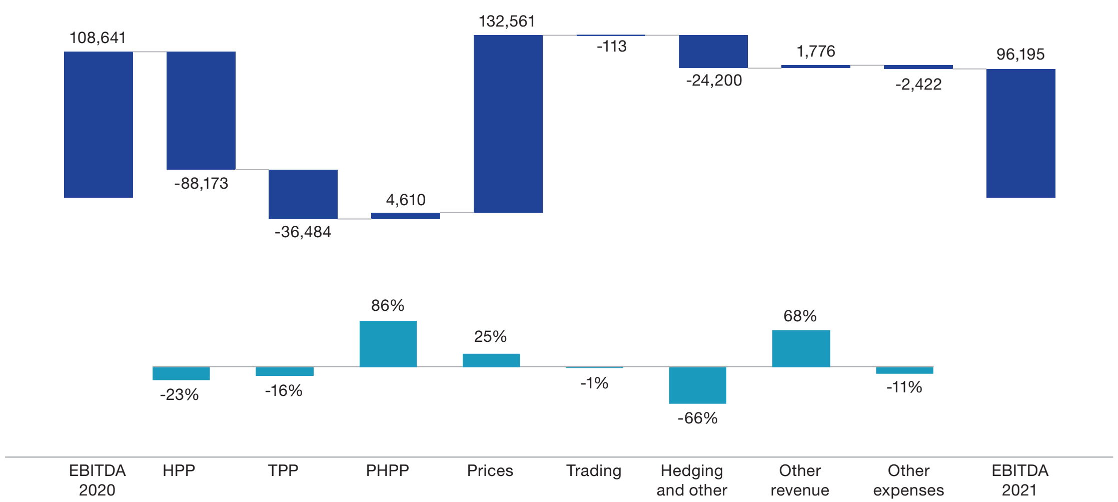
The Company hedges its commodity contracts for future deliveries by futures. The effects of electricity trading futures in the off-set value (EUR 123,959,224) were recognised in the income statement and are disclosed under the **other operating revenue** item[16]. Other operating expenses included recognised off-set effects of physical contracts at end of 2021 prices (EUR 161,377,066)[17].

24% of all revenue from services were generated by HSE by re-invoicing the costs of lawyers' services to TEŠ (EUR 2,245,312) and by rendering IT, accounting, financial, legal, and other services to its subsidiaries (EUR 1,567,284). These are shown under **other revenue** increasing by 147% on account of re-invoiced costs to TEŠ. In 2021, the out-of-court settlement between HSE, TEŠ and the GE Group was successfully completed after several years in the favour of TEŠ which was awarded a monetary compensation. The year-long

16 Other operating revenue includes the off-set effects of futures at end of 2021 prices hedging physical contracts concluded for trading in electricity.

17 Other operating expenses include the off-set effects of valuing physical contracts for electricity at fair value at the end of 2021 for delivery as of 1 January 2022.

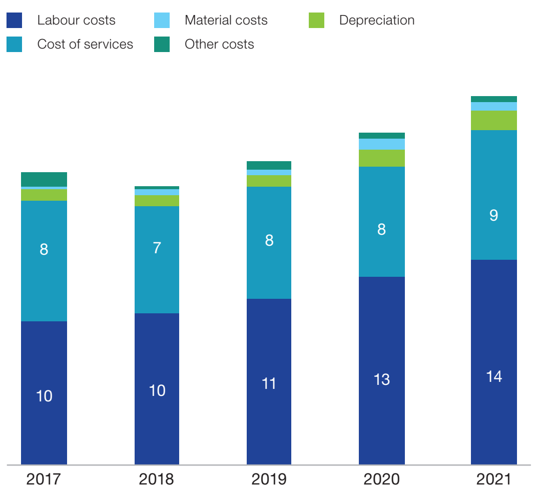
HSE Group EBITDA change in 2021 relative to 2020 in EUR thousand



costs of arbitration amounting to EUR 4,294,840 in total were re-invoiced to TEŠ (out of which EUR 2,245,312 were shown under revenue from services and, in part, EUR 2,049,528 were shown as the reversal of costs of lawyers' services). Other revenue also includes revenue from co-financing and the reimbursement of court fees.

Other revenue primarily shows costs that rose by 11% on account of higher costs of services and labour. If the re-invoiced costs to TEŠ shown under revenue from services had been accounted for as reversed costs of lawyers' services, costs would have been only 1% higher than in 2020. **Labour costs** accounted for most, 55%, of costs. They increased by 10%. This was due to a higher average number of employees, severance pays on economic grounds and the included business performance for 2021. **Costs of services** increased by 18% on account of higher costs of lawyers' services. These accounted for 35% of all costs. After the completion of the arbitration proceedings, part of success fees to lawyers also became payable. Costs of intellectual services accounted for the most, 31%, of costs of services. More IT service costs of a subsidiary were re-invoiced. As a result, other costs of services rose by 7% (27% share). The costs of bank services and insurance premiums also increased by 29% - higher third-party liability costs (18% share). Costs of maintenance increased by 1% on account of higher maintenance costs of hardware and software (10% share). Other costs of services fell by 3% on account of lower costs of sponsorships (14% share). **Costs of materials** fell by 3% on account of fewer procurements of PPE and disinfectants (3% share). **Other costs** fell by 1% (2% share) on account of a lower tax on financial services. **Provisions** fell by 45%. This was due to the provisions for actions set up in 2020 and an increase in provisions by default interest in 2021 (1% share).

Costs in EUR million

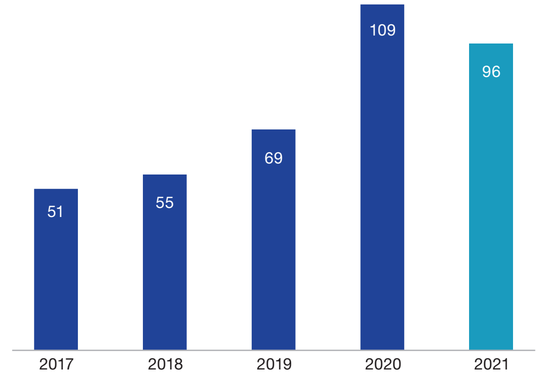


The reasons set out above affected a lower **EBIT** and **EBITDA** which were exceptionally good in 2020 and will be difficult to replicate. The EBITDA in 2021 was the second highest during the last five years. Resulting from a good organisation of work and timely adopted measures, the epidemic did not significantly affect the operations of the Company.

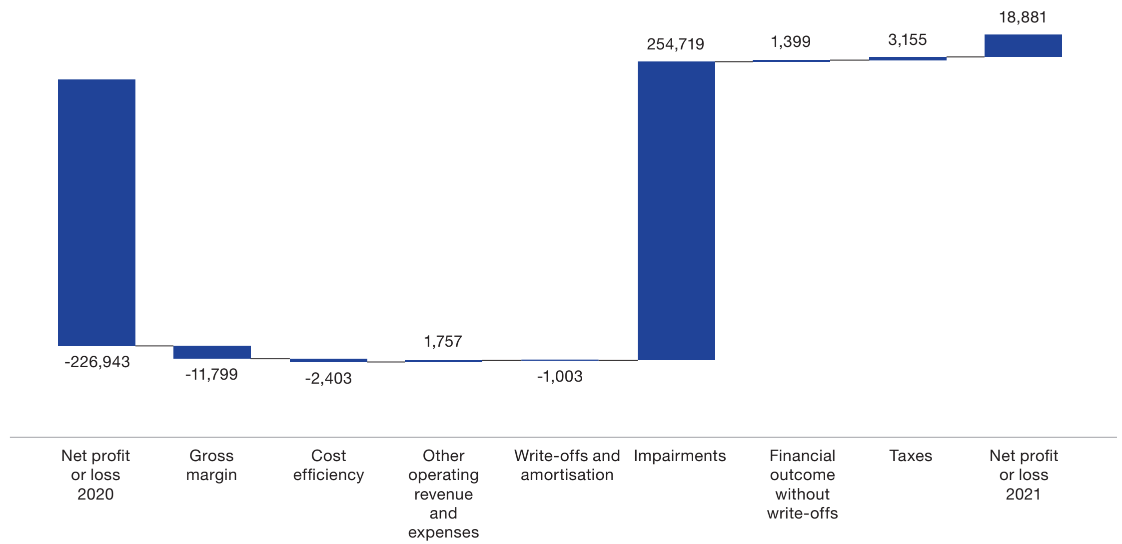
A **negative net flow** was caused by a EUR 59,530,797 impairment of investments in subsidiaries by the Company on the basis of performed valuations. Financial revenue from participating interests in subsidiaries increased by EUR 5,055,401. There were less loans given to Group companies; financial revenue from loans and deposits given fell by EUR 3,791,139. Financial expenses from loans received also fell by 6%.

After deducting the corporate income tax, in 2021 the HSE Group generated EUR 18,881,097 in **net profit**. Without the investment impairment, the HSE Group would have generated EUR 78,411,894 in profit.

EBITDA in EUR million



Change in net profit or loss of 2021 compared to 2020 in EUR thousand



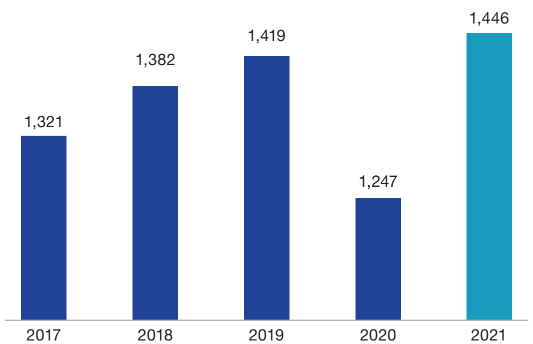
2.8.2.3 Analysis of the statement of financial position of HSE

At the end of 2021, the assets of the company were 16% higher compared to the preceding year, primarily due to the effect of growing prices which, in turn, affected higher receivables. In addition, HSE successfully entered the retail market by acquiring a 51 per cent participating interest in ECE and launched major investments. The majority of funds were invested in obtaining the documentation and expert bases for the construction of Middle Sava hydro-electric power plants and in the Prapretno solar power plant due to launch its operations in spring 2022.

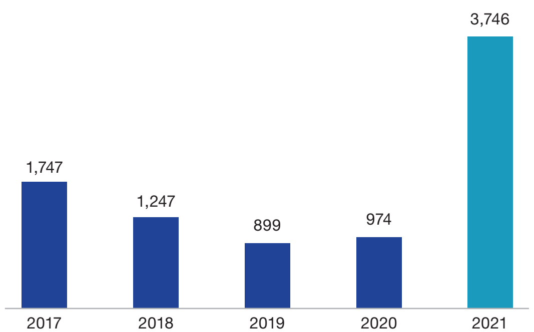
The proportion of current assets in total assets increased by 12 per cent, namely on account of the reduction of non-current assets by 2%. An impairment of investments was reflected in a 6% lower balance of non-current investments in subsidiaries. These accounted for 57% or 13 per cent less than during the preceding year.

Intangible assets increased by 29% (the stock of emission allowances for the generation of the HSE Group), **property, plant and equipment** by 23% (higher investments), **non-current operating receivables** by 623% or EUR 9,664,503 (financial coverage receivables), **inventories** by 395% (stock of trading emission allowances to be sold during next year), **financial receivables for loans** given to Group companies by 46%, **current trade receivables** by 49% (on the other hand, current trade payables also increased by 53%) and **other current assets** by 305% or EUR 117,479,884 (primarily on account of trading in derivatives as additional financial coverage was required due to the high volatility of prices of electricity and CO_2 emission allowances).

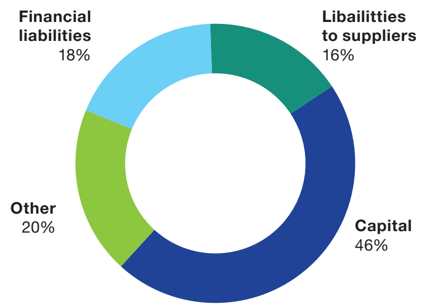
Assets in EUR million



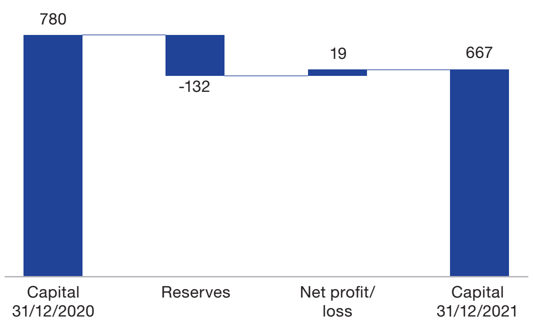
Investments in EUR thousand



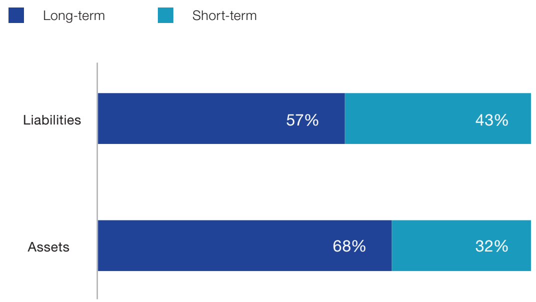
Structure of liabilities as at 31 December 2021



Change in capital in EUR million at the end of 2021 compared to 31 December 2020



Financial position as at 31 December 2021

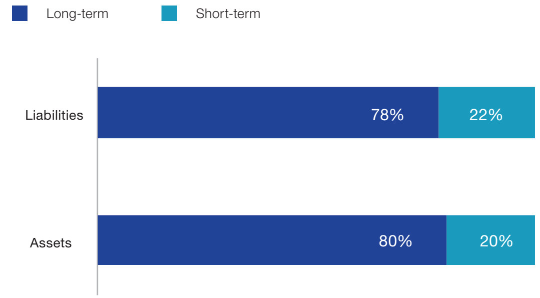


Capital accounted for most liabilities, 46%. The hedging reserve was reduced on account of closing futures from hedges to procure electricity in December 2021. Even though the Company generated profit, its capital fell by 15%. This was caused by reducing the hedging reserve on account of closing futures from hedges to procure electricity in December 2021.

Capital fell by 16 per cent in the structure of liabilities, namely on account of **other current liabilities** which rose by EUR 193,217,735. The highest increase was on account of liabilities from the fair value of physical contracts for electricity trading at high prices at the end of 2021 (EUR 161,410,681). Liabilities for accrued cost of electricity and VAT are also higher.

This is a result of the developments on the energy product markets, where an extreme price volatility was witnessed which also spilled over into a financially extremely challenging period. Prices grew rapidly during the last quarter of the year. At the end of 2021, the HSE Group required large volumes of liquidity arising from high daily volatility of prices of electricity and CO_2 emission allowances. These arise from the daily provision of financial coverage from futures (deficits or surpluses of cash as the difference between the market and contractual price are realised on a daily basis) which hedge physical contracts in the future. The above means that futures deficits are only temporary. During an extremely short period of time, additional current sources were provided, indicating the creditworthiness of the HSE Group as it is perceived a credible partner by financial institutions. As at 31/12/2021, the **total indebtedness** increased by 23% compared to the end of 2020. EUR 70,000,000 in revolving loans were drawn.

Financial position as at 31 December 2020



All non-current loans were repaid in compliance with the respective loan agreements.

The impairment of investments and a significant increase in current liabilities from the valuation of physical contract at fair value effects caused current liabilities, as at 31/12/2021, not to be fully covered by current assets. The Company continuously monitors ZFPPIPP indicators and acts in a proactive way.

2.8.2.4 Attaining the planned objectives in 2021

Business performance is measured through the level of attainment of the planned objectives for 2021 from the adopted business plan.

In exceptionally challenging conditions, present on the energy and financial markets throughout 2021, and in the face of the challenges brought about by the epidemic, HSE was able to perform well. Its EBIT was 3%, EBITDA 4% and added value per employee 6% higher than its planned objectives. Generation was 8% lower than planned. On account of coal extraction issues, the thermal power plant generated less electricity than planned. The missing volumes could not be compensated for by the hydro-electric power plants and the pump-fed hydro-electric power station in Avče with an above-average generation. HSE, which assumes all market and volume-related risks, was forced to compensate for the missing quantities with more expensive procurements on the market. The generated gross margin was as planned. The same also goes for the volume of sold electricity.

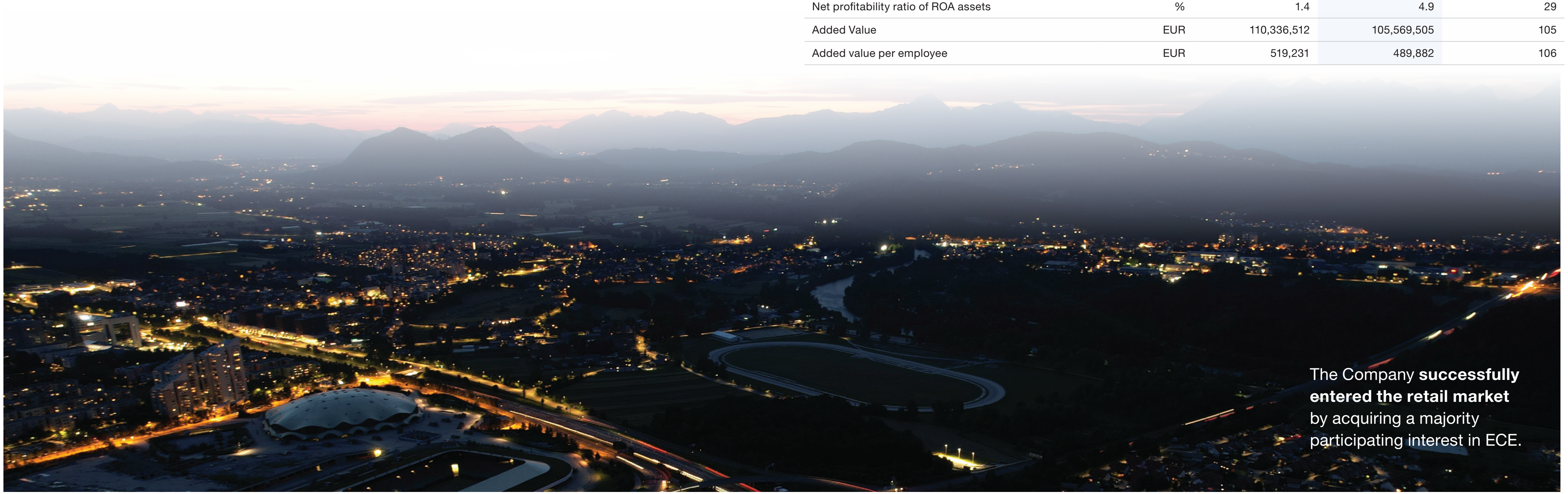
The impairment of non-current investments was not planned, but expected. It affected a lower net profit or loss, assets, capital, the ROE (Return on Equity) and ROA (Return on Assets) ratios.

After years of negotiations, the out-of-court settlement with GE was completed. TEŠ was awarded a compensation. As a result, HSE, which otherwise provides liquidity to HSE Group companies, incurred less debt.

It is also worth mentioning that, in compliance with its adopted objectives, the Company successfully entered the retail market by acquiring a majority participating interest in ECE.

The effect of the epidemic was reflected in a delay in investments. The investment realisation was 41 per cent, but, nevertheless, higher than during the preceding years. In 2021, construction activities were carried out at Middle Sava hydro-electric power plants in addition to the construction of the Prapretno solar power plant.

KEY DATA	UNIT OF MEASURE	2021	PN 2021	IND 2021/PN 2021
Net sales revenue	EUR	2,613,503,989	1,793,560,091	146
Net profit/loss	EUR	18,881,097	77,807,786	24
Revenue	EUR	2,746,262,141	1,803,075,441	152
EBIT = Operating profit or loss	EUR	93,931,330	91,079,145	103
EBITDA	EUR	96,195,221	92,355,988	104
Assets	EUR	1,446,497,311	1,652,266,819	88
Capital	EUR	666,757,957	1,124,852,684	59
Total indebtedness	EUR	263,446,609	294,451,337	89
Investments	EUR	3,745,857	9,204,159	41
Electricity produced	GWh	6,878	7,474	92
Electricity sold (physical business)	GWh	37,677	37,534	100
Employees at the end of the year	number	214	214	100
Net profitability ratio of ROE capital	%	2.6	7.1	37
Net profitability ratio of ROA assets	%	1.4	4.9	29
Added Value	EUR	110,336,512	105,569,505	105
Added value per employee	EUR	519,231	489,882	106



2.9 Risk management of the HSE Group[18]

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. Risk management is applied to provide assistance in attaining the objectives set, improving operative efficiency, the protection of people and assets, making informed decisions and operating in compliance with applicable internal and external regulations. 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.

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 making regular business decisions of the HSE Group.

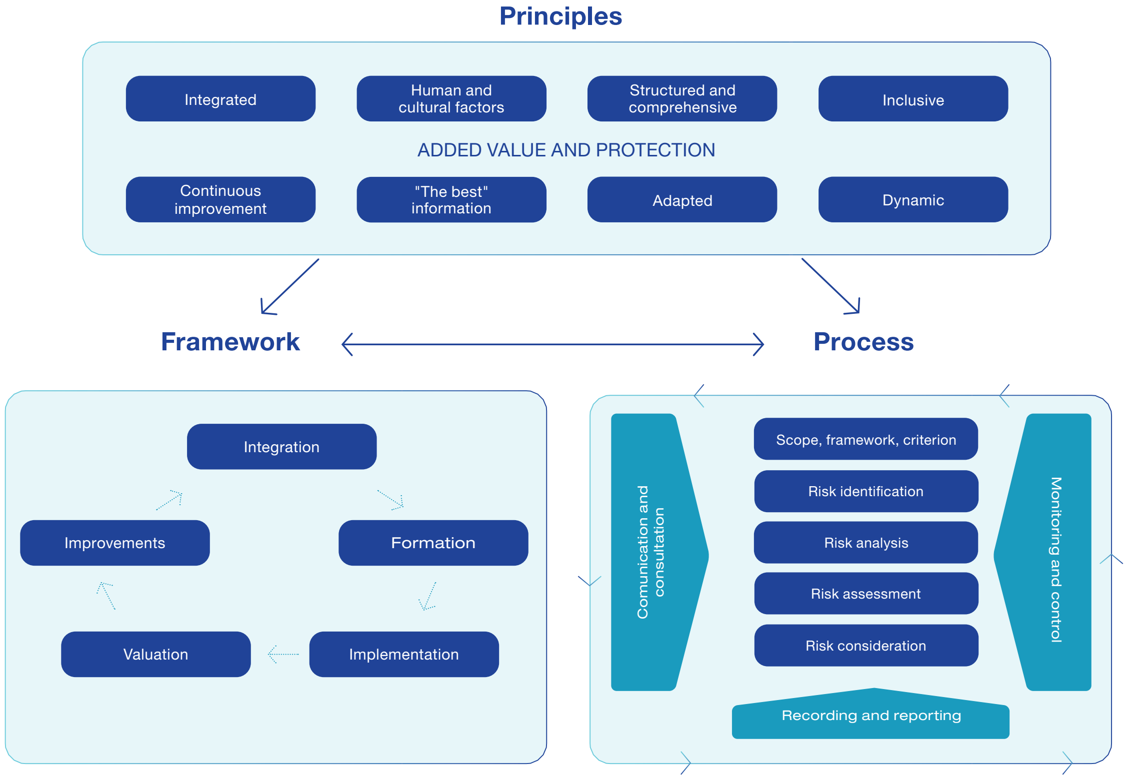
Risks of the HSE Group are managed on the basis of principles, framework, and process. Principles provide guidelines on the characteristics of effective and efficient risk management, reporting on its added value and clarifying its purpose and objective. The process involves a systematic application of policies, procedures, and practices in risk communication and consultation, context establishment and evaluation, processing, monitoring, control, recording, and reporting activities. The risk management process is not a sequential process wherein any given phase would affect only the next phase, but a multi-directional, continuous process in which any element of any phase can affect the remaining risk management process phases. The established key risk management system allows us to identify and recognise negative trends and to promptly adopt timely risk management measures both at the level of individual companies and at the level of the HSE Group as a whole.

The risk management system is designed on the basis of a "three-level model of lines of defence":

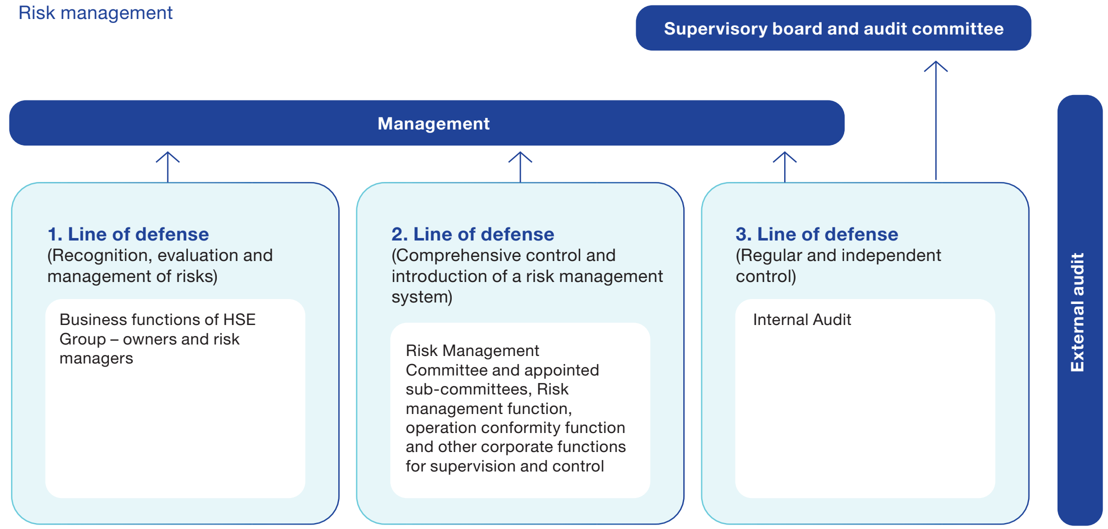
- **The first line of defence** is responsible for recognising and assuming risks and establishing suitable effective risk management measures and internal controls.
- **The second line of defence** is in charge of controlling compliance of operations and sets up or is involved in establishing a risk management system by area, including recognising, measuring, and measuring exposure procedures and an exposure limit system.
- **The third line of defence** carries out regular inspections of the suitability and effectiveness of the internal environment as well as the 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 do not form a direct part of the three lines of defence, although they are the primary stakeholders serviced by all three lines of defence, and are, at the same time, responsible for the effective operation of the system.

Principles, Framework, and Process (According to ISO 31000:2018)



Risk management



18 GRI 102-15; 102-30; 103-1; 103-2; 103-3; 201-2.

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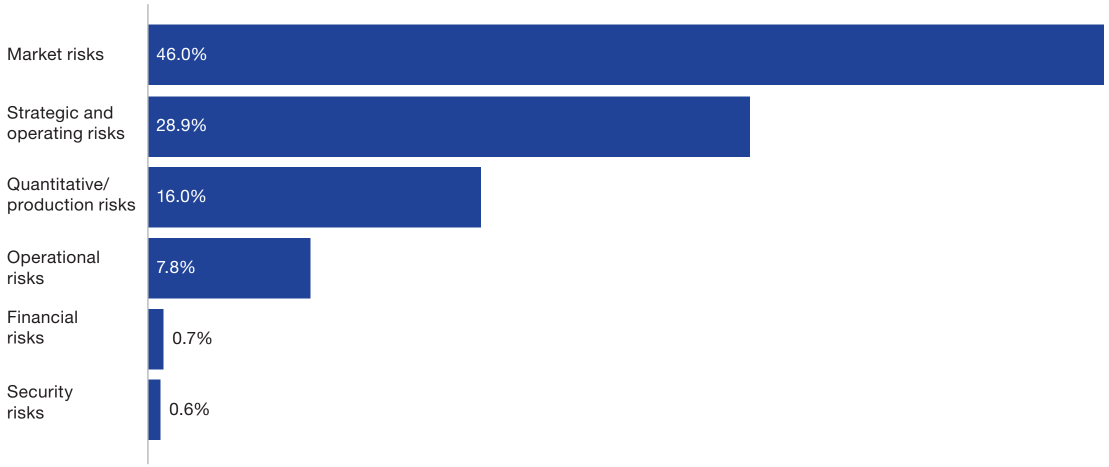
2.9.1 Key risks of the HSE Group

The risk profile of individual companies in and the HSE Group as a whole is assessed on an annual basis. It informs us of the level of contribution of individual key risks at the level of the entire exposure of an individual company or the Group from the perspective of its effect on the value of the respective company. Valuation uses the business model of the HSE Group as its basis, whereby key uncertainties and assumptions (that the Group is exposed to as part of its operations) are recognised, their range values are defined and a Monte Carlo (MC) simulation is carried out. 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 95th percentile of the calculated distribution of 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.

Mechanisms were set up wherever possible to regularly monitor key risks based on objective indicators. The information obtained is taken into consideration in our decision-making processes to the greatest possible extent.

The key risk identification and valuing process also includes defining risks that could affect the balance sheet items of the HSE Groups or which result from the realisation of other risks, such as the liquidity and solvency and capital adequacy risks.

The risk profile of the HSE Group for the following three years



Liquidity risk is defined as the risk of a mismatch of input assets and liabilities or the possibility of a lack of cash to repay outstanding liabilities. Because the liquidity risk is the common denominator for other risks, managing it is a difficult although important task, which cannot be carried out individually, but rather together while managing other risks. The liquidity risk is managed by planning the daily, monthly and annual cash flows and then, using this, by effectively distributing surpluses within the Group, reconciling the maturities of payables and receivables, consistently recovering receivables, limiting our exposure to partners and ensuring suitable available credit lines from commercial banks.

The solvency and capital adequacy risk shall be managed by taking into account all risk factors with a long-term effect on the operation of the HSE Group. This is why this risk is also managed by managing other risks. The last quarter of 2021 in particular was characterised by a high price volatility on electricity, CO_2 emission allowance and other energy product markets, resulting in increased initial and variation margins. By simulating various scenarios and providing sufficient current and non-current revolving credit lines in a timely manner, we were able to successfully manage all risks arising from daily trading in electricity and related products.

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

2.9.2 Market risks

Throughout its operations, the HSE Group is most exposed to risks arising from electricity price trends and movements in the region and the ratios between these movements between individual markets where our activities are carried out. Just like electricity prices, the movements of emission allowance prices also play a significant role. Price risks are managed at the Group level as part of 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 generation and the procured and sold electricity at the moment of supply in the future, i.e. the open position.

2021 was under the influence of the economy moving again after its 2020 downturn. This process was primarily characterised by a shortage of material goods resulting from the sudden liberalisation of economic activity, in particularly by demand that supply was frequently not able to fully meet. This resulted in rising prices of raw materials, energy products and general inflationary pressures. In terms of managing market risks, the significant change in the absolute levels of prices at which electricity delivery contracts has been concluded as derivatives played a key role. The change in the price level led to an increased effect on price volatility. At the same time, it also significantly increased credit exposure and proportionally higher hedging financial coverage requirements. Under the pressure of these requirements, some market participants were forced to close the positions of their portfolios. Some companies also terminated already concluded electricity delivery contracts.

Market risks related to the sale of self-generated electricity, which is the largest and most important segment in the operations of the HSE Group, were managed in 2021 pursuant to the defined strategy for selling self-generated electricity and purchasing CO_2 emission allowances as needed for self-generated purposes. The end of 2021 was particularly characterised by a significant improvement in price ratios in terms of price securities of sales of self-generated electricity. Nevertheless, long-term sales of self-generated electricity was restricted on account of the already mentioned stricter financial coverage requirements.

In the electricity trading segment, market risks were managed based on selecting and limiting the maximum values of the parameters that have 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 remain within the limits. The exposure to these risks, at comparable volumes, increased compared to 2020.

The market risk monitoring process is subject to constant improvements and adjustments to new market situations in addition to new price securing opportunities offered by the market through its development. In this sense, the implementation effectiveness of the risk management system is being constantly monitored and upgraded.

Additional information related to managing price risks is also provided in the Accounting Report of the annual report (Financial instruments and risk management).

2.9.3 Generation/volume risks

Volume/generation risks arise due to differences between the planned and actually generated volumes of electricity. These risks are related to the technological and logistical generation limits, the timely supply of energy products and weather conditions.

The key factor of volume/generation risks is hydrology, managed by planning generation based on average flows over several years and the foreseen probability of hydrology. In 2021, hydrology was regularly estimated on a monthly basis, based on the most recent meteorological data available. Generation deviations are managed in the next step mainly by redistributing generation in the HSE Group and by trading in electricity. Due to the significance of the effect of these risks, we are also involved in projects creating more precise hydrological models in individual river basins, which will additionally improve the short- and long-term hydrology estimates.

The delivery of energy products also plays an important role in volume/generation risks. 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. an epidemic), i.e. factors that cannot be influenced by PV, and internal factors, such as operational reliability depending on the condition of the machinery and equipment exposed to the challenging conditions in the mine. Risks were managed in 2021 by drafting long-term coal face plans, taking epidemiological measures, monitoring and establishing a suitable strategic inventory volume at the coal landfill, taking equipment replacing measures, ensuring continued equipment maintenance and supervision of operations, optimising the costs of materials for constructing roadways and, in the event of problems, by introducing additional workdays to compensate for the lost generation volumes. Risk is a very important consideration for the HSE Group, as it also significantly influences generation at the TEŠ thermal power plant. In 2021 the coal power generation was regularly monitored compared to its business plan and the operational coal power generation plan. Issues related to epidemiological and challenging geomechanical conditions and delays in launching roadways arose in particular. There were also many defects of out-of-date hardware. All of the above led to a loss of coal power generation. As such, 84% of the planned coal power generation given the business plan was realised.

The risks that affect the reliability of generation facilities are managed based on extensive know-how and regular employee training as well as on known operational methods of the generation facility. The uninterrupted operation of generation units and other power installations is ensured by individual HSE Group companies by providing regular maintenance and periodic equipment controls (measurements, installation diagnostics). Modern monitoring systems are established at generation 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 allows us to reduce the likelihood of unplanned of generation unit stagnation or downtime. In 2021, we continued to upgrade the functionality of the IT maintenance support system – SAP PM (EAM) – and we established a notification system for ongoing event recording and the implementation of measures on the equipment at generation units through codes. Notifications were connected with work orders. In this way, the SAP system was used to additionally improve a unified overview and more effective response to installation management, thus allowing us to more effectively manage unplanned events related to the maintenance of generation units. Such maintenance is also managed by carrying out inspections and repairs in a timely manner and by compensating for generation using available units in the HSE Group. All of the additional measures contribute to more effective risk management related to the management of generation units and to reducing the exposure of the HSE Group to these risks.

In 2021, measures to managed epidemic-related risks were continued, contributing to unimpeded generation. Epidemic-related risk management measures were constantly adapted to the epidemiological situation. Employees were regularly underwent prevention coronavirus tests. If required, they were ordered to work from the back HSE management centre, separated from other employees in order to reduce contact with others. All employees, except for the planner-dispatcher, occasionally worked from home. A work scenario in the event of isolation of employees if the epidemiological situation were to drastically deteriorate was also drawn up. A weekly monitoring and assessment of the effect of covid-19 infections on the generation of electricity in the HSE Group was introduced, during major epidemiological infection waves, daily meetings were held. All measures were complied with by our employees. No transmission of infections was recorded at the workplace which was also contributed to in part by a high vaccination rate.

Generation/volume risks are also managed by long-term and short-term forecasting of the electricity supply and transmission profile and daily monitoring of quantity deviations of the majority of supply and transmission points.

2.9.4 Operational risks

Operational risks are risks arising 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 effects of individual HSE Group companies. The key element in managing these risks is establishing an effective internal control 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 objective of managing operational risks is to effectively prevent potential loss events, effectively remedy the consequences of a particular event, optimise business processes and ensure professional and ethical work of HSE Group employees.

The Compliance Department was established in 2020, intended to more successfully manage **fraud risk and the risk of compliance** with national legislation and EU regulations and other commitments. Risks are primarily managed by prevention activities in the form of employee compliance and integrity training and seminars, in addition to controls in the form of compliance checks and (forensic) investigations, related to preventing and identifying fraud, and corrective activities intended to prevent and examine identified fraud in addition to establish fraud prevention measures.

As far as **contract risks** are concerned, 2021 was characterised by the continued standardisation of contract drafts allowing us to minimise risks and simultaneously improve our negotiation position vis-à-vis the other contracting party. Individual contract clauses are timely adjusted to statutory changes. Furthermore, an internal checklist of elements that shall be taken into account in every such review was created for reviewing received contract drafts.

Environmental risks are connected to recognised environmental aspects, which are the result of activities performed by raw material extraction and energy conversion activities of individual HSE Group companies. The HSE Group is aware of the fact that the exploitation of products and services leads to negative effects, such as air, water and soil emissions, electromagnetic and ionising radiation, ambient noise, environmental degradation, unpleasant odours and waste generation and management-related effects. The HSE Group consistently follows the established sustainable environmental policy, which defines the important environmental management system objectives and the key guidelines for implementing measures for managing these risks (for more details, please refer to the Sustainable development in the HSE Group section). In 2021, we continued drafting a system regulation that would introduce uniform environmental management system monitoring and control in the HSE Group, the detection of environmental risks in the performance business activities, and uniform reporting of environmental indicators at the level of HSE Group companies. This led to the adoption of the unified OP 340 regulation for all HSE Group companies. The drawing up of a joint register of significant environmental aspects at the HSE Group level also began. In 2021, the greatest attention was and will continue to be paid to managing environmental coal extraction-related environmental impacts (e.g. the rehabilitation of collapsed formations, etc.). The stabiliser was installed in the barrier in the rehabilitation area of collapsed formations in compliance with STS (Slovenian Technical Approval). The acquifiers at the barrier between the Velenje and Družmir Lakes were rehabilitated. Risks were successfully managed in 2021.

2020 was a year of exceptional circumstances caused by the covid-19 epidemic. As a result, the modus operandi changed considerably. At the same time, the state of emergency significantly accelerated the digitalisation of all business processes. In addition to positive aspects, this also increased ICT risks. As a result, the security of the HSE **IT system** was strengthened in 2021.

The IT system of the HSE Group was subjected to due diligence including information security risks pertaining to threats and reducing risks. A lot of resources and work were dedicated to the additional operational optimisation of the information support in the HSE Group with an emphasis on optimising the operations of SAP software solutions (ERP, CRM, BW) in relation to the document management and other IT system. In compliance with the recommendations of the audit of the IT system of HSE and the already carried out optimisation, we joined forces with the Deloitte audit company to continue optimising authorisations, thus significantly reducing the unauthorised data access risk. 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, was successfully implemented. These measures improved strategic governance and risk management at the Group level, optimised the functioning of systems system and increased the level of automation and the operation of internal controls. As far as ensuring the operations of our ICT systems and business solutions, security upgrade installation standards were introduced and the firewall adaptation project was successfully completed in 2021, significantly reducing the associated risks.

Users and the Management Board became much more aware of security-related matters, which is a good stimulus for the future, to continuously reduce information risk-related risks.

In terms of **HR risks**, we were faced for the first time with great challenges in attracting job candidates, in particular in specific trading and generation vacancies (technical staff). Many measures intended to increase the visibility of the HSE Group as a good employer and to strengthen our brand as an employer. To this end, positive communications in professional networks, collaboration with educational institutions and student organisations, were intensified. The recruitment process was improved and brought closer to job candidates. Their satisfaction is also regularly monitored through "candidate experience" questionnaires. The apprenticeship system was reinstated.

Aware of our good and sought-after HR, a plan on how to retain, motivate and boost its commitment was drawn up. Our organisational climate measurement results demonstrated that we were on the right track as the results had significantly improved compared to the previous measurement.

2.9.5 Security risks

Security risks arise due to the improper or unsuccessful protection of information, property, occupational health and safety and due to unforeseen external events, that could have an exceptional effect on the operations 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 **occupational health and safety (VZD - OHS) and fire safety (PV - FS) risks** in the HSE Group are related to the extraction of coal, generation of electricity and the performance of works at construction sites. These risks arise from mechanical hazards during work (rotating and moving components, the operation of fork lifts, heavy construction machinery, etc.), factors related to the work method (working at heights, work in enclosed or confined spaces, physical strain), hazards of electrical origin (risk of electric shock; indirect or direct contact), hazardous substances at the workplace (substances dangerous to health, flammable and explosive substances, chemicals, fires and explosions), physical hazards (non-ionizing radiation, noise, mechanical vibrations, high/low temperature substances, pressurised substances), ecological conditions at the workplace (poor lighting, high/low temperatures, contamination), ergonomic stress at the workplace, psychological factors (intensity, monotony, stress), shift-work (night-work), difficult working conditions (adverse weather conditions, work in proximity of water), etc. OHS and FS risks are successfully managed by planning, monitoring and taking various measures and following-up their effectiveness. The risks of accidents and health injuries are monitored for all job positions and technologies. The occupational health and safety, fire safety and OHS management system risks are periodically assessed, maintained at the acceptable level by way of suitable safety measures, thus affecting the constant improvement of working conditions in the long term. In 2021, various occupational health and safety and fire safety trainings and practical drills were carried out in the HSE Group (evacuation drills for employees, extinguishing fires, hazardous substance spillages, providing first aid, drills of the mine rescue team, etc.). Many measures for preventing the spread of covid-19 were also continued, by way of which the biological factor hazard risk was successfully managed.

Indicators 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 security risks or the significance of secure information and communication are high on the priority list in HSE Group companies, particularly evident from the introduction of new IT solutions in addition to digitalising key business processes. IT security risks are thus managed at several levels by applying various technological solutions (upgrading the IT system), carrying out ISO 27001 processes (security policy and IT security organisation) and educating and raising awareness among IT solution users which constitutes the added value of having our employees perceive security as something completely normal and essential. Despite the intensified situation related to the Covid-19 pandemic in 2020 and 2021, external audits of the ISO 27001:2013 standard were successfully passed. The said standard and the related IT security management system called SUVI were audited together, taking into account the common risk assessment methodology and the updated information protection policy in all Group companies. In 2021, SIEM activities that included several operational meetings and the establishment of a working group (Management Board decision on establishing the working group) were launched.

The tangible property protection risk is managed by property insurance and by establishing/maintaining security systems or architecture (including organisational and functional measures to establish or provide for business and inner security, security sub-systems (CCTV, physical and technical security, etc.) and by way of a security culture of employees). The publication of a joint (uniform) contract notice for maintaining technical security systems in HSE Group companies whose purpose is to safeguard a proper level of professionalism and quality of the installed systems in providing for the security of employees and property of Group companies or continuous operation of generation facilities in all HSE Group companies. In 2021, we also began drawing up the publication of a new joint contract notice for technical security systems in HSE Group companies.

2.9.6 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 also refer to the most distant future. These risks could thus constitute risks whose implications may not be fully reflected in the presented risk profile, as they 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 effects on the operation of the HSE Group and actively responding to safeguarding the interests of the HSE Group, even before a relevant amendment to legislation in force is made. HSE Group employees receive regular communications on the relevant legislative changes that affect the operations of the HSE Group.

The following legislation was adopted in 2021: the Act on the Promotion of the Use of Renewable Energy Sources, the Electricity Supply Act and the Gas Supply Act. By proactively participating in the drawing up process of the above, we were able to ascertain significant amendments that have a positive effect on the realisation of HSE Group natural gas and renewable energy (OVE) projects: the legislative recognition of the status of natural gas as a transitional energy source on the way to climate neutrality, the exoneration of the OVE (RSE) Statistical Transfer Financing Climate Fund on account of the shortfall in national OVE (RSE) targets and the legislative option of introducing capacity mechanism in Slovenia.

The Resolution on the Long-term climate strategy of Slovenia until 2050 was adopted, underlying, in line with our efforts, the importance of continued exploitation of hydro power generation (the construction of hydro-electric power plants over 10 MW has been defined as a public good), solar power plants in degraded areas and engaging local communities in the development of wind power generation which is of key importance for the implementation of our RSE (OVE) projects (the siting of Middle Sava hydro-electric power plants, the construction of solar power plants and wind farm installations).

We were also actively engaged in the public consultation process of the Law on Energy Policy, the Environmental Protection Act and the Mining Act – we succeeded in having the text of the act as adopted by the Government facilitate the extension of the concession right of PV even if PV does not have all land in the extraction area at its disposal, which is of extreme cost-related importance for the operations of PV.

The main theme of our 2021 efforts was to actively engage in drawing up an appropriate National coal phase-out strategy in line with the just transition principles, intended to ensure the competitiveness of PV and TEŠ for the entire duration of operations of both. The strategy adopted by the Government on 13 January 2022 laid down 2033 as the coal phase-out year. Upon adopting the Strategy, the Government also adopted the commitment to draw up the Progressive Closure of PV Act for public consultation purposes within six months following the adoption of the Strategy. Inter alia, the Act will provide for a stable public source of financing of PV closure works which are currently financed directly from the price of coal.

Our European Regulatory Framework efforts in 2021 were focused on including our positions into legislative proposals of acts forming part of the first part of the new "Fit for 55" legislative package intervening in key areas for HSE, namely the operations of the EU ETS emission trading scheme, the introduction of a carbon tax at EU borders and the increasing of RSE (OVE) target shares by 2030. The adoption of technical screening criteria for determining the sustainability of RSE (OVE) projects (the so-called EU taxonomy) was also significant. A critical role in the success of our efforts in this regard is played by the fact, that the official position of Slovenia regarding the recasting of the EU ETS directives states that our state will strive to have Slovenia included as an eligible party to the funds of the Modernisation Fund of the EU, which would, considering the content supported by the Fund, constitute a potentially additional financial incentive for the RSE (OVE) projects of the HSE Group.

During the following year, our regulatory risk efforts will be focused on facilitating good regulatory and support conditions for HSE Group projects and restructuring our thermal division. In terms of the effect on HSE Group activities at the national level, in addition to the aforementioned Act on the progressive closure of PV and Territorial JTF project financing plans arising from the National coal phase-out strategy, the key role will be played by the adoption of the 2022-2027 Water Management Plan III (potential effects on hydro power generation by way of the inclusion of measures to revise impoundment authorisations for the implementation of ecological flow volumes), the new 3-year 2023-2026 Regulatory Framework where efforts will be made to extend the exemption from network charges for the Avče pump-fed hydro-electric power station, in addition to the Šalek Region Restructuring Act which will lay down the required economic recovery and creation of new jobs activities in the light of reducing the negative effects of abandoning the use of coal in the region – the energy industry namely generates almost 30% of all revenue generated in the local economy and the PV Group directly employs almost 10% of the entire working population in the Šalek Valley, in addition to another 10% directly connected to coal mining.

At the EU level, 2022 will be characterised primarily by negotiations on the first part of the legislative “Fit for 55” package where Slovenia’s key objective is to become included in the Modernisation Fund, and also on the second part of “Fit for 55” which was presented in December 2021, bringing about a stricter methane emission reduction which could have a significant effect on the operations of PV. For this reason, our efforts will be aimed at safeguarding the interests of PV against any additional legislative requirements. The adoption of technical screening criteria for determining the sustainability of gas projects, where our efforts will be focused on taking into consideration the factual circumstances and the capacity of the best gas technologies considering emission factors, the development of the market and the option of blending low-carbon and renewable gases during the next decade, will also play a key role in preserving our energy-generating location in the Šalek Valley and in our potential natural gas projects.

As far as **rationalising the operations of the PV Group** and other factors in the operating environment working towards an energy transition into a zero- or low-carbon society is concerned, special attention in 2021 was paid to labour cost optimisation measures involving primarily changes to the organisation of work and to improving the management of processes, employee reduction measures, reducing overtime and social dialogue, all with the view of managing the labour costs on the cost price of coal power generation and the provision of a satisfactory level of competitiveness of the company or the PV Group in the future.

Development project and new construction related **investment projects** in the HSE Group were successfully managed in 2021 by establishing investment control in the HSE Group in compliance with the adopted normative documents at HSE Group level. Based on the recommendations made by the Internal Audit Department, the investment risk assessment methodology of the HSE Group was amended in 2021 by a drawn up catalogue or list of uncertainties in investments in new generation capacities of the HSE Group.

On the basis of an economic viability analysis, the drawing up of potential effects on the cash flow and the risk assessment, the controller shall make the decision on the next investment documentation phase after each single phase thereof. If the Investment Confirmation Committee confirms the final phase of investment documentation, the investment shall be presented to the Management and Supervisory Boards for approval in compliance with corporate governance provisions. Investments of the HSE Group are also controlled by regularly monitoring ongoing key investment projects, by ensuring standardised investment assessments, and by carrying out effective control over the competent professional departments of HSE. Regular internal investment planning and implementation control procedures are carried out in the HSE Group.

The HSE Group investment risk assessment as part of drawing up investment documentation was drawn up by primarily considering the following expected key risks: the effect of a delay and increased costs of any major investment of the HSE Group resulting from unforeseen factors of the investment process and from a state of emergency on account of covid-19. Other important risk factors discussed are: unsuitable project and investment documentation, unsuitable selection of contractors, failure to obtain or untimely obtaining of the required permits and consents, etc.

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 divesting commercially unviable assets. Technical adequacy was assessed by paying special attention in 2021 to two divestments related to distribution and transmission network elements. In all cases, the economic viability assessment was primarily carried out based on appraisals by 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 HSE for all investments. In 2021, a relevant divestment procedure at HSE Group level entering into force on 2 November 2021 was drawn up in 2021 to ensure the application of the appropriate risk management approach.

2.9.7 Financial risks

Credit risks are managed by conducting a thorough review of the credit rating of our existing and potential business partners that involves a clearly defined receivable recovery procedure, a warning system and the conclusion of agreements subject to appropriate securities (bank or corporate guarantees, advance payments and other appropriate securities). The level of the assessed risk mainly depends on the partner's business performance, particularly the level of indebtedness, short-term liquidity, solvency and profitability indicators. Substantial importance is placed on obtaining the up-to-date market information, as the status of a particular partner can quickly change in the face of different market and regulatory changes. Credit risks to banks and other financial institutions are managed by regularly keeping up-to-date with operating information on the financial institutions we collaborate with. On account of strained electricity market conditions or high price volatility, affecting the provision of liquidity, special attention was paid thereto during the credit risk management procedure in 2021.

Various financial instruments (e.g. interest rate swap) are available to manage **interest rate risk.** Their purpose is to reduce the negative effects of changing market-based interest rates. As a rule, the extent of exposure to the interest rate risk is dependent on the share of financial liabilities and investments in the Company at a variable interest rate. Considering the interest rate risk management strategy and considering market projections of interest trends market in the past year, HSE did not decide to employ hedging against interest rate increases. This is why no agreements for 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 procured using a foreign currency, foreign exchange futures and forward contracts (FX Forward) are entered into for risk limiting purposes.

More detailed information on our exposure to individual financial risks and disclosures related to financial instruments are defined in the Accounting Report of the annual report (Financial instruments and risk management).

2.9.8 The war in Ukraine

The escalation of the Russo-Ukrainian conflict rocked energy product and share markets and led to an extreme rise in prices of energy products on a global level. Russia is namely the third largest producer of crude oil, the second largest producer of gas and one of the top five producers of iron, nickel, and aluminium. As a result, any effect on the reduction of supply leads to higher prices of these raw materials on the global markets. In addition, this has also resulted in a greater uncertainty in the expected fast recovery following the two-year covid-19 pandemic. The conflict will have a major effect on economic growth primarily in Eastern Europe which is the most dependent on the import of commodities from Russia and Ukraine. The EU-Russia energy product co-dependence has turned into one of the key elements of negotiations to end the war.

The actual aftermath of the war will else be primarily dependent on the duration of the invasion and severity of its aftermath. Its effect is already reflected on global markets through:

- price shocks of raw materials causing inflationary pressures and eroding consumer sentiment;
- sanctions imposed against Russia, suspension and limitation of operations and the volatility of financial markets which are to experience severe financial implications (some even delayed);
- additional security and safety challenges (in addition to the already reflected cyber security effect) that could arise in the event of escalation or expansion of the military conflict.

The key effects on the operations of the HSE Group are summarised below.

In view of current geo-political developments, raw material prices are under extreme pressure. This primarily applies to the energy sector as Europe is highly dependent on the supply of oil and gas from Russia. The delivery-associated risk is currently under intense scrutiny in particular in relation to insecurity of supplies, both terms of supply willingness (Russia), receipt willingness (Europe) in addition to capacities related to the transport or transfer of energy products/raw materials. HSE operates on the majority of European market with its electricity and related products, where a similar reaction to the developments has been shown, causing a predominantly symmetric movement of prices and a high volatility of the products themselves. The crisis will not have a material effect on the prices of input raw materials used to generate electricity in the HSE Group, as our primary sources are water and coal (gas/ELKO accounts for a miniscule fraction thereof).

The most important concern of energy companies during recent months has been the financial stability of companies whose sudden and extreme fluctuations of electricity and CO_2 allowance prices have resulted in a severe financial exposure caused primarily by the openness of positions on account of extreme volatility of electricity and CO_2 emission allowance prices. As a result, market organisers and clearing houses have been demanding increasingly higher multipliers in exchange for providing financial coverage of open positions, causing an additional increase in volatility of energy products (further changes in prices), which then lead to another round of coverage calls, thus a chain and spiral reaction. All of the above has led to much higher Company and HSE Group liquidity needs and associated risks which have been successfully managed during this period. The HSE Group has taken primarily financial measures intended to providing the Group with sufficient financial resources, where the control of the total exposure of the HSE Group arising both from the financial positions of HSE Group and the selection of appropriate contractual partners shall be subject to strict discipline.

The other important risk is the ability and in some (albeit rare) cases also the willingness of our partners to perform existing contracts concluded at much lower prices. As such, additional attention shall be paid to the payment and market exposure of companies and keep up-to-date with all restrictive measures adopted by the European Union against Russia in response to the Russian military aggression in Ukraine, as these could have extremely significant repercussions for the companies or entities involved. For this purpose, inter alia, the due diligence procedure of our contractual partners, which could face issues related to indirect or direct ownership of Russian natural or legal persons against which the European Union has imposed restrictive measures, has been strengthened. These problems are addressed in collaboration with competent Slovenian institutions, the Chamber of Commerce and the Energy Industry Chamber of Slovenia, in addition to European Union-level industry organisations. Despite continuous escalation of measures imposed against Russia (Package 4 of 15 March 2022 also brought about additional bans in the energy industry), no direct effect on the performance of the core activity of HSE has been observed, as electricity and natural gas trading is currently still exempt from the adopted sanctions.

Electricity in the HSE Group is currently being generated reliably and continuously. The raw materials required for generating electricity, on which the generation in TEŠ is most dependent on, were, until recently, delivered in the required volumes. However, in March, the effect was already partially reflected in the delivery of volumes and prices of energy products (KOEL and D2) required for generation purposes at the gas units of the HSE Group in TEŠ and HSE EDT. Even though their delivery was interrupted in March 2022, that did not have any major repercussions on the operations of the HSE Group as these units generate minimum electricity. The effect of the Russo-Ukrainian war has not affected other supplies as of yet. However, the fact remains, that the prices of other raw materials have already increased. At the moment, the material (iron) delivery situation of PV, namely in terms of providing the annual volumes of steel arch supports, i.e. arches and binding materials from Poland and Czech at hitherto prices, has been somewhat concerning. Similar issues have arisen in the delivery of materials (iron) used to take care of the coal mills in TEŠ. The current inventories of both materials are sufficient for the continuous operation of both PV and TEŠ until September 2022. As a result, the dynamic of deliveries has been shifting from semi-annual to two- to three-weeks and to real-time setting of prices that have been showing an increasing trend (on average, prices have increased by approximately 70% since January). In addition to a changed dynamic in deliveries that would allow us to provide for sufficient volumes of required materials and an even greater acceptability of prices, we have been looking for new suppliers of materials and raw materials in the region, allowing us to obtain sufficient annual volumes at still acceptable prices. The currently most important generation risk are significant changes in prices of both input raw materials and the materials required for our generation processes. No effects of the Russo-Ukrainian situation on our maintenance services have been observed so far. It has been estimated, however, that, if the conflict were to continue, its effect would soon be reflected in maintenance service prices as well.

In terms of regulatory risks, the RePowerEU document presented by the European Commission (EC - EK) to address the crisis on 8 March 2022, is relevant for the HSE Group. In the short-term, the document enables EU Member States to:

- introduce a regulation of retail prices for households and micro-enterprises on the basis of existing legislation;
- introduce temporary fiscal measures for extraordinary (windfall) profit of companies applicable until no later than 30 June 2022.

Both can prove problematic for the HSE Group even though their introduction foresees a large number of conditions and safeguards in place. The introduction of retail prices means that the state would intervene in the retail price-setting of suppliers, meaning that they would not be set by the market for a specific limited period of time. This could affect the prices at which ECE supplies electricity to specific groups of final customers (households and micro-enterprises) without changing the procurement price of ECE, significantly affecting the operating result of the Company. EU Member States may only introduce regulated prices if they are able to prove compliance with the prescribed conditions, inter alia, the regulation shall be of a limited duration, non-discriminatory, proportionate, and with minimal impact on the wholesale market.

The extraordinary stripping of extraordinary (windfall) profits constitutes a major state intervention in the market that the entire energy sector of the European Union stands in united opposition to. In addition to price regulation, this particular measure disturbingly increases the possibilities of state intervention in the market and could affect the financial position of the electricity industry.

In spite of this, the Commission has decided to allow for such a measure subject to compliance of the respective EU Member State with specific conditions. The measure shall be allowed to only no later than 30 June 2022 and shall only take into account the profits that have not been generated by structural changes on the market (which can be defined on the basis of the average price through time) and shall exclude electricity sold by generators before the beginning of the crisis.

At the same time, the document also announces new legislative measures in the near future:

- the adoption of a new temporary state aid framework that would provide liquidity assistance to all companies directly or indirectly affected by the crisis (to be adopted in the near future, its exact content and conditions are yet to be announced);
- at the end of March 2022: a presentation of a legislative proposal containing target storage levels of gas storage facilities; until 1 November 2022, minimum 80% capacities of the storage facility, in the following years, an increase to at least 90% of the storage facility;
- expanding the list of industries whose carbon leakage risks renders them eligible for free-of-charge allowances or for coverage of indirect emission costs.

In the long run, measures that promote renewable energy, diversify gas supply lines, and promote the generation of bio-methane and hydrogen, are currently foreseen. No concrete legislative proposals have been put forth so far. The Commission is planning to draw up a plan to ensure reliability of supply and accessible energy prices for the next winter season in the near future. In May 2022, it wishes to give concrete substance to the activity plan foreseen in the RePowerEU document.

Related to current Russia and Ukraine-related events, the HSE Group has experienced an increase in incoming e-mail message rejection in our e-mail security system of the HSE Group. Related to a higher cyber-attack risk, information security activities aimed at securing our key IT systems and the operations or unimpeded functioning of production facilities of HSE Group companies have been strengthened. A team on call 24/7 to control the IT network with the knowledge and rights to temporarily unblock web traffic has also been established. In the event of a cyber-attack on the HSE Group or a network outage and/or a deliberate blockade of our telecommunication networks/services, there are already scenarios of manual management of production facilities of the HSE Group, including a trained team, an established communication system between teams and/or companies via radio communications, satellite phones, pagers, analogue telephony, etc., all with the key objective of preserving continuous operations and generation of electricity. Our own independent source of electricity to ensure continuous operation of all HSE Group companies and our own power supply has also been provided (e.g. a diesel aggregate).

2.10 Development strategy of the HSE Group[19]

A challenging, but successful, period is behind the HSE Group, having carried out a comprehensive restructuring of the HSE Group between 2013 and 2021, improved our credit rating and established appropriate relationships with banks. Continued operation optimising processes have been established and an appropriate structure of sources of finance of the HSE Group has been maintained. Conditions for setting ambitious strategic objectives, focused on enhancing a zero- and low-carbon generation of electricity and investments in renewable energy, have been established, and R&D investments with a view of attaining them have been made. Special attention is also paid to retail, trading and development of new products or services intended to raise our competitiveness, attain growth and sustainable development of the HSE Group.

The HSE Group is faced with the following strategic challenges:

- **Maximised decarbonisation of the company whilst ensuring a high degree of self-sufficiency:** more ambitious climate targets until 2030 and the commitment to reach climate neutrality by 2050 require a significant investment cycle in RSE projects and energy efficiency measures. Our objective is to complete RSE, i.e. hydro, solar, wind and geothermal energy projects as soon as possible and no later than by 2030, by ensuring an appropriate return on investment.
- **EU-level integration of the system service market, an increase in volume of variable and decentralised generation of renewable electricity,** a more intense growth in energy efficiency, and a fast-tracked electrification of traffic, heating, and cooling. Our objective is to optimise our existing generation portfolio and improve the price competitiveness of the HSE Group by adding more cost-effective, zero- and low-carbon generation units.
- **The introduction of new technologies,** related to the flexibility, digitalisation, and use of smart grids, accumulators, and virtual power plants. Our objective is to adapt the business model of the HSE Group; if they are economically profitable, adding pump-fed hydro-electric power stations and accumulators to our product portfolio; carrying our pilot projects with hydrogen and geothermal energy needed to develop interesting services and products for the market.
- **A controlled coal phase-out subject to just transition principles** intended to achieve the adoption of **Regional SAŠA (the Savinja-Šalek Valley Region) and Zasavje (Central Sava Valley) just transition plans** – while making sure to preserve the competitiveness of the existing generation portfolio – **The Progressive Closure of the Velenje Coal Mine Act** intended to transfer the costs of mining infrastructure, closing the mine and remedy the effects of mining operations on the Republic of Slovenia.

2.10.1 The business policy of the HSE Group

Mission

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

We strive for a **safe, reliable, competitive** and **profitable** generation of electricity, performed 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 generator 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 generation of renewable electricity** and the expansion of content, scope, and profitability of operations.

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

Values

RESPONSIBILITY: We are actively involved in drawing up business objectives. We are held responsible for fulfilling our objectives, for our own development, for our employees, business partners, owners and the environment.

EFFECTIVENESS: We are excellent at what we do. We optimise processes and simplify procedures. We do the right 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 recognise the best in our co-workers, clients, and business partners. We understand and respect diversity. We are open-minded and trustworthy.

19 GRI: 102-30; 102-16; 103-1; 103-2; 103-3; 201-2; 203-1.

2.10.2 Analysis of our environment and competition

Environment analysis

POLITICAL PERSPECTIVE

- Sustainable operations will be the only way of acceptably operating in the future,
- maximised decarbonisation and more ambitious climate targets until 2030 (The "Fit for 55" package),
- the crisis in Ukraine and its outcome – effect on energy product prices,
- accelerated phasing-out of coal, but supported by the state subject to just transition principles,
- stagnation of the introduced capacity mechanism (which was based on gas-fired power plants),
- a growing need for regional system services and a shorter contract maturity,
- shortening trading intervals (15-minute trading and product portfolio balancing were launched in 2021),
- maintaining support schemes after 2021,
- raising environmental and concession duties,
- drawing up EU-level measures intended to expedite the permit obtaining and construction of new RSE project processes,
- introducing mechanisms that regulate high prices of electricity and other energy products, a potential embargo on Russian energy sources.

BUSINESS PERSPECTIVE

- Growth in consumption and restricted fast growth of electricity generation in Slovenia,
- growth in electricity prices caused by the growth in prices of energy products and CO_2 emission allowances,
- integration of markets and additional transmission connections in the region,
- joint EU procurement of strategic raw materials and energy products.

TECHNOLOGICAL AND ENVIRONMENTAL PERSPECTIVE

- Electrification of traffic, heating, and cooling,
- digitalisation of electricity consumption,
- increasing electricity storage capacity needs required for the supply and operations of the electric system,
- making use of all available renewable energy sources,
- raise environmental requirements for the construction of new generation facilities (climate change mitigation and adaptation, amplifying the importance of preserving biodiversity, prevention of pollution, improving the water and soil status, and circular economy principles which shall lay down sustainable investment criteria - EU taxonomy).

GENERATION OF ELECTRICITY

- Coal extraction conditions are getting increasingly challenging and coal reserves are getting increasingly smaller – transfer of good government grant practices,
- an extremely high burden on public finances,
- high availability of generation capacities of the HSE Group,
- legal and procedural obstacles to constructing new developments, which are small in the event of exploitation of existing energy locations.

SALES OF ELECTRICITY

- A long position of the generation portfolio in the region,
- a favourable deviation balancing position, well-developed intraday trading,
- access to the retail market and the development of new products and services,
- transfer of our market know-how to the trading in and sales of other energy products.

FINANCES

- Good access to financial markets and banking providers,
- a favourable debt to EBITDA ratio,
- upgrading the credit rating of the HSE Group,
- available external financial resources for zero-carbon-neutral and low-carbon investment projects with low interest rates,
- available revolving loans to maintain proper liquidity for trading in derivatives.

HR MANAGEMENT

- High degree of competence of our employees,
- a relatively high average age of our employees,
- low (unwanted) employee turnover,
- an active business environment that recruits competent young HR,
- a strong focus on educating and training our employees.

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Comparative analysis of competing energy companies' strategies

The strategies of energy companies in Europe were reviewed. Their existing generation portfolios, objectives and strategies, and the compliance of their plans and objectives with national energy policy guidelines were analysed. In 2020, EU Member States adopted their respective National Energy and Climate Plans, in which they laid down the development of their energy industry until 2030, looking to 2040. In 2022, the update process of all National Energy and Climate Plans was launched, reflecting the adoption of more ambitious greenhouse gas emission reductions, namely by 55% by 2030, the changed geopolitical situation in Europe, and the need to reduce the energy fossil-fuel dependence and on importing natural gas from Russia of the EU. As also stated by the Commission in the REPowerEU communication, the development of RSE will be the main focus. In this light, changes to development strategies of energy companies in Europe, in particular those whose generation is based on fossil energy products with an emphasis on natural gas, are also expected in 2022.

Key findings of the review of national energy policies

DECARBONISATION

The Russian attack on Ukraine calls for a new consideration of maximised electricity generation decarbonisation which is also at the heart of the strategies of countries whose portfolio also includes a large share of coal. Relative to the strategies in force, a significant change in the portfolio shall be supported by way of gas-fired or nuclear power plants and by accelerating the deployment of renewable energy (primarily solar and wind energy). However, the current energy crisis has led countries, primarily those whose transition and coal phase-out were built on natural gas, to seriously consider how to minimise the role of natural gas as a transitional energy product – by accelerating transition to RSE and/or by extending the operation of coal-fired power plants. Official coal phase-out years of individual EU Member States have remained unchanged compared to 2020.

By 2030, coal-fired power plant capacities in the European Union are to decrease by 35.4 GW, which accounts for 25% of the current capacities. EU Member States have adopted national strategies and separate closure acts taking into consideration just transition principle-based restructuring aspects for the coal phase-out process:

- Strategies of countries whose portfolio also includes a significant share of coal have also been increasingly discussing maximised electricity generation decarbonisation. A significant change in their portfolio shall be supported by diversified sources of non-Russia-originating gas or by nuclear power plants, an accelerated introduction of RSE (primarily solar and off-shore wind-fired power plants) and by developing hydrogen technologies. National strategies and separate closure acts taking into consideration just transition principle-based restructuring aspects for the coal phase-out process, financially supported by the state, have been adopted.
- Most EU Member States have already decided when to complete the coal phase-out process. More ambitious climate targets have further accelerated their coal phase-out intentions, which shall be sufficiently supported by the state; by 2030, the EU is to reduce the capacity of its coal-fired power plants by half.
    1. **Germany** – 28% coal share, phase-out: ideally by 2030, more likely by 2038,
    2. **Greece** – 25% coal share, phase-out: by 2025, more likely by 2028,
    3. **Spain** – 5% coal share, phase-out: by 2030, likely by the middle of that decade,
    4. **Portugal** – 10% coal share, actual phase-out in 2021, more likely in 2023,
    5. **Hungary** – 12% coal share, phase-out: by 2025, more likely by 2030.
- The global pact adopted at the November 2021 COP26 Climate Conference binds States party thereto to step up measures to reduce the consumption of coal that does not use CO_2 capturing technologies (CCS/CCU).

COAL

Irrespective of the current geopolitical situation in Europe, the use of fossil fuel energy sources continues to persist primarily in the energy strategies of countries that generate coal domestically and still, to a large extent, receive free CO_2 emission allowances for generating electricity for domestic consumption. In January 2022, Slovenia also adopted its National Coal Phase-Out and Coal-Mining Region Restructuring Strategy in compliance with just transition principles, which includes the year of the Slovenian coal phase-out: 2033.

- Countries with a significant coal share have also opted for a controlled phase-out of coal, supported by the state – **Slovakia** confirmed 2023 (8% coal share), **Romania** 2032 (23% coal share), **Poland** until 2049 (72% coal share), **The Czech Republic** has been deliberating on 2038 (43% coal share), and **Bulgaria** on 2038–2040 (38% coal share).
- Non-EU Member States (Bosnia and Herzegovina, North Macedonia, Serbia) are also preserving their coal power generation and are investing in the required environmental adjustments of installations.
- Free emission allowances are currently received only by three countries with a significant coal share: **Bulgaria, Hungary** and **Romania**.

GAS

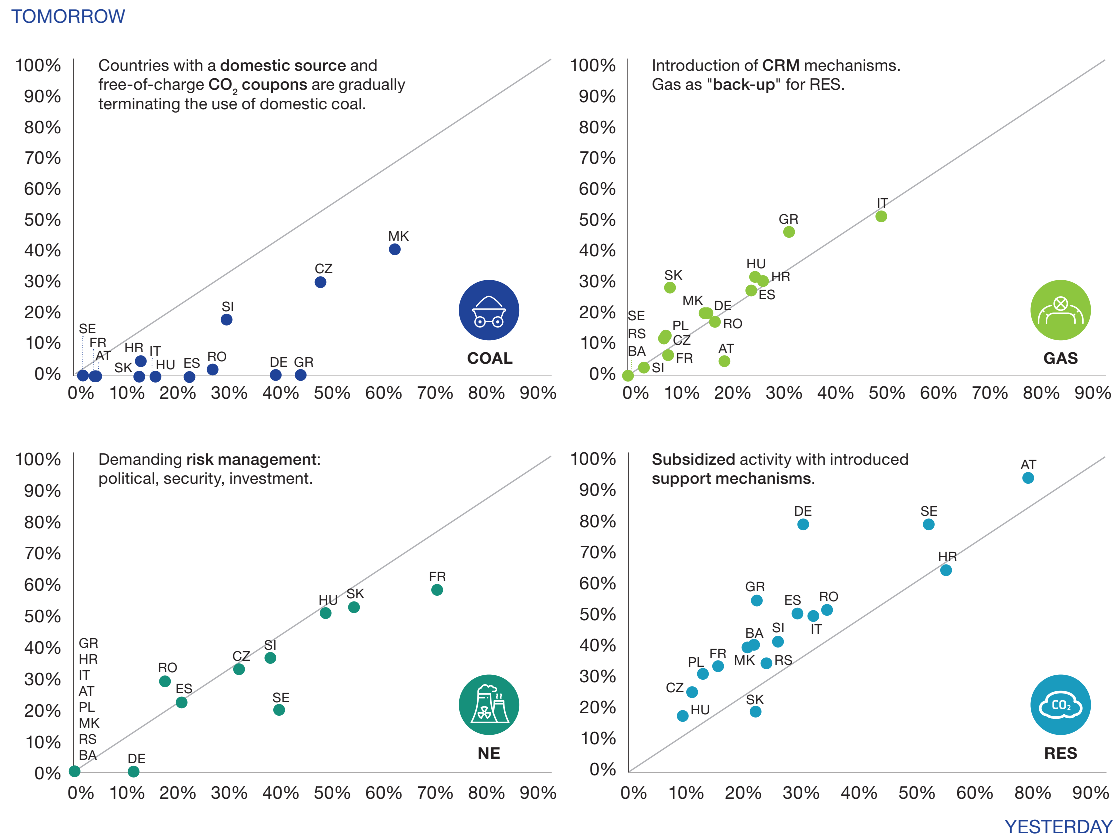
The use of gas as a transitional energy product in the coal phase-out process is also planned by countries with a high share of coal in the generation of electricity and heat. In that connection, regard must be had for the fact that strategies on using gas as a transitional energy product will be changed in compliance with EU's plans to discontinue the consumption of Russian natural gas and their replacement methods.

- Countries that have exploited their RES potential to a greater extent (hydro) will be replacing their 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 with a high share of coal in the generation of electricity and heat.

NUCLEAR ENERGY

- Countries with a high share of coal (Romania, Poland, the Czech Republic) have significantly stepped up their nuclear energy efforts.
- The nuclear energy role is being preserved in countries where it already plays a significant role in their portfolio (Slovakia, Hungary, France, Sweden, Finland).

Review of energy strategies



Comparative analysis of competing energy companies’ strategies

- The strategies of energy companies in Europe were reviewed. Their existing generation portfolios, objectives and strategies, and the compliance of their plans and objectives with national energy policy guidelines were analysed.
- In 2020, EU Member States adopted their respective National Energy and Climate Plans, in which they laid down the development of their energy industry until 2030, looking to 2040. In 2023, their plans will be updated. They shall take into account more ambitious greenhouse gas emission reductions by 55% by 2030 (“Fit for 55”).

Key focuses of strategies of competing companies

- Companies with a large share of coal in their portfolio have also focused on their green transition role, on the assumption of a controlled and state-supported coal phase-out.
- The importance of managing the whole chain from production to final customer.
- Development of segments not bound by the wholesale market:
    1. development of long-term bilateral contracts that include end-customer electrification process measures — carbon footprint reduction/energy efficiency measures;
    2. development of new URE - EE (energy efficiency), flexibility, electrification of heating and cooling and e-mobility-related services, reducing our exposure to the wholesale market;
    3. digitalisation.
- The optimisation and digitalisation of the existing generation portfolio to provide for cost efficiency, reliability and flexibility, shall play a key role.
- Establishing a good regulated activity basis, such as capacity mechanisms, RSE support schemes, distribution, balancing market –> secured stable, regulated revenue and reduced risk of the liberalised portion of the activity.
- Conventional energy sources (gas) are essential for a successful low-carbon transition of the electricity system, with an optional syngas and hydrogen transition.
- The importance of preserving nuclear energy in meeting climate targets (even by building new nuclear power plants).
- Accelerated development of RSE (solar and wind-fired power plants both on land and at sea) by way of long-term supply contracts with end customers (PPAs - Power Purchase Agreements) and of issuing green bonds.
- The development of energy storage technologies (batteries, accumulators) to ensure flexibility and system services.
- The process of finding digitalisation opportunities and innovation, end-customer services and decarbonisation as an integral part of operations.

Company strategies vs country strategies

- A high level of alignment of company and national strategies –> state support (capacity mechanisms, government grands, state-owned companies remedy the effects of mining operations and closure of coal-mining units).
- Companies and countries committed to attain more ambitious climate targets by 2030 and climate neutrality by 2050.
- A controlled coal phase-out process, supported by the state, is a pre-condition of a climate neutral society transition, accelerated investments in RSE and a competitive economy in all countries whose energy mix includes coal; companies are in line with country strategies, a systematic, progressive, just transition from coal in collaboration with the state and by replacing coal with alternative renewable sources, and with gas or nuclear energy for the duration of the transitional period, are highlighted.

2.10.3 Strategic guidelines of the HSE Group

Energy of the HSE Group will be focused on three strategic areas, namely:

- We will improve the cost efficiency of the existing generation portfolio and increase its flexibility in the face of a safe and reliable supply, all the while ensuring the implementation of a just transition.
- By investing in R&D, we will increase the scope of sustainable generation, reduce the average generation price and energy dependence of the generation portfolio of the HSE Group.
- In terms of trading and sales, we will reduce our dependence on the wholesale market by entering the retail market and increase the added value of the HSE Group by offering new energy products and services.

The realisation of the strategic objectives of the HSE Group is largely dependent on two key parameters: electricity and CO_2 emission allowance prices. On account of an extreme growth in CO_2 emission allowances and electricity during the second half of 2021, more ambitious greenhouse gas emission reduction strategic guidelines of the EU and the adoption of the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy in January 2022, foreseeing 2033 as the year of coal phase-out in Slovenia, a new Development plan of the HSE Group is being drawn up.

The following key objectives will be pursued:

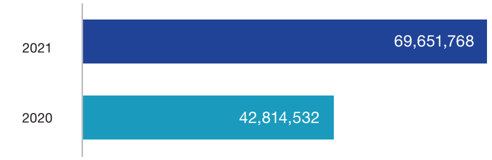
- A higher than 6,400 GWh annual generation of electricity by preserving a more than a 60% market share in Slovenian generation; with investments to increase our Slovenian sustainable electricity market share to more than 70% and by increasing the ratio between RSE and non-RSE in our self-generated electricity portfolio of the HSE Group to more than 50%.
- Our trading activities in the physical delivery of electricity will exceed 30,000 GWh annually, and, together with derivatives, 70,000 GWh annually, allowing us to generate more than EUR 3 billion in revenue from sales of electricity per year.
- Our EBITDA will exceed EUR 300 million, and the net financial liabilities/EBITDA ratio will remain below level 2.
- Our ROE will exceed 7% and our added value per employee will amount to more than EUR 130,000.

2.10.4 Development and investment policy of the HSE Group

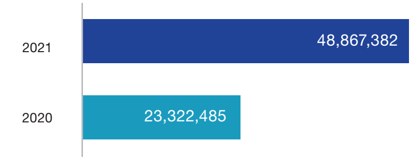
In 2021, the investment policy of the HSE Group followed the guidelines of the 2021 Capital Investment Management Annual Plan, drawn up by SDH, and the 2021 Development and Business Plan of the HSE Group. Investments were restricted solely to necessary, economically justified and ongoing investments. At the same time, reliable generation of electricity and other products and services through investment maintenance was also provided for. Our expectations to restrict our investments to maximum EUR 75 million were met.

The HSE Group successfully addressed business environment challenges with its investments. We were able to ensure the adoption of the Resolution on the Long-Term Climate Strategy of Slovenia until 2050 and the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy and a progressive coal phase-out programme, while keeping in mind the preservation of competitiveness of our existing generation portfolio. The Resolution foresees the meeting of the zero-emission or climate neutrality target by 2050. By way of a well-thought-out strategy, the Group is following national and EU CO_2 emission reduction targets (55% by 2030). In line with

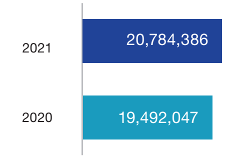
Investments in the HSE Group in EUR



Thermal power division



Other companies in the HSE Group



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the above, investments in 2021 were made in the areas that have been implementing a long-term climate strategy. All the required investment and design documentation for zero- and low-carbon electricity sources was drawn up. Despite a huge boom in the construction industry, we were able to complete the construction of our Prapretno solar power plant investment. The biggest solar power plant was connected to the grid in spring 2022. A selection of projects that could potentially be co-financed by the Just Transition Fund, intended, inter alia, to both coal mining regions in Slovenia, was created.

An investment development project office was established to improve investment management. The office takes care of all investment development activities as set out in our internal regulations. There is also a development board operating at Group-level that establishes development common grounds and looks for synergies among Group companies. The role of this board is to implement the economically, technically and environmentally best joint projects of the HSE Group.

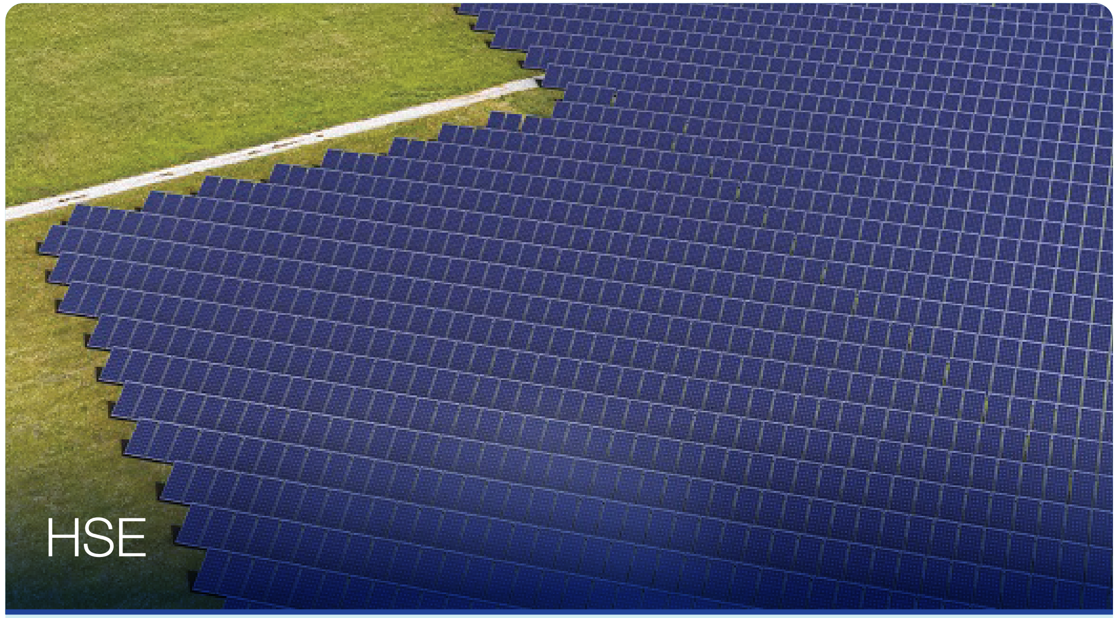
Investments in the HSE Group preserve the leading position of the Group as the largest generator of RSE or low-carbon electricity. In line therewith, large financial resources are used to maintain and restore existing electricity generation systems, allowing us to preserve reliable generation and efficient provision of system services to the Slovenian electricity grid. In 2021, investments in overhauls and restorations (hydro-electric power plants, TEŠ thermal power plant) were made. Investments in maintenance also implement the vision of the Group related to growth of electricity generated from various RSE and a sustainable energy transition.

Zero- and low-carbon electricity source development projects continue to be planned. Development departments of all Group companies ensure the development of potential wind, hydro, geothermal, and solar generation of electricity. Thus, allowing us to provide for a competitive development of projects by taking into account economic and sustainable objectives and seeking common ground in the development of all Group companies.

Most investments in 2021 in the HSE Group were made in investment maintenance of existing generation capacities.

By way of its completed 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 element in maintaining the stability of the grid as well as a reliable source of electricity for our customers.

Major investments in HSE Group companies are presented below.



The Prapretno solar power plant

During the first half of 2021, the payment of public utility charge was settled and, at the end of May, the construction permit was obtained. During summer, a collaboration was entered into with HTZ (for the construction of the solar power plant) and HSE Invest (for construction supervision). The construction began in September by way of setting out the foreseen facilities. In addition to the power plant, cable conduits to be connected to the distribution system are being constructed with Elektro Ljubljana. The renewable energy generation plant was commissioned on 4 April 2022, when the functional start-up testing of equipment was launched. Since then, the plant has been operating on a daily basis. Its power amounts to 3 MW, with a foreseen annual generation of 3.4 GWh. A total of EUR 2.45 million were invested.

The construction of Middle Sava hydro-electric power plants

After the concession agreement was signed at the end of 2020, the investment continued with the drawing up of terms of reference for the drafter of spatial and environmental documentation, the provider of engineering services and for design purposes.

HSE Invest was restructured into an infrastructure company to which operational management and implementation of the project are being transferred to. As such, a master agreement for rendering Suhadol, Trbovlje, and Renke hydro-electric power plant investment project until the construction permit is obtained was signed with HSE Invest in spring. These services entail the implementation of all activities and drawing up of all scientific bases required to obtain comprehensive permits as part of the national spatial plan (NSP - DPN) procedure. Separately from the concluded master agreement, an ichthyological study was commissioned in order not to miss the time window of its implementation (harvesting of fish in all relevant seasons). Approximately 30 studies, expert reports and analysis for hydro-electric power plant siting purposes have already been commissioned or are currently part of a public procurement process. The procedure has been implemented in collaboration with local communities and three NGOs as ancillary participants. The total power of the power plants is 100 MW and the foreseen annual generation amounts to 380 GWh. Their realisation in 2021 amounted to EUR 1.4 million.

Reconstructions of the Hubelj small hydro

An agreement with RGP for construction works, the installation of a pipeline and the supply of hydro-mechanical equipment, generators, electro supply and machinery systems, was signed in February 2021. In March the founder obtained the required consents to sign the agreement with the selected contractor. RGP was introduced into the works in April. The designer has been drawing up and successively providing PZI designs. The selection process of a contractor to carry out the supercontrol for electro supply, machinery systems, and the pipeline began at the end of August. An estimated EUR 3.5 million will be invested.

The Zlatoličje Segment 5 solar power plant

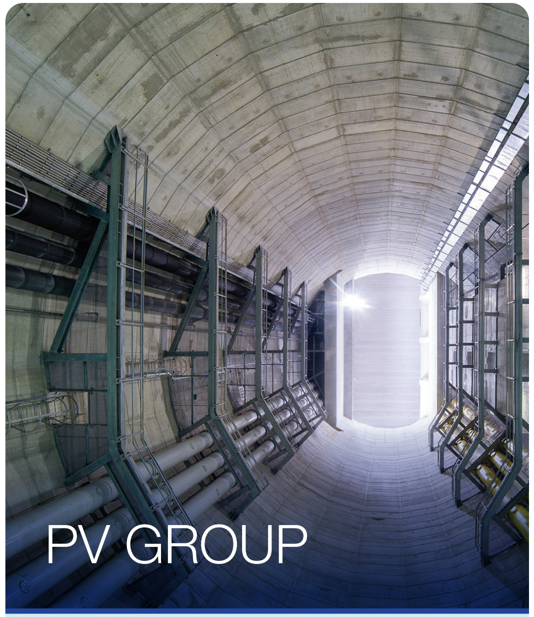
During the first half of 2021, a construction permit and permit to connect the segment to the distribution system were obtained. In summer, an agreement was entered into with HTZ for the construction of the foreseen solar power plant facilities, and with HSE Invest to draw up the detailed design documentation (PZI). Construction works at the facility began as early as at the end of summer. On account of delays in the delivery of photovoltaic modules and challenging geological conditions, their completion has been postponed to 2022. A grant forming part of the call for tenders of the Ministry of Infrastructure (MZI) "Call for tenders for co-financing construction operations of new small-scale solar-fired generation installations" was successfully obtained for Segment 5 of the Zlatoličje solar power plant. The construction of the power plant foresees an increase in our renewable generation by 3 GWh annually. The power of the power plant is 2.5 MW and EUR 2.4 million were invested.

Restoration of the Markovci dam

Since the construction of the Formin hydro-electric power plant, the Markovci dam has been draining excess water into the old riverbed of Drava. As the installed equipment and management system are at end-of life, the dam requires a radical overhaul to ensure its further continuous operation and preserve its functionality. The restoration of the Markovci dam began in 2020. In 2021, works continued at spillway 5 (PP5) and also commenced at spillway 6 (PP6). Works related to rehabilitating PP5 and creating temporary PP5 control solutions for the duration of the PP6 rehabilitation have been successfully completed. All works at the PP6 have already been completed. Only a functional test of the spillway is required but has been postponed to the beginning of 2022 in view of overhauls and audits.

Block 6 - equipment overhaul

General repairs according to equipment manufacturer programmes and the final repairs subject to claims pursuant to the delivery and installation of Block 6 were carried out. Such works enable us to maximise the provision of the default state of installations. These allow us to preserve secure operations, a high level of availability or reliability and efficiency. A high efficiency of the Block contributes to lower CO_2 emissions. The Block is else overhauled every three years, depending on hours of operation. The last previous overhaul had been carried out in 2018.



Investment maintenance

Most investments in 2021 were made in creating mine facilities and in the generation process equipment ensuring operating reliability and secure generation. Major investments also include the creation of stable mine facilities required for the haulage of coal, aeration, and logistics. The main Pesje air roadway was drifted in the mine, ensuring aeration of the mine and the creation of a connection to the water level in the long run. The works were performed on our own. Access roadways to the new ventilation shaft of IZJN were constructed.

2.11 Sustainable development of the HSE Group[20]

Sustainable reporting is the cherry on top of the business and strategic plans of the HSE Group, intended to transform our operations in line with the sustainable development goals of the United Nations (Agenda 2030), the Paris Agreement, the EU Green Deal and the National Energy and Climate Plan. The Management Board is in charge of sustainable development and operations as it adopts key policies and development strategies of HSE and the HSE Group. The HSE Group has identified the risks and opportunities brought about by the green transition awaiting us during the next five years and by looking towards the end of the decade. Key performance and environmental and social operating indicators have been set in addition to outlining measuring compliance of our activities with the EU taxonomy.

Hitherto, sustainability reporting has formed an integral part of the annual report of Group companies and the HSE Group as a whole. However, it was decided to issue a separate Sustainability Report for 2021, presenting sustainable operations in the Group in further detail, having become central to our operations. Our key stakeholders and their interests were identified. On the basis thereof, a sustainable development path and essential areas of activity were specified.

Reporting is carried out by taking into account Directive 2013/34/EU and its amendments in Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups. In line therewith, the business model of the HSE Group, its key policies and their results, main risks and opportunities and non-financial information on environmental, social, and HR matters and the respect for human rights, anti-corruption and unethical conduct, are presented below.

Economic, environmental, social, and sustainability indicators are presented using the international GRI standard. This standard helps us follow the path of HSE Group companies and the Group as a whole through the green transition.

The non-financial reporting obligation also arises from the Companies Act (ZGD-1J). Recommendations of SDH on reporting on non-financial aspects of operations are also taken into account.

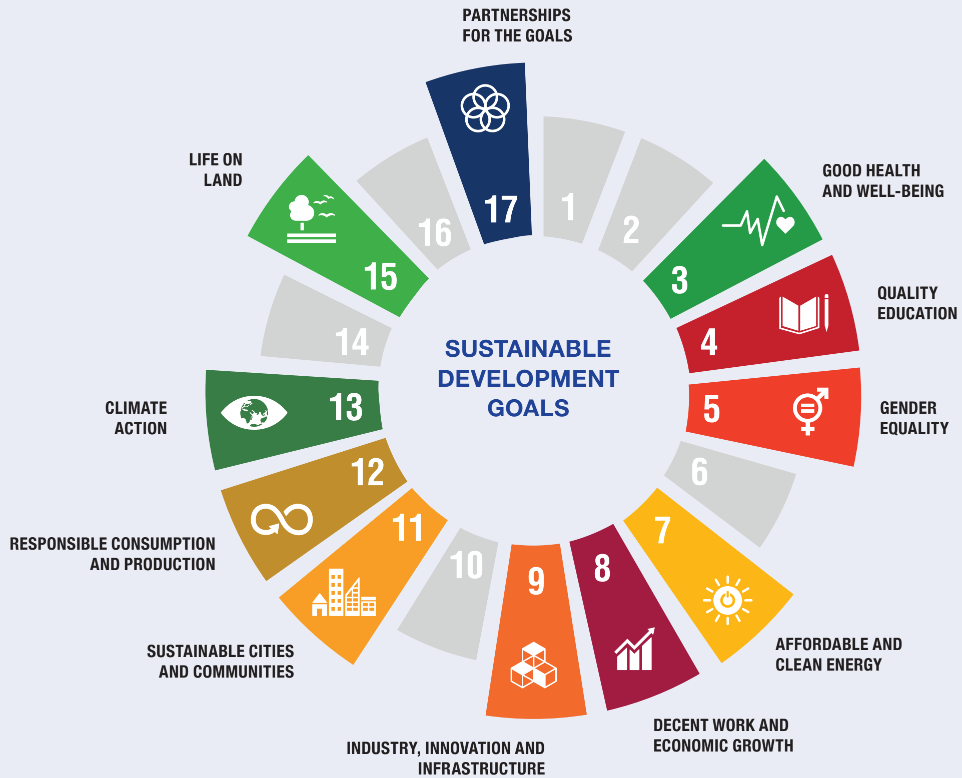
Areas, contents, measurements, and analyses were specified and results presented as part of collaborative efforts of all key departments and subsidiaries in the HSE Group. Our reporting is transparent and contains continuously monitored data.

Key conditions for selecting content are: materiality, the engagement of stakeholders, and the context of sustainability. Reasonable efforts were made to ensure a proper balance, comparability, accuracy, clarity, and reliability of data.

2.11.1 Starting points

Agenda 2030 (UN), the Paris Agreement and the European Green Deal are key international documents showing the way to companies on how to adapt their operations to the environmental reality and societal and social trends in tandem with creating (added) value for the respective company. The HSE Groups supports all goals of sustainable development set and is aware of the urgency to transition from a post-industrial to a neutral society by 2050 to be achieved in compliance with just transition principles. As one of the largest Groups in Slovenia, the HSE Group is faced with challenges related to electricity generation decarbonisation and to investments in sustainable development of activities compliant with the EU taxonomy and the circular economy principles. New technologies driven by digitalisation in practically all areas of human activity play an important role in this regard. Aware that the transformation of our operations will require substantial investments, the Group has been actively drawing up sustainable projects and programmes that could also be (co-)financed from European funds. We will continue to pursue the objective of providing stable, safe, and competitive generation of electricity.

Our operations, social engagement, and co-existence with the natural environment support the goals of sustainable development of the UN. As for our activities and our effects on our social and natural environments, the following objectives are pursued in particular:



20 GRI: 102-7; 102-8; 102-9; 102-11; 102-13; 102-17; 102-20; 102-25; 102-28; 102-30; 102-40; 102-41; 102-42; 102-43; 102-46; 102-53; 102-54; 103-1; 103-2; 103-3; 203-1; 205-1; 205-2; 301-1; 302-1; 302-2; 302-3; 302-4; 303-1; 303-2; 303-4; 303-5; 304-1; 304-2; 304-3; 305-1; 305-2; 305-3; 305-4; 305-5; 305-7; 306-3; 306-5; 307-1; 401-1; 401-3; 403-1; 403-2; 403-4; 403-5; 403-6; 403-9; 403-10; 404-1; 404-2; 404-3; 404-4; 405-1; 406-1; 412-1; 412-2; 413-1; 413-2; 415-1; 419-1.

2.11.2 Operating in compliance with the highest standards

Quality-based and IT supported efficient operations, accompanied by acceptable management of external and internal risks, is the basis of long-term sustainability-oriented development. The management of all HSE Group companies shall understand the context of the internal organisation of the Group and the external environment and properly respond to all change. Aware that all employees contribute to high-quality and efficient operations, managements of companies create conditions for high qualifications, information, and motivation by establishing a quality system. HSE Group companies hold several international certificates ensuring that our operations are based on the highest business, environmental, and social standards.

In 2021, all our core and support processes were subject to a new review. Process owners and KPIs for processes with accompanying measurable objectives were defined. All for the purpose of even more efficient and successful operations. As far as protecting the environment is concerned, the assessment methodology of environmental risks and effects of our operations on the environment were unified in compliance with OP 340 (Environment Management of the HSE Group). Group companies re-assessed environment risk, which resulted in an updated Register of Environment Effects of the HSE Group.

2.11.2.1 Management policy

Sustainable development within the HSE Group is achieved through the continuous improvement of the integrated management system based on a process approach. Individual HSE Group companies have drawn up and published their own separate internal management system policies whose development-oriented character provides for high-quality and environment-friendly energy, products, and services, aimed at economic viability and coherent sustainable development of the environment and markets they operate on. Management policies of individual HSE Group companies arise from the strategic guidelines of Holding Slovenske elektrarne, d.o.o. (HSE).

At HSE Group level, the following policies have been adopted and established:

- **Quality policy of the HSE Group:** The HSE Group as the leading generator of renewable electricity in the country and an important player on the energy market follows the needs of its consumers. The most significant objective of the quality system is to meet the expectations and requirements of consumers as our existence and further development depend on them.

Certificates obtained by the HSE Group

	HSE	DEM	SENG	TEŠ	PV	HTZ	SIPOTEH	PLP	RGP	HSE Invest
ISO 9001 Quality management system	Certification	Certification	Certification	Certification	Certification	Certification		Certification	Certification	Certification
ISO 14001 Environmental managements system	Consideration of mandatory control	Certification	Certification	Certification	Certification	Certification			Certification	
ISO 45001 Occupational Health and Safety Management System	Certification	Certification	Certification	Certification	Certification	Certification			Certification	Certification
ISO 27001 IT security management system	Certification	Certification	Certification	Certification	Consideration of mandatory control	Consideration of mandatory control			Consideration of mandatory control	Consideration of mandatory control
ISO/IEC 17025 General requirements for the competence of testing and calibration laboratories				Certification						
ISO 55001 Asset management system standard	In phase of preparation for implementation	In phase of preparation for implementation	In phase of preparation for implementation	In phase of preparation for implementation	In phase of preparation for implementation	In phase of preparation for implementation				
EFQM Self-evaluation according to business excellence model	Certification	Certification	Certification	Certification						
EE Certification of electricity production from renewable sources	Certification	Certification	Certification							
EEnew E generation with requirements for new HPP	Certification	Certification								
PoI Certificate of Origin	Certification	Certification	Certification							
DPP Familiy Friendly Company	Certification	Certification								
EN ISO 3834:3:2005 Quality requirements for fusion welding of metallic materials							Certification			
EN ISO 1090-1:2009+A1:2011:ES Production control certificate							Certification			

Certification — Consideration of mandatory control — In phase of preparation for implementation

HSE EDT and ECE have no certificates.

- **Environmental policy of the HSE Group:** We are aware of the fact that our concern for preserving a healthy environment constitutes the basic condition for development and steering of our activities. The basic objective of our environmental policy is sustainable development which can be achieved by planning, implementing, controlling, taking action to prevent environmental damage, sharing responsibility and including environmental protection in individual business processes.
- **Occupational health and safety and fire safety policy of the HSE Group:** Providing a healthy and safe environment is the basic condition and joint aim of the management and all other employees. As far as possible, the HSE Group strives to establish working conditions that provide both our employees and visitors with a safe and healthy working environment.
- **Property management policy of the HSE Group:** The most important objective of managing property is to extract value from property and simultaneously meet the expectations and requirements of consumers (in terms of delivery of electricity of the required quality, quantity and at the required time, in addition to adaptability to the needs of the electricity system and market), as our existence and further development depend on them. Investments in the maintenance of installations is key to minimise any unforeseen defects and power cuts.

- **Communication policy and strategy of the HSE Group:** The key objective is to build our positive visibility and a good reputation of the HSE Group. We speak with one voice and in a unified manner towards various target audiences that receive understandable, up-to-date and positive messages, related to the Group as a whole, various HSE Group companies, projects, and experts. The HSE Group is presented as a high-quality, stable, pervasive, and responsible energy company both locally and internationally.
- **Governance policy of the Company and the HSE Group:** Our governance guidelines are in line with our mission, values, and strategies, and are specified in the respective business plan and development plan of the Company and the HSE Group in force.
- **Social responsibility policy of the HSE Group:** In the context of corporate social responsibility, the HSE Group provides financial and material aid to various organisations, ideas, projects, events, people connected to our operations or who contribute to spreading the good name of the Company and the HSE Group in any other way. Assistance to marginalised social groups and individuals that cannot help themselves is also provided.
- **Managerial function replacement policy in HSE Group companies:** The Managerial function replacement policy in HSE Group companies was adopted in 2020. It provided guidelines primarily related to specifying the conditions for performing a managerial function in the Group HSE and evaluation criteria of potential candidates. The framework selection and further development of candidates procedure was also specified.

2.11.2.2 Management Board remuneration and bonus policy

The Management Board remuneration and bonus policy in the HSE Group is regulated in compliance with the provisions of the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities and the Recommendations and expectations of SDH laying down the following:

- the principle of proportionality,
- the principle of limited total remuneration,
- the principle of association of the total remuneration with the long-term success of the company,
- the principle of economy.

2.11.2.3 Active social dialogue

The HSE Group provides for continuous dialogue with works councils and representative trade unions. Social partners and works councils are the unifying link between employees and Management Boards of companies. Social dialogue is ascertained through regular meetings with representatives of the works council and representative trade unions, thus providing for timely information of employees and the active involvement of representatives of employees in the operations of the Company and Group. Management Boards also regularly attend all sessions where not only up-to-date operating information of companies but also questions and initiatives of employees submitted via the president of the works council or the trade union president or representative are deliberated on.

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 collaborates with the Management Board of HSE in governance as laid down by the Worker Participation in Management Act and the Participation Agreement.

Representatives of employees are also Members of Supervisory Boards and Audit Committees of Group companies.

2.11.3 Sharing common values with our stakeholders

Institutional framework

The HSE Group has built relationships with its stakeholders. We are aware of the fact that the Group can only succeed and grow in a partnership-based, connected, and respectful environment. Together with our owner, i.e. the Slovenian Sovereign Holding, the economic and non-financial objectives set are pursued. We cooperate actively with national and European authorities, agencies, and other institutions so as to ensure that the green transition of the HSE Group complies with just transition principles, i.e. by ensuring maximum coordination, financial optimisation and minimum negative effects on the supply of Slovenia with electricity and without unemployment of people in energy-intense activity regions by creating new sustainable jobs.

Generation activity

The HSE Group has electricity generation facilities that somewhat affect the local social and natural environment. For this reason, we actively pursue an open dialogue with all interesting stakeholders to minimise nuisance of our facilities which are key to the supply of Slovenia with electricity.

Market activity

The second key activity of the Group is the sales of electricity and related products at exchanges and to major customers. Our relationships with the above are based on one- and/or multi-year procurement contracts and maintaining personal contact with key employees of the individual segment of the customer.

Some customers are engaged in development projects of the HSE Group related to efficient use measures of individual customers intended to achieve savings that the HSE Group as an electricity supplier is committed to. By realising the vertical integration project, collaboration with customers in development projects has intensified. Customers with a structured working process are primarily included in deviation balancing optimisation and active consumption management projects.

By entering the retail market, end customers of electricity have also become our stakeholders. We are positive to be able to ensure reliable supply of electricity and to join forces in developing new sustainable products for their heating, cooling and electricity efficiency needs. Our objective is to develop a comprehensive energy supply, including the construction of solar power plants, accumulators, e-mobility, all of which shall be supported by digitalisation and user-friendly apps.

Key stakeholders of the HSE Group

The supply chain

Our relationships with our suppliers and the management of the supply chain are also significant for sustainable operations. In addition to the standard, economically measurable objectives of the procurement process, HSE Group companies seek to build sustainable supply chains by strictly complying with public procurement rules, international recommendations, standards, and expert guidelines in the industry. Our relationships with suppliers and other stakeholders in the procurement process are subject to extreme sensitivity to the sustainability-related attitude of our partners. For this reason, the sustainability-related attitude of suppliers is included in our procurement strategies and supply chains. This is also implemented at system level by standardising the internal procurement process rules of the HSE Group. HSE Group companies work with more than 3,000 suppliers per year, with whom between 9,000 and 10,000 business deals for the supply of goods, services, and the performance of construction are entered into every year.

2.11.4 High ethical standards of conduct

The Code of Ethics adopted in 2020 is binding for all HSE Group companies and lays down the principles of fair and ethical conduct. Companies thus undertake to adhere to ethical and professional work, behaviour, and conduct standards. The basic principles followed by our employees are fairness, credibility, respectfulness, cooperation, conflict of interest management, preventing money laundering and the financing of terrorism, environmental friendliness, etc. In 2021, no major violations of the Ethics Code or any internal fraud were detected in the HSE Group.

Our employees are granted equal opportunities irrespective of sex, racial or ethnic origins, religion or other cultural and social differences. We undertook to respect human rights in our operations and to implement important principles of the National Action Plan of the Republic of Slovenia on Business and Human Rights confirmed on 21 December 2020 by signing a commitment on business and human rights (hereinafter referred to as the "Commitment"). The commitment is based on the Universal Declaration of Human Rights adopted by the General Assembly of the UN in 1948 and on other relevant international human right instruments and international documents on the protection and promotion of human rights in economic activities (UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises, International Labour Organisation (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and Guidelines on Corporate Social Responsibility).

In 2021, 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 mobbing, discrimination, retaliatory measures, sexual or other abuse or bullying in the workplace.

Preventing and detecting fraud

In 2020, the Business Compliance Department began operating within the HSE Group as the headquarters of the internal control system. Its tasks are to monitor and assess the adequacy and effectiveness of regular procedures and measures adopted to sanction any potential business compliance irregularities in the HSE Group. The department is independent and autonomous. It has also taken over fraud prevention, detection, and investigation tasks in the HSE Group, clearly defining the process of considering reported alleged irregularities. It is in charge of establishing and operating the reporting line, establishing and keeping a register of received reports, considering reports or running investigations.

The HSE Group seeks to additionally raise the level of corporate culture primarily by way of regular training, whereby the management has clearly focused on leading by example and on assuming a zero-tolerance level of fraud and other irregularities adversely affecting the property and good reputation of the HSE Group.

In 2021, the Business Compliance Department considered 10 reported irregularities.

Diversity and equal opportunities policy

The HSE Group is an equal opportunities employer. It also has a zero-tolerance policy for discrimination on the basis of any kind of personal circumstances.

Men and women at comparable workplaces get equal pay and there are no pay gaps. Employees are recruited following the principle of non-discrimination.

We have a zero-tolerance policy for discrimination on the basis of any kind of personal circumstances.

The percentage of women occupying positions in the Group has been on the rise. The share of women in senior executive and management positions is 25%.

We protect personal and private information

In compliance with the General EU Data Protection Regulation (GDPR), categories of personal data processed have been defined and our data flows are regulated, allowing us to safeguard or personal data processing activities. Information and security measures are constantly revised and comply with corporate security principles.

Personal data is only processed on the basis of a relevant legal basis and in compliance with the purpose of processing. Pursuant to the General Personal Data Regulation, individuals are provided with all necessary information related to the processing of their personal data, whereby they are also notified of their right to information, right to erasure of their personal data, right to restriction of processing and right to object to processing.

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

Internal acts related to the protection of privacy, personal data, software, and hardware have been adopted, governing and laying down personal data, software, and hardware processing rules.

2.11.5 Our employees are our most valuable asset

Employees in numbers

As at 31 December 2021, HSE employed 214 people, out of which 206 for an indefinite and 8 for a fixed term. As at 31 December 2021, the number of employees increased by 3 compared to 2020. 24 new employees were recruited and 21 left the Company. Most employees are men (60%, 129 employees), whereas 85 or 40% employees are women.

HSE employees by age and gender

	2021				2020			
age class	number of employees	%	men	women	number of employees	%	men	women
up to 30 years	15	7	11	4	13	6	8	5
31-40 years	64	30	40	24	57	27	37	20
41-50 years	80	37	46	34	86	41	52	34
51-60 years	48	22	27	21	47	22	27	20
over 61 years	7	3	5	2	8	4	4	4
Σ	**214**	**100**	**129**	**85**	**211**	**100**	**128**	**83**

HSE Group employees by age and gender

	2021				2020			
age class	number of employees	%	men	women	number of employees	%	men	women
up to 30 years	388	12	375	13	380	12	370	10
31-40 years	807	25	721	86	799	25	726	73
41-50 years	1,137	35	979	158	1,123	36	985	138
51-60 years	807	25	624	183	795	25	620	175
over 61 years	64	2	52	12	54	2	44	10
Σ	**3,203**	**100**	**2,751**	**452**	**3,151**	**100**	**2,745**	**406**

At the end of the year, the HSE Group employed 3,203 people or 52 more than the year before. In 2021, 293 new employees were recruited, out of which 212 men (72%) and 81 women (28%). The HSE Group was left by 241 employees. The final number of employees increased primarily on account of integrating ECE into the HSE Group. The share of all redeployed employees within the HSE Group, including the integration of ECE, thus amounts to 38% or 110 employees. 174 employees were employed from an external source (59% share). Another 3% (or 9 employees) are employments following a period of suspension or frozen employments for the duration of their public office.

As at the final day of 2021, the HSE Group had more employees than the year before. This was mainly on account of the acquisition of the ECE retail company with 76 employees. Given the progressive reduction in employees, primarily in PV and HTZ, 3,203 or 52 more people were employed in the HSE Group at the end of 2021 compared to 2020. The number of employees has also fallen in TEŠ. More employees have been recruited in RGP, HSE Invest, DEM and HSE.

Education structure

In the parent company (HSE), 197 or 92 of all employees have completed a minimum higher education course. 31% or 985 of employees in the HSE Group have completed a minimum higher education course, out of which 92 hold a Master's or PhD degree. 26 per cent of our employees have completed Level 5 of education and 33 per cent Level 4 of education. Approximately one tenth of our employees has a level of education less than Level 4.

Employee turnover in the HSE Group

Fluctuation of employees	2021	2020
Number of employees who left during the reporting period	210	159
Average number of employees	3,177	3,149
Fluctuation in %	**6.6%**	**5.0%**

Note: The employee turnover rate (i.e. the number of employees who left us) does not include the number of employees who were redeployed within the HSE Group.

Methodological note: During the past years, the average number of employees was calculated on the basis of hours worked. Since 2021, the annual average of employees in our turnover, absenteeism, education, etc., calculations have been followed. For this reason, 2020 data slightly differ from the data published in the 2020 Annual Report.

Employee situation in the HSE Group

Company	31/12/2021	31/12/2020
HSE	214	211
HSE EDT	0	0
DEM	246	242
SENG	124	122
TEŠ	316	322
PV	1,152	1,164
HTZ	786	815
Sipoteh	41	39
PLP	35	36
RGP	160	151
HSE Invest	50	46
HSE BH	1	1
HSE MAK	0	0
HSE BE	2	2
ECE	76	0
Total	**3,203**	**3,151**

Level of education of employees in the HSE Company and the HSE Group

	31/12/2021		31/12/2020	
Education level	HSE Company	HSE Group	HSE Company	HSE Group
8/2	5	17	3	15
8/1	25	75	29	72
7	88	302	86	279
6/2	60	246	53	219
6/1	19	345	22	339
5	13	844	14	830
4	4	1,044	4	1,061
3	0	43	0	48
2	0	105	0	107
1	0	182	0	181
∑	**214**	**3,203**	**211**	**3,151**

Employee turnover

The employee turnover rate in the HSE Group rose by 1.6 per cent compared to 2020, whereby no related major operating risks or dysfunctions have been detected.

Around 20% of our employees will reach retirement within the next five year. The employee turnover yet is thus estimated to increase in the future but it does constitute a controlled and to some extent also desired turnover.

Absenteeism

Sickness accounts for the majority of absenteeism borne by the employee (69 per cent).

Compared to 2020, absences due to family and care commitments borne by the employee, namely by 25%, whereas absences due to occupational injuries borne by the employer and injuries not related to work borne by the Health Insurance Institute of Slovenia, ZZZS) fell by 29% and 13%, respectively.

Employment of disabled workers

453 persons with a recognised disability (or 14% of all employees) are employed by the HSE Group, out of which 402 persons in our sheltered workshop HTZ.

Education and development

The HSE Group provides for the continuous development of both employees and the company by way of continuous education and training. Great importance is attributed to education at all levels. An internal library of e-resources accessible to all employees has been established on our internal portal.

Systemic education and training serve to enhance the competencies, productivity, creativity, and innovation of our employees and boost the competitive edge of HSE Group companies. In addition to formal and informal training, knowledge is exchanged and passed on to our colleagues. The most frequent knowledge exchange type is mentorship of young employees, attending educational sessions and passing on the acquired knowledge to our colleagues in the form of lectures, presentations, or material dissemination.

We are actively involved in projects intended to develop the professional and personal competences of our employees: "Start your career with potentials", SPIN (Promoting the integration of persons about to lose their employment into labour market measures - ready for change - project), Competence Centres - Competence Centre "Energy". These projects are also partially co-financed by the EU.

Departure of employees in the HSE Group

Departures	2021	2020
REASON		
Retirement	84	78
Redeployment within the HSE Group	31	44
Departure	116	67
Departure due to suspension	10	14
Total	**241**	**203**
Gender		
male	**206**	**185**
female	**35**	**18**

Absenteeism in the HSE Group

Absenteeism	2021	2020
Number of lost days due to sick leave	72,990	73,674
Average number of employees	3,177	3,149
Number of all working days	261	262
Absenteeism (medical) in %	**8.8%**	**8.9%**

Education of employees in the HSE Group

Total number of hours of training
2021 79,204
2020 53,731
47%

Average number of hours of training per employee
2021 25
2020 17
47%

Number of internal educational courses (number of content)
2021 162
2020 137
18%

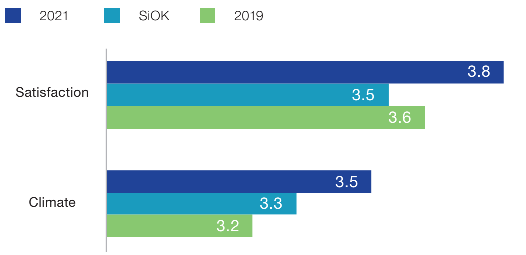
Organisational climate survey

In November, an organisational climate, satisfaction, and engagement survey was conducted for the fifth time in a row. The survey is performed every two years. The survey was conducted using the SiOK (Slovenian organisational climate) survey that facilitates not only measuring the organisational climate of a specific company but also a comparison between Slovenian companies.

Compared to 2019, the results of the survey improved in all categories. A comparison of results with other Slovenian companies shows that we are much more satisfied on average than other Slovenian companies. We can boast of positively deviating from the Slovenian average in all categories.

We are proud of the falling trend of actively disengaged persons, which also continued in 2021. Compared to 2019, it fell by as many as 11.3 per cent, whereby the share of (actively) engaged employees increased by 8.6 per cent.

Organisational climate



Concern for our employees

We are a proud holder of the full “Family Friendly Company” certificate as part of which organisational measures, such as time-spatial flexibility, the development of employees and managers, an optimal organisation of the working process, financial and other benefits, family services and other services that make it easier to reconcile work and family life and which constitute a step towards a balance life, have been established. Our employees are able to benefit from as many as 18 various measures intended to help them reconcile work and family life. The “Family Friendly Company” certificate demonstrates our commitments towards creating a friendly working environment for our employees and our families. For many years, we have been committed to creating a work environment where we feel well and which facilitates an effective reconciliation of work and family life. Measures are adopted and adjusted primarily at the initiative of our employees and their implementation is continuously enforced.

2.11.6 Living with the coronavirus

A comprehensive approach to managing risks for the duration of the covid-19 epidemic was established to provide for continuous operations and safe and healthy working conditions for our HSE Group employees. Measures intended to prevent the transmission of infectious diseases for the duration of the epidemic applied to and were implemented for all employees. A working group, drawing up an operation plan, compiling and coordinating safety measures in addition to obtaining and providing all HSE Group employees with up-to-date information, was established. Up-to-date information was communicated to our employees in compliance with our safety protocols, in the form of written communications and instructions and via e-mail. All employees were notified of all current measures, recommendations, and forms throughout the year on our intranet.

Safety measures applicable to the entire HSE Group were introduced: measuring temperature upon each entry to the premises of the Company, a mask mandate, washing and sanitising hands, ensuring a minimum 1.5 metre distance between people. Notifications and posters drawing attention of our employees to the safety measures intended to prevent the transmission of the disease were hung. Hygiene measures to disinfect working areas and equipment were also adopted.

All required PPE, sufficient quantities of masks and hand sanitisers, rapid tests and regular rapid testing were provided for all employees. In addition, vaccination against covid-19 was organised several times for our employees. Vitamin C and D demonstrated to have a positive effect on the immune system were also disseminated among our employees several times.

With a view to ensuring the safety of our employees and continuous generation of electricity, the effect of the covid-19 epidemic also required managing daily increased absence rates and a different organisation of work. Where the nature of work allows for it and if security and technical conditions for healthy and safe work are provided for at home, working from home was introduced to reduce exposure and the transmission of the virus among our employees. Where working from home could not be organised, “work bubbles” were provided for. On the basis of the adopted safety and security measures, forms of work which will remain present in the future to a certain extent have been introduced.

2.11.7 Protecting the health of our employees is the key to stable operations

The greatest occupational health and safety (VZD - OHS) and fire safety (PV - FS) risks in the HSE Group are related to the extraction of coal, generation of electricity and the performance of works at construction sites.

Health and safety at work risks and fire safety risks are successfully managed by planning, controlling and implementing various measures and by monitoring their efficiency. The risks of accidents and health injuries are monitored for all job positions and technologies. The occupational health and safety, fire safety and OHS management system risks are periodically assessed, maintained at the acceptable level by way of suitable safety measures, thus affecting the constant improvement of working conditions in the long term.

In 2021, various occupational health and safety and fire safety trainings and practical drills were carried out in the HSE Group (evacuation drills for employees, extinguishing fires, hazardous substance spillages, providing first aid, drills of the mine rescue team, etc.).

The number of (negative) occupational health and safety incidents also fell in 2021 compared to the preceding years which is also undoubtedly owing to successfully implemented activities during recent years, in particularly in relation to health promotion practices, a higher level of awareness of our employees and a more one-on-one approach.

The HSE Management Centre and, as a result, the electricity generation process, has operated continuously throughout the two years of the covid-19 epidemic. In 2021, measures intended to contain the transmission of covid-19 were promptly adjusted and tightened, subject to the escalation of the situation. Scenarios of how to ensure continuous operations also in the event of an additional escalation of the situation were drawn up. We successfully prevented the transmission among HSE Management Centre and generation department employees.
Not a single transmission case was identified.

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2.11.8 In harmony with the environment

An exceptional financial contribution into the state treasury

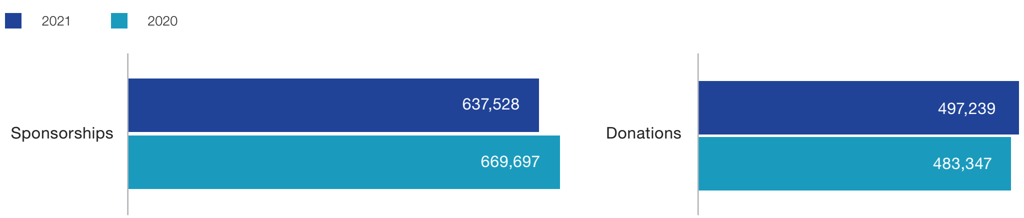
The operations of HSE Group companies significantly affects general local and national government receipts. Taking into account also donations, sponsorships and other contributions to society, the Group has contributed almost half a billion euros for the common good in the last two years.

Sponsorships and donations

The HSE Group is aware of the importance of the environment into which its operations are integrated in as a part of our high-quality and successful operations. The Group wishes to build strong and mutually beneficial relationships, based on trust, respect and mutual causes, with the stakeholders it meets in its environments. The Group supports individuals and organisations - clubs, associations, societies, institutions -, whose activities and results are taking the same path as the HSE Group: the path of success. The Group thus supports the up-and-coming, high-profile, and winning, but does not push aside the marginalised and in need. For this reason, the Group supports many social programmes and initiatives.

Sponsorships and donations in the HSE Group are governed by the Sponsorship and Donation Allocation Strategy of the HSE Group. This document is published on the website of the parent company and subsidiaries of the HSE Group in addition to applicant forms. Many requests are received on daily basis and, alas, not all of them can be granted. For this reason, the received applications are deliberated on by expert committee who grant them subject to pre-defined criteria. Sponsored individuals, clubs, and events shall contribute to a positive reputation of the brand of the HSE Group or its companies. Their visions and principles shall be aligned as closely as possible with the current strategy of the HSE Group.

Sponsorships and donations in EUR



Contribution of the HSE Group into the state treasury

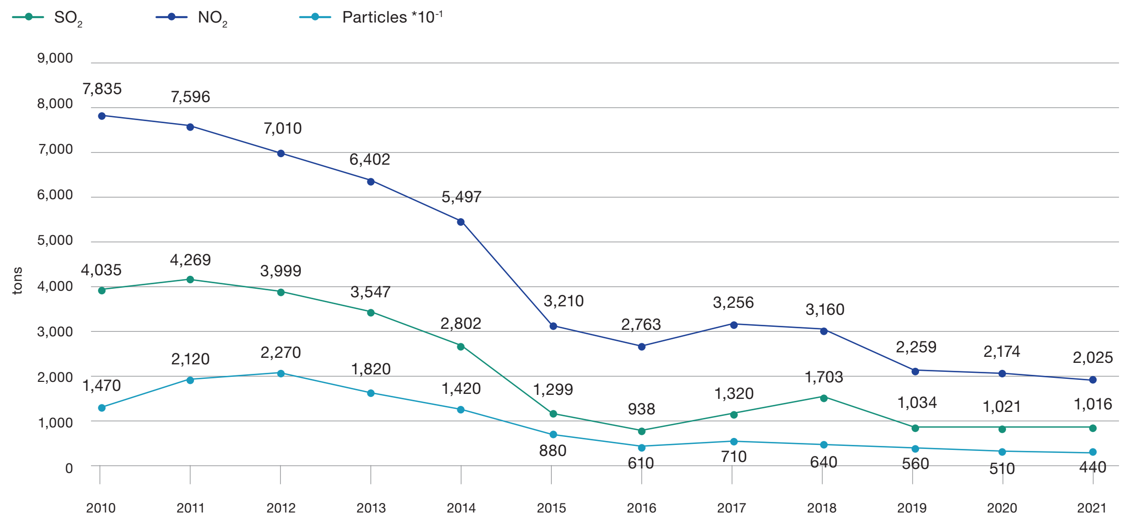
Item in EUR	2021	2020
Concession contribution	22,384,412	15,978,715
Water treatment levy	8,245,928	8,266,306
Emission coupons	91,027,114	68,081,642
Fee for the use of construction land	11,494,036	10,607,218
Environmental taxes	24,586	24,554
Excise duties	14,871	14,773
Outstanding VAT and other duties and tax on financial services	182,844	259,900
Disabled persons quota	104,227	92,571
Monitoring	1,449,959	1,521,697
Other environmental protection expenses and other duties	330,063	271,123
Corporate income tax	19,195,895	23,435,422
Costs of the supplementary pension insurance scheme	4,548,577	4,540,496
Employer's contributions on salaries, wage compensations, bonuses, reimbursements and other receipts	19,121,834	17,702,301
Value Added Tax (VAT)	57,647,156	57,199,846
Guarantee by the Republic of Slovenia	4,348,136	4,604,302
Total	**240,440,439**	**212,600,866**

2.11.9 With an ear for the environment

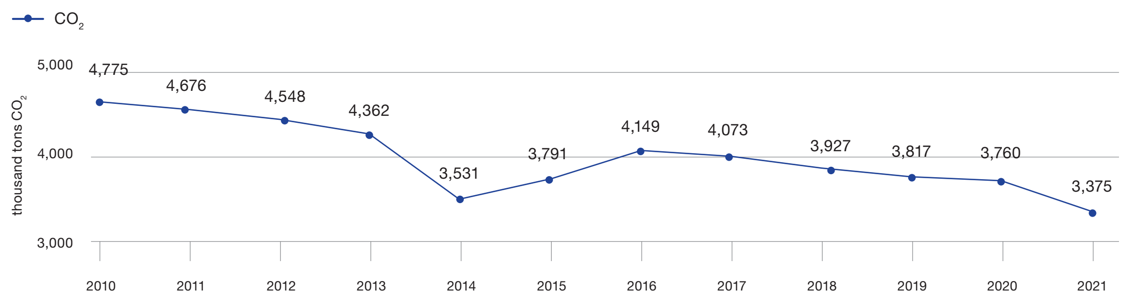
Reducing emissions of CO_2, SO_2, NO_x, and dust particles into the air

An emission reduction trend has been observed in the HSE Group for several years. SO_2, NOx and dust particle emissions have been reduced considerably. This has been achieved by replacing out-of-date TEŠ blocks with the best state-of-the-art technology available and by installing appropriate state-of-the-art filters.

Total emissions of substances into the air by TEŠ



Total CO_2 emissions by TEŠ



Block 6, which is one of the most modern thermal power plant blocks in Europe, allowed us to reduce CO_2 emissions by a third per unit of generated electricity compared to plants with classic technology.

Reducing greenhouse gas emissions

Our thermal power division has the most substantial effect on greenhouse gas emissions as it generates one third of all electricity in Slovenia from a local energy product. TEŠ and PV substantially affect the environment in the Šalek Valley. For this reason, the most resources, attention, and energy are spent on reducing our carbon footprint and other environmental effects. The HSE Group also provides for other CO_2 reduction aspects, such as the energy efficiency of buildings, optimising business trips and facilitating work from home or at another business unit in order to reduce commuting-related emissions.

The emissions and intensity of sulphur dioxide and nitrogen compounds in electricity generation are also monitored. Both parameters have been successfully lowered for a number of years and are now considerably below the limit values. Block 6 systems are continuously upgraded and improve to reduce their emissions even further.

Emissions to the air of the HSE Group

GREENHOUSE GASES/CARBON PRINT	Unit of measure	2017	2018	2019	2020	2021
Direct emissions (Set 1)						
Due to coal combustion	t CO_2eq	3,976,500	3,848,962	3,739,414	3,677,806	3,291,126
- of which for own usage	*t CO_2eq*	*440,309*	*434,747*	*422,965*	*421,302*	*388,701*
Due to natural gas combustion, ELKO	t CO_2eq	23,030	9,809	14,452	19,248	21,924
Indirect emissions (Set 2)						
Energy sources for direct implementation of activities (construction, machinery, work leases, work travel)	t CO_2eq	2,022	2,288	1,944	1,518	3,053
Administrative buildings	t CO_2eq	856	841	796	741	721
Indirect emissions (Set 3)						
Transport to work	t CO_2eq	397	399	398	400	974
Other emissions	t CO_2eq	74,011	68,475	63,565	63,467	62,099
Total	**t CO_2eq**	**4,076,817**	**3,930,774**	**3,820,570**	**3,763,181**	**3,379,897**

AIR POLLUTANTS	Unit of measure	2017	2018	2019	2020	2021
Intensity for electricity production SO_2	mg/kWh	333	454	278	280	321
NO_x intensity for electricity production	mg/kWh	821	842	607	597	640
Sulphur dioxide (SO_2)	t	1,471	1,703	1,049	1,037	1,032
Nitrogen gases, NO_2	t	3,271	3,168	2,270	2,185	2,032
Carbon monoxi (CO)	t	886	783	721	740	690
Particles (PM)	t	162	105	65	70	89
Methane	t	9,783	4,184	3,752	4,772	3,501

Consumption of energy products

The monitored parameters include the consumption of total final energy for electricity, heating, cooling, and the energy end-use in office buildings per employees, as we are aware of the fact that energy efficiency is also important and that we shall invest in the energy efficiency of our property. Coal used for generating electricity and thermal energy in TEŠ and natural gas used in four gas turbines and, in some cases, also to heat buildings, account for the most consumed fuels. In 2021, the Group consumed more than 50% less natural gas than the year before. Natural gas was replaced with fuel oil. This resulted from the situation on the energy markets and high gas prices.

The consumption of energy per employee, primarily compared to the pre-covid-19 years, has been successfully reduced.

Responsible waste management

Waste management is one of the most important aspects of the environment management system in the HSE Group. In 2021, the Group generated as many as 170 thousand tons fewer non-hazardous waste than the year before that. A high share of waste recovered, however, remained.

Consumption of energy in the HSE Group

ITEM	Unit of measure	2017	2018	2019	2020	2021
Energy						
Total end energy consumption (electricity, heat, cooling)	GWh	97.91	95.27	92.82	77.47	87.96
End energy consumption in business premises per employee	kWh/ employee	69,621	71,296	64,957	61,264	60,861
Fuels						
Coal	GJ	38,863,893	37,521,291	36,589,929	35,658,312	32,430,765
Natural gas	GJ	388,626	122,615	256,021	334,286	151,119
Other	GJ	809	610	646	533	196,706

Waste and waste water management in the HSE Group

PRODUCTS AND SERVICES	2017	2018	2019	2020	2021
Water protection (in mio m³)					
Evaporation	7.09	7.04	7.03	7.71	6.64
Technological wastewater	4.21	4.56	4.03	3.90	3.91
Waste (in tonnes)					
All waste	802,635	793,661	686,420	768,030	595,947
Hazardous waste	462	503	271	348	360
Non-hazardous waste	802,173	793,158	686,149	767,682	595,588
Processed waste	796,345	732,453	675,648	749,368	583,722
Debris	1,128	11,717	1,350	2,486	722

Efficient consumption of materials

The HSE Group required a significant volume of various materials for continuous operations of our installations. Those that pose a risk to the environment are presented below. The consumption of materials which could negatively affect the environment has been continuously reduced by way of a responsible supply chain and constant improvements.

Consumption of materials in the HSE Group

INPUT MATERIALS (IN TONNES)	2017	2018	2019	2020	2021
Limestone products ($CaCO_3$, CaO, $Ca(OH)_2$)	170,931	158,244	146,813	145,601	142,050
Ammoium hydroxide	3,000	2,945	2,711	2,530	2,338
Chlorine-hydrogen acid	276	366	262	304	219
Lubricants, oils	164	150	160	152	164
Steel	6,960	7,592	10,038	8,216	8,492
Wood (PV)	4,996	5,037	5,754	5,193	6,036

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The water cycle

Water resources are also needed for our functioning and operations. The Drava and Soča Rivers are the most important rivers for our economic success, providing us with a renewable energy source for decades. The Velenje and Družmir Lake and the Paka River are also environmentally important. It gives us great pleasure to have been reducing the consumption of potable water for many years.

Products and services

The HSE Group has material reuse or recycling programmes and projects in place. Even bottom ash, slag, and gypsum, generated as waste during coal power generation, are mixed into a stabilising agent placed in the barrier between the Velenje and Družmir Lakes using a special formulation. Certain surpluses are also sold in the construction material production market.

In addition to generating electricity, TEŠ also provides thermal energy for the entire Šalek Valley. District heating has significantly contributed to the reduction of harmful emissions in the area, allowing the Šalek Valley to be one of the cleanest air regions in the country.

Nature conservation expenses

Natural conservation expenses of the HSE Group increase annually. A key contributing trend are increasingly high prices of CO_2 emission allowances. During the past three years, these expenses have tripled. The HSE Group continues to underline that pollution expenses should be borne by all industries that negatively affect the environment. In addition, the Group expects the thus collected funds in the Climate Fund to be collected for a green transition that the HSE Group is also betting on.

Water use in the HSE Group

WATER	Unit of measure	2017	2018	2019	2020	2021
Use of river water*	mio m³	3.282	3.623	3.380	3.443	3.480
Use of accumulation and lakes*	mio m³	6.157	5.754	5.216	5.246	4.054
Use of groundwater	mio m³	2.414	2.786	2.479	2.629	2.775
Use of drinking water	m³	209,739	215,674	202,015	146,350	123,077
Use of water for production at HPP	mio m³	62,695	79,832	73,889	85,343	79,504

* For cooling technical devices

Products and services in the HSE Group

PRODUCTS AND SERVICES	Unit of measure	2017	2018	2019	2020	2021
Ashes	t	15,376	4,392	10,455	22,173	19,397
Gypsum	t	21,624	15,370	23,158	67,789	77,025
Stabiliser*	t	769,436	732,424	639,323	660,834	550,859
Waste metals	t	26,905	3,493	3,441	6,520	6,676
Heat energy	MWh	385,989	355,424	341,217	351,254	374,080
Gravel	t	3.206	46.330	10.666	31.141	27.417

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

Nature conservation expenses in the HSE Group

ITEM IN THOUSAND EUR	2017	2018	2019	2020	2021
Air and climate protection	36,547	38,955	46,070	81,149	100,660
- of which for climate change	*26,862*	*26,564*	*35,867*	*69,961*	*91,027*
Wastewater management	3,319	5,273	3,442	2,987	2,830
Waste management	2,438	4,026	3,848	5,694	3,920
Soil, groundwater and surface water protection and improvement	2,035	962	2,755	6,177	4,448
Noise and vibration protection	63	4	17	8	19
Biodiversity and landscape protection	157	187	211	336	309
Research and development	32	10	34	5	33
Other	3,244	3,093	3,493	3,290	4,309
Total	**47,834**	**52,509**	**59,869**	**99,646**	**116,528**

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3.1 Auditor's Report of HSE Group

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the company HOLDING SLOVENSKE ELEKTRARNE d.o.o. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for 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.

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Emphasis of matter

We draw attention to the Note Subsequent events to the consolidated financial statements, where it is disclosed that on 13 January 2022 the Government of the Republic of Slovenia adopted the National Strategy for Coal Exit and Restructuring of Coal Regions in accordance with the principle of just transition. The strategy stipulates that Slovenia will stop using coal for electricity production in 2033 at the latest. Our opinion is not modified in respect of this matter.

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 2021. 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 2021, the Group discloses property, plant and equipment in the consolidated statement of financial position in the amount of EUR 1,166,570 thousand. In the year ended 31 December 2021, the Group recognized EUR 164,491 thousand of 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 value in use 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

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	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.

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.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other

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matters that may reasonably be thought to bear on our independence, and where applicable, 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.

Report on Other Legal and Regulatory Requirements

Report on the requirements of the Regulation (EU) No 537/2014 of the European Parliament and of the Council (Regulation EU 537/2014)

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 three 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 20 May 2022 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.

DELOITTE REVIZIJA d.o.o.

Tina Kolenc Praznik
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 20 May 2022

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

3.2 Liability declaration of the management

The management shall be 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 drawn up on a going concern basis of the HSE Group.

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

- properly selected and consistently applied accounting policies,
- reasonable and sensible assessments and estimates.

The management is responsible for keeping corresponding records, which give an accurate and fair view 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 2021 financial year financial statements have been drawn up in accordance with the provisions of the International Financial Reporting Standards, as adopted by the European Union.

The consolidated financial statements of the HSE Group for the financial year ended on 31 December 2021 were adopted by the management on 20 May 2022.

Done in Ljubljana, on 20 May 2022

VIktor Vračar, PhD CEO of HSE	Uroš Podobnik, CBO of HSE	Marko Štrigl, M.Sc. CBO of HSE

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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 in its capacity as the then representative of the founder of 29 November 2010, the HSE Group has been drawing up financial statements and notes thereto in accordance with the International Financial Reporting Standards, as adopted by the European Union, since 1 January 2011.

The Deloite revizija d.o.o. audit firm audited the consolidated financial statements with explanatory notes and drew up an independent auditor's report included at the beginning of this section.

3.4 Consolidated financial statements

3.4.1 Consolidated statement of the financial position

in EUR	Explanatory note	31/12/2021	31/12/2020
ASSETS		**2,044,297,833**	**1,865,305,533**
A. NON-CURRENT ASSETS		**1,458,496,898**	**1,519,896,312**
I. Intangible assets	1	24,890,970	22,964,816
II. Real property, plant and equipment	2	1,166,570,499	1,330,138,748
III. Right to use leased assets	3	5,262,983	4,024,491
IV. Investment property	4	18,380,018	16,996,181
VI. Other non-current financial investments and loans	5	142,980,005	141,736,110
VII. Non-current operating receivables		97,543,037	2,040,708
VIII. Other non-current assets		1,174,315	1,026,154
IX. Deferred tax receivables	6	1,695,071	969,103
B. CURRENT ASSETS		**585,800,935**	**345,409,221**
I. Assets included in the disposal groups		13,999	13,999
II. Inventories	8	36,876,553	38,722,310
III. Current financial investments and loans	9	5,847,462	12,310,346
IV. Current trade receivables	10	267,108,768	167,145,295
V. Contract assets	11	2,053,139	407,957
VI. Current tax receivables		2,999,817	6,720
VII. Other current assets	12	174,311,449	48,329,570
VIII. Cash and cash equivalents	13	96,589,748	78,473,024
EQUITY AND LIABILITIES		**2,044,297,833**	**1,865,305,533**
A. EQUITY	14	**817,033,848**	**900,395,852**
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		88,891,503	43,209,380
V. Fair value reserves		14,227,665	4,947,786
VI. Retained profit/loss		93,514,972	142,211,136
VII. Conversion reserve		530,215	549,616
VIII. Capital of owners of non-controlling shares		9,539,882	236,689
B. NON-CURENT LIABILITIES		**609,820,911**	**691,454,621**
I. Provisions for severance pays and anniversary bonuses	15	24,524,483	23,414,723
II. Other provisions	16	73,283,885	66,506,848
III. Other non-current liabilities	17	10,619,616	1,535,699
IV. Non-current financial liabilities	18	497,730,640	596,823,215
V. Non-current financial liabilities from leases		3,520,256	2,635,007
VI. Non-current operating liabilities		134,678	533,306

continues

in EUR	Explanatory note	31/12/2021	31/12/2020
VII. Deferred tax liabilities	7	7,353	5,823
C. CURRENT LIABILITIES		**617,443,074**	**273,455,060**
II. Current financial liabilities	19	139,682,941	70,537,774
III. Current financial liabilities from leases		1,506,470	1,187,489
IV. Current operating liabilities	20	223,942,766	140,656,555
V. Contract liabilities		45,590	3,333
VI. Current tax liabilities		677,401	13,321,602
VII. Other current liabilities	21	251,587,906	47,748,307

* 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	Explanatory note	2021	2020
OPERATING REVENUE		**2,912,230,085**	**1,857,466,684**
1. Net sales revenue	23	2,538,204,221	1,837,247,832
2. Other operating income	24	374,025,864	20,218,852
OPERATING EXPENSES		**2,823,916,461**	**1,995,141,838**
3. Costs of goods, materials and services	25	2,163,847,812	1,445,901,596
4. Labour costs	26	139,302,074	132,400,410
5. Value write-offs	27	241,885,234	325,551,463
a) depreciation		74,981,664	79,531,862
b) impairments/write-offs/disposal of intangible assets and investments, property, and equipment		165,729,394	244,868,585
c) Receivables impairments/write-offs		1,033,377	654,879
d) Inventories impairments/write-offs		140,799	496,137
6. Change in value of inventories of products and work in progress		-469,214	-1,075,652
7. Capitalised own products and services	28	-19,180,331	-15,306,922
8. Other operating expenses	29	298,530,886	107,670,943
OPERATING PROFIT/LOSS		**88,313,624**	**-137,675,154**
9. Financial revenue		**77,726**	**125,167**
10. Financial expenses		**23,690,457**	**24,529,486**
FINANCIAL OUTCOME	30	**-23,612,731**	**-24,404,319**
11. Shares in affiliated and jointly-controlled companies	31	1,282,247	1,270,007
PROFIT (LOSS) BEFORE TAX		**65,983,140**	**-160,809,466**
TAX	32	**19,013,264**	**23,369,914**
12. Current tax		19,195,895	23,435,422
13. Deferred tax		-182,631	-65,508
NET PROFIT/LOSS FOR THE YEAR	33	**46,969,876**	**-184,179,380**
Owner of parent company		48,729,840	-184,177,731
Non-controlling interest		-1,759,964	-1,649

* 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	Explanatory note	2021	2020
Net profit/loss for the year	33	**46,969,876**	**-184,179,380**
Change in fair value reserves for real property, plant and equipment	14	-19,238	-15,000
Actuarial profits and losses of programmes with certain income of employees		-255,755	-2,641,519
Profits and losses from currency translation differences for financial statements of companies abroad	14	31,732	67,783
Items that will subsequently not be included in the income statement		**-243,261**	**-2,588,736**
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows		-131,721,556	23,572,529
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	-379,331	-815,428
Change in reserve for fair value of financial assets via other comprehensive income	14	14,699	-3,164
Items that will subsequently be included in the income statement		**-132,086,188**	**22,753,937**
Total comprehensive income for the reporting period		**-85,359,573**	**-164,014,179**
Owner of parent company		-83,600,002	-164,012,530
Non-controlling interest		-1,759,571	-1,649

* 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	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/loss	46,969,876	-184,179,380
Adjustments for:		
Amortisation of property, plant and equipment, intangible assets, investment property and rights to use assets	74,981,664	79,531,862
Impairments/write-offs, sales of real property, plant and equipment, intangible assets and investment property	165,729,394	244,868,585
Inventories write-offs	140,799	496,137
Operating receivables write-offs	1,033,377	654,879
Elimination of write-off/impairment of operating receivables	-262,461	-68,557
Financial revenue	-77,726	-125,167
Financial expenses	23,690,457	24,529,486
Shares in affiliated and jointly-controlled companies	-1,282,247	-1,270,007
Profit from sale of real property, plant and equipment	-431,623	-937,750
Taxes	19,013,264	23,369,914
Operating profit before changes in net current assets and taxes	***329,504,774***	***186,870,002***
Changes in net current assets and provisions		
Change in:		
Inventories	1,704,958	-6,125,511
Trade receivables and other assets	-324,011,940	-24,333,274
Assets classified as held for sale	0	201,723
Operating liabilities to suppliers and other liabilities	251,530,500	87,238,583
Provisions	1,166,535	916,425
Profit tax paid	-34,833,193	-13,698,019
Cash from operations	***225,061,634***	***231,069,929***
CASH FLOWS FROM INVESTING ACTIVITIES		
Interests received	4,352	2,976
Remuneration from other financing	71,362	77,411
Dividends received	2,012	44,780
Income from sale of real property, plant and equipment	709,867	2,977,732
Income from sales of investment property	0	663,971
Income from reduction of current loans given	12,264,911	12,508,261
Expenses for purchase of real property, plant and equipment	-68,155,568	-41,551,844
Expenses for purchase of intangible assets	-89,946,744	-65,025,752
Expenses for purchase of investment property	0	-122,938
Expenses for leases	-2,107,488	-542,362
Expenses for increase of current loans given	-5,799,059	-12,245,874
Expenses for increase of non-current loans given	-1,523	-1,501
Cash from investment	***-152,957,878***	***-103,215,140***

continues

in EUR	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Income from leases	2,407,122	691,685
Income from current loans received	183,290,000	46,449,000
Expenses for loan interest	-15,981,119	-19,015,635
Expenses from other financial liabilities	-7,570,678	-5,577,767
Expenses from other financial liabilities	-97,260,406	-59,953,945
Expenses for repayment of current loans	-116,582,233	-52,383,997
Expenses for repayment of current financial liabilities	-2,289,718	-2,108,704
Cash from financing	***-53,987,032***	***-91,899,363***
INITIAL BALANCE OF CASH AND CASH EQUIVALENTS	**78,473,024**	**42,517,598**
Profit or loss for the period	**18,116,724**	**35,955,426**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**96,589,748**	**78,473,024**

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3.4.5 Consolidated statement of changes in equity

in EUR	CALLED-UP CAPITAL		RESERVES FROM PROFIT			RETAINED PROFIT/LOSS				
	Share capital	Capital reserves	Other reserves from profit	Risk hedging reserve	Fair value reserves	Retained net earnings	Net profit/loss for the year	Conversion reserve	Capital of minority owners	Total
Balance as at 01/01/2020	**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							**-184,177,731**		**-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					-15,000					-15,000
Actuarial profits and losses of programmes with certain income of employees		0			-2,733,837	92,318				-2,641,519
Profits and losses from currency translation differences for financial statements of companies abroad								67,783		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				-815,428				2		-815,426
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows, retained in net profit/loss				23,572,530						23,572,530
Change in reserve for fair value of financial assets via other comprehensive income					-3,164					-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						29,730,396	-29,730,396			0
Other changes in equity	0					-230,793				-230,793
Balance as at 31/12/2020	**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**
Balance as at 01/01/2021	**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**
B.1. Transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-12,326**	**10,976,965**	**10,964,639**
Disbursement of dividends			0					-12,326		-12,326
Other changes in equity	0	0				0			10,976,965	10,976,965
B.2. Changes in comprehensive income	**0**	**0**	**0**	**-132,100,883**	**-184,888**	**-75,799**	**48,729,840**	**31,729**	**-1,759,571**	**-85,359,572**
Entry of net profit for the reporting period							**48,729,840**		**-1,759,964**	**46,969,876**
Items that will subsequently not be included in the income statement	**0**	**0**	**0**	**0**	**-195,580**	**-75,799**	**0**	**31,732**	**-3,614**	**-243,261**
Change in surplus from revaluation of real property, plant and equipment					-19,238					-19,238
Actuarial profits and losses of programmes with certain income of employees					-176,342	-75,799			-3,614	-255,755
Profits and losses from currency translation differences for financial statements of companies abroad								31,732		31,732
Items that will subsequently be included in the income statement	**0**	**0**	**0**	**-132,100,883**	**10,692**	**0**	**0**	**-3**	**4,007**	**-132,086,187**
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows				-131,721,552	0			-3		-131,721,555
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows, retained in net profit/loss				-379,331						-379,331
Change in reserve for fair value of financial assets via other comprehensive income					10,692				4,007	14,699
B.3. Changes in equity	**0**	**0**	**0**	**0**	**-9,094,992**	**-165,254,511**	**165,296,633**	**0**	**85,799**	**-8,967,071**
Allocation of the remainder of net profit of the comparative reporting period to other components of capital						-184,177,730	184,177,730			0
Settlement of loss as a deduction component of equity						18,881,097	-18,881,097			0
Other changes in equity	0	0	0		-9,094,992	42,122			85,799	-8,967,071
Balance as at 31/12/2021	**29,558,788**	**561,243,183**	**413,856,350**	**-88,891,503**	**-14,227,666**	**-123,363,715**	**29,848,742**	**-530,213**	**9,539,882**	**817,033,848**

3.5 Notes to the consolidated financial statements

3.5.1 Reporting company

The consolidated financial statements of the HSE Group are drawn up 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 2021 report Group operations that include the parent company and its subsidiaries, participating interests in joint ventures and participating interests in associates.

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

The financial year of the Group shall correspond to the calendar year. The consolidated financial statements for the year ended on 31 December 2021 are presented below.

The HSE Group as at 31 December 2021

Company	% of ownership as at 31/12/2021	% of ownership as at 31/12/2020	Registered office country
HSE	100.00%	100.00%	Slovenia
DEM	100.00%	100.00%	Slovenia
SENG	100.00%	100.00%	Slovenia
TEŠ	100.00%	100.00%	Slovenia
PV	100.00%	100.00%	Slovenia
HTZ I.P.	100.00%	100.00%	Slovenia
RGP	100.00%	100.00%	Slovenia
SIPOTEH	100.00%	100.00%	Slovenia
PLP	100.00%	100.00%	Slovenia
HSE EDT	100.00%	100.00%	Slovenia
HSE Invest	86.84%	100.00%	Slovenia
SRESA	60.00%	60.00%	Slovenia
mHE LOBNICA	65.00%	65.00%	Slovenia
ELPROM	0.00%	100.00%	Slovenia
ECE	51.00%	0.00%	Slovenia
HSE MAK Energy	100.00%	100.00%	Macedonia
HSE BH	100.00%	100.00%	Bosnia and Herzegovina
HSE Balkan Energy	100.00%	100.00%	Serbia

In 2021, on 18/02/2021, the court applied the final winding-up order of Elprom to delete the company from the Companies Register after summary examination.

At the request of its liquidator, TET Novi materiali as a dormant company was also deleted from the Companies Register on 01/10/2021.

in EUR Company	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
DEM	470,273,556	18,480,209	65,697,896	1,816,548	451,793,347
SENG	221,939,849	14,362,685	62,144,365	3,848,990	207,577,164
TEŠ	757,931,933	516,921,659	457,382,200	7,130,518	241,010,274
PV	150,439,445	115,630,641	98,806,025	-36,254,068	34,808,804
HTZ I.P.	16,362,668	15,795,834	36,729,987	-18,564	566,834
RGP	13,927,414	11,986,957	32,510,735	-1,876,256	1,940,457
SIPOTEH	2,398,575	1,068,738	3,379,511	399,038	1,329,837
PLP	1,914,356	906,877	3,534,344	140,571	1,007,479
HSE EDT	2,834,011	1,274,369	822,812	139,444	1,559,642
HSE Invest	2,908,449	2,105,669	5,684,315	171,500	802,780
SRESA	49,946	19	0	-2,202	49,927
mHE Lobnica	623,221	2,074	31,992	4,473	621,147
ECE	52,779,906	34,127,617	39,261,621	-3,641,991	18,652,289
HSE MAK Energy	5,181,615	4,198,426	35,693,960	244,056	983,189
HSE BH	22,867,303	21,343,862	102,157,392	230,967	1,523,441
HSE Balkan Energy	731,271	14,266	158,154	21,280	717,004
Total	**1,723,163,518**	**758,219,903**	**943,995,309**	**-27,645,696**	**964,943,615**

ASSOCIATES

Group name	Co-owner	Registered office country	% of co-ownership	% of ownership of HSE Group
HESS	DEM	Slovenia	30.8%	49.0%
	HSE	Slovenia	15.4%	
	SENG	Slovenia	2.8%	

Company	Address	Activity
HESS	Cesta bratov Cerjakov 33a, Brežice	Electricity production at hydro power plants

RCE Razvojni center energije d.o.o. – under receivership (24.5%) was deleted on 11/05/2021 upon the completion of the receivership proceedings, and removed from our accounts.

TOTAL JOINT VENTURES

Company	Address	Activity	% of ownership
SOENERGETIKA	Stara cesta 3, 4000 Kranj	Production of electricity and heat	25%

BRANCH

The Group has a branch in the Czech Republic. It did not operate in 2021, because electricity trading was transferred to HSE.

3.5.2 Drawing up basis

a) Statement on conformity

The Group drew up its consolidated financial statements as at 31 December 2021 by taking 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 of the Corporation Tax Act and its bylaws,
- HSE Corporate Accounting Rules and
- other applicable laws.

b) Accounting assumptions and qualitative characteristics of financial statements

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

- accrual and
- going concern.

The effects of transactions and other 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 drawn up 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 INFORMATION:** Unless the standard or the interpretation permits or requires 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.
- **AMENDMENTS TO 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 2020, except for the amendments described below.

In view of increased volatility of electricity prices, the HSE Group changed the accounting policy applied to recognising and valuating electricity procurement and sales commodity agreements in 2021. In compliance with IFRS 9, commodity contracts the purpose of which is not to physically procure or deliver goods but whose performance is reflected only in a physical settlement, shall be treated as financial transactions, recognised and measured in compliance with IFRS 9. For this reason and in compliance with IFRS 9.2.6, the Group shall account for electricity procurement and sales contracts for the purpose of trading as derivatives, as, for these contracts, the Group usually has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin (in compliance with the rules of IFRS 9 on contract settling net). In compliance with IFRS 9.2.4, the Group shall account for these contracts as derivatives and measure them at fair value through profit or loss.

The effect of a change in the accounting policy applying retroactively to 2020 in the amount of EUR 1,292,361 accounts for an intangible value. For this reason, the change has not been entered into our accounts as an adjustment item of the preceding year.

The contracts that the Group has concluded and that it continues to hold for the purpose of receipt or delivery of a non-financial item in compliance with the entity's expected procurement, sale or usage requirements, such as sales contracts for HSE Group self-generated electricity (so-called ‘own-use' contracts), shall continue to be recognised in the financial statement in compliance with IFRS 15 on the effective date of the respective contract.

c) Measurement basis

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

d) Functional and reporting currency

The consolidated financial statements in this report are presented in euro (EUR) without cents; the euro is also the Group's reporting currency. When using addition, insignificant rounding errors in tables may occur.

e) Application of estimates and judgments

The drawing up of consolidated financial statements requires the company's managements 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 these estimates and assumptions are based purely on subjective considerations and entail a degree of uncertainty, subsequent actual results may differ from them. Estimates are reviewed on an ongoing basis. Modifications to accounting estimates shall be recognised in the period in which the estimates had been modified if the modification only affects that period; or in the period of modification and subsequent periods if the modification affects subsequent periods.

Estimates and assumptions shall be present in the following judgements in particular:

- assessment of the useful life of depreciable assets (Note 1, 2, 3, 4 to the consolidated income statement),
- impairment testing of non-current assets (Note 1, 2, 4 to the consolidated income statement),
- identification of lease contracts (Note 3),
- assessment of the liquid amount of receivables (Credit risk disclosure),
- assessment of net realisable value of inventories (Note 8 to the consolidated statement of financial position),
- assessment of provisions for post-employment and other non-current employee benefits (retirement allowances) (Note 15 to the consolidated statement of financial position),
- assessment of other provisions (Note 16 to the consolidated statement of financial position); and
- assessment of contingent liabilities and assets (Note 22 disclosure).

Further assessments and judgements applied by the management in drawing up the financial statements as at 31 December 2021 are as follows:

1. The HSE Group holds 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 01/06/2023 and 31/12/2023. The redemption right relates to the redemption of the total 35.6% shareholding, representing SEL's total shareholding amounting to 14.7% of the share capital in HESS and GEN's total shareholding amounting to 20.9% of the share capital in HESS. The Group shall exercise the redemption right towards both company members/acquirers at the same time. The estimated option value as at 31/12/2021 amounts to EUR 1,402. In terms of assessment, the amount accounts to an intangible value and shall thus not be entered into the accounts of this year.
2. Under the call and put options, the HSE Group holds the right to buy back a 12.58 per cent shareholding of Elektro Gorenjska and a 36.42 per cent shareholding of Elektro Celje that both companies hold in ECE. The Group currently owns 51% of ECE.

   There are two call options for the acquisition of Elektro Gorenjska, namely:

   - The first call option for Elektro Gorenjska entered into force on 01/01/2021 and is in effect until 31/12/2024. It shall be exercised upon receipt of the call option notice by the seller. The option share purchase price shall be calculated from an interest-bearing basis less the dividends disbursed since the conclusion of the agreement. The estimated option value as at 31/12/2021 amounts to EUR 241. In terms of assessment by HSE, the amount accounts to an intangible value and shall thus not be entered into the accounts of this year.

- The second call option for Elektro Gorenjska enters into force on 01/01/2025 and is in effect until 31/05/2025 and shall be executed on 30/06/2025. HSE shall redeem the option by expressing to the option writer its intention to exercise its call option right. The purchase price shall be laid down by an option agreement giving rise to the executable value of the option equalling its market value at the time of execution. Given the execution value specification method, the fair value of the financial instrument (option) is close to 0.

There is also a call option for the acquisition of Elektro Celje, namely:

- The call option for Elektro Celje enters into force on 01/01/2025 and is in effect until 31/05/2025 and shall be executed on 30/06/2025. The HSE Group shall redeem the option by expressing to the option writer its intention to exercise its call option right. The purchase price shall be laid down by an option agreement giving rise to the executable value of the option equalling its market value at the time of execution. Given the execution value specification method, the fair value of the financial instrument (option) is close to 0.

In its business plan, the HSE Group laid down that the call options of both companies would be taken up during the first half of 2025, thus at their executable value equalling their market value at the time of execution. For this reason, the Group has shown the acquisition value of the remaining shareholding of ECE (49%) from this in its consolidated financial statement at its estimated value as at 31/12/2024, on the basis of an appraisal report.

3. The power plant decommissioning obligation relates solely to the replacement of Block 6 of TEŠ (Šoštanj Thermal Power Plant), as indicated in the energy permit for this facility. The environmental permits for other production facilities do not include a decommissioning obligation.

   Hydro-electric power plants shall be subject to regular maintenance for the duration of the concession right. After the expiry of the concession period, no decommissioning costs are foreseen for the concessioner.

4. 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 reviews the provision on an annual basis. In 2021, the company reassessed the evaluation of closing work activities as referred to in the study and formed additional provisions on the basis thereon. The calculation takes into consideration current market values for carrying out the defined activities based on the monitoring and environmental rehabilitation quotes received as well as the assessed cost of the material and work required for individual liquidation works.
5. In compliance with IFRS 9.2.4, the parent company measures electricity sales and procurement transactions for trading purposes at their fair value through profit or loss which requires an estimated fair value. The above does not apply to electricity procurement and sales contracts held by the company for or the purpose of the receipt or delivery of the non-financial item in compliance with its expected purchase, sale or usage requirements.
6. In the event of impairment testing for a cash-generating unit with assets with limited useful lives (TEŠ), business projections for its entire useful life are used. The key assumptions are presented in the following disclosures on the implementation and results of impairment of investments in subsidiaries.

3.5.3 Significant accounting policies

The consolidated financial statements are drawn up based on the accounting policies presented below. The mentioned accounting policies were applied for both reported years, unless specified otherwise. Where necessary, the comparable data were adjusted to match the information presented for the current year.

FOREIGN CURRENCY CONVERSION

Transactions in foreign currencies are translated into the applicable 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 recognised in the income statement by applying the principle of net profit or loss.

Financial statements of subsidiaries abroad, whose functional value does not match the reporting currency of the Group, are translated by using the following exchange rates:

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

CONSOLIDATION BASIS

Consolidated financial statements comprise financial statements of the parent company and its subsidiaries. Subsidiaries are entities controlled by the Group. This means that the parent company holds the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control is assumed to the date on which it ceases.

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

The financial statements of Group companies have been aggregated into the consolidated financial statements on the basis of full consolidation. The financial statements are compiled item by item, by summing similar items of assets, liabilities, equity, revenue and expenses.

The consolidated financial statements do not include balances of receivables and receivables among Group companies, revenue and expenses and realised gains and losses from transactions within the Group.

Exchange rate differences from the translation of financial statements of subsidiaries (whose functional currency does not match the reporting currency of the Group) are recognised in the translation capital reserve or in the statement of other comprehensive income.

Business combinations are accounted for by applying the acquisition method. An acquirer identifying the date on which it obtains control over the acquiree shall be identified. On the acquisition date, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets and the liabilities assumed and assets acquired at their fair values at the acquisition date.

Goodwill or a gain from a bargain purchase (negative goodwill) shall be recognised as a result of a business combination in the consolidated financial statements of the Group. Goodwill shall be accounted for at the initial measurement, namely as the excess of the sum total of the transferred consideration, usually measured by the company at fair value at the acquisition date, and non-controlling interest over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed at the acquisition date. If the consideration received by the acquirer is lower than the fair value of the identifiable net assets of the acquired subsidiary, the difference shall be recognised as negative goodwill or a gain from a bargain purchase in the income statement for the whole of the current year.

INTANGIBLE ASSETS

Intangible assets are non-current assets that enable the implementation of the Group's activity without physical substance. Intangible assets include non-current property rights and emission allowances for electricity generation purposes in the HSE Group, goodwill, other intangible assets and intangible assets being acquired.

At initial recognition, an intangible asset is recognised at cost. Import or other non-refundable trade receivables less commercial and other rebates, as well as any directly attributable cost of preparing the asset for its intended use, are included in its cost. Borrowing costs that are directly attributed to the acquisition of an intangible qualifying asset (until its capitalisation) are recognised as part of the cost of such an asset.

Intangible assets are subsequently measured using the cost model.

The residual value of an intangible asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The Group has no intangible assets for which it would deduct the residual value upon acquisition.

Goodwill arising upon consolidation is excess of the cost of acquisition over the acquirer's interest in the net fair value of the identifiable assets acquired, of the identifiable and contingent liabilities assumed at the date of acquisition. Goodwill is

	2021	2020
Software	2–20 years	2–20 years
Licences	4–10 years	4–10 years
Other non-current property rights	4–10 years	4–10 years
Other intangible assets	4–10 years	4–10 years

recognised as an asset and is reviewed at least once a year for impairment. Any impairment is recognised immediately in the consolidated income statement and is not reversed ex post facto. Upon disposal of a subsidiary, the appropriate amount of goodwill is included into establishing the profit or loss at the time of sale and affects the economic outturn of the Group.

Depreciation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of the intangible asset. Depreciation is applied at cost when the asset is available for use. Emission allowances are not depreciated, since they are procured for the individual periods in which they are used.

Depreciation and the useful lives of groups of intangible assets are reviewed at the end of each financial year and are adjusted, where appropriate. If their useful life is extended, the cost of amortisation in the financial year is decreased. If the useful life period is shortened, depreciation costs increase. The adjustment of the useful life period has to be restated to allow for the depreciation of the asset in the new foreseen useful life. A change in the useful life is considered a change of the accounting assessment and affects only the period in which the accounting assessment was changed and for each subsequent period in the remaining useful life.

Subsequent costs in relation to intangible assets are only capitalised in the event that they increase the future economic benefits arising from the asset the costs apply to. All other costs are recognised in the income statement as expenses as soon as they are incurred.

An intangible asset shall be removed from the accounts on disposal; the difference between the net realisable value and the carrying amount of the disposed intangible asset shall be transferred to other operating revenue or write-offs.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are non-current assets owned by the Group and employed for the performance of its activity. Property, plant and equipment comprise buildings, production equipment, other equipment and assets under construction.

Property, plant and equipment are carried at cost less accumulated depreciation and losses from impairments. Cost includes 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 they are prepared for their intended use, depending on the type of an item of property, plant and equipment and decommissioning costs.

Parts of devices and equipment that have different usable life are accounted for as individual assets. Spare parts of major values are recorded among property, plant and equipment and depreciated during the asset's useful life for which they were acquired.

The anticipated costs of regular inspections and repairs of property, plant and equipment are accounted for 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, completed at the company, is comprised of the costs incurred by their construction or manufacture and of the indirect costs of their construction or manufacture that can be attributed to them.

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

The residual value of property, plant and equipment is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The Group has no properties, plant and equipment for which the remaining value would be determined.

	2021	2020
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

Depreciation 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 for when an asset is available for use. Land, quarries and assets under construction are not depreciated.

Assets acquired free-of-charge are depreciated, at the same time the part of non-current deferred revenue is transferred among other operating revenue equals to the value of the accounted for depreciation.

Useful lives of property, plant and equipment are reviewed at the end of each financial year and adjusted, where appropriate. If their useful life is extended, the cost of amortisation in the financial year is decreased. If the useful life period is shortened, depreciation costs increase. The adjustment of the useful life period has to be restated to allow for the depreciation of the property, plant and equipment in the new foreseen useful life. A change in the useful life is considered 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 of 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 current maintenance costs) are recognised in the income statement as expenses as soon as they are incurred.

Gains and losses, arising at the disposal of property, plant and equipment, are established as the difference between the net sales value and the carrying amount of the written-off or disposed property, plant and equipment, and are recorded among other 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 indications of impairment include the following circumstances:

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

LEASES

The Group leases real property (land and 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.

At the inception of the lease, the Group recognises the right to use lease assets and liabilities, 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.

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

Interest rates, accepted upon the conclusion of leases, are not disclosed in contracts. Item 26 of standard IFRS 16 refers the lessee to use the incremental borrowing rate of interest, which the Group would pay if the asset was bought and the purchase would be indebted. The Group has no such interest rates, since the analysis of financing resources has shown that existing resources were used to finance working capital.

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-financial corporations in credit institutions in the month of the lease, published in the bulletin of the Bank of Slovenia.

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

INVESTMENT PROPERTY

Investment property is defined as the property held by the Group to earn rentals or for capital appreciation or both.

Investment property also includes property under construction.

If a 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 material and discloses it as such in its accounts.

Fair value is taken into consideration for valuation purposes. Fair value is calculated using the market approach and the direct capitalisation method (the income approach). Changes in fair value are recognised in the income statement.

NON-CURRENT INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates are those in which the Group has significant influence, although as a rule the shareholding in such companies is 20–50%.

Investments in joint ventures are investments in which the Company, together with other owners, jointly controls the operations of these companies on the basis of a contractually agreed sharing of control.

Investments in associates and in joint ventures 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 shows investments in joint ventures, 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 Company's financial instruments are classified as follows:

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

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

a) Financial assets at fair value through profit or loss

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

Financial assets are classified as held for trading if they are acquired with the intention of selling or repurchasing them 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 of choice.

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

b) Financial assets at fair value through other comprehensive income

Financial assets recognised at fair value through other comprehensive income with the nature of an equity instrument, are financial assets held by the Group within the business model for collecting contractual cash flows, which comprise solely payments of the principal and interest accrued on the outstanding principal balance, and for sale.

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

c) Financial assets at fair value through other comprehensive income (equity instruments)

Financial assets recognised at fair value through other comprehensive income with the nature of an equity instrument, are 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 which are not held for trading. The classification is stipulated by an individual financial instrument.

Gains and losses on these financial assets shall never be reallocated to the income statement, excluding dividends received which shall be recognised in profit or loss.

d) Financial assets at amortised cost

Financial assets at amortised cost include financial assets held by the Group within the business model for collecting contractual cash flows and if cash flows constitute exclusively payments of the principal and interest accrued on the outstanding principal balance. Financial assets at amortised cost also include loans and receivables. Given their maturity, they are classified as current financial assets (maturity of up to 12 months after the date of the statement of financial position) or non-current 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. Gains and losses are recognised 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 party to the instrument. With the exception of loans received, all financial liabilities are initially measured at fair value. Loans received are measured at amortised cost using the applicable interest rate. Given their maturity, they are classified as current financial liabilities (maturity of up to 12 months after the date of statement of financial position) or non-current financial liabilities (maturity over 12 months after the date of the statement of financial position). Gains and losses are recognised in the income statement upon de-recognising the financial liability and as part of the depreciation of the effective interest rate.

The Group de-recognises a financial liability when contractual obligations are discharged, cancelled, or expire.

DERIVATIVES (RECEIVABLES)

Derivatives are used for hedging the Group's cash flow exposure to price and currency risks, as well as the trading risk. As part of its hedging efforts, the Company concluded exchange rate swaps as well as futures contracts for the acquisition of electricity and emission allowances in the following years.

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

Derivatives shall initially be recognised at fair value, namely by using the principle of net profit or loss, meaning that the actual value of the concluded transaction shall not be shown in the financial statements.

Following initial recognition, derivatives are measured at fair value, whilst the pertaining changes are considered differently with regard to whether or not the derivative qualifies for hedge accounting. Derivatives which do not qualify for hedge accounting shall be measured at value through profit or loss.

When a derivative is defined as hedging in the case of exposure to cash flow variability that may be attributed to an individual risk related to a recognised asset, liability or highly probable forecast transactions, which can affect the profit or loss, the effective portion of the fair value change of the derivative is recognised in the period's other comprehensive income and disclosed in the cash flow hedge reserve. The ineffective part of fair value changes of the financial instrument is directly recognised in the income statement. The Group shall prospectively discontinue 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 gain or loss recognised in the period's comprehensive income remains recorded in the cash flow hedge reserve until the hedged forecast transaction affects profit or loss. If the forecast transaction can no longer be expected, the amount shall be directly recognised in profit or loss in other comprehensive income. In other cases, the amount recognised as comprehensive income shall be transferred to profit or loss in the same period during which the hedged forecast transaction affects profit or loss.

The effects of other derivatives, not defined as hedges, in the case of cash flow variability exposure or failure of attribution to an individual risk, associated with a recognised asset or liability, shall be recognised in profit or loss among other operating revenue or other net operating expenses.

If forward purchases and sales related to the physical delivery of electricity are considered contracts concluded in the ordinary course of business of the Group ("own use" contracts), they are not subject to the scope defined under IFRS 9. This applies when the following conditions are met:

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

The Group is of the opinion that transactions, subject to negotiations with a view balancing electricity purchasing and sales commitments, are to be considered part of its operations and outside the scope of IFRS 9.

INVENTORIES

Inventories shall be measured at the lower of cost and net realisable value. The historical cost includes cost, consisting of the purchase price, import duties and direct purchase costs. The purchase price is reduced by any discounts given. 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. Discounts off the purchase price include both those stated on the invoice or those which are given later and refer to individual purchases.

The value of finished products and work in progress includes total production costs sensu stricto, which comprise direct costs of materials, direct costs of services, direct labour costs, direct depreciation costs and general production costs. General production costs (costs of materials, services, stemming from depreciation and labour costs) shall be charged as part of the production process and cannot be directly linked to emerging products and services. A part of production costs in total costs (materials, services, labour costs and depreciation) is established once per year based on data relating to the previous year.

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

At least once a year, namely as at the date of drawing up annual financial statements, the Group evaluates the evidence on the impairment of inventories. The impairment of inventories is assessed by 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 re-sale.

IMPAIRMENT OF ASSETS

Financial assets

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 an instrument.

Impairment of receivables and loans given

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

Final write-offs of receivables require appropriate documents: a final arrangement with creditors, 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 lifetime expected credit loss (LECL) of a financial asset. Expected credit losses represent the difference between contractual cash flows that are due under the contract and all cash flows which the Group expects to receive. Expected cash flows will include cash flows from the sale of collateral.

Impairments for expected credit losses are assessed in two stages. 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 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 of the exposure, regardless of the default period.

Doubtful receivables from others are not settled within 180 days after their due date.

Disputed receivables comply with one of the following conditions:

- judicial debt-collection proceedings to recover the receivables have been instituted, and
- an opening decision for receivership, liquidation or bankruptcy proceedings has been 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 on the basis of 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 past trends.

If all acts have been performed by exercising due diligence in order to achieve the repayment of a particular outstanding receivable, or if the amount of the receivable would make it uneconomic for the Group to have it recovered via judicial recovery proceedings, the receivable will be written-down in full on the basis of a management's decision.

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

An impairment loss related to a financial asset shown 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 expenses.

Non-financial assets

At each reporting date, the Group reviews the carrying value of its material non-financial assets to determine whether there is an indication of impairments. If any such indication exists, the asset's recoverable value is estimated via an impairment test. The non-financial assets impairment assessment is implemented once per year before the annual financial statements are drawn up. An impairment loss is recognised if the carrying amount of a cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable value of an asset or cash-generating unit is the higher value in use or fair value less costs 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. For impairment testing purposes, assets that cannot be tested individually are placed 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). To test the impairment of goodwill, CGUs to which goodwill is allocated shall be subjected to a special test (the so-called 'segment ceiling test); CGUs to which goodwill is allocated shall be pooled or aggregated in a way that the level on which impairment is tested reflects the minimum level at which goodwill is monitored for internal reporting purposes.

The impairment is 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 other assets in the CGU (group of CGUs) pro rata on the basis of the carrying amount of each asset in the unit.

Group companies evaluate the impairment losses of previous periods at the end of the reporting period and thus determine whether the loss was reduced or it no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable value. The loss due to the impairment of the asset is reversed only up to the amount that does not entail the increased carrying amount of an asset exceeding the carrying amount that would have been determined after the deduction of the depreciation write-off, if the impairment loss was not recognised as an asset in prior years. An impairment loss on goodwill is not reversed.

CAPITAL

Share capital and capital reserves include cash and non-cash consideration of the parent company.

On 31 December 2002, the general adjustments from revaluation of capital (in accordance with the then applicable Slovenian Accounting Standards) included the revalorisation of the share capital before 2002. Subsequently, the aforementioned adjustment was transferred to capital reserves.

Legal reserves are intentionally retained earnings of the parent company generated during past years. They are established based on a decision by the relevant management and supervisory body.

The risk hedging reserve shall include the effect of the change to the fair value of derivatives established as successful hedging instruments in the event of exposure to cash flow variability related to hedging self-generated electricity and the hedging accounting related to emission allowance procurement cash flows.

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 from provisions for post-employment and other non-current payables to employees (retirement allowances).

In the retained profit and loss account, the profit or loss of Group companies for the current and previous years are disclosed.

In the translation capital reserve, exchange differences arising from the recalculation of items in financial statements of Group companies operating abroad, where different reporting currencies are used for reporting purposes, are presented.

The capital of non-controlling interest holders is their share in the total capital of subsidiaries.

PROVISIONS FOR POST-EMPLOYMENT AND OTHER NON-CURRENT EMPLOYEE BENEFITS

In accordance with statutory regulations, Collective Agreements and internal rules, Group companies shall make provisions for the mandatory payment of jubilee and retirement benefits to employees. There are no other pension liabilities.

Provisions are made in the amount of estimated future jubilee and retirement benefit payments, discounted at the end of the financial year. The calculation is made for each individual employee and includes the costs of retirement benefits and all expected jubilee benefits up to retirement. The calculation using a projected unit is drawn up by an actuary for all Group companies. Retirement and jubilee benefits decrease the provisions made.

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 from retirement benefits are recognised in other comprehensive income (capital).

EMPLOYEE BENEFITS

Current employee benefit obligations are measured on an undiscounted basis and are expensed as the current benefit related service by the employee is provided. Liabilities are carried in the amount that is expected to be paid in the form of current remuneration, 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 liability can be estimated reliably.

OTHER PROVISIONS

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

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

The Group has made provisions for the closing works of the remaining excavation in the Velenje coal mine based on the discounted assessment of values of closing works from the study drawn up or updated by an internal working group on an annual basis. Valuing costs shall take into account costs related to the technical-technological aspect of closure (hydrogeological and geomechanical monitoring, the liquidation of cave facilities and the costs of ecological rehabilitation of the surface) with regard to the currently applicable starting points of excavation. The calculation takes into consideration current market values for carrying out the defined activities based on the monitoring and environmental rehabilitation quotes received as well as the assessed cost of the material and work required for individual liquidation works.

Provisions are directly decreased by costs or expenses for which they were created to cover. This means that costs or expenses are no longer included in the consolidated income statement in the financial year. The effects of discounting are recognised as part of financial expenses.

In the event the forecast liabilities do not occur, or if the provision disbursing period is extended, the amount of the provisions made is reversed to the credit of operating expenses. Additional provisions made are disclosed as part of investments into coal mine facilities; similar considerations apply to all of the effects on the value of the disclosed provisions arising from the change in the amount of the used discount rate when discounting the forecast amounts of future expenditures related to closing the coal mine.

Based on the energy permit from the Ministry of the Economy and the assessment of decommissioning costs, the Group set up the decommissioning costs for removing Block 6 after the end of its useful life.

The decommissioning shall be planned and managed by taking into consideration current and future standards, as well as the conditions for these kinds of works (environmental conditions, occupational health conditions, handling of certain materials that might be labelled hazardous in the future, etc.). Most of these conditions shall be determined in the consents and the building permit at the beginning of the decommissioning process.

The assessment of the decommissioning costs is made based on the quantity of installed materials and expert assessments of their removal. Studies of assessments of decommissioning costs of certain similar facilities around Europe have been used as support.

GOVERNMENT GRANTS

All types of government grants are initially recognised as deferred income under non-current 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 under other operating revenue in the useful life period of each individual asset. Government grants received for covering expenses are recognised as revenue in periods in which the relevant costs that are to be replaced by the government grants arise.

OTHER ASSETS AND LIABILITIES

Other assets include advances given, receivables due from state and other institutions and current deferred costs and accrued revenue not related to sales contracts. Deferred costs are the amounts incurred although not yet charged against the Group's profit or loss.

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

Other liabilities include advances received, liabilities to employees, liabilities to the State and other institutions and non-current and current accrued costs and deferred revenue not related to liabilities arising from sales contracts. Accrued charges are amounts not yet reported, although they will be in the future and already have an effect on the Group's profit or loss.

With the introduction of IFRS 15, deferred revenue from sales contracts with customers is no longer part of other liabilities, but is reported under Contract Liabilities.

CONTINGENT LIABILITIES

Contingent liabilities are:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise, or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

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

Revenue

In accordance with IFRS 15, the Group uses a five-step model to establish when to recognise revenue and to what amount. The model determines that revenue is recognised at the transfer of control over goods or services to the buyer in an amount expected to be justified. In view of the satisfied criteria, revenue shall be recognised:

- as it occurs or
- through the period.

The Group recognises revenue from contracts with buyers based on contracts, thus the control over goods and services is transferred to the buyer in the amount that reflects the compensation that the Group expects to be entitled to. Any promised service or supply of goods is considered a separate performance obligation if different. The performance obligation is different when the buyer derives benefits from the services rendered or goods delivered. The performance obligation is the obligation to provide a service or goods to the buyer.

Revenue is recognised as soon as the Group satisfies its performance obligation, i.e. when control over the respective service and goods is transferred to the buyer. Control means that the buyer can direct the use of an asset and receives all material benefits from the asset. The buyer may also prevent others from using and receiving the benefits from the respective asset.

Discounts, approved upon the contract signing, are distributed among all performance obligations and deferred for 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 arises upon the provision of goods. Goods are invoiced within 14 days or on a monthly basis. The sale of electricity accounts for the biggest share in the sale of goods structure, followed by the sale of secondary and tertiary energy, deviations from the sale of electricity and the sale of thermal energy and other products. This part also includes the sale of emission allowances arising from trading and the sale of other merchandise and materials.

If the Group generates more foreign exchange gains than losses from operating activities, these are reported as net revenue from the sale of merchandise by applying the principle of net profit or loss.

Sale of services

The performance obligation in the sale of services arises while services are rendered. Invoicing is performed on a monthly basis. The sale of services related to electricity and construction, in addition to construction, mining and maintenance services account for the biggest share in the sale of services structure.

Accrued revenue is the revenue taken into account in the profit or loss even though it has not been invoiced yet. In compliance with IFRS 15, it is recognised in the statement of financial position as contract assets which is the right to consideration in exchange for goods or services that the entity has transferred to a customer.

Deferred revenue is presented in a new way in accordance with IFRS 15 as a contract liability and is recognised as revenue when the company meets its contractual performance obligation.

OTHER OPERATING AND FINANCIAL REVENUE

Revenue arising from accruing late interest and related receivables are recognised upon arising if it is probable that economic benefits, related to the transaction, will flow into the Group. Else, accruing late interest is recorded as contingent assets and recognised in the Group's accounts upon payment. Accrued late interest is recorded on a case-by-case basis.

Other operating revenue, associated with products and services, are revenue from the reversal of provisions, excluding provisions for jubilee and retirement benefits, revenue from the absorption of deferred revenue, capital gains, revenue from the revaluation of investment property, reversal of impairment of receivables, damages and fines received and similar revenue (such as government grants).

Financial revenue comprises revenue from shares in investments, interest on loans and deposits given and profit of associates. Interest revenue is recognised as soon as they arise and amounts to the agreed-upon interest rate.

OPERATING AND FINANCIAL EXPENSES

Expenses are recognised if the decrease in economic benefits in the reporting period is associated with decreases in assets or increases in debt and if this decrease can be reliably measured. Operating expenses are recognised once costs are no longer held in the value of inventories of products and work in progress, or once the merchandise is sold. Costs that cannot be held in inventories of products and work in progress are recognised as operating expenses upon its occurrence.

The cost of sold goods encompasses the recording of expenses, related to the sale of electricity, and the direct costs of electricity. If the Group generates more foreign exchange gains than losses from operating activities, these are reported in the cost of sold goods.

Costs of materials are historical costs of materials procured that are directly used for creating products and services (direct costs of material), as well as costs of materials 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 the 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 procured 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 the production of goods, while the second group includes mainly the costs of transport services, maintenance services, services related to trade fairs, advertising 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 depreciation costs related to consistent transfer of value of depreciable intangible assets and depreciable intangible assets, property, plant and equipment and the right to use assets to the consolidated 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 from the revaluation of investment property, as well as impairments or write-off of operating receivables and inventories.

Labour costs are historical costs that refer to gross salaries and other similar amounts to employees, as well as duties that are accounted for from this basis and are not an integral part of gross amounts. 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 with a nature of indirect costs which are included in adequate purpose (functional) groups of indirect operating costs.

Other operating expenses arise in relation to making (setting up) provisions, environmental taxes, concessions, donations and other duties.

Financial costs comprise borrowing costs and the impairment of financial assets. Interest expenses are recognised when they arise and amount to the agreed-upon interest rate.

TAXES

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

Tax liabilities are based on the taxable base of the financial year. The taxable base differs from the profit or loss reported in the income statement, as it excludes items of revenue or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. The Group companies' current tax liabilities are calculated using the tax rate 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 financial position statement liability method to temporary differences, arising between tax bases 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 settled.

A deferred tax asset is recognised if future taxable profit that can be used for temporary differences is likely. It is the levied corporate income tax with regard to deductible temporary differences.

The deferred tax liability is corporate income tax levied with regard to taxable temporary differences, which means higher payment of tax 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 it is drawn up for. The consolidated cash flow statement is drawn up by using the indirect method and data from the consolidated statement of financial position and the consolidated income statement pursuant to International Financial Reporting Standards (IFRS).

Cash and cash equivalents of the Group include cash, cash in bank accounts, deposits redeemable at notice and deposits for a period of up to three months.

SEGMENT REPORTING

In the Annual Report, the Group does not disclose operations by segment. Segment reporting in the Annual Report is required for groups 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 THE EXISTING STANDARDS EFFECTIVE FOR THE CURRENT FINANCIAL 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 IFRS 9 – Financial Instruments; IAS 39 – Financial Instruments: Recognition and Measurement; IFRS 7 – Financial instruments: Disclosures, IFRS 4 – Insurance Contracts and IFRS 16 – Leases** – Interest Rate Benchmark Reform – Phase 2, adopted by the EU on 13 January 2021 (effective for annual reporting periods beginning on or after 1 January 2021).
- **Amendments to IFRS 16 – Leases** – COVID-19-Related Rent Concessions beyond 30 June 2021, adopted by the EU on 30 August 2021 (effective on 1 April 2021 for financial periods beginning on or after 1 January 2021).
- **Amendments to IFRS 4 – Insurance Contracts – Temporary exemption from the requirements of the IFRS 9,** adopted by the EU on 16 December 2020 (the date of termination of temporary exemption validity was extended from 1 January 2021 to annual reporting periods beginning on or after 1 January 2023).

The adoption of new standards, amendments to existing standards or explanatory notes has not led to any material changes to consolidated financial statements.

STANDARDS AND AMENDMENTS TO EXISTING STANDARDS ISSUED BY THE IASB AND ADOPTED BY THE EU THAT DO NOT YET APPLY

At the date of approval of these financial statements, the IASB issued the following amendments to existing standards adopted by the EU that do not yet apply:

- **Amendments to IAS 16 – Property, plant and equipment** – Proceeds before Intended Use, adopted by the EU on 28 June 2021 (effective for annual reporting periods beginning on or after 1 January 2022).
- **Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets** – Onerous Contracts—Cost of Fulfilling a Contract, adopted by the EU on 28 June 2021 (effective for annual reporting periods beginning on or after 1 January 2022).
- **Amendments to IFRS 3 – Business Combinations** – Reference to the Conceptual Framework with amendments to IFRS 3, adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022).
- **IFRS 17 – Insurance Contracts,** including amendments to IFRS 17, adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023).
- **Annual Improvements to IFRSs (2018-2020 Cycle)** arising from the annual project to improve IFRSs (IFRS 1, IFRS 9, IFRS 16 and IAS 41) remedying incoherences and text interpretations, adopted by the EU on 28 June 2021 (Amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual reporting periods beginning on or after 1 January 2022). The amendment to IFRS 16 refers only to the illustrative example. For this reason, no effective date is provided.

NEW STANDARDS AND AMENDMENTS OF THE EXISTING STANDARDS ISSUED BY THE IASB, BUT NOT YET ADOPTED BY THE EUROPEAN UNION

Currently, IFRSs 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 2021 (dates of entry into force below for IFRSs as issued by the IASC):

- **IFRS 14 - Regulatory Deferral Accounts** (effective for annual reporting periods beginning on or after 1 January 2016) – The European Commission decided not to start the clearance process of this intermediate standard and to rather wait for the issue of its final version.
- **Amendments to IAS 1 – Presentation of Financial Statements** – Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2023).
- **Amendments to IAS 1 – Presentation of Financial Statements** – Disclosure of Accounting Policies (effective for annual reporting periods beginning on or after 1 January 2023).
- **Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors** – Definition of Accounting Estimates (effective for annual reporting periods beginning on or after 1 January 2023).
- **Amendments to IAS 12 – Income Taxes** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual reporting periods beginning on or after 1 January 2023).
- **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 its Associate or Joint Venture, and further amendments (effective date suspended indefinitely until the research project on the equity method is concluded).
- **Amendments to IFRS 17 - Insurance Contracts** – Initial Application of IFRS 17 and IFRS 9 – Comparative Information, effective for annual reporting periods beginning on or after 1 January 2023).

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

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU 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 materially affect the financial statements of the Group if it were to be used as at the balance sheet date.

3.5.4 Determining fair value

With reference to reporting and disclosing the fair values of non-financial and financial assets and liabilities, fair value shall be determined 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 knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments shall be determined considering the following hierarchy levels of determining fair value:

- Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level two includes inputs other than quoted prices included within Level one that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level three includes inputs for the asset that are not based on observable market data.

Quoted prices are used as a basis for determining the fair value of financial instruments. If a financial instrument is not admitted to trading on a regulated market or the market is deemed non-functioning, inputs of Levels two and three are used to estimate the fair value of the financial instrument.

The fair value of foreign currency swaps is determined by using data provided to the Company by the bank with which a specific foreign currency swap has been concluded. Values are verified in the company's financial department.

In order to determine the fair values of derivatives related to electricity and emission allowances, known exchange prices are used as at the balance sheet date.

The fair value of commodity contracts shall be determined or calculated using market prices applicable to Levels one and two.

The fair value of options shall be determined by calculating it on the basis of the Level three criterion.

3.5.5 Financial risk management

Detection and management of financial risks is defined in the business section of the annual report. In the notes to consolidated financial statements, risks are presented in connection with items in the consolidated financial statements (`Financial instruments and risks' note), namely:

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

3.5.6 Changes to the HSE Group in 2021

A COMPANY JOINS THE HSE GROUP

On 14/10/2021, the HSE Group acquired a 51 per cent shareholding of ECE, energetske družbe, d.o.o.

During the business combination proceedings, the assets and liabilities of ECE d.o.o. were accounted for at fair value at the acquisition date. An analysis of asset and liability items established that the carrying amount of the acquired assets and liabilities does not substantially deviate from their fair value, except for investment property which was revalued by EUR 114,074. In relation to the business combination, the Group recognised EUR 307,005 in gain arising from a bargain purchase (negative goodwill).

in EUR Disclosure of the effects of the business combination and the non-controlling interest of ECE	31/10/2021
Consideration in a business combination	
Payments in cash	11,118,000
Total	**11,118,000**
Net assets acquired and liabilities assumed	
Non-current assets	1,784,976
Current assets	48,477,644
Non-current liabilities	1,120,975
Current liabilities	26,739,675
Total	**22,401,970**
Non-controlling interest	10,976,965
Gain from a bargain purchase (negative goodwill)	307,005
Total	**11,118,000**

3.5.7 Disclosures to the consolidated financial statements

3.5.7.1 Consolidated statement of the financial position

INTANGIBLE ASSETS (1)

in EUR	31/12/2021	31/12/2020
Emission coupons	8,028,929	6,061,479
Other non-current property rights	3,565,393	3,967,839
Goodwill	12,823,254	12,823,254
Intangible assets being acquired	473,391	112,244
Total	**24,890,967**	**22,964,816**

Goodwill accounts for over half of all intangible assets, whereas the remaining portion of residual value consists of emission allowances and software.

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in EUR Movement of intangible assets	Emission coupons	Other non-current property rights	Goodwill	Other intangible assets	Intangible assets being acquired	Total
Purchase cost as at 01/01/2021	**6,061,479**	**17,968,627**	**12,823,254**	**29,058**	**112,244**	**36,994,662**
Acquisitions through a business combination	0	1,135,582	0	0	55,830	1,191,412
Acquisition	89,123,141	0	0	0	823,603	89,946,744
Disposals – write-offs, sales	-87,155,691	-1,530	0	0	0	-87,157,221
Transfer from investments	0	518,286	0	0	-518,286	0
Transfers – restatements	0	-40,377	0	0	0	-40,377
Write-offs	0	-219,200	0	-4,980	0	-224,180
Purchase cost as at 31/12/2021	**8,028,929**	**19,361,388**	**12,823,254**	**24,078**	**473,391**	**40,711,040**
Written-off value as at 01/01/2021	**0**	**14,000,789**	**0**	**29,058**	**0**	**14,029,847**
Acquisitions through a business combination	0	1,068,157	0	0	0	1,068,157
Disposals – write-offs, sales	0	-1,530	0	0	0	-1,530
Transfers – restatements	0	-3,678	0	0	0	-3,678
Amortisation	0	951,253	0	0	0	951,253
Write-offs	0	-218,996	0	-4,980	0	-223,976
Written-off value as at 31/12/2021	**0**	**15,795,995**	**0**	**24,078**	**0**	**15,820,073**
Book value as at 01/01/2021	**6,061,479**	**3,967,838**	**12,823,254**	**0**	**112,244**	**22,964,815**
Book value as at 31/12/2021	**8,028,929**	**3,565,393**	**12,823,254**	**0**	**473,391**	**24,890,967**

in EUR Movement of intangible assets	Emission coupons	Other non-current property rights	Goodwill	Other intangible assets	Intangible assets being acquired	Total
Purchase cost as at 01/01/2020	**7,920,430**	**17,389,555**	**12,823,254**	**29,058**	**0**	**38,162,297**
Acquisition	64,437,959	0	0	0	587,793	65,025,752
Disposals – write-offs, sales	-66,296,910	-313,770	0	0	0	-66,610,680
Transfers – restatements	0	480,515	0	0	0	480,515
Write-offs	0	-63,222	0	0	0	-63,222
Transfer from investments	0	475,549	0	0	-475,549	0
Purchase cost as at 31/12/2020	**6,061,479**	**17,968,627**	**12,823,254**	**29,058**	**112,244**	**36,994,662**
Written-off value as at 01/01/2020	**0**	**13,334,651**	**0**	**29,058**	**0**	**13,363,709**
Disposals – write-offs, sales	0	-181,070	0	0	0	-181,070
Amortisation	0	910,117	0	0	0	910,117
Write-offs	0	-62,909	0	0	0	-62,909
Written-off value as at 31/12/2020	**0**	**14,000,789**	**0**	**29,058**	**0**	**14,029,847**
Book value as at 01/01/2020	**7,920,430**	**4,054,904**	**12,823,254**	**0**	**0**	**24,798,588**
Book value as at 31/12/2020	**6,061,479**	**3,967,838**	**12,823,254**	**0**	**112,244**	**22,964,815**

The Group procures emission allowances for electricity generation purposes within the Group. The initial balance of Group emission allowances is 3,939,563 allowances, 3,418,000 allowances in the amount of EUR 89,123,141 were procured in 2021 and 3,766,847 allowances in the amount of EUR 87,155,691 were divested or redeemed. Thus, as at the end of 2021, the group has 3,590,716 emission allowances in the amount of EUR 8,028,929.

Licensed software used by the Group as IT support to the performance of its activities has the highest value among all other non-current property rights. In 2021, there were EUR 823,603 in new procurements, EUR 225,710 write-downs and disposals with a current value of EUR 204 and EUR 40,377 in transfers and accounting transfers, which in principle account for the transfer of assets from property, plant and equipment to intangible assets.

Intangible assets increased in 2021 as a result of an upgrade to the Endure software, a redesign of the website and the implementation of SAP in RGP.

In 2021, the depreciation of other non-current property rights amounted to EUR 951,253. The useful lives of the most important software were reviewed in 2021. Useful lives were found to require changes. The useful life of the ENDUR software was extended. In 2021, EUR 17,565 or EUR 4,962 less in depreciation compared to the accounted for depreciation subject to the initially determined useful life was accounted for in 2021. The useful life of the SAP software was shortened on account of shifting to new and up-to-date SAP software. In view of a shortened useful life of this software, EUR 54,484 or EUR 7,348 more in relevant depreciation than the accounted for depreciation subject to the initially estimated useful life were accounted for.

In 2021, the Group did not impair any non-current property rights.

In 2021, Group companies did not enter any interest rates against the purchase value of intangible assets before bringing the assets to their working condition because the intangible assets purchased in 2021 had not been brought to working condition for a long time.

The Group has no pledged intangible assets.

As at 31 December 2021, has EUR 614,990 in concluded procurement contracts for intangible assets in the years to come.

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

As at 31 December 2021, goodwill-arising impairment testing of the cash-generating unit SENG and Sipoteh was carried out.

The assumptions, considered in the impairment testing of the goodwill, and relevant results are outlined below:

GOODWILL SENG	
2021	2020
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	
31/12/2021	30/9/2020
Important assumptions used in the performance of the impairment testing	
The company's operations until 2030.	The company's operations until 2030.
5.3% discount rate throughout the forecast horizon between 2022 and 2026, and 7.8% discount rate throughout the forecast horizon as of 2027 and in the residual.	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 average sales price (HSE) for the 2022-2027 period; whereas, for unsold electricity: exchange prices of futures at the HUPX exchange. For the first year of the forecast, the electricity price thus amounts to EUR 71.96/MWh (2022); a 29.24% change in price during the period (2022-2027).	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 7.30%.
Non-current forecast of the market price of electricity (HSE) subject to the prices of electricity futures at the HUPX exchange. The forecast price of electricity for the forecast horizon (2027-2030) and in the residual amounts to EUR 93.01/MWh.	Non-current forecasts of trends in market prices for electricity (AFRY Management Consulting Austria GmbH) for the period 2024 - 2030, with an initial price of 54.83 EUR/MWh and a price change over the period of 14.50%.
The average annual growth rate of normalized real free cash flow is 2%.	The average annual growth rate of normalized real free cash flow is 0%.
The average production of 769 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 116 GWh), lower electricity production is envisaged due to the overhaul of the Avče PSPP.	The average production of 770 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.
CAPEX over the projection period (2022 - 2030) of EUR 66,086,000. As of 2031, at a level of EUR 12,922,000.	CAPEX over the projection period of EUR 42,257,000.
Results of impairment testing carried out	
The book value of fixed assets and goodwill before the impairment testing amounts to EUR 198,594,000.	The book value of fixed assets and goodwill before the impairment testing amounts to EUR 207,816,000.
Recoverable amount of CGU of EUR 458,905,000.	Recoverable amount of CGU of EUR 379,724,000.
Revaluation expenses due to impairment of EUR 0.	Revaluation expenses due to impairment of EUR 0.

Sensitivity analysis – goodwill impairment test

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	458,905,000	21,915,340	-17,046,381

The impairment of Sipoteh's goodwill was tested estimating the recoverable amount – the value in use for the cash-generating unit on a going concern basis. The net present value of expected free cash flows method was used. The estimate was made using the financial statements of Sipoteh as at 31/12/2021, the business plan and business projections for Sipoteh for the period October 2022 – 2030.

The valuation was made taking into account the going concern basis until 2033. The life of the company was shortened due to the shortened duration of operations of the PV coal mines as the business of both companies is strongly connected. The following were taken into account: an average annual EBIT (before taxes) of EUR 382 thousand, EUR 63 thousand in average annual investments during the 2022 – 2033 period and the discount rate reflecting the required weighted average cost of capital (WACC), 6.50% in real terms (the value of WACC in nominal terms amounts to 8.55% and the value of WACC in real terms is adjusted in compliance with the expected inflation rate).

Results of the valuation of the goodwill of Sipoteh in the consolidated statements of the HSE Group as at 31/12/2021

Goodwill	Recoverable value in EUR	Book value in EUR	Goodwill in EUR	Difference in EUR
in SIPOTEH	2,418,000	127,086	436,198	1,854,716

Based on the impairment testing, the goodwill of Sipoteh does not need to be impaired.

PROPERTY, PLANT AND EQUIPMENT (2)

in EUR	31/12/2021	31/12/2020
Land	25,082,703	25,063,551
Buildings	391,192,727	398,790,985
Production equipment	693,299,261	864,918,735
Other equipment	6,547,411	6,171,307
Real property, plant and equipment	50,448,396	35,194,169
Total	**1,166,570,498**	**1,330,138,747**

Most of the Group's companies are engaged in generating electricity or in producing the raw materials required for its generation, which requires specific equipment; due to their activity, the values of buildings are also material. Property, plant and equipment thus account for the major part of the Group's assets.

The most important investments in property, plant and equipment of Group companies in 2021 are investments made in the reconstruction, modernisation and renovation of production facilities and in the procurement of equipment required for their engagement in their core activity in the total amount of EUR 68,155,568.

Group's property, plant and equipment being acquired primarily comprise investments in reliable production and equipment modernisation in addition to investments in the middle Sava River hydro-electric power plant, the Kozjak pump-fed hydro-electric power plant and the Mura River hydro-electric power plant. Investments being acquired refer to the compilation of pre-investment, investment and other documentation, required for the siting of hydro-electric power plants.

Due to the difficult situation on the electricity market as well as in the HSE Group, projects have included activities that aim to prevent the halting of long-lasting siting processes. All the documentation compiled so far in addition to scientific bases have been drawn up in a way that they are not time-barred and can be used as the basis for further activities.

The "Transfers and Restatements" item refers to the transfer from intangible fixed assets and investment property.

Movement of real property, plant and equipment

in EUR	Land	Buildings	Production equipment	Other equipment	Real property, plant and equipment	Total
Purchase cost as at 01/01/2021	**30,078,096**	**1,286,114,016**	**3,266,919,096**	**64,333,034**	**43,211,458**	**4,690,655,700**
Acquisitions through a business combination	40,371	339,816	0	869,349	56,659	1,306,195
Acquisition	0	0	0	0	68,155,568	68,155,568
Disposals	-22,451	-901,658	-3,733,463	-1,469,311	0	-6,126,883
Transfer from investments	157,575	4,877,873	45,823,497	1,582,210	-52,441,156	-1
Transfers – restatements	20,366	0	40,376	-2,941	0	57,801
Change in the discount on assets under construction	0	6,337,000	189,616	0	0	6,526,616
Foreign currency differences	0	-1	0	16	0	15
Write-offs	-177,172	-1,488,192	-89,375,472	-353,495	-516,844	-91,911,175
Purchase cost as at 31/12/2021	**30,096,785**	**1,295,278,854**	**3,219,863,650**	**64,958,862**	**58,465,685**	**4,668,663,836**
Written-off value as at 01/01/2021	**5,014,545**	**887,323,031**	**2,402,000,361**	**58,161,727**	**8,017,289**	**3,360,516,953**
Acquisitions through a business combination	0	147,684	0	620,215	0	767,899
Disposals	-6,411	-706,845	-3,688,244	-1,447,188	0	-5,848,688
Transfers – restatements	0	-253	3,675	-2,941	0	481
Amortisation	5,948	15,025,845	56,241,641	1,430,321	0	72,703,755
Foreign currency differences	0	0	0	17	0	17
Impairments	0	3,404,000	161,087,000	0	0	164,491,000
Write-offs	0	-1,107,335	-89,080,044	-350,700	0	-90,538,079
Written-off value as at 31/12/2021	**5,014,082**	**904,086,127**	**2,526,564,389**	**58,411,451**	**8,017,289**	**3,502,093,338**
Book value as at 01/01/2021	**25,063,551**	**398,790,985**	**864,918,735**	**6,171,307**	**35,194,169**	**1,330,138,747**
Book value as at 31/12/2021	**25,082,703**	**391,192,727**	**693,299,261**	**6,547,411**	**50,448,396**	**1,166,570,498**

in EUR	Land	Buildings	Production equipment	Other equipment	Real property, plant and equipment	Total
Purchase cost as at 01/01/2020	**30,728,254**	**1,252,904,792**	**3,249,117,900**	**65,104,133**	**54,930,005**	**4,652,785,084**
Acquisition	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 the discount on assets under construction	0	9,359,000	2,739,539	0	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 cost as at 31/12/2020	**30,078,096**	**1,286,114,016**	**3,266,919,096**	**64,333,034**	**43,211,458**	**4,690,655,700**
Written-off value as at 01/01/2020	**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	-1	-29	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 as at 31/12/2020	**5,014,545**	**887,323,031**	**2,402,000,361**	**58,161,727**	**8,017,289**	**3,360,516,953**
Book value as at 01/01/2020	**25,506,351**	**388,361,583**	**1,134,646,090**	**5,582,134**	**46,912,716**	**1,601,008,874**
Book value as at 31/12/2020	**25,063,551**	**398,790,985**	**864,918,735**	**6,171,307**	**35,194,169**	**1,330,138,747**

Write-offs of the production equipment due to its modernisation account for the majority of write-offs.

In 2021, the business combination resulted in a EUR 481,637 increase in property, plant and equipment at current value.

In 2021, the useful lives of the most significant fixed assets were reviewed. The current usability assumptions were found to have been correctly estimated, except for assets related to the foreseen closure of TEŠ and the coal mine after 2033, which was taken into account during the impairment test of these assets.

The Group has mortgaged loans against collateral of EUR 13,086,002 in book value on its property and equipment.

At the end of 2021, the Group's concluded contractual commitments for the procurement of property, plant and equipment amounted to EUR 27,449,869.

As at 31 December 2021, the Group performed impairment testing of property, plant and equipment in cash generating units (CGUs), which operated or are operating at a loss. The most important cash generating unit thereof is the unit that includes the generation of electricity at TEŠ and the procurement of the energy product required for this purpose at PV (coal mining). Accredited company valuers valued the recoverable value of assets. The Group impaired non-current assets in the amount of EUR 164,491,000.

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

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ASSETS AT ŠOŠTANJ THERMAL POWER PLANT	
2021	2020
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	
31/12/2021	30/9/2020
Important assumptions used in the performance of the impairment testing	
The company's operations until 2033. The thermal power plant operating life has been shortened due to the shortened operating life of the PV coal mine providing the thermal power plant with coal. At its session, held on 13 January 2022, the Government of the Republic of Slovenia adopted the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy. The Strategy lays down that Slovenia will discontinue generating electricity from coal no later than 2033. The adopted Strategy serves as the basis for adopting the Progressive Closure of PV Act which shall serve as the basis to obtain financial resources from the state to close the Velenje Coal Mine, rehabilitate the degraded areas and controlled progressive closure and financially sustainable operations of the Velenje Coal Mine. The Strategy lays down that the Progressive Closure of PV Act shall undergo public consultation within 6 months following the adoption of the Strategy. As at the reporting date, the Progressive Closure of PV Act is yet to be adopted.	The company's operations until 2054.
The discount rate at a nominal amount of 6.78% adjusted to the real level of 4.76%, which was taken into account throughout the period until 2033.	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 forecast revenue is based on the so-called cost +5% method, namely: the sales price of electricity by TEŠ is calculated as the sum of the cost price of electricity by TEŠ less thermal energy generation costs and plus cost uplift. The 5 per cent uplift shall not be taken into account in CO_2 emission allowance costs.	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 7.30%.
The average procurement price of CO_2 emission allowance futures (for yet-to-be-procured volumes, the exchange price of futures at the EEX exchange has been taken into account) for 2022 amounts to EUR 36.16/t, at the end of the forecast horizon (2033) EUR 75.12/t.	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%.
	Non-current 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 a price change over the period of 11.65% and a non-current forecast of valuation experts for the 2029-2054 period, whereby the initial price amounts to EUR 63.55/MWh and the price change during the same period to 20.46%.
	Non-current 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 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.
Average annual production of electricity from coal-fired power plants of 2.9 TWh over the period 2022 - 2033.	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 2.3 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 11,411,000 in 2022 up to EUR 12,224,000 in 2033.	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.
CAPEX over the projection period of EUR 146,857,000.	CAPEX over the projection period of EUR 214,207,000.
Results of impairment testing carried out	
The book value of assets before the impairment testing amounts to EUR 658,566,000.	The book value of assets before the impairment testing amounts to EUR 900,916,000.
EUR 497,479,000 in recoverable amount of assets.	EUR 657,422,000 in recoverable amount of assets.
Revaluation expenses due to impairment of EUR 161,087,000.	Revaluation expenses due to impairment of EUR 243,494,000.

ASSETS AT VELENJE COAL MINE	
2021	2020
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	
31/12/2021	30/9/2020
Important assumptions used in the performance of the impairment testing	
The company's operations until 2033. At its session, held on 13 January 2022, the Government of the Republic of Slovenia adopted the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy. The Strategy lays down that Slovenia will discontinue generating electricity from coal no later than 2033. The adopted Strategy serves as the basis for adopting the Progressive Closure of PV Act which shall serve as the basis to obtain financial resources from the state to close the Velenje Coal Mine, rehabilitate the degraded areas and controlled progressive closure and financially sustainable operations of the Velenje Coal Mine. The Strategy lays down that the Progressive Closure of PV Act shall undergo public consultation within 6 months following the adoption of the Strategy. As at the reporting date, the Progressive Closure of PV Act is yet to be adopted.	The company's operations until 2054.
The discount rate at a nominal amount of 7.47% adjusted to the real level of 5.44%, which was taken into account throughout the period until 2033.	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 sale price of coal 2.75 EUR/GJ in the entire period until 2033.	The sale price of coal 2.75 EUR/GJ in the entire period until 2054.
The National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy is taken into account, foreseeing average annual EUR 32,380,655 revenue from the closure of the coal mine, arising from the baselines of the Progressive Velenje Coal Mine Closure Act.	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).
Average annual coal production of 26,658 TJ per year in the period 2022 - 2033.	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.
CAPEX over the 2020 - 2033 projection period of EUR 157,294,000.	CAPEX over the 2020 - 2054 projection period of EUR 304,256,000.
The recoverable value of financial investments in subsidiaries and other companies in the amount of EUR 9,803,000.	The recoverable value of financial investments in subsidiaries and other companies in the amount of EUR 14,332,000.
Recoverable amount of assets unnecessary for business in the amount of EUR 18,932,000.	Recoverable amount of assets unnecessary for business in the amount of EUR 17,370,000.
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 127,202,000.	The book value of assets before the impairment testing amounts to EUR 109,586,000.
EUR 123,798,000 in recoverable amount of assets.	EUR 128,662,000 in recoverable amount of assets.
Revaluation expenses due to impairment of EUR 3,404,000.	Revaluation expenses due to impairment of EUR 0.

ASSETS AT HTZ	
2021	2020
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	
31/12/2021	30/09/2020
Important assumptions used in the performance of the impairment testing	
The company's operations until 2033. The operating life of the Company was shortened due to a shortened operating life of the PV coal mine as the business of both companies is strongly tied to one another. At its session, held on 13 January 2022, the Government of the Republic of Slovenia adopted the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy. The Strategy lays down that Slovenia will discontinue generating electricity from coal no later than 2033. The adopted Strategy serves as the basis for adopting the Progressive Closure of PV Act which shall serve as the basis to obtain financial resources from the state to close the Velenje Coal Mine, rehabilitate the degraded areas and controlled progressive closure and financially sustainable operations of the Velenje Coal Mine. The Strategy lays down that the Progressive Closure of PV Act shall undergo public consultation within 6 months following the adoption of the Strategy. As at the reporting date, the Progressive Closure of PV Act is yet to be adopted.	The company's operations until 2054.
The discount rate at a nominal amount of 7.47 % adjusted to the real level of 5.44%, which was taken into account throughout the period until 2033.	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.
Average annual net sales revenue in the 2022 - 2033 period in the amount of EUR 24,370,000.	Average annual net sales revenue in the 2021 - 2030 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 other annual operating revenue in the 2022 - 2033 period in the amount of EUR 6,747,000.	Average other annual operating revenue in the 2021 - 2030 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 labour costs in the 2022 - 2033 period in the amount of EUR 23,117,000.	Average labour costs in the 2021 - 2030 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 services costs in the 2022 - 2033 period in the amount of EUR 3,469,000.	Average services costs in the 2021 - 2030 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 material costs in the 2022 - 2033 period in the amount of EUR 3,102,000.	Average material costs in the 2021 - 2030 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.
Recoverable amount of excess property in the amount of EUR 965,000.	Recoverable amount of excess property in the amount of EUR 1,535,000.
CAPEX over the projection period of EUR 7,220,000.	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).
Results of impairment testing carried out	
The book value of assets before the impairment testing amounts to EUR 11,019,000.	The book value of assets before the impairment testing amounts to EUR 11,772,000.
EUR 11,689,000 in recoverable amount of assets.	EUR 15,457,529 in recoverable amount of assets
Revaluation expenses due to impairment of EUR 0.	Revaluation expenses due to impairment of EUR 0.

Sensitivity analysis – impairment testing by category of the cash-generating units TEŠ, PV and HTZ

in EUR		Sensitivity (change) of recoverable value in EUR	
		Change in discount rate (WACC) in % points	
Non-current fixed assets	Recoverable value in EUR	(0.5)	0.5
At Šoštanj thermal power plant	497,479,000	14,686,000	-14,077,000
At Velenje coal mine	123,798,000	1,309,000	-1,244,000
At HTZ	11,689,000	160,035	-152,601

RIGHT TO USE LEASED ASSETS (3)

in EUR	31/12/2021	31/12/2020
Right to use leased assets	5,262,980	4,024,491
Total	**5,262,980**	**4,024,491**

in EUR Movement of the right to asset use	Land	Buildings	Production equipment	Other equipment	Total
Purchase cost as at 01/01/2021	**3,345,410**	**1,364,004**	**2,336,385**	**160,097**	**7,205,896**
Acquisitions through a business combination	0	470,854	0	0	470,854
Acquisition	0	135,675	1,289,920	896,013	2,321,608
Disposals	0	0	-1,658,163	0	-1,658,163
Write-offs	0	-5,253	0	0	-5,253
Other	-824,464	-67,236	0	-201,288	-1,092,988
Purchase cost as at 31/12/2021	**2,520,946**	**1,898,044**	**1,968,142**	**854,822**	**7,241,954**
Written-off value as at 01/01/2021	**1,338,165**	**574,334**	**1,143,736**	**125,172**	**3,181,407**
Acquisitions through a business combination	0	219,824	0	0	219,824
Disposals	0	0	-930,343	0	-930,343
Amortisation	504,189	306,952	227,952	287,581	1,326,674
Write-offs	0	-5,253	0	0	-5,253
Other	-1,338,165	-312,975	0	-162,196	-1,813,336
Written-off value as at 31/12/2021	**504,189**	**782,882**	**441,345**	**250,557**	**1,978,973**
Book value as at 01/01/2021	**2,007,245**	**789,670**	**1,192,649**	**34,925**	**4,024,489**
Book value as at 31/12/2021	**2,016,757**	**1,115,162**	**1,526,797**	**604,265**	**5,262,981**

in EUR Movement of the right to asset use	Land	Buildings	Production equipment	Other equipment	Total
Purchase cost as at 01/01/2020	**3,302,725**	**1,364,004**	**1,454,067**	**160,097**	**6,280,893**
Acquisition	0	0	542,362	0	542,362
Disposals	0	0	-209,045	0	-209,045
Transfers and restatements	0	0	549,001	0	549,001
Other	42,685	0	0	0	42,685
Purchase cost as at 31/12/2020	**3,345,410**	**1,364,004**	**2,336,385**	**160,097**	**7,205,896**
Written-off value as at 01/01/2020	**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 as at 31/12/2020	**1,338,165**	**574,334**	**1,143,736**	**125,172**	**3,181,407**
Book value as at 01/01/2020	**2,642,180**	**1,076,846**	**861,626**	**97,511**	**4,678,163**
Book value as at 31/12/2020	**2,007,245**	**789,670**	**1,192,649**	**34,925**	**4,024,489**

INVESTMENT PROPERTY (4)

Apartments account for the majority of our investment property. In 2021, the Group generated EUR 830,161 in revenue and EUR 236,657 in costs from leasing investment property.

The total value of pledged property as security as at 31/12/2021 amounts to EUR 975,424.

The assessment of the fair value of the investment property held by the PV Group as part of the equity valuation by an authorised valuer of the investment property owned by PV was carried out on 31/10/2021. Fair value is calculated using the market approach and the direct capitalisation method (the income approach).

On the basis of valuations, the Group reinforced investment property in the amount of EUR 1,486,242.

in EUR Book value of investment property	31/12/2021	31/12/2020
Land	2,329,462	2,488,470
Buildings	16,050,555	14,507,711
Total	**18,380,017**	**16,996,181**

in EUR Movement of investment property	Land	Buildings	Total
Fair value as at 01/01/2021	**2,488,470**	**14,507,710**	**16,996,180**
Acquisitions through a business combination	53,131	259,605	312,736
Acquisition	0	215,585	215,585
Transfers - restatements	-20,366	0	-20,366
Disposals	-55,680	-414,199	-469,879
Acquisitions	4,389	1,481,853	1,486,242
Impairments	-140,482	0	-140,482
Fair value as at 31/12/2021	**2,329,462**	**16,050,554**	**18,380,016**
Fair value as at 01/01/2021	**2,488,470**	**14,507,711**	**16,996,181**
Fair value as at 31/12/2021	**2,329,462**	**16,050,554**	**18,380,016**

in EUR Movement of investment property	Land	Buildings	Total
Fair value as at 01/01/2020	**2,424,461**	**15,133,057**	**17,557,518**
Acquisition	0	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 as at 31/12/2020	**2,488,470**	**14,507,710**	**16,996,180**
Fair value as at 01/01/2020	**2,424,461**	**15,133,057**	**17,557,518**
Fair value as at 31/12/2020	**2,488,470**	**14,507,710**	**16,996,180**

OTHER NON-CURRENT INVESTMENTS AND LOANS (5)

in EUR Other non-current financial investments and loans	31/12/2021	31/12/2020
Non-current financial investments in affiliated companies	142,301,334	141,134,304
Non-current investments in jointly-controlled companies	382,667	402,945
Non-current financial assets available for sale	168,102	160,050
Other non-current financial investments	104,225	13,690
Non-current financial receivables and loans	23,677	25,121
Total	**142,980,005**	**141,736,110**

a) Investment in an associate

in EUR Investments in affiliated companies	31/12/2021	31/12/2020
HESS	142,301,334	141,134,305
Total	**142,301,334**	**141,134,305**

in EUR Movement of non-current financial investments in affiliated companies	2021	2020
Balance as at 01/01/	**141,134,304**	**139,999,792**
Profits as per capital method	1,167,030	1,134,512
Balance as at 31/12/	**142,301,334**	**141,134,304**

in EUR Significant amounts from statements of affiliated companies in 2021	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
HESS	333,654,540	43,902,507	20,431,839	2,381,695	289,752,033

b) Investment in a joint venture

in EUR Investments in jointly-controlled companies	31/12/2021	31/12/2020
SOENERGETIKA	382,667	402,945
Total	**382,667**	**402,945**

in EUR Movement of non-current financial investments in jointly-controlled companies	2021	2020
Balance as at 01/01/	**402,945**	**440,384**
Payment of profit	-135,495	-172,934
Profits as per capital method	115,217	135,495
Balance as at 31/12/	**382,667**	**402,945**

inv EUR Company	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
SOENERGETIKA	2,110,072	518,880	3,324,795	460,870	1,591,192

DEFERRED TAX ASSETS (6)

in EUR Deferred tax receivables	31/12/2021	31/12/2020
Provisions	587,018	504,296
Impairments	653,295	282,570
Amortisation	10	7
Other	454,748	182,230
Total	**1,695,071**	**969,103**

Deferred tax assets amount to EUR 1,695,071 and are translated using a 19% tax rate. They were set up 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 and retirement benefits, business depreciation over the depreciation recognised for tax purposes, impairment of investments and receivables, fair value of financial instruments). Deferred tax assets are set up by the Group by taking into account the possibility of their recovery in the future in relation to future operations.

Changes in deferred tax assets from provisions refer to changes in provisions for jubilee and retirement benefits and changes in other provisions.

Changes in deferred tax assets from impairment refer to the value adjustment of receivables.

Changes in deferred tax assets from depreciation arise from the differences established between the operating and tax depreciation.

Other changes in deferred tax assets refer to the change in fair value of derivatives.

in EUR Movement of deferred tax receivables	Provisions	Impairments	Amortisation	Other	Total
Balance as at 01/01/2021	**504,296**	**282,570**	**7**	**182,230**	**969,103**
Acquisitions through a business combination	64,141	391,771	0	0	455,912
Added to/deducted from profit or loss statement	18,581	-907	3	272,518	290,195
Added to/deducted from comprehensive income	0	-20,139	0	0	-20,139
Balance as at 31/12/2021	**587,018**	**653,295**	**10**	**454,748**	**1,695,071**
Balance as at 01/01/2020	**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 as at 31/12/2020	**504,296**	**282,570**	**7**	**182,230**	**969,103**

DEFERRED TAX LIABILITIES (7)

in EUR Liabilities for deferred taxes	31/12/2021	31/12/2020
Financial assets	7,353	5,823
Total	**7,353**	**5,823**

Deferred tax liabilities amount to EUR 7,353. Deferred tax liabilities arise from the change in the value of financial assets held at fair value through other comprehensive income where fair value can be measured reliably.

in EUR Movement of liabilities for deferred taxes	Financial assets	Other	Total
Balance as at 01/01/2021	**5,823**	**0**	**5,823**
Decrease, drawing	1,530	0	1,530
Balance as at 31/12/2021	**7,353**	**0**	**7,353**

in EUR Movement of liabilities for deferred taxes	Financial assets	Other	Total
Balance as at 01/01/2020	**6,566**	**9,043**	**15,609**
Formation, increase	0	-9,043	-9,043
Decrease, drawing	-743	0	-743
Balance as at 31/12/2020	**5,823**	**0**	**5,823**

INVENTORIES (8)

Inventories of spare parts and materials for maintenance, necessary for a rapid remedy of defects of production equipment and thus for ensuring reliable production, account for the majority of inventories of materials in terms of value.

The inventories of coal account for the majority of inventories of products and merchandise in terms of value.

The Group has no pledged inventories.

in EUR Inventories	31/12/2021	31/12/2020
Material	32,048,191	33,224,588
Work in progress	4,941	2,669
Products and merchandise	4,823,421	5,495,053
Total	**36,876,553**	**38,722,310**

During the inventory, the Group identified the following differences between the actual and the carrying amount of inventories.

in EUR Inventory surplus and deficit	31/12/2021	31/12/2020
Amount of partial inventory write-off due to adjustment to net market value	-124,292	-465,635
Surplus in inventory registration	14,495	3,415
Deficit in inventory registration	-23,436	-13,795
Write-offs of inventories due to the change of their quality	-16,507	-30,502

In order to adjust the value of inventories to their net realisable value, the Group made a value adjustment of the spare part inventories in the amount of EUR 124,292. Due to their non-current status, the Group has written off and excluded from use EUR 16,507 in inventories.

CURRENT INVESTMENTS AND LOANS (9)

in EUR Current financial investments and loans	31/12/2021	31/12/2020
Current financial receivables and loans given to others without interest	51	51
Current deposits to others	5,847,411	12,310,295
Total	**5,847,462**	**12,310,346**

The majority of deposits given to others in the amount of EUR 5,799,059 refers to the deposit, which the subsidiary TEŠ disclosed in connection to the obligations under its loan agreement with EBRD; the deposit is intended for repaying loan instalments in 2022. The deposit shall not be benefited from to manage current liquidity.

CURRENT TRADE RECEIVABLES (10)

in EUR Current trade receivables	31/12/2021	31/12/2020
Current operating receivables from affiliated companies	44,240	8,551
Current operating receivables from jointly controlled companies	0	146
Current trade receivables	267,064,528	167,136,598
Total	**267,108,768**	**167,145,295**

Most current trade receivables relate to receivables arising from the sale of electricity.

Disclosures in relation to the maturity of receivables, allowances for receivables and insuring current operating receivables are presented in the financial risk management section herein.

CONTRACT ASSETS (11)

in EUR Contract assets	31/12/2021	31/12/2020
Accrued revenues	2,053,139	407,957
Total	**2,053,139**	**407,957**

Accrued revenue is the revenue taken into account in the profit or loss but has not yet been invoiced and constitutes the right to consideration in exchange for goods or services transferred to a customer.

OTHER CURRENT ASSETS (12)

in EUR Other current assets	31/12/2021	31/12/2020
Current advances given	11,082,198	3,533,596
Current operating receivables from state and other institutions	46,996,839	25,797,382
Current trade receivables due from others	107,276,225	15,947,171
Current deferred costs and expenses	8,956,187	3,051,421
Total	**174,311,449**	**48,329,570**

Receivables towards other, primarily related to the exceeding amount of the overdraft facility from operating derivatives by the parent company account for the majority of receivables among other current assets.

Current operating receivables due from state and other institutions refer primarily to the input value added tax (VAT).

Current deferred costs primarily relate to transactions arising from electricity trading.

CASH AND CASH EQUIVALENTS (13)

in EUR Cash and cash equivalents	31/12/2021	31/12/2020
Cash in hand and received cheques	4,271	2,093
Cash in banks	71,618,480	25,913,354
Call deposits	19,445,518	51,103,844
Deposits with up to 3-month maturity	5,521,479	1,453,733
Total	**96,589,748**	**78,473,024**

CAPITAL (14)

v EUR Capital	31/12/2021	31/12/2020
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	-88,891,503	43,209,380
Fair value reserves	-14,227,665	-4,947,786
Retained profit/loss	-93,514,972	-142,211,136
Conversion reserve	-530,215	-549,616
Capital of owners of non-controlling shares	9,539,882	236,689
Total	**817,033,848**	**900,395,852**

in EUR Capital reserves	31/12/2021	31/12/2020
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 other profit reserves did not change in 2021.

Other reserves from profit refer to the portion of the parent company's profits brought forward and generated up until 31 December 2013. Since that date, all profits of the parent company allocated to revenue reserves in the consolidated financial statements have not been brought forward in the consolidated statements and are reported under accumulated profit or loss.

Among hedge reserves, in the total amount of EUR -88,891,503, the Group discloses the following as at 31 December 2021:

- results of futures for electricity amounting to EUR -222,220,018,
- results of futures amounting to EUR 134,484,720 for emission allowances, and
- fair value of currency swaps in the amount of EUR -1,156,205.

in EUR Risk hedging reserve movement	Standardised futures contracts for electricity	Forward contracts for emission coupons	Currency swaps	Total
Balance as at 01/01/2021	**10,848,414**	**33,137,840**	**-776,874**	**43,209,380**
Formation, increase	0	101,346,880	0	101,346,880
Decrease	-243,678,621	0	-379,331	-244,057,952
Transfer to expenditure	10,610,189	0	0	10,610,189
Balance as at 31/12/2021	**-222,220,018**	**134,484,720**	**-1,156,205**	**-88,891,503**

in EUR Risk hedging reserve movement	Standardised futures contracts for electricity	Forward contracts for emission coupons	Currency swaps	Total
Balance as at 01/01/2020	**-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 to expenditure	-42,795	0	0	-42,795
Balance as at 31/12/2020	**10,848,414**	**33,137,840**	**-776,874**	**43,209,380**

The hedge reserve includes trading with standard futures on the electricity markets and with emission allowances. Compared to 2020, the hedge reserve fell by EUR 132,100,883 in 2021 and refers primarily to closing hedge-related futures for our own generated electricity in December 2021.

In the case of futures for electricity, these refer to concluded transactions for the procurement and sales of electricity listed abroad for the period between 2022 and 2024, allowing the Company to hedge already concluded electricity sales transactions during the same period. In the case of futures for emission allowances, these refer to concluded transactions for the procurement and sales of emission allowances listed abroad for the period between 2022 and 2023. No deferred taxes were accounted for in relation thereto, as the price agreed upon during the conclusion of the transaction will be paid upon its realisation.

In 2021, the company partially closed foreign exchange swap transactions whose positive fair value, as at 31 December 2020, by taking into account deferred tax, amounted to EUR 776,874. In 2021, it concluded new transactions and also partly closed some of them. The overall change in fair value is negative and amounts to EUR 379,331. The negative fair value of open currency swaps at the end of 2021 amounts to EUR 1,427,414, out of which EUR 271,209 in deferred tax liabilities were accounted for by the Group. The final balance taking into account the deferred tax amounts to EUR 1,156,205.

At the end of 2021, 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 held at fair value through other comprehensive income,
- actuarial losses from retirement benefits,
- revaluation of land,
- the acquisition effect of the remaining part of the investment (49%) in ECE after 01/01/2025.

in EUR Movement of fair value reserve	Revaluation of investment property	Financial assets at fair value through other comprehensive income	Actuarial profits/ losses on severance payments upon retirement	Other	Total
Balance as at 01/01/2021	**372,447**	**34,834**	**-5,366,630**	**11,565**	**-4,947,784**
Acquisitions through a business combination		59,696	-33,934	58,178	83,940
Formation, increase	0	-18,559	31,043	0	12,484
Decrease	-19,238	0	-263,782	-9,166,308	-9,449,328
Transfer to retained net profit/loss	0	0	73,027	0	73,027
Balance as at 31/12/2021	**353,209**	**75,971**	**-5,560,276**	**-9,096,565**	**-14,227,661**

in EUR Movement of fair value reserve	Revaluation of investment property	Financial assets at fair value through other comprehensive income	Actuarial profits/ losses on severance payments upon retirement	Other	Total
Balance as at 01/01/2020	**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 net profit/loss	0	0	152,897	0	152,897
Balance as at 31/12/2020	**372,447**	**34,834**	**-5,366,630**	**11,565**	**-4,947,784**

in EUR Non-controlling interests	31/12/2021 Non-controlling interests	01-12/2021 Share in profit/loss	31/12/2020 Non-controlling interests	01-12/2020 Share in profit/loss
SRESA	19,971	-881	20,852	-2,261
mHE LOBNICA	217,402	1,566	215,836	612
HSE Invest	105,630	22,566	0	0
ECE	9,196,878	-1,784,576	0	0
Total	**9,539,881**	**-1,761,325**	**236,688**	**-1,649**

in EUR Retained profit	2021	2020
Net profit/loss for the year	48,729,840	-184,177,731
Retained profit/loss	-142,244,812	41,966,595
Total	**-93,514,972**	**-142,211,136**

In 2021, the Group generated EUR 48,729,840 in profit.

The capital of owners of non-controlling interest which is the value of minority interest in the subsidiaries increased by EUR 9,303,194 in 2021, primarily from ECE joining the Group, and is shown at the end of 2021 in the amount of EUR 9,539,881.

Distributable profit is not established for the Group.

PROVISIONS FOR RETIREMENT AND JUBILEE BENEFITS (15)

in EUR Provisions for severance pays upon retirement and anniversary bonuses	31/12/2021	31/12/2020
Provisions for severance pays upon retirement	21,054,444	19,986,797
Provisions for anniversary bonuses	3,470,038	3,427,926
Total	**24,524,482**	**23,414,723**

The Group reports provisions for retirement and jubilee benefits set up on the basis of the actuarial calculation as at 31 December 2021.

in EUR Movement of retirement benefit and anniversary bonuses provisions	Provisions for severance pay	Provisions for anniversary bonuses	Total
Balance as at 01/01/2021	**19,986,797**	**3,427,926**	**23,414,723**
Acquisitions through a business combination	509,327	189,533	698,860
Formation, increase	3,815,898	465,784	4,281,682
Decrease, disbursement	-1,178,034	-202,114	-1,380,148
Decrease, elimination	-2,079,544	-411,091	-2,490,635
Balance as at 31/12/2021	**21,054,444**	**3,470,038**	**24,524,482**

in EUR Movement of retirement benefit and anniversary bonuses provisions	Provisions for severance pay	Provisions for anniversary bonuses	Total
Balance as at 01/01/2020	**16,922,977**	**3,065,591**	**19,988,568**
Formation, increase	5,204,793	782,678	5,987,471
Decrease, disbursement	-1,008,033	-166,878	-1,174,911
Decrease, elimination	-1,132,940	-253,465	-1,386,405
Balance as at 31/12/2020	**19,986,797**	**3,427,926**	**23,414,723**

The actuarial calculation was based on:

- employee data (gender, date of birth, date of first employment in the Group, employment for an indefinite or definite period of time, years of pensionable service as at 31/12/2021, years of service until first employment in the Group, type of employment agreement, average gross wage, etc.), the fluctuation of employees by age bracket;
- demographic assumptions (mortality tables, employee fluctuation, retirement rates);
- for 2022 and 2023, the projected increase in average wages stemming from the autumn projection of 2021 economic trends (UMAR - Institute of Macroeconomic Analysis and Development of the Republic of Slovenia) have been taken into account; as of 2024, average wages in the Republic of Slovenia are projected to rise by 2% in inflation rate terms and by 1% in real terms;
- a discount rate determined in the 0.5-0.9% range, on the basis of the published yield of government bonds as at 31/12/2021;
- provisions of the new corporate collective agreement which define jubilee and retirement benefits and their amounts.

The sensitivity analysis of the change in the discounted interest rate and salary growth to provisions for jubilee and retirement benefits in 2021

	2021			
	Discount rate		Salary growth	
in EUR	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for severance pays upon retirement	382,610	-378,908	-334,768	357,662
Provisions for anniversary bonuses	45,775	-44,194	-39,204	41,318
Total	**428,385**	**-423,102**	**-373,972**	**398,980**

	2020			
	Discount rate		Salary growth	
in EUR	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for severance pays upon retirement	116,008	-236,489	-173,163	181,089
Provisions for anniversary bonuses	3,102	-14,574	-11,545	7,402
Total	**119,110**	**-251,063**	**-184,708**	**188,491**

OTHER PROVISIONS (16)

in EUR Other provisions	31/12/2021	31/12/2020
For legal actions	635,127	837,045
For closing works of coal mine caves	52,511,052	46,099,052
For decommissioning	16,074,171	15,322,108
For damages	1,581,633	1,629,598
Other provisions	2,481,902	2,619,045
Total	**73,283,885**	**66,506,848**

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.

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in EUR Movement of other provisions	For legal actions	For closing works of coal mine caves	For decommissioning	For damages	Other provisions	Total
Balance as at 01/01/2021	**837,045**	**46,099,052**	**15,322,108**	**1,629,598**	**2,619,045**	**66,506,848**
Acquisitions through a business combination	0	0	0	0	38,805	38,805
Formation - increase	101,201	6,412,000	752,063	198,806	9,560	7,473,630
Decrease - drawing	-53,119	0	0	-143,457	-156,410	-352,986
Decrease - elimination	-250,000	0	0	-103,314	-29,098	-382,412
Balance as at 31/12/2021	**635,127**	**52,511,052**	**16,074,171**	**1,581,633**	**2,481,902**	**73,283,885**
Balance as at 01/01/2020	**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 as at 31/12/2020	**837,045**	**46,099,052**	**15,322,108**	**1,629,598**	**2,619,045**	**66,506,848**

Provisions for lawsuits were set up based on the estimation of liability from lawsuits where the Group appears as defendant. The set-up of these provisions also refers to default interest charged on a part of damage amounts claimed.

For 2021, PV reassessed the valuation of the activity and value of closing works in a study of January 2022, subject to which it set up additional closing works provisions in the amount of EUR 3,871,000. The reported effect of the provision balance discounting reconciliation increases these by EUR 75,000 in 2021. The provisions increased further through the increase in the value of cave structural installations due to the expected closing works by EUR 2,466,000, due to the effect of the change in the discount rate applied in relation to the previous year by taking into account the foreseen closure of PV after 2033.

Based on the Energy Permit and assessment of Block 6 decommissioning costs upon the expiry of its useful life, TEŠ set up additional provisions in the amount of EUR 9,133,000. The increase in provisions for the decommissioning of Block 6 includes EUR 562,447 in financial expenses (discounting owing to the passage of time), whereas EUR 189,616 are the effect of changing the discount rate shown through the value adjustment of investments in buildings.

OTHER NON-CURRENT LIABILITIES (17)

in EUR Other non-current liabilities	31/12/2021	31/12/2020
Emission coupons	54,918	0
Other received government grants	1,052,607	1,150,664
Other	9,512,091	385,039
Total	**10,619,616**	**1,535,703**

The call option for the remaining portion of the investment (49%) in ECE after 01/01/2025, recorded under the Group's other non-current liabilities, which also include co-financing funds received as part of a European project, accounts for the majority of other non-current liabilities. The option value is recognised in the consolidated financial statement in the amount of the estimated liability from the redemption of the option share in 31/12/2024. On the other hand, capital has been reduced by the same amount in the consolidated financial statements.

Government grants received refer to assigned contributions for the disabled subject to the Vocational Rehabilitation and Employment of Disabled Persons Act. These are used to cover costs specified under that law.

in EUR Movement of other non-current liabilities	Emission coupons	Other received government grants	Other	Total
Balance as at 01/01/2021	**0**	**1,150,664**	**385,039**	**1,535,703**
Acquisitions through a business combination			138,827	138,827
Acquisition	54,918	7,362,861	9,292,877	16,710,656
Disposals	0	-7,460,918	-282,834	-7,743,752
Release	0	0	-21,819	-21,819
Balance as at 31/12/2021	**54,918**	**1,052,607**	**9,512,090**	**10,619,615**

in EUR Movement of other non-current liabilities	Emission coupons	Other received government grants	Other	Total
Balance as at 01/01/2020	**32,041**	**1,154,756**	**452,359**	**1,639,156**
Acquisition	0	7,449,439	46,964	7,496,403
Disposals	-32,041	-7,453,531	-111,865	-7,597,437
Release	0	0	-2,419	-2,419
Balance as at 31/12/2020	**0**	**1,150,664**	**385,039**	**1,535,703**

NON-CURRENT FINANCIAL LIABILITIES (18)

Non-current financial liabilities to banks include non-current borrowings from Slovenian and foreign banks. Interest rates are fixed and variable. Variable interest rates were based on 1-, 3- and 6-month Euribor, respectively, and a margin ranging from 0.5% to 1.88%. In the case of a negative Euribor, some loans are only remunerated by taking the margin into account. The fixed rate is 3.158%.

The values of loan principals repayable in 2022 are recorded as current liabilities to banks in the amount of EUR 92,343,614.

The Group has EUR 140,000,000 in revolving loans granted; out of which EUR 70,000,000 were drawn as at 31 December 2021.

The Group regularly monitors the developments related to Euribor market interest rates and accordingly compiles periodical Interest Rate Management Strategies of the Company. The objective of interest rate risk management is to limit and reduce the risk associated with changes in interest rates and to thus stabilise cash flows. No new interest rate hedging contracts were concluded in 2021.

in EUR Non-current financial liabilities	31/12/2021	31/12/2020
Non-current financial liabilities to banks	497,730,640	596,823,215
Non-current financial liabilities from leases	3,520,256	2,635,007
Total	**501,250,896**	**599,458,222**

in EUR Movement of non-current financial liabilities	Non-current financial liabilities to banks	Non-current financial liabilities from leases	Total
Balance as at 01/01/2021	**596,823,215**	**2,635,007**	**599,458,222**
Acquisitions through a business combination	0	216,397	216,397
Acquisition	0	3,099,303	3,099,303
Transfers from current liabilities	0	158,150	158,150
Transfers to short-term liabilities	-92,343,614	-2,583,126	-94,926,740
Repayment	-6,748,961	0	-6,748,961
Other	0	-5,475	-5,475
Balance as at 31/12/2021	**497,730,640**	**3,520,256**	**501,250,896**

in EUR Movement of non-current financial liabilities	Non-current financial liabilities to banks	Non-current financial liabilities from leases	Total
Balance as at 01/01/2020	**666,419,394**	**3,452,708**	**669,872,102**
Acquisition	0	650,359	650,359
Transfers to short-term liabilities	-69,596,179	-1,500,384	-71,096,563
Other	0	32,324	32,324
Balance as at 31/12/2020	**596,823,215**	**2,635,007**	**599,458,222**

All Group's non-current 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 non-current loan agreements include commitments to bank which were fully met as at 31 December 2021. Maturities of non-current liabilities by period are disclosed in the liquidity risk section.

CURRENT FINANCIAL LIABILITIES (19)

in EUR Current financial liabilities	31/12/2021	31/12/2020
Current financial liabilities to banks without interest	137,983,994	69,444,057
Current financial liabilities to banks for interest	181,687	58,606
Current derivatives	1,427,414	959,104
Other current financial liabilities	89,846	76,007
Current financial liabilities from leases	1,506,470	1,187,489
Total	**141,189,411**	**71,725,263**

The majority of current financial liabilities are loan liabilities to banks, namely a part of the Group's non-current loans repayable within a year following the date of the consolidated statement of financial position.

in EUR Movement of current financial liabilities	Current financial liabilities to banks without interest	Current financial liabilities to banks for interest	Current derivatives	Other current financial liabilities	Current financial liabilities from leases	Total
Balance as at 01/01/2021	**69,444,057**	**58,606**	**959,104**	**76,007**	**1,187,488**	**71,725,262**
Acquisitions through a business combination	0	0	0	0	25,411	25,411
Increase	183,290,000	17,034,161	0	1,149,324	10,228	201,483,713
Transfers from non-current liabilities	92,343,614	0	0	0	2,700,327	95,043,941
Transfers to non-current liabilities	0	0	0	0	-158,150	-158,150
Current repayments	-116,582,233	-3,756,709	0	-1,135,485	-594,765	-122,069,192
Non-current repayments	-90,511,445	-13,154,371	0	0	-1,694,953	-105,360,769
Other	0	0	468,310	0	30,884	499,194
Balance as at 31/12/2021	**137,983,993**	**181,687**	**1,427,414**	**89,846**	**1,506,470**	**141,189,410**

in EUR Movement of current financial liabilities	Current financial liabilities to banks without interest	Current financial liabilities to banks for interest	Current derivatives	Other current financial liabilities	Current financial liabilities from leases	Total
Balance as at 01/01/2020	**65,736,820**	**117,742**	**0**	**80,787**	**1,748,661**	**67,684,010**
Increase	46,449,000	4,611,573	0	5,779,622	41,326	56,881,521
Transfers from non-current liabilities	69,596,179	0	0	0	1,500,384	71,096,563
Current repayments	-52,383,997	-4,670,709	0	-5,784,402	-2,108,704	-64,947,812
Non-current repayments	-59,953,945	0	0	0	0	-59,953,945
Other	0	0	959,104	0	5,821	964,925
Balance as at 31/12/2020	**69,444,057**	**58,606**	**959,104**	**76,007**	**1,187,488**	**71,725,262**

CURRENT TRADE PAYABLES (20)

Disclosures on the maturity of trade payables are presented in the liquidity risk section.

in EUR Current operating liabilities	31/12/2021	31/12/2020
Current operating liabilities to affiliated companies	1,524,836	1,586,265
Current operating liabilities to jointly-controlled companies	0	42,110
Current operating liabilities to suppliers	222,417,930	139,028,180
Total	**223,942,766**	**140,656,555**

OTHER CURRENT LIABILITIES (21)

in EUR Other current liabilities	31/12/2021	31/12/2020
Current operating advance payables	4,510,752	681,044
Current operating liabilities to employees	11,811,794	12,863,472
Current operating liabilities to state and other institutions	36,909,464	24,651,867
Current operating liabilities to others	169,679,265	1,880,957
Current accrued costs or expenses	28,676,631	7,670,967
Total	**251,587,906**	**47,748,307**

The majority of value of other current liabilities includes liabilities to others where the Group shows a liability from the valuation of physical contracts at fair value through profit of loss. Liabilities to the state and other institutions refer to the value added tax liability and the liability from surrendering emission allowances to the state. Other current liabilities are liabilities to employees referring to the payment of remuneration for December in January 2022. Among them, the Group also discloses liabilities related to leave unexpended. Current accrued costs largely refer to costs of accrued interest and bank guarantees, and costs related to the procurement of electricity.

CONTINGENT LIABILITIES (22)

in EUR Contingent liabilities	31/12/2021	31/12/2020
Performance bonds/warranties for the rectification of defects	1,430,801	511,469
Bid warranties	30,000	556,569
Total	**1,460,801**	**1,068,038**

3.5.7.2 Consolidated income statement

REVENUE FROM CONTRACTS WITH CUSTOMERS (23)

Most of the revenue from contracts with customers refers to the revenue generated through the sale of electricity by the parent company.

Revenue from thermal energy refers solely to TEŠ generating thermal energy.

Income generated on other merchandise and material mainly include the sale of waste material and the sales of emission allowances.

Revenue from other services provided was generated by the HSE Group largely through services related to electricity (i.e. transmission capacities, guarantees of origin, etc.), whereas the rest refers to construction, mining and maintenance services, lease payments for property and other services.

The HSE Group has been selling its self-generated electricity in compliance with the internally adopted Self-Generated Electricity Sales Policy. The policy covers the model sales method of self-generated electricity by production companies of the HSE Group and the procurement of the required CO_2 allowances. In compliance with the Policy, the Group has been selling electricity on the electricity market several years in advance, allowing it to generate stable revenue from the sales of electricity.

The average sales price of self-generated electricity in 2021 took into account all procurement and sales transactions concluded for 2021 from the portfolio of self-generated electricity, allowing the Company to generate EUR 349,933 in net revenue, 6,425 GWh in net sales volume and a 2021 average sales price of EUR 54.46/MWh.

Electricity generated by the DEM hydro-electric power plants accounts for 38% or 2,436 GWh; electricity generated by the SENG hydro-electric power plants accounts for 6% or 390 GWh; and electricity generated by the HESS hydro-electric power plants accounts for 3% or 204 GWh. The remaining sales volume derives from electricity generated by TEŠ, accounting for 53% or 3,395 GWh.

in EUR Revenue from contracts with customers	2021	2020
On the domestic market	**800,908,558**	**665,816,786**
Electricity	755,257,824	638,753,016
Heat energy	9,908,157	6,907,146
Other products	2,002,804	524,871
Other goods and material	5,989,369	2,448,335
Other services	27,750,404	17,183,418
On foreign market	**1,737,295,664**	**1,171,431,046**
Electricity	1,718,825,264	1,154,774,553
Other products	521,246	308,050
Other goods and material	5,381,254	4,985,318
Other services	12,567,900	11,363,125
Total	**2,538,204,222**	**1,837,247,832**

OTHER OPERATING REVENUE (24)

in EUR Other operating income	2021	2020
Revenue from withdrawal of provisions	388,115	265,511
Drawing deferred revenue	7,881,008	7,556,279
Elimination of impairment of receivables	82,762	68,557
Revenue from damages and contractual penalties	237,168,040	854,067
Default interest	79,276	120,376
Profit from the sale of fixed assets	431,623	937,750
Profit from the elimination of impairment of receivables	179,699	0
Gain from a bargain purchase	307,005	0
Other	127,508,336	10,416,312
Total	**374,025,864**	**20,218,852**

The majority of other operating revenue is accounted for by EUR 231,459,934 in revenue from received damages and contractual penalties by GE following an out-of-court settlement in arbitration proceedings related to the construction of Block 6.

The remainder of other operating revenue of EUR 123,983,044 is accounted for by the profits derived from trading with electricity derivatives and emission allowances.

The absorption of deferred revenue refers primarily to the uptake of contributions assigned for the disabled.

Other operating revenue also shows the gain from a bargain purchase as a result of a business combination, in which the HSE Group acquired a 51 per cent share of ECE. The fair value of the paid purchase price amounted to EUR 11,118,000, whereas the fair value of net identifiable assets acquired and liabilities assumed to EUR 22,401,970. By taking into account EUR 10,976,965 in non-controlling interest, a gain from a bargain purchase of EUR 307,005 was recognised at the acquisition date.

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COSTS OF GOODS, MATERIALS AND SERVICES (25)

in EUR Costs of goods, materials and services	2021	2020
Purchase value of sold goods	2,016,914,655	1,330,857,566
Contingent costs of sold goods	34,397,012	34,707,784
Total purchase value of sold goods	**2,051,311,667**	**1,365,565,350**
Costs of material	40,735,097	23,170,958
Cost of supplementary material	3,074,680	2,846,152
Costs of energy	2,605,048	1,963,392
Costs of spare parts	7,106,786	6,408,662
Costs of small tools	564,229	585,145
Stationery	182,990	175,679
Expert literature	32,349	38,272
Harmonisation of costs of material and small tools	33,635	24,726
Costs for fire prevention	894	16,195
Other	1,887,950	1,668,542
Total material costs	**56,223,658**	**36,897,723**
Costs of services from product generation	17,766,553	13,266,993
Costs of transport services	1,930,396	1,328,642
Costs of maintenance	9,355,930	10,244,144
Costs of rents	2,292,803	1,503,340
Costs of reimbursements of work-related expenses to employees	187,753	134,303
Costs of insurance and bank services	6,406,649	5,673,739
Costs of intellectual and personal services	10,247,114	4,318,862
Costs of research and development	0	5,733
Costs of fairs, advertising and administration	1,058,487	907,862
Costs of services of natural entities	1,276,654	929,426
Municipal services	3,724,044	3,188,259
Costs of mining damage	149,508	69,375
Costs of protection and supervision	16,873	10,733
Cleaning costs	18,972	12,780
Membership contributions	203,647	194,086
Real property management	307,022	255,815
Costs of shipping	2,804	1,514
Costs of deposit site regulation	1,530	1,620
Costs of copying and plotting	10,639	9,495
Other	1,355,108	1,381,803
Total costs of services	**56,312,486**	**43,438,524**
Total	**2,163,847,811**	**1,445,901,597**

The cost of goods sold includes primarily the expenses related to the procurement of electricity and the 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 the Group's fixed assets, costs of insurance, costs of personal and intellectual services; services related to creating products include construction services, drilling work and diverse restoration work and utility services. The increase in the cost of product-creating services is due to the increased scope of operations.

in EUR Audit costs	2021	2020
Annual Report audit	105,156	99,406
Other services of providing guarantees	5,300	6,000
Total	**110,456**	**105,406**

The 2021 financial statements of Group companies based in Slovenia were audited by the audit firm Deloitte revizija d.o.o., which also simultaneously reviewed financial information of its foreign subsidiaries included in the consolidated financial statements but whose financial statement were not audited in the country of residence. Two companies, registered abroad, were audited by audit companies in their respective countries. The audit company also rendered other assurance work-related services (fulfilment of commitments to banks).

LABOUR COSTS (26)

in EUR Labour costs	2021	2020
Salaries	100,130,725	93,924,464
Pension insurance costs	17,496,915	16,058,516
Other insurance costs	7,381,637	6,690,504
Other labour costs	14,292,797	15,726,926
Total	**139,302,074**	**132,400,410**

Labour costs comprise salaries and allowances, social insurance contributions, supplementary pension insurance and other labour costs (meal allowance, commuting allowance, annual leave allowance, solidarity, provisions for jubilee and retirement benefits, etc.). Costs of allowances actually paid for leave not taken in 2021 that may be taken by employees until 30 June 2022 are also included.

Number of employees and average number of employees by educational structure	01/01/2021	31/12/2021	Average number of employees
1	181	182	182
2	107	105	106
3	48	43	46
4	1,061	1,044	1,053
5	830	844	837
6/1	339	345	342
6/2	219	246	233
7	279	302	291
8/1	72	75	74
8/2	15	17	16
Total	**3,151**	**3,203**	**3,177**

VALUE WRITE-OFFS (27)

in EUR Value write-offs	2021	2020
Amortisation of intangible assets	951,253	910,117
Amortisation of property, plant and equipment	72,703,757	76,965,070
Amortisation of leased assets	1,326,654	1,656,676
Receivables impairments/ write-offs	1,033,377	654,879
Inventories impairments/ write-offs	140,799	496,137
Impairments in property, plant and equipment and intangible assets	164,491,000	243,508,849
Impairments in real property, plant and equipment	1,231,383	1,241,953
Sales in property, plant and equipment and intangible assets	7,010	117,783
Total	**241,885,233**	**325,551,464**

CAPITALISED OWN PRODUCTS (28)

in EUR Capitalised own products	2021	2020
Capitalised own products and services	-19,180,331	-15,306,922
Total	**-19,180,331**	**-15,306,922**

Capitalised own products and services largely comprise:

- engineering services rendered during the construction and reconstruction of hydro-electric power plants and
- construction works on facilities.

OTHER OPERATING EXPENSES (29)

in EUR Other operating expenses	2021	2020
Forming of provisions	300,006	428,722
Fee for the use of construction land	11,494,036	10,607,218
Concessions	22,384,412	15,978,715
Environmental protection expenses	100,650,211	77,645,411
Donations	497,239	483,347
Other operating expenses	163,204,984	2,527,530
Total	**298,530,888**	**107,670,943**

The most important other operating expenses are environmental protection expenses (emission allowance and water treatment levy costs) and other operating expenses related to the fair value of commodity contracts. Environmental protection costs have risen as a result of a higher price of emission allowances in 2021.

FINANCIAL RESULT (30)

v EUR Financial revenue	2021	2020
Financial revenue from dividends and other profit shares	2,012	44,780
Financial revenue from loans and deposits given	4,352	2,976
Other financial income	71,362	77,411
Total	**77,726**	**125,167**

in EUR Financial expenses	2021	2020
Financial expenses for interest	16,104,200	18,956,499
Financial expenses from the sale of financial investments	1,740	0
Other financial expenses	7,461,852	5,499,774
Other financial expenses from leases	122,665	73,213
Total	**23,690,457**	**24,529,486**

In 2021 the Group generated a negative financial result in the amount of EUR 23,612,731.

Other financial expenses primarily refer to costs associated with guarantees for borrowings.

FINANCIAL REVENUE FROM PARTICIPATING INTERESTS IN ASSOCIATES AND JOINT VENTURES (31)

Share of the profit of investments using the equity method of investment valuation

in EUR	2021	2020
HESS	1,167,030	1,134,513
Soenergetika	115,217	135,494
Total	**1,282,247**	**1,270,007**

TAX (32)

in EUR *Taxes*	2021	2020
Current tax	19,195,895	23,435,422
Deferred tax	-182,631	-65,508
Total tax from profit recognised in the income statement	**19,013,264**	**23,369,914**
Deferred tax recognised in capital	1,530	-743

Group companies are subject to corporate income tax.

In 2021, nine companies in Slovenia were subject to corporate income tax, as well as all our three companies abroad. Our remaining companies did not establish a basis for its payment due to tax relief, the withdrawal of tax losses and negative operating results.

Current tax of Group companies in 2021 amounted to EUR 19,013,264. Based on current tax at the end of 2021, Group companies disclose EUR 2,999,817 of current tax assets and EUR 677,401 of the current tax liabilities.

Deferred taxes relate to deferred tax assets recognised in the amount of taxable profits against which tax can be utilised 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 the tax returns for the current year.

Among deferred taxes, the Group reports EUR 1,695,071 in deferred tax assets and EUR 7,353 in deferred tax liabilities. Further details on deferred tax assets are disclosed in Notes 6 and 7 of the consolidated statement of financial position.

At the end of 2021, Group companies have EUR 1,221,874,823 in unused tax losses, for which they did no deferred tax assets were set up.

The current tax base was established by correcting revenue and expenses in terms of a decrease and increase of the tax base, as shown in the table below.

in EUR Effective tax rate calculation	2021	2020
Profit (loss) before tax	65,983,140	-160,809,466
Calculated tax at the applicable tax rate	12,536,797	-30,553,799
Tax on revenues that lower the tax base	-107,011	-71,271
Tax on tax deductions	-1,899,873	-1,221,735
Tax on expenses that lower the tax base	-556,559	-965,443
Tax on non-deductible expenses	1,582,711	1,250,463
Tax from other changes in the tax balance sheet	772,157	-18,820
Tax effects of unrecognised deferred assets arising from tax losses	6,915,871	55,082,610
Effect of higher/lower tax rate of companies abroad	-48,197	-66,584
Tax levied	**19,195,895**	**23,435,422**
Deferred tax	**-182,631**	**-65,508**
Total taxes	**19,013,264**	**23,369,913**
Effective tax rate	**28.82%**	**/**

NET PROFIT OR LOSS (33)

in EUR	2021	2020
Gross operating return	2,931,879,630	1,873,849,258
Operating profit	88,313,624	-137,675,154
Financial outcome	-23,612,731	-24,404,319
Profit (loss) before tax	65,983,140	-160,809,466
Net profit/loss for the year	**46,969,876**	**-184,179,380**

In 2021, the HSE Group generated EUR 46,969,876 in net profit.

3.5.7.3 Related persons

Related persons 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 persons based on 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 joint ventures and
- transactions with companies that are directly or indirectly owned by the Republic of Slovenia (its participating interest therein exceeding 50 per cent) and are important for the HSE Group with regard to the level of materiality of the transactions (revenue or expenses in 2021 exceed EUR 2,000,000), except banks where all transactions are disclosed. Most transactions refer to electricity trading or the financing of the HSE Group.

The parent company is 100 per cent owned by the Republic of Slovenia. Dividends were not disbursed in 2021.

in EUR Transactions with associated companies	Sales	Purchases	Receivables as at 31/12/2021	Liabilities as at 31/12/2021
Affiliated companies	1,290,861	9,866,884	44,240	1,524,836
Total jointly-controlled company	115,217	0	0	0
Total	**1,406,078**	**9,866,884**	**44,240**	**1,524,836**

in EUR Transactions with the Republic of Slovenia and legal entities directly owned by the Republic of Slovenia	Outstanding receivables as at 31/12/2021	Outstanding liabilities as at 31/12/2021	Revenue as at 01/12/2021	Expenses as at 01/12/2021
BORZEN	1,532,567	2,667,304	8,802,807	18,189,095
BSP	390,101	1,615,197	175,738,211	211,905,889
ELES	4,055,577	452,850	19,595,373	740,462
ELEKTRO MARIBOR ENERGIJA PLUS	9,340,283	993,521	74,400,149	7,509,632
Plinovodi	6,933,548	495,514	115,957	3,928,345
GEN-I	18,377,645	9,071,450	92,120,171	94,109,409
Energy companies – total	**40,629,721**	**15,295,837**	**370,772,668**	**336,382,831**
TALUM	1,754,624	581,966	16,861,361	2,907,149
Aluminium production	**1,754,624**	**581,966**	**16,861,361**	**2,907,149**
ZAVAROVALNICA TRIGLAV	16,595	15,223	32,222	3,118,552
SODO	3,158,715	0	4,934,989	0
Petrol	964	2,784,294	14,938	7,803,641
Other – total	**3,176,274**	**2,799,517**	**4,982,149**	**10,922,192**
SID	0	31,393,939	0	363,610
Banks – total	**0**	**31,393,939**	**0**	**363,610**
Total	**45,560,619**	**50,071,259**	**392,616,178**	**350,575,782**

3.5.7.4 Remuneration

The remuneration of managers and employees for whom the tariff part of the collective agreement does not apply, includes:

- gross remuneration included in the income tax return statement,
- other remuneration (meals, travel expenses, daily subsistence allowances, management agreement, holiday allowance), and
- premiums paid for voluntary supplementary pension insurance.

Remuneration of Supervisory Board members includes gross attendance fees of all members (the 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 management, employees who are not subject to the tariff part of collective agreements and Members of the Supervisory Boards of Group companies neither shared in the profit as decided by the respective General Assemblies nor were they granted advances, new loans or guarantees in 2021 by HSE Group companies.

in EUR Remuneration	Gross salary	Other remuneration	Bonuses	Cost reimbursement	Meeting fees	Total
Members of the Managament Board	1,433,262	128,263	49,381	28,161	51,379	1,690,446
Members of the Supervisory Board and of the Supervisory Board Committiees	0	0	2,925	10,545	363,992	377,462
Employees not subject to the tariff part of the collective agreement	1,473,585	88,418	42,585	31,405	0	1,635,993
Total 2021	**2,906,847**	**216,681**	**94,891**	**70,111**	**415,371**	**3,703,901**

in EUR Remuneration	Remuneration	Other remuneration	Bonuses	Cost reimbursement	Meeting fees	Total
Members of the Managament Board	1,255,826	133,982	46,307	24,254	9,973	1,470,342
Members of the Supervisory Board and of the Supervisory Board Committiees	0	0	1,452	2,290	220,160	223,902
Employees not subject to the tariff part of the collective agreement	1,471,350	121,356	36,498	31,945	0	1,661,149
Total 2020	**2,727,176**	**255,338**	**84,257**	**58,489**	**230,133**	**3,355,393**

Remuneration of the management of companies

in EUR Management remuneration in the 2021	Period	Gross salary	Other remuneration	Bonuses	Cost reimbursement	Gross meeting fees	Total
Viktor Vračar - HSE	01/01/2021 to 31/12/2021	157,486	4,600	4,526	1,502	10,236	178,350
Uroš Podobnik - HSE	01/01/2021 to 31/12/2021	148,950	10,936	3,706	1,510	15,055	180,157
Marko Štrigl - HSE	01/01/2021 to 31/12/2021	135,906	4,600	6,706	1,945	12,275	161,432
Andrej Tumpej - DEM	01/01/2021 to 30/11/2021	99,840	5,955	6,003	1,581	0	113,379
Aleksander Brunčko - DEM	01/12/2021 to 31/12/2021	7,550	235	631	164	0	8,580
Anton Žagar - RGP	01/01/2021 to 15/02/2021	19,916	22,432	1,850	269	0	44,467
Marko Ranzinger - RGP	16/02/2021 to 04/11/2021	64,935	3,283	2,052	1,115	0	71,385
Iztok Černoša - RGP	05/11/2021 to 31/12/2021	6,136	396	0	110	0	6,642
Vučaj Zef - RGP	16/02/2021 to 31/08/2021	46,219	2,314	2,748	612	0	51,893
Iztok Kikec - Sipoteh	01/01/2021 to 31/12/2021	52,600	3,426	30	1,963	0	58,019
Damijan Kanduti - PLP	01/01/2021 to 31/12/2021	84,308	5,534	683	1,365	0	91,890
Radovan Jereb - SENG	01/01/2021 to 31/12/2021	105,185	4,881	1,834	1,329	13,813	127,042
Mitja Tašler - TEŠ	01/01/2021 to 31/12/2021	97,402	4,881	4,553	1,456	0	108,292
Viktor Vračar - TEŠ	01/01/2021 to 31/12/2021	0	20,400	0	0	0	20,400
Jure Šimic - HSE Invest	01/01/2021 to 31/12/2021	77,734	4,646	3,709	1,172	0	87,261
Aleksander Brunčko - HSE Invest	01/01/2021 to 31/01/2021	12,000	0	762	0	0	12,762
Ervin Renko HSE EDT	01/01/2021 to 31/12/2021	0	13,020	0	0	0	13,020
Janez Rošer - PV	01/01/2021 to 31/12/2021	108,000	4,964	2,396	2,540	0	117,900
Aleš Logar - PV	01/03/2021 to 31/12/2021	68,850	3,015	2,430	1,243	0	75,538
Nina Mauhler - HTZ IP	01/01/2021 to 01/04/2021	68,400	4,340	1,080	5,500	0	79,320
Simon Dobaj - HTZ IP	02/04/2021 to 31/12/2021	40,314	2,788	2,558	881	0	46,541
Roudi Sebastijan - ECE	01/11/2021 to 31/12/2021	16,192	0	1,124	257	0	17,573
Zlatko Sahadžić - HSE BH	01/01/2021 to 31/12/2021	15,339	1,617	0	1,647	0	18,603
Total		**1,433,262**	**128,263**	**49,381**	**28,161**	**51,379**	**1,690,446**

The "Gross meeting allowances" item under remuneration of management of companies takes into account meeting allowances received by individuals as Members of the Supervisory Board or its committees in subsidiaries, associates, and joint ventures.

in EUR Remuneration of Supervisory Board members	Period	Gross meeting fees	Travel expenses	Bonuses	Total
Boštjan Jančar - Member of SB of HSE	01/01/2021 to 31/12/2021	18,219	146	160	18,525
Jernej Otič - Member of SB of HSE	01/01/2021 to 31/12/2021	18,538	251	160	18,949
Vesna Cukrov - Member of SB of HSE	01/01/2021 to 02/09/2021	11,155	294	160	11,609
Robert Celec - Member of SB of HSE	01/01/2021 to 31/12/2021	18,714	1,314	160	20,188
Franc Dover - President of SB of HSE	01/01/2021 to 31/12/2021	24,513	2,077	160	26,750
Andrej Janša - Deputy President of SB of HSE	01/01/2021 to 31/12/2021	19,909	1,226	320	21,455
Damjan Seme - Member of SB of HSE	01/01/2021 to 30/11/2021	18,538	750	160	19,448
Janez Gutnik - Member of SB of HSE	01/01/2021 to 31/12/2021	18,659	978	160	19,797
Petja Rijavec - Member of SB of HSE	01/01/2021 to 31/12/2021	18,538	320	160	19,018
Denis Bele - Member of SB of HSE	02/09/2021 to 31/12/2021	4,534	834	0	5,368
Uroš Podobnik - President of SB of SENG	01/06/2021 to 31/12/2021	6,642	0	94	6,736
Kristina Rovšek - Deputy president of SB of SENG	01/06/2021 to 31/12/2021	4,830	114	94	5,038
Boštjan Čopi - Member of SB of SENG	28/05/2021 to 31/12/2021	4,524	0	96	4,620
Viktor Vračar - President of SB of DEM	04/06/2021 to 31/12/2021	7,257	0	93	7,350
Urška Gašperlin - Deputy President of SB of DEM	04/06/2021 to 31/12/2021	5,599	0	93	5,692
Marjan Kribiš - Member of SB of DEM	04/06/2021 to 31/12/2021	5,280	0	96	5,376
Danilo Rednjak - Member of SB of PV	01/01/2021 to 31/12/2021	7,491	0	160	7,651
Uroš Podobnik - President of SB of PV	01/01/2021 to 04/01/2021	858	0	0	858
Marko Bahor - Deputy President of SB of PV	01/01/2021 to 31/12/2021	7,876	360	160	8,396
Marko Štrigl - President of SB of PV	05/01/2021 to 31/12/2021	9,390	36	160	9,586
Drago Skornšek - President of SB of TEŠ	07/06/2021 to 31/12/2021	5,946	0	93	6,039
Tomaž Pestotnik - Deputy President of SB of TEŠ	07/06/2021 to 31/12/2021	4,518	0	93	4,611
Aleš Rednjak - Member of SB of TEŠ	18/06/2021 to 31/12/2021	3,935	0	93	4,028
Marko Štrigl - President of SB of ECE	01/11/2021 to 31/12/2021	2,234	0	0	2,234
Boris Kupec - Deputy President of SB of ECE	01/11/2021 to 31/12/2021	2,842	0	0	2,842
Marija Kupčič - Member of SB of ECE	01/11/2021 to 31/12/2021	2,158	0	0	2,158
Ivan Šmon - Deputy President of SB of ECE	01/11/2021 to 11/11/2021	734	0	0	734
Total		**253,431**	**8,700**	**2,925**	**265,056**

in EUR Remuneration of Supervisory Board members in 2021	Period	Gross meeting fees	Travel expenses	Total
Boštjan Jančar - Member of the Audit Committee of HSE	01/01/2021 to 31/12/2021	5,143	0	5,143
Marko Hočevar - Member of the Audit Committee of HSE	01/01/2021 to 31/12/2021	14,206	211	14,417
Andrej Janša - President of the Audit Committee of HSE	01/01/2021 to 31/12/2021	6,748	220	6,968
Janez Gutnik - Member of the Audit Committee of HSE	01/01/2021 to 31/12/2021	5,048	29	5,077
Kristina Rovšek - President of the Audit Committee of SENG	04/06/2021 to 31/12/2021	1,920	101	2,021
Boštjan Čopi - Member of the Audit Committee of SENG	04/06/2021 to 31/12/2021	1,450	0	1,450
Romana Jontes - Member of the Audit Committee of SENG	04/06/2021 to 31/12/2021	4,308	229	4,537
Viktor Vračar - Member of the Audit Committee of DEM	04/06/2021 to 24/06/2021	104	0	104
Urška Gašperlin - Deputy President of the Audit Committee of DEM	24/06/2021 to 31/12/2021	2,086	164	2,250
Marjan Kribiš - Member of the Audit Committee of DEM	24/06/2021 to 31/12/2021	1,576	0	1,576
Rado Sodin - Member of the Audit Committee of DEM	24/06/2021 to 31/12/2021	4,680	128	4,808
Romana Jontes - Member of the Audit Committee of PV	01/01/2021 to 31/12/2021	2,967	113	3,080
Marko Bahor - President of the Audit Committee of PV	01/01/2021 to 31/12/2021	2,154	180	2,334
Danilo Rednjak - Member of the Audit Committee of PV	01/01/2021 to 31/12/2021	1,623	0	1,623
Rado Sodin - Member of the Audit Committee of TEŠ	23/06/2021 to 31/12/2021	3,833	79	3,912
Tomaž Pestotnik - President of the Audit Committee of TEŠ	23/06/2021 to 31/12/2021	1,689	144	1,833
Aleš Rednjak - Member of the Audit Committee of TEŠ	18/06/2021 to 31/12/2021	1,309	0	1,309
Darinka Virant - Member of the Audit Committee of ECE	01/11/2021 to 31/12/2021	785	0	785
Marko Štrigl - Deputy President of the Audit Committee of ECE	01/11/2021 to 31/12/2021	455	0	455
Boris Kupec - President of the Audit Committee of ECE	01/11/2021 to 31/12/2021	691	0	691
Marija Kupčič - Member of the Audit Committee of ECE	01/11/2021 to 31/12/2021	455	0	455
Total		**63,230**	**1,598**	**64,828**

in EUR Remuneration of members of the personnel committee in 2021	Period	Gross meeting fees	Travel expenses	Total
Franc Dover - Member of the Personnel Committee of HSE	01/01/2021 to 31/12/2021	3,647	77	3,724
Damjan Seme - President of the Personnel Committee of HSE	01/01/2021 to 30/11/2021	5,032	0	5,032
Petja Rijavec - Member of the Personnel Committee of HSE	01/01/2021 to 31/12/2021	3,647	0	3,647
Vesna Cukrov - Deputy President of the Personnel Committee of HSE	01/01/2021 to 02/09/2021	2,974	0	2,974
Denis Bele - President of the Personnel Committee of HSE	30/11/2021 to 31/12/2021	429	0	429
Danilo Rednjak - Member of the Personnel Committee of PV	01/01/2021 to 31/12/2021	264	0	264
Marko Bahor - Member of the Personnel Committee of PV	01/01/2021 to 31/12/2021	264	0	264
Marko Štrigl - President of the Personnel Committee of PV	01/01/2021 to 31/12/2021	343	0	343
Total		**16,600**	**77**	**16,677**

in EUR Remuneration of the Members of the Restructuring Committee of the Supervisory Board in 2021	Period	Gross meeting fees
Jernej Otič - Member of the Restructuring Committee of HSE	01/01/2021 to 31/12/2021	3,207
Robert Celec - Member of the Restructuring Committee of HSE	13/10/2021 to 31/12/2021	3,421
Damjan Seme - Member of the Restructuring Committee of HSE	01/01/2021 to 30/09/2021	2,936
Vesna Cukrov - President of the Restructuring Committee of HSE	01/01/2021 to 02/09/2021	3,496
Denis Bele - Member of the Restructuring Committee of HSE	13/10/2021 to 31/12/2021	429
Total		**13,489**

in EUR Remuneration of the members of the marketing and investment committee in 2021	Period	Meeting fee gross	Travel expenses	Total
Boštjan Jančar - Member of the Marketing and Investment Committee of HSE	01/01/2021 to 31/12/2021	3,867	0	3,867
Robert Celec - Member of the Marketing and Investment Committee of HSE	01/01/2021 to 31/12/2021	4,087	132	4,219
Andrej Janša - Member of the Marketing and Investment Committee of HSE	01/01/2021 to 31/12/2021	3,816	33	3,849
Janez Gutnik - President of the Marketing and Investment Committee of HSE	01/01/2021 to 31/12/2021	5,472	5	5,477
Total		**17,242**	**170**	**17,412**

3.5.7.5 Financial instruments and risks

This section is related to the Financial Risk Management section and the Financial Risks section in the business part of the annual report.

CREDIT RISK

As 98% of the Group's net revenue from sales refers to the activity of electricity sales and trading, therefore most credit risk management activities are centred in the parent company. The latter manages credit risks in accordance with the procedures described in the Credit Risk section in the Accounting Report of the parent company, wherein the structure of current receivables of the Company and their management are discussed in further detail. HSE, which procures most of the electricity generated from its subsidiaries or the Group's production units, settles its liabilities pursuant to the provisions of electricity procurement contracts concluded by the parent company on an annual basis with its subsidiaries engaged in generating electricity. Electricity is then sold by HSE on the market, indicating that HSE is particularly at credit risk. The credit risks of subsidiaries are managed according to the internal acts and procedures of each individual subsidiary.

Group companies manage credit risks by means of a detailed review and careful selection of their business partners prior to their approval, by means of regularly monitoring their business partners' operations upon their approval and by means of a conservative approach that further restrict the scope of operations of any given business partner.

Operating receivables are secured with bank guarantees, corporate guarantees and the pledge of receivables under bank account management contracts, with deposits, with advance payments, bills of exchange and enforcement drafts. Group companies have secured approximately 58% of current trade receivables or the majority of all Group receivables.

Defaulting debtors in Slovenia and abroad are charged with contractually agreed default interest.

in EUR Current operating and financial receivables by maturity date	Not past due	Due for payment: 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 270 days)	From 9 to 12 months past due (from 271 to 360 days)	Over a year past due (from 361 days onwards)	Total
Current financial receivables and loans from others	51	0	0	0	0	0	51
Current deposits to others	5,847,411	0	0	0	0	0	5,847,411
Current operating receivables from affiliated companies	44,240	0	0	0	0	0	44,240
Current operating receivables from buyers	248,847,442	16,845,290	1,271,900	18,659	40,414	9,581,002	276,604,707
Current advances given	10,910,544	171,654	0	0	0	170,597	11,252,795
Current operating receivables from state and other institutions	46,968,927	27,912	0	0	0	0	46,996,839
Current operating receivables from others	107,254,741	13,473	3,825	1,506	4,372	440,330	107,718,247
Total as at 31/12/2021	**419,873,356**	**17,058,329**	**1,275,725**	**20,165**	**44,786**	**10,191,929**	**448,464,290**

in EUR Current operating and financial receivables by maturity date	Not past due	Due for payment: 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 270 days)	From 9 to 12 months past due (from 271 to 360 days)	Over a year past due (from 361 days onwards)	Total
Current financial receivables and loans from others	51	0	0	0	0	0	51
Current deposits to others	12,250,295	0	0	0	60,000	0	12,310,295
Current operating receivables from affiliated companies	8,551	0	0	0	0	0	8,551
Current operating receivables to jontly controlled companies	146	0	0	0	0	0	146
Current operating receivables from buyers	159,749,785	8,080,792	71,531	24,505	13,770	6,021,959	173,962,342
Current advances given	3,355,775	177,821	1,078	0	0	169,520	3,704,194
Current operating receivables from state and other institutions	25,778,649	18,733	0	0	0	0	25,797,382
Current operating receivables from others	15,947,171	0	0	0	0	316,163	16,263,334
Total as at 31/12/2020	**217,090,423**	**8,277,346**	**72,609**	**24,505**	**73,770**	**6,507,642**	**232,046,295**

in EUR Non-current operating and financial receivables by maturity dates	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
Non-current deposits to others	2,880	3,000	17,797	23,677
Non-current operating receivables from buyers	15,979,128	29,401,420	40,920,000	86,300,548
Non-current advances given	18,293	9,146	0	27,439
Non-current operating receivables from others	0	0	11,215,050	11,215,050
Total as at 31/12/2021	**16,000,301**	**29,413,566**	**52,152,847**	**97,566,714**
Non-current deposits to others	2,139	5,791	17,191	25,121
Non-current operating receivables from buyers	453,575	0	0	453,575
Non-current advances given	10,147	26,439	0	36,586
Non-current operating receivables from others	0	0	1,550,547	1,550,547
Total as at 31/12/2020	**465,861**	**32,230**	**1,567,738**	**2,065,829**

in EUR Movement of value adjustments of current operating receivables	2021	2020
Balance as at 01/01/	**7,312,505**	**7,122,480**
Recovered written-off receivables	-55,356	-50,947
Allowances set up for receivables	3,184,954	660,734
Final write-offs of receivables	-289,304	-419,762
Balance as at 31/12/	**10,152,799**	**7,312,505**

At the end of 2021, the Group has a total of EUR 10,152,799 of value allowances for doubtful and disputed current operating receivables.

In 2021, the Group set up value allowances for current receivables pursuant to the provisions of IFRS 9. Accordingly, the HSE Group has introduced an impairment calculation model that does not base solely on realised credit losses but takes also expected credit losses (ECL) into account. Compared to the total value of operating receivables, the calculated ECL has no effect on a fair view of assets, as the Group properly disclosed and set up allowances for current operating receivables in the past.

Credit risks were properly managed in 2021.

LIQUIDITY RISK

The liquidity or insufficient solvency risk is the risk associated with a lack of available financial resources and the consequent inability of the Group to meet its obligations in due time.

The liquidity risk is managed by planning the daily, monthly and annual cash flows and then, using this, by effectively distributing surpluses within the Group, reconciling the maturities of payables and receivables, consistently recovering receivables and ensuring suitable available credit lines from commercial banks.

In addition, the HSE Group implemented debt restructuring and maturity optimisation measures and actively monitored the developments on the financial markets, contributing to greater control and management of the liquidity risk.

Liquidity risk management is monitored by Group operating category, namely:

- **MANAGING THE OPERATING LIQUIDITY RISK,** inextricably linked to the credit risk. The operating liquidity risk is managed primarily by reconciling maturity dates of receivables and liabilities arising from our core activity - electricity trading, as well as the maturities of other payables in a way that trade payables of Group companies are settled on time. The operating liquidity risk management measures are aimed at optimising the liquidity of Group companies that allows them to honour current liabilities both under normal and critical, unforeseeable circumstances arising from electricity trading, transmission capacities, emission allowances and forward contracts requiring sufficient liquidity buffers to provide for the stability of our everyday operations and trading activities. Measures include the up-to-date monitoring of supplier settlements, extension of payment deadlines, payment delay arrangements and the provision of sufficient liquidity resources to cover basic and flexible margins on power exchanges and the clearing bank. The operating liquidity risk has been assessed as properly managed in 2021.
- **MANAGING THE INVESTMENT LIQUIDITY RISK,** inextricably linked to the investment risk. Managing the investment liquidity risk is providing for the financing of investments in compliance with investment programmes in a way that allows for the timely provision of sufficient funds foreseen in the financial plans, thus preventing any project implementation delays. The investment liquidity risk is also reflected in inflows - by implementing divestment activities that are carried out for operating optimisation purposes in Group companies. The liquidity risk has been assessed as properly managed in 2021.
- **MANAGING THE FINANCING LIQUIDITY RISK** is the risk linked to providing sufficient financial resources, which includes an active relationship with financial markets, obtaining sufficient current borrowings and credit lines, as well as non-current sources of financing for the purpose of a timely repayment of Group companies' liabilities by taking into account obligations defined in loan contracts concluded with financial institutions. The Group applies the so-called 'cash management system' as part of which Group companies borrow funds on a current basis. The primary source of financing current deficits of Group companies is excess cash of other Group companies and current loans with commercial banks, whereas the liquidity of individual Group companies and the Group as a whole optimised. The financing liquidity risk was properly managed in 2021, as the Group managed to provide a sufficient amount of credit and guarantee lines for the continuity of its operations.

The HSE Group financial stabilisation efforts were also acknowledged by the Moody's credit rating agency that upgraded the credit rating of HSE in October 2021 from Ba1 to Baa3 (outlook stable).

The maturity of the Group's non-current and current liabilities by maturity date is outlined in the tables below.

in EUR Non-current operating and financial liabilities by maturity dates	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
Non-current financial liabilities to banks	63,592,146	189,800,790	244,337,704	497,730,640
Non-current financial liabilities from leases	1,580,465	1,939,791	0	3,520,256
Non-current operating liabilities to suppliers	0	4,813	0	4,813
Non-current operating liabilities from advances	0	0	61,535	61,535
Other non-current operating liabilities from leases	46,897	0	21,433	68,330
Total as at 31/12/2021	**65,219,508**	**191,745,394**	**244,420,672**	**501,385,574**
Non-current financial liabilities to banks	110,479,859	219,277,575	267,065,781	596,823,215
Non-current financial liabilities from leases	1,120,548	1,514,459	0	2,635,007
Non-current operating liabilities to suppliers	430,545	0	0	430,545
Non-current operating liabilities from advances	2,400	0	44,756	47,156
Other non-current operating liabilities from leases	33,019	0	22,586	55,605
Total as at 31/12/2020	**112,066,371**	**220,792,034**	**267,133,123**	**599,991,528**

The liquidity risk exposure from financial liabilities to banks on 31 December 2021 is illustrated in the table below. The amounts in the table are not discounted. The Group has sufficient financial resources to repay its liabilities to banks due in 2022. The source is operating revenue. At the same time, the Group has EUR 96,589,748 in cash liquidity reserves and EUR 140,000,000 in granted non-current revolving loans, out of which, as at 31/12/2021, EUR 70,000,000 were drawn.

in EUR Exposure to liquidity risk arising on financial liabilities to banks	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						
Non-current loans	-13,634,127	-53,723,753	-63,592,146	-190,446,071	-244,318,536	-565,714,633
Total as at 31/12/2021	**-13,634,127**	**-53,723,753**	**-63,592,146**	**-190,446,071**	**-244,318,536**	**-565,714,633**
Financial liabilities to banks without interest rate hedging						
Non-current loans	-1,218,319	-68,225,737	-77,176,828	-200,595,757	-319,050,628	-666,267,269
Total as at 31/12/2020	**-1,218,319**	**-68,225,737**	**-77,176,828**	**-200,595,757**	**-319,050,628**	**-666,267,269**

CURRENCY RISK

The Group is exposed to the currency risk to a lesser extent since the majority of inflows and outflows are made in its domestic currency (the Euro).

The currency risk of the group was properly managed in 2021. The Group manages its foreign currency risks in compliance with system regulations of the financial department of HSE and the internal rules of the subsidiaries of the HSE Group. The parent company is primarily faced with the exchange rate risk for electricity trade in foreign currencies on foreign markets, where exposure is hedged using derivatives as needed. The latter is primarily applicable in the case of electricity procurement auctions in Hungary, when payments are made in HUF. The foreign exchange risk is hedged by forward currency purchases of HUF.

The currency risk is also present in the operations of subsidiaries registered in SE Europe. Nevertheless, the exposure to currency risk is minimal, as the operations of subsidiaries based in SE Europe account for a smaller segment of operations compared to the total volume of HSE Group operations.

As other currencies in transactions are present to a lesser extent, the group does not draw up a sensitivity analysis on changing the exchange rates of other currencies, as the change in these rates would not have a material effect on the Group's profit.

The Group's assets and liabilities as at 31 December 2021 were converted using the following exchange rates:

Country	Currency code	Final currency in EUR for the year 2021	Final currency in EUR for the year 2020
Bosnia and Herzegovina	BAM	1.95583	1.95583
Croatia	HRK	7.5156	7.5519
Macedonia	MKD	61.5350	61.5590
Serbia	RSD	117.4400	117.5300
Czech Republic	CZK	24.8580	26.2420
Hungary	HUF	369.1900	363.8900
Romania	RON	4.9490	4.8683
USA	USD	1.1326	1.2271
Great Britain	GBP	0.8403	0.8990
Bulgaria	BGN	1.9558	1.9558

in EUR Exposure to risk of change of exchange rates	EUR	HUF	Other currencies	Total
Non-current financial receivables and loans	23,677			23,677
Non-current operating receivables	96,835,155		707,882	97,543,037
Current financial receivables and loans	5,847,462			5,847,462
Current operating receivables	424,770,636		7,693,393	432,464,029
Non-current financial liabilities	-501,250,896			-501,250,896
Non-current operating liabilities	-134,678			-134,678
Current financial liabilities	-141,189,411			-141,189,411
Current operating liabilities	-446,025,362	-376,657	-452,025	-446,854,044
Net exposure of the SFT as at 31/12/2021	**-561,123,417**	**-376,657**	**7,949,250**	**-553,550,824**

in EUR Exposure to risk of change of exchange rates	EUR	HUF	Other currencies	Total
Non-current financial receivables and loans	25,121			25,121
Non-current operating receivables	1,803,828		236,880	2,040,708
Current financial receivables and loans	12,310,346			12,310,346
Current operating receivables	212,423,447			212,423,447
Non-current financial liabilities	-599,458,222			-599,458,222
Non-current operating liabilities	-533,306			-533,306
Current financial liabilities	-71,725,263			-71,725,263
Current operating liabilities	-178,281,796	-149,837	-749,375	-179,181,008
Net exposure of the SFT as at 31/12/2020	**-623,435,845**	**-149,837**	**-512,495**	**-624,098,177**

in EUR Concluded contracts for currency swaps according to the maturity date	31/12/2021	31/12/2020
Concluded contracts for currency swaps according to the maturity date – purchase hedging	24,706,200	17,564,445
Concluded contracts for currency swaps according to the maturity date – sale hedging	510,502	6,096,140
Total	**25,216,702**	**23,660,585**

in EUR Currency swap effect	31/12/2021	31/12/2020
Unrealised loss of effective transactions	1,156,205	776,875
Realised loss of effective transactions	-345,847	-153,292

INTEREST RATE RISK

The Group manages interest rate risks in compliance with system regulations of the financial department of HSE and the internal rules of the subsidiaries of the HSE Group. The interest rate risk was properly managed in 2021 by limiting and reducing risks associated with interest rate changes, resulting in stabilised cash flows.

As at 31 December 2021, EUR 337.6 million of Group's non-current loans were subject to a fixed interest risk, whereas the remainder was subject to a variable interest rate.

Interest rate risk is regularly monitored and reported by the Group's companies. Developments on the money market and interest rate developments are also regularly monitored, resulting in the adoption of appropriate interest rate hedging strategies. In 2021, no interest rate rising hedging transactions and no interest rate derivatives were concluded.

Cash flow sensitivity analysis with variable interest rate instruments

In 2021, the average amount of the 3M Euribor reference interest rate amounted to -0.549% and of the 6M Euribor to -0.523%. As a result, even an increase of the margin by +0.50 basis points would not have an effect on increasing interest expenses from loans with a variable interest rate.

As fixed interest rates have been agreed for the financial assets, no sensitivity analysis has been carried out for this part.

in EUR	Net profit or loss 2021		Net profit or loss 2020	
Financial instruments	Increase by 50 bt	Decrease by 50 bt	Increase by 50 bt	Decrease by 50 bt
Financial instruments with variable interest rates	**0**	**0**	**-759,010**	**532,075**
Financial liabilities	n/a	n/a	-759,010	532,075

PRICE RISK

The price risk derives from market price fluctuations of electricity and emission permits arising from changes to market categories such as market prices of other energy products (e.g. coal, gas, oil, etc.), changes in the market structure of supply and demand as well as regulatory and other effects.

The effect of the price risk on the Group's operations can be quantified based on key variables:

- market positions of the Group by market and product at a specific time of supply,
- the volatility of prices on individual markets and products at a specific time of supply, and
- price correlations between individual markets and products at a specific time of supply.

The metrics monitored for price risk management purposes differ in respect of activity type.

Three key price-risk-related trading parameters and limits were applied in 2021, namely the VaR (value-at-risk) parameter, the floating stop-loss limit and the venture capital limit.

The *VaR* parameter is the key metrics indicating current price risk exposure. It includes key risk exposure effects, such as the observed portfolio's market position, the fluctuation of prices the portfolio is exposed to and the statistical relation between market and product prices affecting the portfolio's value. By using a selected time interval and the level of confidence of the price exposure, the parameter discloses the actual level of risk. The Group monitors the 5-day VaR level by using a 95% confidence interval. The parameter stands for the severity of potential loss of the trading portfolio in five days which won't be exceeded subject to market prices, correlations and volatility and given the quantitative position in 95% of cases. The *floating stop-loss limit* aims to secure the portfolio's already achieved values. The *venture capital limit* stands for the value's loss limit still acceptable to the Group for a certain portfolio; in the case of a higher loss, however, portfolio- related activities are discontinued.

The sale of electricity and the procurement of emission allowances from our self-generated electricity are managed based on the relevant Self-Generated Electricity Sales and Emission Allowance Procurement for the Needs of Self-Generated Electricity of the Group Strategy. 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 by selling parts of volumes of its self-generated electricity and by procuring emission allowances on energy markets for years in advance. The market liquidity of non-current products is limited by the length of the period in the future. Market development also tends to increase the liquidity of non-current products in the region, indicating that even periods further in the future can be price secured. Procedures related to the self-generated electricity sales strategy are regularly monitored and assessed at Group meetings in charge of sales of self-generated electricity.

The Group manages and controls price risks by using the following activities and methods:

- by monitoring the market position of the Group, parent company by country and group of transactions levels on a daily basis;
- by market activities on a daily basis - by concluding over-the-counter (OTC) transactions of an equal volume on the same market or by procuring and selling forwards given the type of trading activity;
- by monitoring and analysing the prices of energy products on a daily basis and by projecting expected energy product price changes on various markets;
- by monitoring market activities on the emission allowances market on daily basis;
- by monitoring investment decisions in the energy sector in the European Union and the economic growth of leading countries;
- by monitoring and analysing the value of the VaR and MtM (Mark-to-Market) parameters by transaction group, taking into account limits or the levels of the VaR value as laid down by internal rules on a daily basis, and
- by deliberating on the changes in value and risk parameters in the market risk management sub-committee on a regular weekly basis.

Future contracts for electricity

The Group sells and procures futures with the purpose of securing long-term positions from self-generated electricity, against price risks and with the purpose of position trading.

In the event of securing the price, the Group shall, upon concluding a physical delivery of electricity transaction, also simultaneously conclude a future of an offset volume and the same maturity or a future with the maturity complying with the planned volumes of self-generated electricity. In doing so, the Company shall financially fix its profit allowing, for example, that loss generated from the procurement of futures is set off by profit generated from the physical quantity of procured/sold or generated physical volume of electricity. The planned volumes of generated electricity in the Group shall serve as the basis used for implementing the Price Securing Strategy of Planned Volumes of Self-Generated Electricity. Thus, the Group is already selling electricity of subsidiaries during the current year for several years in advance, whereas the main objective of the strategy is to maximise profit and provide stable revenue from the sale of electricity.

At year-end, the Group has EUR 657,657,256 in concluded futures. Related disclosures are provided in the Capital section.

in EUR Concluded standardised forward contracts for hedging	31/12/2021	31/12/2020
For electricity - trading - purpose of purchase	216,867,497	180,840,187
For electricity - trading - purpose of sale	458,789,759	129,572,114
Total	**675,657,256**	**310,412,301**

The procurement or sales of futures with the purpose of position trading at the time a position is opened increases the price exposure of the Group since the future 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 futures or physical contracts with an offset position. The disclosures of the respective transactions are provided in the Capital section. At the end of the year, the Group recorded EUR 626,476,442 of open future contracts held for trading.

in EUR Concluded standardised forward contracts for trading	31/12/2021	31/12/2020
For electricity - trading - purpose of purchase	212,280,829	125,023,179
For electricity - trading - purpose of sale	414,195,613	131,159,697
Total	**626,476,442**	**256,182,876**

Emission allowances

The Group concluded futures in 2021 for the procurement and sale of emission allowances in order to secure the price of volumes of emission allowances arising from self-generated electricity requirements; to a limited extent, the Group also concluded futures for the procurement and sales of trading activities not related to its self-generated electricity. At the end of 2021, the Company held EUR 256,444,840 in open contracts securing the procurement and sale of emission allowances. Related disclosures are provided in the Capital section.

in EUR Concluded standardised forward contracts for hedging	31/12/2021	31/12/2020
For emission allowances - trading - futures for hedging procurement	158,919,840	130,682,140
For emission allowances - trading - futures for hedging sales	97,525,000	56,055,000
Total	**256,444,840**	**186,737,140**

in EUR Concluded standardised forward contracts for trading	31/12/2021	31/12/2020
For emission allowances - trading - intended for procurement	528,500	0
Total	**528,500**	**0**

CAPITAL MANAGEMENT

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 trust of creditors, partners and potential investors in the Group as well as maintains the future development of activities.

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

The ratio shows the ratio between the Group's debt and capital. Due to a lower capital volume, resulting from asset impairment, the leverage ratio at the end of 2021 was higher than in 2020.

in EUR Capital management	31/12/2021	31/12/2020
Non-current financial liabilities	497,730,640	596,823,215
Non-current financial liabilities from leases	3,520,256	2,635,007
Current financial liabilities	139,682,941	70,537,774
Current financial liabilities from leases	1,506,470	1,187,489
Total financial liabilities	642,440,307	671,183,485
Capital	817,033,848	900,395,852
Financial liabilities/Capital	**0.79**	**0.75**
Cash and cash equivalents	96,589,748	78,473,024
Net financial liability	545,850,559	592,710,461
Net debt/Capital	**0.67**	**0.66**

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

in EUR	31/12/2021		31/12/2020	
Carrying amounts and fair values of financial instruments	Book value	Fair value	Book value	Fair value
Non-derivative financial assets at fair value	**18,339,607**	**18,339,607**	**16,083,340**	**16,083,340**
Financial assets available for sale	18,339,607	18,339,607	16,083,340	16,083,340
Non-derivative financial assets at amortised cost	**632,467,954**	**632,467,954**	**305,272,643**	**305,272,643**
Financial receivables	5,871,139	5,871,139	12,335,467	12,335,467
Operating and other receivables	530,007,067	530,007,067	214,464,152	214,464,152
Cash and cash equivalents	96,589,748	96,589,748	78,473,024	78,473,024
Total	**650,807,561**	**650,807,561**	**321,355,983**	**321,355,983**
Derivative financial liabilities at amortised cost	**161,410,681**	**161,410,681**	**0**	**0**
Derivatives (liabilities)	161,410,681	161,410,681	0	0
Non-derivative financial liabilities at amortised cost	**1,098,414,075**	**1,098,414,075**	**863,491,314**	**863,491,314**
Bank loans	635,896,321	635,896,321	666,325,878	666,325,878
Other financial liabilities	2,673,465	2,673,465	1,035,111	1,035,111
Operating and other liabilities	459,844,289	459,844,289	196,130,325	196,130,325
Total	**1,259,824,756**	**1,259,824,756**	**863,491,314**	**863,491,314**

Illustration of financial assets and liabilities disclosed at fair value subject to the fair value determination hierarchy.

in EUR	31/12/2021				31/12/2020			
Carrying amounts and fair values of financial instruments	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Non-derivative financial assets at fair value	**43,572**	**0**	**18,296,035**	**18,339,607**	**35,519**	**0**	**16,047,821**	**16,083,340**
Financial assets at fair value through other comprehensive income	43,572	0	18,296,035	18,339,607	35,519	0	16,047,821	16,083,340
Non-derivative financial assets at amortised cost	**0**	**0**	**632,467,954**	**632,467,954**	**0**	**0**	**305,272,643**	**305,272,643**
Financial receivables	0	0	5,871,139	5,871,139	0	0	12,335,467	12,335,467
Operating and other receivables	0	0	530,007,067	530,007,067	0	0	214,464,152	214,464,152
Cash and cash equivalents	0	0	96,589,748	96,589,748	0	0	78,473,024	78,473,024
Total	**43,572**	**0**	**650,763,989**	**650,807,561**	**35,519**	**0**	**321,320,464**	**321,355,983**
Derivative financial liabilities at amortised cost	**130,597,045**	**30,813,636**	**0**	**161,410,681**	**0**	**0**	**0**	**0**
Derivatives (liabilities)	130,597,045	30,813,636	0	161,410,681	0	0	0	0
Non-derivative financial liabilities at amortised cost	**0**	**0**	**1,098,414,075**	**1,098,414,075**	**0**	**0**	**863,491,314**	**863,491,314**
Bank loans	0	0	635,896,321	635,896,321	0	0	666,325,878	666,325,878
Other financial liabilities	0	0	2,673,465	2,673,465	0	0	1,035,111	1,035,111
Operating and other liabilities	0	0	459,844,289	459,844,289	0	0	196,130,325	196.130.325
Total	**130,597,045**	**30,813,636**	**1,098,414,075**	**1,259,824,756**	**0**	**0**	**863,491,314**	**863,491,314**

3.5.8 Events after the reporting date

After the date of the statement of financial position in the Group, the following important events happened in the Group which did not have any effect on the 2021 financial statements:

- The war in Ukraine

The escalation of the Russo-Ukrainian conflict rocked energy product markets and led to an extreme rise in prices of energy products on a global level. Russia is namely the third largest producer of crude oil, the second largest producer of gas and one of the top five producers of iron, nickel, and aluminium. As a result, any effect on the reduction of supply leads to higher prices of these raw materials on the global markets. In addition, this has also resulted in a greater uncertainty in the expected fast recovery following the two-year covid-19 pandemic. The actual aftermath of the war will else be primarily dependent on the duration of the invasion and severity of its aftermath.

The conflict will have a major effect on economic growth primarily in Eastern Europe which is the most dependent on the import of commodities from Russia and Ukraine. The EU-Russia energy product co-dependence has turned into one of the key elements of negotiations to end the war.

Production in the HSE Group is currently taking place in a reliable and unimpeded way. The effect of the Russo-Ukrainian war has not affected other supplies as of yet. However, the fact remains, that the prices of other raw materials have already increased primarily as a result of the effect of covid-19.

The currently most important generation risk are significant changes in prices of both input raw materials and the materials required for our generation processes. As of January 2022, a high increase of prices has also been identified in electricity costs which is a significant cost item. No effects of the Russo-Ukrainian situation on our maintenance services have been observed so far. It has been estimated, however, that, if the conflict were to continue, its effect would soon be reflected in maintenance service prices as well.

Related to current Russia and Ukraine-related events, both HSE and the HSE Group have experienced an increase in incoming e-mail message rejection in our e-mail security system of the HSE Group. Related to a higher cyber-attack risk, information security activities aimed at securing our key IT systems and the operations or unimpeded functioning of production facilities have been strengthened. A team on call 24/7 within the HSE Group to control the IT network with the knowledge and rights to temporarily unblock web traffic has also been established. In the event of a cyber-attack or a network outage and/or a deliberate blockade of our telecommunication networks/services, there are already scenarios of manual management of production facilities, including a trained team, an established communication system between teams and/or companies via radio communications, satellite phones, pagers, analogue telephony, etc., all with the key objective of preserving continuous operations and generation of electricity. Our own independent source of electricity (such as a diesel aggregate) to ensure continuous operation and our own power supply has also been provided.

- The national coal phase-out strategy

On 13/01/2022, the Government of the Republic of Slovenia adopted the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy. The adoption of the Strategy and its fastest possible implementation is essential for the energy transformation of Slovenia, both coal mining regions and everyone associated with the coal mining industry, allowing us to as quickly and comprehensively as possible provide for a just transition primarily for all affected workers and their families. The Strategy lays down that Slovenia will discontinue generating electricity from coal no later than 2033. The actual year is not as relevant for PV as the completion of all the required coal excavation discontinuation activities in the Šalek Valley, to be reviewed on a bi- to tri-annual basis. The adoption of the Strategy is also relevant for the timely drafting and adoption of a phased closure of the Velenje Coal Mine (PV) act which, in addition to an extension of the concession, is a condition for financially sound and stable operations of PV and, as a result, further reliable provision of electricity to Slovenia. On 21/01/2022, Annex 1 to the Concession Agreement was signed, extending the duration of the concession agreement to 21/07/2023.

Accounting Report of the HSE Company

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4.1 Auditor's Report of the HSE Company

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

Report on the Audit of the Financial Statements

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 2021, 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 2021, 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 Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for 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.

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Emphasis of matter

We would like to draw your attention to the Note Subsequent events to the financial statements, where it is disclosed that on 13 January 2022 the Government of the Republic of Slovenia adopted the National Strategy for Coal Exit and Restructuring in Coal Regions. The strategy stipulates that Slovenia will stop using coal for electricity production in 2033 at the latest. Our opinion is not modified in respect of this matter.

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 2021. 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 subsidaries

Key audit matter	How key audit matter was addressed
Investments in subsidiaries in the company's financial statements as at 31 December 2021 amount to EUR 819,038 thousand. In the year ended 31 December 2021, the company recognized EUR 59,531 thousand of impairments 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 as value in use in accordance with requirements of IAS 36, including an assessment of the accuracy of management's past estimates, an assessment of the adequacy of the

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	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.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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

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the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Report on the requirements of the Regulation (EU) No 537/2014 of the European Parliament and of the Council (Regulation EU 537/2014)

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 three 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 20 May 2022 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.

DELOITTE REVIZIJA d.o.o.

Tina Kolenc Praznik
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 20 May 2022

4.2 Liability declaration of the management

The management shall be responsible for drawing up 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 Holding Slovenske elektrarne d.o.o.'s operations.

The management legitimately expects the Company to have sufficient resources in the foreseeable future to enable it to continue its operations. The financial statements are therefore drawn up on a going concern basis of the Company.

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

- properly selected and consistently applied accounting policies,
- reasonable and sensible assessments and estimates.

The management is responsible for keeping corresponding records, which give an accurate and fair view 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 International Financial Reporting Standards. 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 IFRSs, without reservations about their application.

The financial statements of Holding Slovenske elektrarne d.o.o. for the financial year ended on 31 December 2021 were adopted by the management on 20 May 2022.

Done in Ljubljana, on 20 May 2022

Viktor Vračar, PhD CEO OF HSE	Uroš Podobnik CBO of HSE	Marko Štrigl, M.Sc. CBO of HSE

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 in its capacity as the then representative of the founder of 29 November 2010, the Company has been drawing up financial statements and notes thereto in accordance with the International Financial Reporting Standards, as adopted by the European Union, since 1 January 2011.

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 HSE

4.4.1 Statement of financial position of HSE

in EUR	Explanatory note	31/12/2021	31/12/2020
ASSETS		**1,446,497,311**	**1,246,755,842**
A. NON-CURRENT ASSETS		**980,547,652**	**996,450,614**
I. Intangible assets	1	91,450,494	70,968,441
II. Real property, plant and equipment	2	14,874,557	12,084,491
III. Right to use leased assets	3	1,423,178	1,811,219
V. Non-current financial investments in subsidiaries	4	819,037,665	867,450,462
VI. Other non-current financial investments and loans	5	41,700,442	42,024,442
VII. Non-current operating receivables	6	11,215,050	1,550,547
IX. Deferred tax receivables	7	846,266	561,012
B. CURRENT ASSETS		**465,949,659**	**250,305,228**
II. Inventories	8	3,584,557	724,119
III. Current financial investments and loans	9	1,334,459	331,315
IV. Current trade receivables	10	254,546,822	170,650,607
V. Contract assets	11	395,489	2,603,167
VI. Current tax receivables		1,299,741	0
VII. Other current assets	12	155,989,845	38,509,961
VIII. Cash and cash equivalents	13	48,798,746	37,486,059
EQUITY AND LIABILITIES		**1,446,497,311**	**1,246,755,842**
A. EQUITY	14	**666,757,957**	**779,976,245**
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		-88,891,503	43,209,380
V. Fair value reserves		-282,078	-264,897
VI. Retained profit/loss		-397,615,260	-416,515,036
B. NON-CURENT LIABILITIES		**160,422,719**	**194,003,860**
I. Provisions for severance pays and anniversary bonuses	15	1,771,464	1,637,433
II. Other provisions	16	507,127	483,926
III. Other non-current liabilities	17	241,908	215,475
IV. Non-current financial liabilities	18	157,045,455	190,348,485
V. Non-current financial liabilities from leases	19	856,765	1,318,541
C. CURRENT LIABILITIES		**619,316,635**	**272,775,737**
II. Current financial liabilities	20	104,944,587	21,868,451
III. Current financial liabilities from leases	21	599,802	520,461
IV. Current operating liabilities	22	235,383,816	153,694,216
V. Contract liabilities		22,454	0
VI. Current tax liabilities		0	11,544,368
VII. Other current liabilities	23	278,365,976	85,148,241

* 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 HSE

in EUR	Explanatory note	2021	2020
OPERATING REVENUE		**2,740,474,730**	**1,866,001,518**
1. Net sales revenue	25	2,613,503,989	1,860,698,020
2. Other operating income	26	126,970,741	5,303,498
OPERATING EXPENSES		**2,646,543,400**	**1,758,621,519**
3. Costs of goods, materials and services	27	2,468,156,191	1,742,868,326
4. Labour costs	28	14,141,291	12,913,742
5. Value write-offs	29	2,263,891	1,260,717
a) depreciation		1,294,529	1,260,444
b) impairments/write-offs/disposal of intangible assets and investments, property, and equipment		2,230	273
c) receivables impairments/write-offs		967,132	0
8. Other operating expenses	30	161,982,027	1,578,734
OPERATING PROFIT/LOSS		**93,931,330**	**107,379,999**
9. Financial revenue	31	**5,787,411**	**4,650,139**
10. Financial expenses	32	**63,629,142**	**318,609,977**
FINANCIAL OUTCOME		**-57,841,731**	**-313,959,838**
PROFIT (LOSS) BEFORE TAX		**36,089,599**	**-206,579,839**
TAX	33	**17,208,502**	**20,363,086**
12. Current tax		17,404,777	20,404,929
13. Deferred tax		-196,274	-41,843
NET PROFIT/LOSS FOR THE YEAR	34	**18,881,097**	**-226,942,925**

* 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 HSE

in EUR	Explanatory note	2021	2020
Net profit/loss for the year	34	**18,881,097**	**-226,942,925**
Actuarial profits and losses of programmes with certain income of employees		1,497	-182,237
Items that will subsequently not be included in the income statement	14	**1,497**	**-182,237**
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows		-131,721,552	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		-379,331	-815,428
Items that will subsequently be included in the income statement	14	**-132,100,883**	**22,757,102**
Total comprehensive income for the reporting period		**-113,218,289**	**-204,368,060**

* 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 HSE

in EUR	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/loss	18,881,097	-226,942,925
Adjustments for:		
Amortisation of intangible assets	359,346	353,795
Amortisation of property, plant and equipment	401,524	388,133
Amortisation of right to assets use	533,658	518,515
Write-off of real property, plant and equipment	1,367	207
Operating receivables write-offs	967,132	0
Elimination of write-off/impairment of operating receivables	0	-524
Loss from sale of real property, plant and equipment	863	67
Financial revenue	-5,787,411	-4,650,139
Financial expenses	63,629,142	318,609,977
Profit from sale of real property, plant and equipment	-14,640	-5,199
Taxes	17,208,503	20,363,086
Operating profit before changes in net current assets and taxes	***96,180,581***	***108,634,993***
Changes in net current assets and provisions		
Change in:		
Inventories	-2,860,438	-724,119
Trade receivables and other assets	-209,800,088	-13,188,834
Operating liabilities to suppliers and other liabilities	143,208,235	57,396,071
Received advance payments	26,433	-108,530
Provisions	157,232	408,318
Profit tax paid	-30,248,886	-12,603,151
Cash from operations	***-3,336,931***	***139,814,748***
CASH FLOWS FROM INVESTING ACTIVITIES		
Interests received	51,643	676,745
Dividends received	5,228,335	172,934
Remuneration from other financing	504,290	1,341,632
Income from sale of real property, plant and equipment	28,378	7,721
Income from disposal of intangible assets	67,227,720	36,522,906
Income from reduction of current loans given	324,000	2,629,500
Income from reduction of non-current loans given	0	90,000
Expenses for purchase of real property, plant and equipment	-3,207,559	-658,806
Expenses for purchase of intangible assets	-88,067,588	-67,018,393
Expenses for leases	-145,616	-1,206,820
Expenses for purchase of subsidiaries	-11,118,000	0
Expenses for increase of current loans given	-1,000,000	-85,000,000
Expenses for increase of non-current loans given	0	-2,498,059
Cash from investment	***-30,174,397***	***-114,940,640***
CASH FLOWS FROM FINANCING ACTIVITIES		
Leases	0	1,198,881
Remuneration from current loans received	201,200,000	79,200,000
Expenses for loan interest	-3,522,230	-3,951,859
Expenses from other financial liabilities	-468,289	-433,421
Expenses from other financial liabilities	-20,803,030	-11,303,030
Expenses for repayment of current loans	-131,200,000	-79,200,000
Expenses for leases	-382,436	-495,402
Cash from financing	***44,824,015***	***-14,984,831***
INITIAL BALANCE OF CASH AND CASH EQUIVALENTS	**37,486,059**	**27,596,780**
Profit or loss for the period	11,312,686	9,889,278
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**48,798,746**	**37,486,059**

continues

4.4.5 Statement of changes in equity of HSE

	CALLED-UP CAPITAL		RESERVES FROM PROFIT			RETAINED PROFIT/LOSS		
in EUR	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 as at 01/01/2020	**29,558,789**	**561,243,185**	**562,744,824**	**20,452,278**	**-74,525**	**-189,580,246**	**0**	**984,344,304**
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 profits and losses of programmes with certain income of employees					-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				-815,428				-815,428
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows, retained in net profit/loss				23,572,530				23,572,530
Balance as at 31/12/2020	**29,558,789**	**561,243,185**	**562,744,824**	**43,209,380**	**-264,897**	**-189,572,110**	**-226,942,926**	**779,976,247**
Balance as at 01/01/2021	**29,558,789**	**561,243,185**	**562,744,824**	**43,209,380**	**-264,897**	**-189,572,110**	**-226,942,925**	**779,976,247**
B.2. Changes in comprehensive income	**0**	**0**	**0**	**-132,100,883**	**-17,181**	**18,678**	**18,881,097**	**-113,218,289**
Entry of net profit for the reporting period							**18,881,097**	**18,881,097**
Items that will subsequently not be included in the income statement	**0**	**0**	**0**	**0**	**-17,181**	**18,678**	**0**	**1,497**
Actuarial profits and losses of programmes with certain income of employees					-17,181	18,678		1,497
Items that will subsequently be included in the income statement	**0**	**0**	**0**	**-132,100,883**	**0**	**0**	**0**	**-132,100,883**
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows				-131,721,552				-131,721,552
Net effective part of change in the fair value of instrument for hedging against the variability of cash flows, retained in net profit/loss				-379,331				-379,331
Change in reserve for fair value of financial assets available for sale								*0*
Net profit/loss from the revaluation of non-current assets held for sale								*0*
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method								*0*
Other items of comprehensive income of the financial year								**0**
B.3. Changes in equity	**0**	**0**	**0**	**0**	**0**	**-208,061,828**	**208,061,828**	**0**
Allocation of the remainder of net profit of the comparative reporting period to other components of capital						-226,942,925	226,942,925	0
Settlement of loss as a deduction component of equity						18,881,097	-18,881,097	0
Balance as at 31/12/2021	**29,558,789**	**561,243,185**	**562,744,824**	**-88,891,503**	**-282,078**	**-397,615,260**	**0**	**666,757,958**

4.5 Notes to the financial statements of the HSE Company

4.5.1 Reporting company

Holding Slovenske elektrarne d.o.o. (hereinafter referred to as 'the Company') is registered in Slovenia and is the parent company of the HSE Group. The address of the registered office of the Company is Koprska ulica 92, 1000 Ljubljana, Slovenia. The Company's main activity is electricity trading.

The financial year of the Company shall correspond to the calendar year. Separate financial statements of the Company for the year ended on 31 December 2021 are presented below.

4.5.2 Drawing up basis

a) Statement on conformity

The Company drew up its financial statements as at 31 December 2021 by taking into account the following applicable:

- 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 of the Corporation Tax Act and its bylaws;
- Company Corporate Accounting Rules; and
- other applicable laws.

b) Accounting assumptions and qualitative characteristics of financial statements

The effects of transactions and other 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 Company were drawn up 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.

At year-end, the Company shows EUR 154 million in excess of current liabilities over current receivables. Without taking into account current liabilities from the valuation of commodity contracts at fair value which do not constitute a cash outflow and amount to EUR 161 million, current liabilities are EUR 7 million lower than current receivables. The Company is continuously engaged in liquidity risk management activities and finds this risk to be properly managed. 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:** 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 permits or requires 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 TO 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 2020, except for the amendments described below.

In view of increased volatility of electricity prices, the Company changed the accounting policy applied to recognising and valuating electricity procurement and sales commodity agreements in 2021. In compliance with IFRS 9, commodity contracts the purpose of which is not to physically procure or deliver goods but whose performance is reflected only in a physical settlement, shall be treated as financial transactions, recognised and measured in compliance with IFRS 9. For this reason and in compliance with IFRS 9.2.6, the Company shall account for electricity procurement and sales contracts for the purpose of trading as derivatives, as, for these contracts, the Group usually has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin (in compliance with the rules of IFRS 9 on contract settling net). In compliance with IFRS 9.2.4, the Company shall account for these contracts as derivatives and measure them at fair value through profit or loss.

The effect of a change in the accounting policy applying retroactively to 2020 in the amount of EUR 1,292,361 accounts for an intangible value. For this reason, the change has not been entered into our accounts as an adjustment item of the preceding year.

The contracts that the Group has concluded and that it continues to hold for the purpose of receipt or delivery of a non-financial item in compliance with the entity's expected procurement, sale or usage requirements, such as sales contracts for HSE Group self-generated electricity (so-called 'own-use' contracts), shall continue to be recognised in the financial statement in compliance with IFRS 15 on the effective date of the respective contract.

c) Measurement basis

The financial statements of the Company have been drawn up based on historical cost, except for derivatives and disposable assets which are shown at fair value or amortised cost.

d) Functional and reporting currency

The financial statements in this report are presented in euro (EUR) without cents; the euro is both the functional and reporting currency of the Company. When using addition, insignificant rounding errors in tables may occur.

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 these estimates and assumptions are based purely on subjective considerations and entail a degree of uncertainty, subsequent actual results may differ from them. Estimates are reviewed on an ongoing basis. Modifications to accounting estimates shall be recognised in the period in which the estimates had been modified if the modification only affects that period; or in the period of modification and subsequent periods if the modification affects subsequent periods.

Estimates and assumptions are included in the following significant judgements:

- for estimating the useful life of depreciable assets.

The useful life of assets is assessed by taking into account the expected physical use, technical obsolescence, economic obsolescence and expected statutory as well as other restrictions on their use. 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.

- The Company tests the impairment of non-financial assets by reviewing the existence of impairment indicators of individual cash-generating units on an annual basis, whereby the recoverable amount of non-financial assets is established on the basis of the present value of cash flows, which, in turn, is based on an estimate of expected cash flows from the CGU and the determination of an appropriate discount rate. In assessing whether there is a need for 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 non-current employee benefits (retirement benefits).

The current value of retirement benefits is recorded under employment benefit obligations. 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 primarily refers to 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 post-employment employee benefit liabilities are sensitive to changes in those estimates.

- In recognising provisions for lawsuits and contingent liabilities.

Provisions are recognised when the Company has legal or constructive obligations arising from past events, which can be reliably assessed, and when it is likely that an outflow of resources embodying economic benefits will be required to settle the liability. The 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 contingent liability. If it becomes likely, the contingent liability shall be redistributed by setting up a provision in the financial statements at the time when the degree of certainty changes.

Further assessments and judgements applied by the management in drawing up the financial statements as at 31 December 2021 are as follows:

1. HSE holds 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 01/06/2023 and 31/12/2023. The redemption right relates to the redemption of the total 35.6% shareholding, representing SEL's total shareholding amounting to 14.7% of the share capital in HESS and GEN's total shareholding amounting to 20.9% of the share capital in HESS. HSE shall exercise the redemption right towards both company members/acquirers at the same time. The estimated option value as at 31/12/2021 amounts to EUR 1,402. In terms of assessment, the amount accounts to an intangible value and shall thus not be entered into the accounts of this year.
2. Under the call and put options, HSE holds the right to buy back a 12.58 per cent shareholding of Elektro Gorenjska and a 36.42 per cent shareholding of Elektro Celje that both companies hold in ECE. The Group currently owns 51% of ECE.

   There are two call options for the acquisition of Elektro Gorenjska, namely:

   - The first call option for Elektro Gorenjska entered into force on 01/01/2021 and is in effect until 31/12/2024. It shall be exercised upon receipt of the call option notice by the seller. The option share purchase price shall be calculated from an interest-bearing basis less the dividends disbursed since the conclusion of the agreement. The estimated option value as at 31/12/2021 amounts to EUR 241. In terms of assessment, the amount accounts to an intangible value and shall thus not be entered into the accounts of this year.
   - The second call option for Elektro Gorenjska enters into force on 01/01/2025 and is in effect until 31/05/2025 and shall be executed on 30/06/2025. HSE shall redeem the option by expressing to the option writer its intention to exercise its call option right. The purchase price shall be laid down by an option agreement giving rise to the executable value of the option equalling its market value at the time of execution. Given the execution value specification method, the fair value of the financial instrument (option) is close to 0.

   There is also a call option for the acquisition of Elektro Celje, namely:

   - The call option for Elektro Celje enters into force on 01/01/2025 and is in effect until 31/05/2025 and shall be executed on 30/06/2025. HSE shall redeem the option by expressing to the option writer its intention to exercise its call option right. The purchase price shall be laid down by an option agreement giving rise to the executable value of the option equalling its market value at the time of execution. Given the execution value specification method, the fair value of the financial instrument (option) is close to 0.

   In its business plan, HSE laid down that the call options of both companies would be taken up during the first half of 2025, thus at their executable value equalling their market value at the time of execution.
3. In compliance with IFRS 9.2.4, the Company measures electricity sales and procurement transactions for trading purposes at their fair value through profit or loss which requires an estimated fair value. The above does not apply to electricity procurement and sales contracts held by the company for or the purpose of the receipt or delivery of the non-financial item in compliance with its expected purchase, sale or usage requirements.
4. In the event of impairment testing for a cash-generating unit with assets with limited useful lives (TEŠ), business projections for its entire useful life are used. The key assumptions are presented in the following disclosures on the implementation and results of impairment of investments in subsidiaries.

4.5.3 Branches and representative offices

The Company has a branch in the Czech Republic. No transactions were performed through it in 2021, because electricity trading was transferred to HSE. 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 the accounting policies outlined below. The mentioned accounting policies were applied for both reported years, unless specified otherwise Where necessary, the comparable data were adjusted to match the information presented for the current year.

FOREIGN CURRENCY CONVERSION

Transactions in foreign currencies are translated into the applicable 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 recognised in the income statement by applying the principle of net profit or loss.

INTANGIBLE ASSETS

Intangible assets are non-current assets that enable the implementation of the Group's activity without physical substance. An item of intangible assets comprises non-current property rights and emission allowances needed to generate electricity in the HSE Group. Emission allowances for trading (EUAs) are shown among inventories.

At initial recognition, an intangible asset is recognised at cost. Cost includes 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, cost 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 upon acquisition.

Depreciation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of the intangible asset. Depreciation is applied at cost when the asset is available for use. Emission allowances are not depreciated since they are procured for the individual periods in which they are used.

Depreciation methods and the useful lives of groups of intangible assets are reviewed at the end of each financial year and are adjusted, where appropriate. If their useful life is extended, the depreciation costs in the financial year are decreased. If the useful life period is shortened, depreciation costs increase. The adjustment of the useful life period has to be restated to allow for the depreciation of the asset in the new foreseen useful life. A change in the useful life is considered 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	2021	2020
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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are non-current assets owned by the Company and used for the performance of its activities. Property, plant and equipment comprise buildings, production equipment, other equipment and assets under construction.

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated losses from impairments. Cost includes costs that may be directly attributed to the acquisition of the individual asset. Parts of devices and equipment that have different usable life are accounted for as individual assets. 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 the 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 upon acquisition.

Depreciation 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 applied at cost when property, plant and equipment is available for use. Property, plant and equipment under construction are not depreciated.

Estimated useful life - real property, plant and equipment	2021	2020
Business premises	30–50 years	30-50 years
Solar power plant	25 years	25 years
Computer equipment	2–5 years	2–5 years
Furniture	10 years	10 years
Small tools	4–5 years	5 years
Cars	5 years	5 years
Other plant and equipment	5–10 years	3-10 years

Depreciation methods and the useful lives of groups of assets are reviewed at the end of each financial year and are adjusted, where appropriate. If useful life is extended, the Company decreases accrued depreciation costs within the current financial year, whereas, if it is shortened, it increases them. The adjustment of the useful life period has to be restated to allow for the depreciation of the asset in the new foreseen useful life. A change in the useful life is considered 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 of 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 current maintenance costs) are recognised in the income statement as expenses as soon as they are incurred.

Gains and losses, arising at the disposal of property, plant and equipment, are established as the difference between the net sales value and the carrying amount of the written-off or disposed property, plant and equipment, and are recorded among other operating revenue or write-offs.

The Company verifies on a yearly basis whether there is an indication of impairment relating to property, plant and equipment being acquired. Significant indications of impairment include the following circumstances:

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

RIGHT TO USE LEASED ASSETS

On the basis of lease contracts, the lessees show leased assets under fixed assets as right to use assets, i.e. in connection with lease liabilities. Through depreciation, the value of leased assets is transferred under the costs and financing costs are debited to financial expenses. This standard provides two recognition exemptions, i.e. in the case of leases of low-value assets and short-term leases.

The Company has reviewed and analysed concluded lease contracts for a period greater than one year. 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 and recognised them as at 1 January 2019 in the financial position statement for a five-year period. In the case of lease contracts of an indefinite duration with the right to contract termination, the HSE Group estimates in accordance with item 18 of IFRS 16 that lease termination will not occur for at least 5 years, whereas the evaluations of longer leases cannot be made with reasonable certainty. Therefore, indefinite time contracts are determined for a duration of 5 years.

The Company uses an exception with regard to recognising the right to use assets for short-term leased vehicles of a duration of up 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 16 refers the lessee to use the incremental borrowing rate of interest, which HSE would pay if the asset was bought and the purchase would be indebted. HSE has no such interest rates, since the analysis of financing sources shows that existing sources were used to finance current investments in subsidiaries, and, in part, working capital.

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-financial corporations in credit institutions in the month of the lease, published in the bulletin of the Bank of Slovenia.

The value of right to use lease assets and liabilities is estimated based on discounting future cash flows for the lease duration. For leases, the Company used an interest rate calculated as the average of interest rates for 2018, published in the bulletin of the Bank of Slovenia, i.e. for a 1-to-5-year-maturity, separately for amounts of up to EUR 1 million and for amounts higher than EUR 1 million. The calculated average interest rate for amounts of up to EUR 1 million is 2.69% and for amounts higher than EUR 1 million 1.96%.

NON-CURRENT FINANCIAL INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are those where the Company has the controlling influence and the group of companies for which the Company draws up consolidated financial statements.

The investments into subsidiaries are shown at cost.

The Company recognises revenue from investments in the period when the decision on the distribution of profits is adopted.

Any indications of impairment of investments in subsidiaries are determined on an annual basis. If there is objective evidence that an impairment loss has occurred, the 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 liquidation of a subsidiary, the difference between the carrying amount and the liquidation value of the investment is recorded under financial revenue or expenses.

In the event of divestment of participation in a subsidiary, the difference between the carrying amount and the liquidation value of the investment is recorded under financial revenue or expenses.

NON-CURRENT INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates are those in which the Group has significant influence, although as a rule the shareholding in such companies is between 20% and 50%.

Investments in joint ventures are investments in which the Company, together with other owners, jointly controls the operations of these companies on the basis of a contractually agreed sharing of control.

In the Company's financial statements, investments in associates as well investments in joint ventures are carried at cost.

FINANCIAL ASSETS

Financial assets include cash and cash equivalents, receivables and loans and investments (except for investments in subsidiaries, associates and joint ventures).

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 party to the instrument's contractual terms.

The Company de-recognises 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 at amortised cost,
- financial assets at fair value through other comprehensive income, and
- financial assets at fair value through profit or loss.

The classification depends on the selected asset management business model and whether the Group collects contractual cash flows from financial instruments exclusively from principal payments and interest on the outstanding principal amount.

With the exception of operating receivables that do not contain significant financing components, the Company measures the financial asset during its initial recognition at fair value, which is increased by transaction costs. Operating receivables that do not contain significant components of financing are measured at the transaction price, determined in accordance with IFRS 15.

Financial assets at fair value through profit or loss are disclosed in the statement of financial position at their fair value, including the net change in the fair value recognised in the income statement. Financial assets at fair value through profit or loss primarily include unrealised and valued derivatives as at the reporting date.

a) Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits with a maturity of up to three months, and other current, quickly redeemable investments with an original maturity of maximum three months.

The Company converts foreign currency cash using the reference rate of the European Central Bank (ECB) published by the Bank of Slovenia, derived from the exchange rate of the ECB, except for those currencies for which the ECB does not publish reference exchange rates on a daily basis and which are subject to a monthly exchange rate.

b) Financial assets at fair value through profit or loss

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

Financial assets are classified as held for trading if they are acquired with the intention of selling or repurchasing them 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 of choice.

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

c) Financial assets at fair value through other comprehensive income (equity instruments)

Financial assets recognised at fair value through other comprehensive income with the nature of an equity instrument, are 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 which are not held for trading. The classification is stipulated by an individual financial instrument.

Gains and losses on these financial assets shall never be reallocated to the income statement, excluding dividends received which shall be recognised in profit or loss.

d) Financial assets at amortised cost

Financial assets at amortised cost include financial assets held by the Company within the business model for collecting contractual cash flows and if cash flows constitute exclusively payments of the principal and interest accrued on the outstanding principal balance. Financial assets at amortised cost also include loans and receivables. Given their maturity, they are classified as current financial assets (maturity of up to 12 months after the date of the statement of financial position) or non-current 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. Gains and losses are recognised in profit or loss upon reversal, changes or impairment.

FINANCIAL LIABILITIES

The Company's financial liabilities include loans received and trade payables. 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 Company becomes party to the instrument. With the exception of loans received, all financial liabilities are initially measured at fair value. Loans received are measured at amortised cost using the applicable interest rate. Given their maturity, they are classified as current financial liabilities (maturity of up to 12 months after the date of statement of financial position) or non-current financial liabilities (maturity over 12 months after the date of the statement of financial position). Gains and losses are recognised in the income statement upon de-recognising the financial liability and as part of the depreciation of the effective interest rate.

The Company de-recognises a financial liability when contractual obligations are discharged, cancelled, or expire.

DERIVATIVES (RECEIVABLES)

Derivatives are used for hedging the Company's cash flow exposure to price and currency risks. As part of its hedging efforts, the Company concluded exchange rate swaps as well as futures contracts used for hedging self-generated electricity and emission allowances in the following years.

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

Derivatives shall initially be recognised at fair value, namely by using the principle of net profit or loss, meaning that the actual value of the concluded transaction shall not be shown in the financial statements.

Following initial recognition, derivatives are measured at fair value, whilst the pertaining changes are considered differently with regard to whether or not the derivative qualifies for hedge accounting. Derivatives which do not qualify for hedge accounting shall be measured at value through profit or loss.

When a derivative is defined as hedging in the case of exposure to cash flow variability that may be attributed to an individual risk related to a recognised asset, liability or highly probable forecast transactions, which can affect the profit or loss, the effective portion of the fair value change of the derivative is recognised in the period's other comprehensive income and disclosed in the cash flow hedge reserve. The ineffective part of fair value changes of the financial instrument is directly recognised in the income statement. The Group shall prospectively discontinue 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 gain or loss recognised in the period's comprehensive income remains recorded in the cash flow hedge reserve until the hedged forecast transaction affects profit or loss. If the forecast transaction can no longer be expected, the amount shall be directly recognised in profit or loss in other comprehensive income. In other cases, the amount recognised as comprehensive income shall be transferred to profit or loss in the same period during which the hedged forecast transaction affects profit or loss.

The effects of other derivatives, not defined as hedges, in the case of cash flow variability exposure or failure of attribution to an individual risk, associated with a recognised asset or liability, shall be recognised in profit or loss among other operating revenue or other net operating expenses.

If forward purchases and sales related to the physical delivery of electricity are considered contracts concluded in the ordinary course of business of the Group ("own use" contracts), they are not subject to the scope defined under IFRS 9. This applies when the following conditions are met:

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

IMPAIRMENT OF ASSETS

Financial assets

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 given

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

Final write-offs of receivables require appropriate documents: a final arrangement with creditors, 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 lifetime expected credit loss (LECL) of a financial asset. Expected credit losses are the difference between contractual cash flows that are due under contract and all cash flows which the Company expects to receive. Expected cash flows will include cash flows from the sale of collateral.

Impairments for expected credit losses are assessed in two stages. 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 possible within the following 12 months. For credit exposures, for which a significant increase in credit risk has occurred since the initial recognition: the Company recognises an allowance from losses expected in the remaining useful life of the exposure, regardless of the default period.

Doubtful receivables from others are not settled within 180 days after their due date.

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Disputed receivables comply with one of the following conditions:

- judicial debt-collection proceedings to recover the receivables have been instituted,
- an opening decision for receivership, liquidation or bankruptcy proceedings has been 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 maturity of receivables. The Company estimates the total impairment by using past trends in the probability of default, the recovery period and the amount of incurred loss adjusted by the management's assessment as to whether the actual losses due to the current economic and credit conditions could be higher or lower than the losses as predicted by past development.

If all acts have been performed by exercising due diligence in order to achieve the repayment of a particular outstanding receivable, or if the amount of the receivable would make it uneconomic for the Group to have it recovered via judicial recovery proceedings, the receivable will be written-down in full on the basis of a management's decision.

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

An impairment loss related to a financial asset shown 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 Group reviews the carrying value of its material non-financial assets to determine whether there is an indication of impairments. If any such indication exists, the asset's recoverable value is estimated via an impairment test.

The recoverable value of an asset or cash-generating unit is the higher value in use or fair value less costs 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. For impairment testing purposes, assets that cannot be tested individually are placed 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 its carrying amount exceeds its 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 it no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable value. The loss due to the impairment of the asset is reversed only up to the amount that does not entail the increased carrying amount of an asset exceeding the carrying amount that would have been determined after the deduction of the depreciation on write-off, if the impairment loss was not recognised as an asset in prior years.

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 incurred during operation and belong to the owners. It is decreased by operating loss and payments to owners and increased by the profit generated in the period.

Share capital and capital reserves include cash and non-cash consideration of the owner.

On 31 December 2002, the general adjustments from revaluation of capital (in accordance with the then applicable Slovenian Accounting Standards) included the revalorisation of the share capital before 2002. Subsequently, the aforementioned adjustment was transferred to capital reserves. This amount can only be used to increase share capital.

Legal reserves are purposely retained earnings from previous years and are primarily used to cover losses. They are designed based on a decision by the competent supervisory authority or the owner.

The risk hedging reserve shall include the effect of the change to the fair value of derivatives established as successful hedging instruments in the event of exposure to cash flow variability related to hedging self-generated electricity and the hedging accounting related to emission allowance procurement cash flows.

The fair value reserve includes actual gains or losses related to provisions for post-employment and other non-current employee benefits (retirement benefits).

The retained profit or loss account includes undistributed profit or loss of the current year.

PROVISIONS FOR POST-EMPLOYMENT AND OTHER NON-CURRENT EMPLOYEE BENEFITS

In accordance with statutory regulations, Collective Agreements and internal regulations, the Company shall make provisions for the mandatory payment of jubilee and retirement benefits to employees. There are no other pension liabilities.

Provisions are made in the amount of estimated future jubilee and retirement benefit payments, discounted at the end of the financial year. The calculation is made for each individual employee and includes the costs of retirement benefits and all expected jubilee benefits up to retirement. The calculation using a projected unit is drawn up by an actuary. Retirement and jubilee benefits during the current year decrease the provisions made.

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 from retirement benefits are recognised in other comprehensive income (capital).

EMPLOYEE BENEFITS

Current employee benefit obligations are measured on an undiscounted basis and are expensed as the current benefit related service by the employee is provided. Liabilities are carried in the amount that is expected to be paid in the form of current remuneration, 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 liability can be estimated reliably.

OTHER PROVISIONS

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

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

Provisions are directly decreased by costs or expenses for which they were created to cover. This means that such costs or expenses no longer appear in the profit or loss of the financial year.

If the expected liabilities do not occur, the reversal of created provisions is carried out and shown under other operating revenue.

OTHER ASSETS AND LIABILITIES

Other assets include advances given, receivables due from state and other institutions and current deferred costs and accrued revenue not related to sales contracts. Deferred costs are the amounts incurred not debited to the profit or loss of the Company upon their incurring as of yet.

With the introduction of IFRS 15, non-accrued revenue is no longer part of other assets but non-accrued revenue from sales contracts with customers is recognised under the Contract Assets item.

Other liabilities include advances received, liabilities to employees, liabilities to the state and other institutions and non-current and current accrued costs and deferred revenue not related to liabilities arising from sales contracts. Accrued costs are amounts that have not been incurred as of yet, but they will incur the future and are already influencing 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 the Contract Assets item.

CONTINGENT LIABILITIES

Contingent liabilities are:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise, or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities include guarantees given and parent company guarantees.

REVENUE

In accordance with IFRS 15, the Company uses a five-step model to establish when to recognise revenue and to what amount. The model determines that revenue is recognised at the transfer of control over goods or services to the buyer in an amount expected to be justified. In view of the satisfied criteria, revenue shall be recognised:

- as it occurs or
- through the period.

The Company recognises revenue from contracts with buyers based on contracts, thus the control over goods and services is transferred to the buyer in the amount that reflects the compensation that the Company expects to be entitled to. Any promised service or supply of goods is considered a separate performance obligation if different. The performance obligation is different when the buyer derives benefits from the services rendered or goods delivered. The performance obligation is the obligation to provide a service or goods to the buyer.

Revenue is recognised as soon as the Company satisfies its performance obligation, i.e. when control over the respective service and goods is transferred to the buyer. Control means that the buyer can direct the use of an asset and receives all material benefits from the asset. The buyer may also prevent others from using and receiving the benefits from the respective asset.

Discounts, approved upon the contract signing, are distributed among all performance obligations and deferred for 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 arises upon the provision of goods. Goods are invoiced within 14 days or on a monthly basis. The sale of electricity accounts for the largest share within the sale of goods structure, which is followed by the sale of secondary and tertiary energy and deviations from the sale of electricity. This part also includes the sale of emission allowances arising from trading.

If the Company generates more foreign exchange gains than losses from operating activities, these are reported as net revenue from the sale of merchandise by applying the principle of net profit or loss.

Sale of services

The performance obligation in the sale of services arises while services are rendered. Invoicing is performed on a monthly basis. 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 account for the largest share in the sale of services.

Accrued revenue is the revenue taken into account in the profit or loss even though it has not been invoiced yet. In compliance with IFRS 15, it is recognised in the statement of financial position as contract assets which is the right to consideration in exchange for goods or services that the entity has transferred to a customer.

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

OTHER OPERATING AND FINANCIAL REVENUE

Other operating revenue related to products and services includes interest revenue from advances given, late interest revenue, capital gains from the disposal of fixed assets, damages and contractual penalties received and similar revenue.

Revenue from accruing late interest and related receivables is recognised upon occurrence if it is probable that the future economic benefits embodied with the transaction will flow to the Company. Else, accruing late interest is recorded as contingent assets and recognised in the Company's accounts upon payment. Accrued late interest is recorded on a case-by-case basis.

Financial revenue comprises revenue from participating interest in investments (dividends), interest on deposits and loans given, revenue from parent company guarantees given and profits generated from hedging instruments recognised in the income statement.

OPERATING AND FINANCIAL EXPENSES

Expenses are recognised if the decrease in economic benefits in the reporting period is associated with decreases in assets or increases in debt and if this decrease can be reliably measured.

Operating expenses are recognised upon the sale of merchandise.

The cost of sold goods encompasses the recording of expenses, related to the sale of electricity, emission allowances held for trading and their related costs. If the Company generates more foreign exchange gains than losses from operating activities, these are reported in the cost of sold goods.

Costs of materials are historical costs of procured materials, namely costs of safety equipment, small tools, whose useful life does not exceed a period of one year, energy products, stationery, specialist literature, and other materials.

Costs of services are historical costs of procured services, namely software, building and equipment maintenance services, advertising services, entertainment, insurance premiums, money transmission and other banking services (excluding interest rates), leases, advisory services, business trips, and similar services.

Write-downs in value include depreciation costs related to the consistent transfer of value of depreciable intangible assets and property, plant and equipment to the profit or loss. Write-downs in value also include write-offs and losses from the sales of intangible assets and property, plant and equipment, as well as impairments or write-offs of operating receivables.

Labour costs are historical costs that refer to gross salaries and other similar amounts to employees, as well as duties that are accounted for from this basis and are not an integral part of gross amounts.

Other operating expenses occur in connection with setting up provisions, donations and other duties, as well as contractual penalties for un-supplied 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 the agreed-upon interest rate.

TAXES

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

Tax liabilities are based on the taxable base of the financial year. The taxable base differs from the profit or loss reported in the income statement, as it excludes items of revenue or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. Current tax liabilities of the Company are calculated using the tax rate 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 financial position statement liability method to temporary differences, arising between tax bases of assets and liabilities and their carrying amounts in financial statements. Deferred tax is determined using the 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 future taxable profit that can be used for temporary differences is likely. It is the levied corporate income tax with regard to deductible temporary differences.

The deferred tax liability is corporate income tax levied with regard to taxable temporary differences, which means higher payment of tax in the future.

In 2021, 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 it is drawn up for. The cash flow statement is drawn up by using the indirect method and data from the statement of financial position and the income statement pursuant to International Financial Reporting Standards (IFRS).

Cash and cash equivalents of the Company include cash, cash in bank accounts, deposits redeemable at notice and deposits for a period of up to three months.

SEGMENT REPORTING

In the Annual Report, the Company does not disclose operations by segment. Segment reporting in the Annual Report is required for groups 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 THE EXISTING STANDARDS EFFECTIVE FOR THE CURRENT FINANCIAL 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 IFRS 9 – Financial Instruments; IAS 39 – Financial Instruments: Recognition and Measurement; IFRS 7 – Financial instruments: Disclosures, IFRS 4 – Insurance Contracts and IFRS 16 – Leases** – Interest Rate Benchmark Reform – Phase 2, adopted by the EU on 13 January 2021 (effective for annual reporting periods beginning on or after 1 January 2021).
- **Amendments to IFRS 16 – Leases** – COVID-19-Related Rent Concessions beyond 30 June 2021, adopted by the EU on 30 August 2021 (effective on 1 April 2021 for financial periods beginning on or after 1 January 2021).

- **Amendments to IFRS 4 – Insurance Contracts – Temporary exemption from the requirements of the IFRS 9**, adopted by the EU on 16 December 2020 (the date of termination of temporary exemption validity was extended from 1 January 2021 to annual reporting periods beginning on or after 1 January 2023).

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

STANDARDS AND AMENDMENTS TO EXISTING STANDARDS ISSUED BY THE IASB AND ADOPTED BY THE EU THAT DO NOT YET APPLY

At the date of approval of these financial statements, the IASB issued the following amendments to existing standards adopted by the EU that do not yet apply:

- **Amendments to IAS 16 – Property, plant and equipment** – Proceeds before Intended Use, adopted by the EU on 28 June 2021 (effective for annual reporting periods beginning on or after 1 January 2022).
- **Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets** – Onerous Contracts—Cost of Fulfilling a Contract, adopted by the EU on 28 June 2021 (effective for annual reporting periods beginning on or after 1 January 2022).
- **Amendments to IFRS 3 – Business Combinations** - Reference to the Conceptual Framework with amendments to IFRS 3, adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022).
- **IFRS 17 - Insurance Contracts,** including amendments to IFRS 17, adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023).
- **Annual Improvements to IFRSs (2018-2020 Cycle)** arising from the annual project to improve IFRSs (IFRS 1, IFRS 9, IFRS 16 and IAS 41) remedying incoherences and text interpretations, adopted by the EU on 28 June 2021 (Amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual reporting periods beginning on or after 1 January 2022). The amendment to IFRS 16 refers only to the illustrative example. For this reason, no effective date is provided.

NEW STANDARDS AND AMENDMENTS OF THE EXISTING STANDARDS ISSUED BY THE IASB, BUT NOT YET ADOPTED BY THE EUROPEAN UNION

Currently, IFRSs 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 (dates of entry into force below for IFRSs as issued by the IASC):

- **IFRS 14 – Regulatory Deferral Accounts** (effective for annual reporting periods beginning on or after 1 January 2016) – The European Commission decided not to start the clearance process of this intermediate standard and to rather wait for the issue of its final version.
- **Amendments to IAS 1 – Presentation of Financial Statements** – Classification of Liabilities as Current or Non--current (effective for annual reporting periods beginning on or after 1 January 2023).
- **Amendments to IAS 1 – Presentation of Financial Statements** – Disclosure of Accounting Policies (effective for annual reporting periods beginning on or after 1 January 2023).
- **Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors** – Definition of Accounting Estimates (effective for annual reporting periods beginning on or after 1 January 2023).
- **Amendments to IAS 12 – Income Taxes** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual reporting periods beginning on or after 1 January 2023).
- **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 its Associate or Joint Venture, and further amendments (effective date suspended indefinitely until the research project on the equity method is concluded).
- **Amendments to IFRS 17 - Insurance Contracts** – Initial Application of IFRS 17 and IFRS 9 – Comparative Information, effective for annual reporting periods beginning on or after 1 January 2023).

The Company foresees that the introduction of these new standards and amendments to the existing standards during the period of initial application will not have a material effect on the financial statements of the Company.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU 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 materially affect the financial statements of the Company if it were to be used as at the balance sheet date.

4.5.5 Determining fair value

With reference to reporting and disclosing the fair values of non-financial and financial assets and liabilities, fair value shall be determined 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 knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments shall be determined considering the following hierarchy levels of determining fair value:

- Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level two includes inputs other than quoted prices included within Level one that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level three includes inputs for the asset that are not based on observable market data.

Quoted prices are used as a basis for determining the fair value of financial instruments. If a financial instrument is not admitted to trading on a regulated market or the market is deemed non-functioning, inputs of Levels two and three are used to estimate the fair value of the financial instrument.

The fair value of foreign currency swaps is determined by using data provided to the Company by the bank with which a specific foreign currency swap has been concluded. Values are verified in the Company's financial department.

In order to determine the fair values of derivatives related to electricity and emission allowances, known exchange prices are used as at the balance sheet date.

Market prices belonging to Levels one and two were used to determine or calculate the fair value of commodity contracts as at 31/12/2021. Not a single transaction was subject to the calculation of the fair value on the basis of the Level three criterion.

The fair value of options shall be determined by calculating it on the basis of the Level three criterion.

4.5.6 Financial risk management

Detection and management of financial risks is defined in the business section of the annual report. In the notes to financial statements, risks are presented in connection with items in the financial statements (Section 4.5.7.5 `Financial instruments and risks' note), namely:

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

4.5.7 Disclosures to the financial statements

4.5.7.1 Statement of financial position

INTANGIBLE ASSETS (1)

in EUR	31/12/2021	31/12/2020
Emission coupons	88,723,467	68,420,366
Other non-current property rights	2,404,574	2,435,831
Intangible assets being acquired	322,452	112,244
Total	**91,450,493**	**70,968,441**

The Company shows emission coupons among intangible assets required for self-generated electricity needs of the HSE Group and software.

in EUR	Emission coupons	Other non-current property rights	Intangible assets being acquired	Total
Purchase cost as at 01/01/2021	**68,420,366**	**7,535,131**	**112,244**	**76,067,741**
Acquisition	87,529,291		538,297	88,067,588
Disposals - write-offs, sales	-67,226,190	-1,530		-67,227,720
Transfers from investments		328,090	-328,090	0
Purchase cost as at 31/12/2021	**88,723,467**	**7,861,691**	**322,451**	**96,907,609**
Written-off value as at 01/01/2021	**0**	**5,099,301**	**0**	**5,099,301**
Disposals - write-offs, sales		-1,530		-1,530
Depreciation		359,346		359,346
Written-off value as at 31/12/2021	**0**	**5,457,117**	**0**	**5,457,117**
Book value as at 01/01/2021	**68,420,366**	**2,435,830**	**112,244**	**70,968,440**
Book value as at 31/12/2021	**88,723,467**	**2,404,574**	**322,451**	**91,450,492**

in EUR	Emission coupons	Other non-current property rights	Intangible assets being acquired	Total
Purchase cost as at 01/01/2020	**38,239,693**	**7,332,562**	**0**	**45,572,255**
Acquisition	64,752,773		314,813	65,067,586
Disposals - write-offs, sales	-34,572,100			-34,572,100
Transfer from investments		1,336,831	-1,336,831	0
Change in group		-1,134,262	1,134,262	0
Purchase cost as at 31/12/2020	**68,420,366**	**7,535,131**	**112,244**	**76,067,741**
Written-off value as at 01/01/2020	**0**	**4,745,506**	**0**	**4,745,506**
Depreciation		353,795		353,795
Written-off value as at 31/12/2020	**0**	**5,099,301**	**0**	**5,099,301**
Book value as at 01/01/2020	**38,239,693**	**2,587,056**	**0**	**40,826,749**
Book value as at 31/12/2020	**68,420,366**	**2,435,830**	**112,244**	**70,968,440**

Among intangible assets, the Company also shows emission allowances needed to cover self-generated electricity needs in the TEŠ subsidiary, namely under the Emission Coupons Portfolio Management Agreement, from which it derives that the Company manages emission allowances of its 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 emission allowances needed at TEŠ for the current year is determined at the beginning of the following year, which is why TEŠ allowances are divested and transferred during the following year. All effects from the sale are already included in the Company's profit or loss of the current year.

At the beginning of 2021, the Company held 3,806,347 emission allowances in order to satisfy the self-generated electricity needs of its subsidiaries. For this purpose, the Company procured 3,418,000 and sold 3,781,347 emission allowances in 2021. As at 31 December 2021, the Company thus has 3,443,000 emission allowances in stock. The sale of emission allowances to subsidiaries shows EUR 326,382 in profit for the Company in 2021. In 2021, the Company divested a surplus of 100,000 allowances, and the profit was shown under revenue from allowance trading.

A noteworthy value of non-current property rights consists of the SAP software, the eDMS document management system and the Endur software.

Intangible assets increased in 2021 as a result of an upgrade to the Endure software, a redesign of the website and the implementation of SAP in RGP.

The useful lives of the most important software were reviewed in 2021. Useful lives were found to require changes. The useful life of the Endur software shall be extended. In 2021, it was depreciated by EUR 17,565 or EUR 4,962 less than the depreciation accounted for given the initially determined useful life. On the other hand, the useful life of SAP software shall be shortened on account of our transition to a newer and more state-of-the-art SAP software. On account of shortening the useful life of this software, it was depreciated in 2021 by EUR 54,484 or EUR 7,348 more than the accounted for depreciation given the initially estimated useful life.

As at 31 December 2021, the company has EUR 613,141 in commitments to implement the SAP software in RGP, Digital identity of employees and eDMS in RPG.

There are no pledges, financial leases or other ownership-related limitations referring to intangible assets.

PROPERTY, PLANT AND EQUIPMENT (2)

in EUR	31/12/2021	31/12/2020
Land	44,661	36,311
Buildings	1,200,334	1,237,839
Production equipment	71,126	76,206
Other equipment	812,955	965,014
Real property, plant and equipment	12,745,482	9,769,121
Total	**14,874,557**	**12,084,491**

Buildings include a portion of the Company's premises in Ljubljana. The remainder of the Company's premises in Ljubljana, Šoštanj, Maribor and Nova Gorica are leased. A solar power plant is shown among production equipment. Software is accounted for the majority of other plant and equipment.

in EUR	Land	Buildings	Production equipment	Other equipment	Real property, plant and equipment	Total
Purchase cost as at 01/01/2021	**36,311**	**1,817,468**	**127,009**	**3,502,353**	**9,769,121**	**15,252,262**
Acquisition					3,207,559	3,207,559
Disposals				-128,587		-128,587
Transfers from investments	8,350			222,849	-231,199	0
Write-offs				-112,509		-112,509
Purchase cost as at 31/12/2021	**44,661**	**1,817,468**	**127,009**	**3,484,106**	**12,745,481**	**18,218,725**
Written-off value as at 01/01/2021	**0**	**579,629**	**50,803**	**2,537,339**	**0**	**3,167,771**
Disposals				-113,986		-113,986
Depreciation		37,505	5,080	358,939		401,524
Write-offs				-111,141		-111,141
Written-off value as at 31/12/2021	**0**	**617,134**	**55,883**	**2,671,151**	**0**	**3,344,168**
Book value as at 01/01/2021	**36,311**	**1,237,839**	**76,206**	**965,014**	**9,769,121**	**12,084,491**
Book value as at 31/12/2021	**44,661**	**1,200,334**	**71,126**	**812,955**	**12,745,481**	**14,874,557**

in EUR	Land	Buildings	Production equipment	Other equipment	Real property, plant and equipment	Total
Purchase cost as at 01/01/2020	**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	-711,221	0
Write-offs				-59,835		-59,835
Purchase cost as at 31/12/2020	**36,311**	**1,817,468**	**127,009**	**3,502,353**	**9,769,121**	**15,252,262**
Written-off value as at 01/01/2020	**0**	**543,917**	**45,723**	**2,306,861**	**0**	**2,896,501**
Disposals				-57,236		-57,236

continues

in EUR	Land	Buildings	Production equipment	Other equipment	Real property, plant and equipment	Total
Depreciation		35,712	5,080	347,342		388,134
Write-offs				-59,628		-59,628
Written-off value as at 31/12/2020	**0**	**579,629**	**50,803**	**2,537,339**	**0**	**3,167,771**
Book value as at 01/01/2020	**0**	**1,208,220**	**81,286**	**705,572**	**9,821,536**	**11,816,614**
Book value as at 31/12/2020	**36,311**	**1,237,839**	**76,206**	**965,014**	**9,769,121**	**12,084,491**

The bulk of the Company's property, plant and equipment being acquired shows an investment in hydro-electric power plants on the Middle Sava River in the amount of EUR 10,906,436. This refers to the compilation of pre-investment, investment and other documentation, required for the siting of hydro-electric power plants. In 2021, the investment in the Middle Sava hydro-electric power plants increased by EUR 1,429,610. All the documentation compiled so far in addition to scientific bases have been drawn up in a way that they are not time-barred and can be used as the basis for further activities. The above mentioned facts confirm that the investment is not jeopardised by current circumstances despite the delay. No circumstances indicating signs of impairment occurred in 2021.

EUR 1,521,170 were invested in 2021 in the Prapretno Solar Power Plant.

The useful lives of the most important equipment were reviewed in 2021. Useful lives were found to remain the same.

The Company has no registered mortgages for property, plant and equipment. As at 31 December 2021, the Company had EUR 8,519,295 in commitments for acquiring buildings and other equipment.

As the useful life of our most important equipment does not exceed a period of five years, plant and equipment were not impaired by the Company in 2021. The Company reviewed the existence of signs of impairment in investments in premises and compared market values at the end of 2021 with the carrying amount. The Company found no significant differences between the carrying amount and market value that would indicate the need for reviewing the reasons for impairment.

There are no pledges, finance leases or other ownership-related limitations referring to property, plant and equipment.

RIGHT TO USE LEASED ASSETS (3)

in EUR	Buildings	Total
Purchase cost as at 01/01/2021	**2,581,409**	**2,581,409**
Purchase cost as at 31/12/2021	**2,581,412**	**2,581,412**
Written-off value as at 01/01/2021	**770,190**	**770,190**
Other	-139,552	-139,552
Disposals	-6,064	-6,064
Depreciation	533,659	533,659
Written-off value as at 31/12/2021	**1,158,233**	**1,158,233**
Book value as at 01/01/2021	**1,811,219**	**1,811,219**
Book value as at 31/12/2021	**1,423,179**	**1,423,179**

in EUR	Buildings	Total
Purchase cost as at 01/01/2020	**1,403,620**	**1,403,620**
Acquisition	1,177,789	1,177,789
Purchase cost as at 31/12/2020	**2,581,409**	**2,581,409**
Written-off value as at 01/01/2020	**280,706**	**280,706**
Other	-29,031	-29,031
Depreciation	518,515	518,515
Written-off value as at 31/12/2020	**770,190**	**770,190**
Book value as at 01/01/2020	**1,122,914**	**1,122,914**
Book value as at 31/12/2020	**1,811,219**	**1,811,219**

INVESTMENTS IN SUBSIDIARIES (4)

in EUR	31/12/2021	31/12/2020
DEM	387,058,979	387,058,979
SENG	152,692,250	152,692,250
TEŠ	224,667,000	239,028,797
HSE EDT	2,153,668	2,153,668
PV	39,731,000	84,900,000
HSE Invest	160,000	160,000
SRESA	60,000	60,000
ECE	11,118,000	0
HSE Balkan Energy	856,000	856,000
HSE MAK Energy	26,778	26,778
HSE BH	513,990	513,990
Total	**819,037,665**	**867,450,462**

Data on subsidiaries

Company	Address	Country	Activity	% of ownership	% of voting rights
DEM	Obrežna ulica 170, 2000 Maribor	Slovenia	Electricity production at hydro power plants	100.0%	100.0%
SENG	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Electricity production at hydro power plants	100.0%	100.0%
TEŠ	Cesta Lole Ribarja 18, 3325 Šoštanj	Slovenia	Electricity production at thermal power plants	100.0%	100.0%
PV	Partizanska 78, 3320 Velenje	Slovenia	Acquisition of brown coal and lignite	100.0%	100.0%
HSE EDT	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production at thermal power plants	100.0%	100.0%
ECE	Vrunčeva 2a, 3000 Celje	Slovenia	Electricity trading	51.0%	51.0%
HSE Balkan Energy	Bulevar Mihaila Pupina 117, Belgrade	Serbia	Electricity trading	100.0%	100.0%
HSE MAK Energy	Belasica no. 2, 1000 Skopje	Macedonia	Electricity trading	100.0%	100.0%
HSE BH	Ul. Alije Isakovića br.1, Sarajevo	Bosnia and Herzegovina	Electricity trading	100.0%	100.0%
*ELPROM	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Electricity production at hydro power plants	100.0%	100.0%
*HTZ I.P.	Partizanska 78, 3320 Velenje	Slovenia	Repairs of machinery and devices	100.0%	100.0%
*SIPOTEH	Partizanska cesta 78, 3320 Velenje	Slovenia	Production of metal constructions	100.0%	100.0%
*RGP	Rudarska cesta 6,3320 Velenje	Slovenia	Specialised construction works	100.0%	100.0%
*mHE Lobnica	Obrežna ulica 170, Maribor	Slovenia	Electricity production at hydro power plants	65.0%	65.0%
*PLP	Partizanska cesta 78, 3320 Velenje	Slovenia	Wood cutting, shaving and impregnation	100.0%	100.0%
SRESA	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production at hydro power plants	60.0%	60.0%
HSE Invest	Obrežna ulica 170 a, 2000 Maribor	Slovenia	Other technical engineering and consulting	50.0%	50.0%

* In these companies, HSE has indirect ownerhsip.

A large part of the Company's assets is comprised of non-current investments in subsidiaries. They include investments in companies, in which the Company - directly or indirectly through other owners - owns a majority stake and the group of companies for which the Company draws up consolidated financial statements. In 2021, the Company bought back a 51% participating interest in ECE d.o.o. amounting to EUR 11,118,000. HSE has concluded options related to non-controlling interest in ECE d.o.o. For a more detailed related disclosure, please refer to Section 4.5.2 Drawing up basis (use of estimates and judgements).

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in EUR	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
TEŠ	757,931,933	516,921,659	454,982,374	7,130,518	241,010,274
HSE BH	22,867,303	21,343,862	102,155,825	230,964	1,523,441
PV	150,439,445	115,630,641	97,568,879	-36,254,068	34,808,804
DEM	470,273,556	18,480,209	65,668,421	1,816,548	451,793,347
SENG	221,939,849	14,362,685	62,013,874	3,848,990	207,577,164
ECE	52,779,906	34,127,617	39,261,621	-3,641,991	18,652,289
HTZ I.P.	16,362,668	15,795,834	36,708,787	-18,564	566,834
HSE MAK Energy	5,181,616	4,198,427	35,693,959	244,056	983,189
RGP	13,927,414	11,986,957	32,510,735	-1,876,256	1,940,457
HSE Invest	2,908,449	2,105,669	5,684,315	171,500	802,780
PLP	1,914,356	906,877	3,534,344	140,571	1,007,479
SIPOTEH	2,398,575	1,068,738	3,379,511	399,038	1,329,837
HSE EDT	2,834,011	1,274,369	822,812	139,444	1,559,642
HSE Balkan Energy	731,270	14,266	158,154	21,280	717,004
mHE Lobnica	623,221	2,074	31,993	4,473	621,147
SRESA	49,946	19		-2,202	49,927
Total	**1,723,163,518**	**758,219,903**	**940,175,604**	**-27,645,718**	**964,943,615**

None of the subsidiaries or comparable companies are listed; therefore, reasons for a potential impairment could not be determined on the basis of market prices. Potential reasons for impairment based on Company operating results were reviewed along with the comparison of differences between the carrying amount of the non-current investment of the Company and the proportional part of the carrying amount of the total capital of subsidiaries. Impairment tests of financial assets were carried out by authorised company valuers for companies operating at a loss or where the carrying amount of the non-current investment was found to be higher than the proportional part of the carrying amount of the total capital. Carrying amounts of the total capital of subsidiaries in all subsidiaries and after the impairment of the investments in TEŠ and PV were found to be higher or equal to the carrying amount of the non-current investment in the respective company. Authorised company valuers carried out impairment tests of non-current financial investments in TEŠ and PV Group companies, on the basis of which our investments in TEŠ and PV were impaired.

On 31 December 2021, the Company impaired its non-current investment in TEŠ by debiting it to financial expenses in the amount of EUR 14,361,797, and in PV by debiting it to financial expenses in the amount of EUR 45,169,000.

Changes in non-current financial investments in subsidiaries	2021	2020
Increase in capital in TEŠ	0	149,649,797
Increase in capital in PV	0	46,225,000
Purchase of share in the company ECE	11,118,000	0
Impairment of investment in TEŠ	-14,361,797	-309,935,818
Impairment of investment in PV	-45,169,000	-4,314,329
Total	**-48,412,797**	**-118,375,350**

in EUR	2021	2020
Purchase cost as at 01/01/	**1,912,321,822**	**1,716,447,025**
Acquisition	11,118,000	
Increase in capital in TEŠ		149,649,797
Increase in capital in PV		46,225,000
Purchase cost as at 31/12/	**1,923,439,822**	**1,912,321,822**
Written-off value as at 01/01/	**-1,044,871,360**	**-730,621,212**
Impairment of investment in TEŠ	-14,361,797	-309,935,818
Impairment of investment in PV	-45,169,000	-4,314,329
Written-off value as at 31/12/	**-1,104,402,157**	**-1,044,871,359**
Book value as at 01/01/	**867,450,462**	**985,825,813**
Book value as at 31/12/	**819,037,665**	**867,450,463**

The table below presents the considered impairment test assumptions and results.

NON-CURRENT FINANCIAL INVESTMENTS AT ŠOŠTANJ THERMAL POWER PLANT	
2021	2020
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	
31/12/2021	30/9/2020
Important assumptions used in the performance of the impairment testing	
The company's operations until 2033. The thermal power plant operating life has been shortened due to the shortened operating life of the PV coal mine providing the thermal power plant with coal. At its session, held on 13 January 2022, the Government of the Republic of Slovenia adopted the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy. The Strategy lays down that Slovenia will discontinue generating electricity from coal no later than 2033. The adopted Strategy serves as the basis for adopting the Progressive Closure of PV Act which shall serve as the basis to obtain financial resources from the state to close the Velenje Coal Mine, rehabilitate the degraded areas and controlled progressive closure and financially sustainable operations of the Velenje Coal Mine. The Strategy lays down that the Progressive Closure of PV Act shall undergo public consultation within 6 months following the adoption of the Strategy. As at the reporting date, the Progressive Closure of PV Act is yet to be adopted.	The company's operations until 2054.
The discount rate at a nominal amount of 6.78% adjusted to the real level of 4.76%, which was taken into account throughout the period until 2033.	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 forecast revenue is based on the so-called cost +5% method, namely: the sales price of electricity by TEŠ is calculated as the sum of the cost price of electricity by TEŠ less thermal energy generation costs and plus cost uplift. The 5% uplift shall not be taken into account in CO_2 emission allowance costs.	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 7.30%.
The average procurement price of CO_2 emission allowance futures (for yet-to-be-procured volumes, the exchange price of futures at the EEX exchange has been taken into account) for 2022 amounts to EUR 36.16/t, at the end of the forecast horizon (2033) EUR 75.12/t.	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%.
	Non-current 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 a price change over the period of 11.65% and a non-current forecast of valuation experts for the 2029-2054 period, whereby the initial price amounts to EUR 63.55/MWh and the price change during the same period to 20.46%.
	Non-current 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 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.
Average annual production of electricity from coal-fired power plants of 2.9 TWh over the period 2022 - 2033.	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 2.3 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 11,411,000 in 2022 up to EUR 12,224,000 in 2033.	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.
CAPEX over the projection period of EUR 146,857,000.	CAPEX over the projection period of EUR 214,207,000.
Results of impairment testing carried out	
The book value of financial investment before the impairment testing amounts to EUR 239,028,797.	The book value of financial investment before the impairment testing amounts to EUR 399,314,818.
Recoverable amount of non-current financial investments of EUR 224,667,000.	Recoverable amount of non-current financial investments of EUR 89,379,000.
Revaluation expenses due to impairment of EUR 14,361,797.	Revaluation expenses due to impairment of EUR 309,935,818.

NON-CURRENT FINANCIAL INVESTMENTS AT VELENJE COAL MINE	
2021	2020
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	
12/31/2021	30/9/2020
Important assumptions used in the performance of the impairment testing	
The company's operations until 2033. At its session, held on 13 January 2022, the Government of the Republic of Slovenia adopted the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy. The Strategy lays down that Slovenia will discontinue generating electricity from coal no later than 2033. The adopted Strategy serves as the basis for adopting the Progressive Closure of PV Act which shall serve as the basis to obtain financial resources from the state to close the Velenje Coal Mine, rehabilitate the degraded areas and controlled progressive closure and financially sustainable operations of the Velenje Coal Mine. The Strategy lays down that the Progressive Closure of PV Act shall undergo public consultation within 6 months following the adoption of the Strategy. As at the reporting date, the Progressive Closure of PV Act is yet to be adopted.	The company's operations until 2054.
The discount rate at a nominal amount of 7.47% adjusted to the real level of 5.44%, which was taken into account throughout the period until 2033.	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 sale price of coal 2.75 EUR/GJ in the entire period until 2033.	The sale price of coal 2.75 EUR/GJ in the entire period until 2054.
The National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy is taken into account, foreseeing average annual EUR 32,380,655 revenue from the closure of the coal mine, arising from the baselines of the Progressive Velenje Coal Mine Closure Act.	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).
Average annual coal production of 26,658 TJ per year in the period 2022 - 2033.	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.
CAPEX over the 2020 - 2033 projection period of EUR 157,294,000.	CAPEX over the 2020 - 2054 projection period of EUR 304,256,000.
The recoverable value of financial investments in subsidiaries and other companies in the amount of EUR 9,803,000.	The recoverable value of financial investments in subsidiaries and other companies in the amount of EUR 14,332,000.
Recoverable amount of assets unnecessary for business in the amount of EUR 18,932,000.	Recoverable amount of assets unnecessary for business in the amount of EUR 17,370,000.
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 84,900,000.	The book value of financial investment before the impairment testing amounts to EUR 42,989,329.
Recoverable amount of non-current financial investments of EUR 39,731,000.	Recoverable amount of non-current financial investments of EUR 38,675,000.
Revaluation expenses due to impairment of EUR 45,169,000.	Revaluation expenses due to impairment of EUR 4,314,329.

Sensitivity analysis of the non-current investment impairment test

Non-current financial investment	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	224,667,000	14,686,000	-14,077,000
At Velenje coal mine	39,731,000	1,309,000	-1,244,000

OTHER NON-CURRENT INVESTMENTS AND LOANS (5)

A non-current investment in an associate accounts for the biggest proportion of other non-current investments.

in EUR	31/12/2021	31/12/2020
Non-current financial investments in affiliated companies	40,513,942	40,513,942
Non-current investments in jointly-controlled companies	255,000	255,000
Non-current financial assets available for sale	111,000	111,000
Other non-current financial investments	500	500
Non-current financial receivables and loans	820,000	1,144,000
Total	**41,700,442**	**42,024,442**

in EUR Movement of other non-current financial investments and loans	Non-current financial investments in affiliated companies	Non-current investments in jointly-controlled companies	Non-current assets available for sale	Other non-current financial investments	Non-current financial loans to companies in the Group	Total
Balance as at 01/01/2021	**40,513,942**	**255,000**	**111,000**	**500**	**1,144,000**	**42,024,442**
Transfers to current receivables					-324,000	-324,000
Balance as at 31/12/2021	**40,513,942**	**255,000**	**111,000**	**500**	**820,000**	**41,700,442**
Balance as at 01/01/2020	**40,513,942**	**255,000**	**111,000**	**500**	**105,879,190**	**146,759,632**
Acquisition					5,065,504	5,065,504
Transfers to current 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
Repayments					-109,565	-109,565
Balance as at 31/12/2020	**40,513,942**	**255,000**	**111,000**	**500**	**1,144,000**	**42,024,442**

a) Non-current investments in associates

In 2021, there were no changes in investments in associates. The Company does not detect any impairment signs of its investment in an associate. For this reason, no impairment test was carried out.

in EUR	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
HESS	333,840,247	44,088,214	20,439,966	2,381,695	289,752,033

	Address	Activity	% of ownership
HESS	Cesta bratov Cerjakov 33a, 8250 Brežice	Electricity production at hydro power plants	15.4%

b) Non-current investments in joint ventures

Investments in joint ventures include a 25% or EUR 255,000 participating interest in Soenergetika. No changes were recorded in 2021.

in EUR	Assets	Liabilities (without capital)	Revenue	Net profit/loss for the year	Amount of total capital
SOENERGETIKA	2,110,072	518,880	3,324,838	460,870	1,591,192

	Address	Activity	% of ownership	% of voting rights
SOENERGETIKA	Stara cesta 3, 4000 Kranj	Production of electricity and heat	25%	25%

c) Other non-current investments

Other non-current investments include an investment in Stelkom (12.13% participating interest) amounting to EUR 111,000 and an investment in Zavod CO NOT amounting to EUR 500. No changes were recorded for these investments in 2021.

d) Non-current financial loans to Group companies

v EUR	31/12/2021	31/12/2020
Non-current financial loans to companies in the Group without interest	820,000	1,144,000
Total	**820,000**	**1,144,000**

Non-current financial loans of the Company show non--current financial loans to Group companies. The values of non-current loan principals given due in 2021 are shown as EUR 324,000 in current loans given to Group companies. The interest rate accrued on non-current loans given is determined in accordance with the transfer pricing methodology and ranges from 2.5% to 3.88%. The loans given to RGP and HSE EDT are collateralised with pledged immoveable and moveable property.

in EUR	2021	2020
Balance as at 01/01/	**1,144,000**	**105,879,190**
Acquisition		5,065,504
Change in HSE EDT		-4,500
Transfers to current receivables	-324,000	-324,000
Repayments		-109,565
Increase in capital in TEŠ		-94,021,629
Increase in capital in PV		-15,341,000
Balance as at 31/12/	**820,000**	**1,144,000**

NON-CURRENT OPERATING RECEIVABLES (6)

The Company's non-current operating receivables due from others include financial coverages extended for electricity trading purposes.

in EUR	31/12/2021	31/12/2020
Non-current operating receivables from others	11,215,050	1,550,547
Total	**11,215,050**	**1,550,547**

DEFERRED TAX ASSETS (7)

Deferred tax assets are translated using a 19 per cent tax rate. They were set up 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 and retirement benefits, business depreciation over the depreciation recognised for tax purposes, impairment of investments and receivables). They are also set up from the fair value of derivatives shown in the hedging reserve and do not affect profit or loss.

in EUR	31/12/2021	31/12/2020
Provisions	168,289	155,556
Impairments	406,758	223,219
Amortisation	10	7
Other	271,209	182,230
Total	**846,266**	**561,012**

in EUR	Provisions	Impairments	Amortisation	Fair value	Total
Balance as at 01/01/2021	**155,556**	**223,219**	**7**	**182,230**	**561,012**
To debit/credit of profit or loss	12,733	183,539	3	88,979	285,254
Balance as at 31/12/2021	**168,289**	**406,758**	**10**	**271,209**	**846,266**
Balance as at 01/01/2020	**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 31/12/2020	**155,556**	**223,219**	**7**	**182,230**	**561,012**

Changes in deferred tax assets in 2021 refer to setting up deferred taxes from the impairment of receivables, from the fair value of derivatives and from actuarial items.

INVENTORIES (8)

in EUR	31/12/2021	31/12/2020
Material	482,347	724,119
Products and merchandise	3,102,210	0
Total	**3,584,557**	**724,119**

The value of inventories consists of PPE inventories for covid-19 purposes and emission allowances held for trading to be disbursed in the following year.

CURRENT INVESTMENTS AND LOANS (9)

in EUR	31/12/2021	31/12/2020
Current financial receivables to companies in the Group	6,204	3,486
Current loans to companies in the group	1,324,000	324,000
Current financial receivables to companies in the Group for interest	4,254	3,829
Total	**1,334,458**	**331,315**

Current financial receivables due 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 2022.

in EUR	2021	2020
Balance as at 01/01/	**331,315**	**4,241,036**
Acquisition	1,470,981	86,833,988
Transfers from non-current receivables	324,000	324,000
Increase in capital in TEŠ		-55,628,168
Increase in capital in PV		-30,884,000
Other		4,500
Repayments	-791,837	-4,560,041
Balance as at 31/12/	**1,334,459**	**331,315**

On 31 December 2021, there were no grounds for the impairment of current financial receivables and loans.

CURRENT TRADE RECEIVABLES (10)

in EUR	31/12/2021	31/12/2020
Current operating receivables from groups companies	46,498,921	12,451,322
Current operating receivables from affiliated companies	4,144	2,090
Current operating receivables from jointly controlled companies	0	146
Current trade receivables	208,043,757	158,197,049
Total	**254,546,822**	**170,650,607**

Receivables from the sale of electricity in Slovenia and abroad account for the majority in EUR 209,009,750 in current trade receivables.

Current operating receivables due from Group companies comprise receivables from the sale of electricity and various services provided for subsidiaries (e.g. trading, financial function, IT function, etc.).

The maturities of current operating receivables due from Group companies are presented in the Credit Risk section.

in EUR		31/12/2021	31/12/2020
DEM	Slovenia	87,002	91,179
SENG	Slovenia	8,153,140	3,786,658
TEŠ	Slovenia	279,585	978,046
HSE EDT	Slovenia	19,956	30,268
PV	Slovenia	2,347,048	865,888
HTZ I.P.	Slovenia	293	24
RGP	Slovenia	6,087	502
HSE Invest	Slovenia	12,200	12,100
ECE	Slovenia	19,548,699	0
HSE Balkan Energy	Serbia	2,835	5,783
HSE MAK Energy	Macedonia	3,907,241	1,933,204
HSE BH	Bosnia and Herzegovina	12,134,835	4,747,670
Total		**46,498,921**	**12,451,322**

CONTRACT ASSETS (11)

in EUR	31/12/2021	31/12/2020
Contract assets	395,489	2,603,167
Total	**395,489**	**2,603,167**

Contract assets are accrued revenue taken into account in the profit or loss even though it has not been invoiced yet.

OTHER CURRENT ASSETS (12)

in EUR	31/12/2021	31/12/2020
Current advances given	9,210,054	1,456,035
Current operating receivables from state and other institutions	34,960,700	19,356,349
Current operating receivables due from others	107,064,752	15,621,139
Current deferred costs and expenses	4,754,339	2,076,438
Total	**155,989,845**	**38,509,961**

Most of the other current operating receivables comprise receivables due from state and other institutions, which primarily refer to input VAT. The largest value thereunder refers to electricity-related invoices received from abroad, where self--taxation is carried out and the right to deduct VAT is acquired on the date of issue of the received invoice.

Most current operating receivables due from others refer to exceeding the overdraft which was authorised for operations with derivatives.

Current deferred costs and expenses primarily relate to transactions arising in connection to electricity trading.

CASH AND CASH EQUIVALENTS (13)

in EUR	31/12/2021	31/12/2020
Cash in banks	34,831,749	15,008,482
Call deposits	8,445,518	21,023,844
Deposits with up to 3-month maturity	5,521,479	1,453,733
Total	**48,798,746**	**37,486,059**

For the purposes of carrying out its activities, the Company holds bank accounts in Slovenia and abroad and discloses EUR 34,831,749 in cash and EUR 13,966,997 in deposits at the year-end.

On 31 December 2021, the Company had no approved overdraft on its bank accounts.

CAPITAL (14)

in EUR	31/12/2021	31/12/2020
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	-88,891,504	43,209,380
Fair value reserves	-282,078	-264,897
Retained profit/loss	-397,615,260	-416,515,035
Total	**666,757,956**	**779,976,247**

in EUR	31/12/2021	31/12/2020
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 share capital, capital reserves and other profit reserves did not change in 2021.

The following hedge reserves in the total amount of EUR -88,891,503 are disclosed by the Company as at 31 December 2021:

- results of futures for electricity amounting to EUR -222,220,018,
- results of futures amounting to EUR 134,484,720 for emission allowances, and
- fair value of currency swaps in the amount of EUR -1,156,205.

The hedging reserve decreased in 2021 by EUR 132,100,883 compared to the previous year. The decrease is primarily due to the closure of futures for securing self-generated electricity in December 2021.

In the case of futures for electricity, these refer to concluded transactions for the procurement and sales of electricity listed abroad for the period between 2022 and 2024, allowing the Company to hedge already concluded electricity sales transactions during the same period. In the case of futures for emission allowances, these refer to concluded transactions for the procurement and sales of emission allowances listed abroad for the period between 2022 and 2023. No deferred taxes were accounted for in relation thereto, as the price agreed upon during the conclusion of the transaction will be paid upon its realisation.

In 2021, the company partially closed foreign exchange swap transactions whose positive fair value, as at 31 December 2020, by taking into account deferred tax, amounted to EUR 776,874. In 2021, it concluded new transactions and also partly closed some of them. The overall change in fair value is negative and amounts to EUR 379,331. The negative fair value of open currency exchanges at the end of 2021 amounts to EUR 1,427,414, from which the Company accounted for EUR 271,209 in deferred tax liabilities. The final balance taking into consideration the deferred tax amounts to EUR 1,156,205.

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in EUR	Standardised futures contracts for electricity	Forward contracts for emission coupons	Currency swaps	Total
Balance as at 01/01/2021	**10,848,414**	**33,137,840**	**-776,874**	**43,209,380**
Formation, increase		101,346,880		101,346,880
Decrease	-243,678,621		-379,331	-244,057,952
Transfer to expenditure	10,610,189			10,610,189
Balance as at 31/12/2021	**-222,220,018**	**134,484,720**	**-1,156,205**	**-88,891,503**
Balance as at 01/01/2020	**-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 31/12/2020	**10,848,414**	**33,137,840**	**-776,874**	**43,209,380**

in EUR	Actuarial profits/losses on severance payments upon retirement	Total
Balance as at 01/01/2021	**-264,897**	**-264,897**
Formation, increase	1,497	1,497
Transfer to retained net profit/loss	-18,678	-18,678
Balance as at 31/12/2021	**-282,078**	**-282,078**
Balance as at 01/01/2020	**-74,525**	**-74,525**
Formation, increase	3,267	3,267
Decrease	-185,504	-185,504
Transfer to retained net profit/loss	-8,135	-8,135
Balance as at 31/12/2020	**-264,897**	**-264,897**

The fair value reserve of EUR -282,078 in total, disclosed at the year-end of 2021, includes actuarial loss arising from accounted for retirement benefits payable to employees. The actuarial loss in 2021 increased by EUR 17,181. According to the actuarial calculation, retained earnings or losses increased due to the reversal of retirement benefits by EUR 18,678.

At year-end, the Company shows a retained net loss of 2021 of EUR 18,881,097, less the retained net loss of 2020, adjusted for EUR 18,678 in disbursement of retirement benefits in 2021.

in EUR Retained profit	2021	2020
Retained profit/loss	-397,615,260	-416,515,035
Total	**-397,615,260**	**-416,515,035**

in EUR Balance sheet profit or loss	2021	2020
Net profit/loss for the year	18,881,097	-226,942,925
Retained profit/loss	-416,496,357	-189,572,110
Balance sheet profit or loss	**-397,615,260**	**-416,515,035**

A lower net profit in 2021 is a result of EUR 59,530,797 in impairments of DFN. Without this impairment, the Company's net result would have amounted to EUR 78,411,894.

The total capital and other reserves from profit exceeds the negative retained result.

In 2021, the total capital of the company fell by EUR 113,218,288, namely by:

- EUR 18,881,097 in increase of net profit or loss of the current year,
- EUR 18,678 in increase of net profit or loss brought forward,
- EUR 132,100,883 in decrease of change in the hedging reserve, and
- EUR 17,181 in change in the fair value reserve.

PROVISIONS FOR RETIREMENT AND JUBILEE BENEFITS (15)

Provisions for retirement and jubilee benefits of employees consist of provisions for retirement and jubilee benefits. The provisions are set up in the amount of estimated future payments of retirement and jubilee benefits, discounted at the end of the reporting period. The calculation is made for each individual employee and includes the costs of retirement benefits and all expected jubilee benefits up to retirement.

At year-end, the Company shows provisions for retirement and jubilee benefits set up on the basis of an actuarial calculation on 31 December 2021.

in EUR	31/12/2021	31/12/2020
Provisions for severance pays upon retirement	1,620,629	1,517,284
Provisions for anniversary bonuses	150,835	120,149
Total	**1,771,464**	**1,637,433**

Provisions for retirement and jubilee benefits are calculated on the basis of an actuarial calculation using the following actuarial assumptions:

- mortality tables,
- employee fluctuation,
- retirement,
- the rate of increase of average salaries and the amounts referred to in the Decree on the tax treatment of reimbursement of costs and other income from employment in the Republic of Slovenia that foresees a 2.0% growth in inflation rate terms and a 1% growth in real terms as of 2024;
- the rate of increase of salaries in the Company;
- the 0.9% discount rate laid down as at 31 December 2021, reflecting the yield of premium euro-denominated corporate bonds as at 31 December 2021.

in EUR Movement of retirement benefit and anniversary bonuses provisions	Provisions for severance pay	Provisions for anniversary bonuses	Total
Balance as at 01/01/2021	**1,517,284**	**120,148**	**1,637,432**
Costs of interest	4,209	295	4,504
Current service cost	169,202	19,010	188,212
Past service cost	-12,282	272	-12,010
Actuarial gains and losses – change in item	20,334	29,659	49,993
Actuarial gains – elimination	-45,520	-3,544	-49,064
Actuarial losses – formation and use	23,688	0	23,688
Payment of income in the year	-56,286	-15,005	-71,291
Balance as at 31/12/2021	**1,620,629**	**150,835**	**1,771,464**

in EUR Movement of retirement benefit and anniversary bonuses provisions	Provisions for severance pay	Provisions for anniversary bonuses	Total
Balance as at 01/01/2020	**1,113,338**	**82,590**	**1,195,928**
Costs of interest	7,464	550	8,014
Current service cost	130,370	12,099	142,469
Past service cost	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 as at 31/12/2020	**1,517,284**	**120,148**	**1,637,432**

The change in actuarial revenues and losses in the amount of EUR 17,181 from retirement benefits is disclosed in the movement of the fair value reserves.

	2021			
	Discount rate		Salary growth	
in EUR	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for severance pays upon retirement	108,484	-98,692	-100,313	106,838
Provisions for anniversary bonuses	6,972	-6,477	-6,867	7,180
Total	**115,456**	**-105,169**	**-107,180**	**114,018**

	2020			
	Discount rate		Salary growth	
in EUR	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for severance pays upon retirement	65,313	-100,324	-101,512	108,348
Provisions for anniversary bonuses	3,835	-5,984	-6,243	6,574
Total	**69,148**	**-106,308**	**-107,755**	**114,922**

OTHER PROVISIONS (16)

in EUR	31/12/2021	31/12/2020
For legal actions	507,127	483,926
Total	**507,127**	**483,926**

Movement of other provisions	For legal actions	Total
Balance as at 01/01/2021	**483,926**	**483,926**
Formation-increase	23,201	23,201
Balance as at 31/12/2021	**507,127**	**507,127**

Movement of other provisions	For legal actions	Total
Balance as at 01/01/2020	**334,875**	**334,875**
Formation-increase	149,051	149,051
Balance as at 31/12/2020	**483,926**	**483,926**

Among other provisions, the Company only shows set up provisions from late interest belonging to a EUR 290,000 principal in 2021; the provisions set up for an employee action remained the same.

OTHER NON-CURRENT LIABILITIES (17)

in EUR	31/12/2021	31/12/2020
Other non-current liabilities	241,908	215,475
Total	**241,908**	**215,475**

Movement of other non-current liabilities	Other	Total
Balance as at 01/01/2021	**215,475**	**215,475**
Acquisitions	197,888	197,888
Disposals	-171,455	-171,455
Balance as at 31/12/2021	**241,908**	**241,908**

Movement of other non-current liabilities	Other	Total
Balance as at 01/01/2020	**324,006**	**324,006**
Disposals	-108,531	-108,531
Balance as at 31/12/2020	**215,475**	**215,475**

Among other non-current liabilities, the Company shows primarily the co-financing funds received from the European OSMOSE project and, in a small part, the co-financing funds received from the European project FARCROSS. The drawing refers to the share of costs incurred in these projects in 2021.

NON-CURRENT FINANCIAL LIABILITIES (18)

in EUR	31/12/2021	31/12/2020
Non-current financial liabilities to banks	157,045,455	190,348,485
Total	**157,045,455**	**190,348,485**

EUR 157,045,455 in total non-current financial loans is shown by the Group under non-current financial liabilities to banks. The values of current loan principals received due in 2022 are shown as EUR 33,303,030 in current liabilities to banks. In 2021, the Company repaid EUR 20,803,030 in non-current loans.

The Company's non-current loan agreements include commitments to banks which were fully met as at 31 December 2021.

in EUR Movement of non-current financial liabilities	Non-current financial liabilities to banks	Total
Balance as at 01/01/2021	**190,348,485**	**190,348,485**
Transfers to current liabilities	-33,303,030	-33,303,030
Balance as at 31/12/2021	**157,045,455**	**157,045,455**
Balance as at 01/01/2020	**211,151,515**	**211,151,515**
Transfers to current liabilities	-20,803,030	-20,803,030
Balance as at 31/12/2020	**190,348,485**	**190,348,485**

The Company has EUR 140,000,000 in revolving loans granted; out of which EUR 70,000,000.00 were drawn as at 31 December 2021.

The loans bear fixed and variable interest rates, based on the 3-month or 6-month Euribor which, in the case of a negative Euribor equals 0, and a margin ranging between 0.50% and 1.88%.

The Company settles instalments on principals that are due and attributable interest on time.

The Company regularly monitors the movement of the Euribor interest rates. It then decides on further steps aimed at managing the interest rate risk accordingly. The objective of interest rate risk management is to limit and reduce the risk associated with changes in interest rates and to thus stabilise cash flows. No new interest rate hedging contracts were concluded in 2021.

Long-term loans to banks are collateralised by bills of exchange and the participating interest.

Further details are provided in the Interest Rate Risk section.

NON-CURRENT LIABILITIES FROM FINANCIAL LEASE (19)

in EUR	31/12/2021	31/12/2020
Non-current financial liabilities from leases to companies in the Group	624,330	992,256
Non-current financial liabilities from leases from others	232,435	326,285
Total	**856,765**	**1,318,541**

in EUR Movement of non-current financial liabilities from leases	Non-current financial liabilities from leases
Balance as at 01/01/2021	**1,318,541**
Acquisition	145,618
Transfers to current liabilities	-599,802
Other	-7,592
Balance as at 31/12/2021	**856,765**

in EUR Movement of non-current financial liabilities from leases	Non-current financial liabilities from leases
Balance as at 01/01/2020	**1,135,522**
Acquisition	971,951
Transfers to current liabilities	-520,461
Other	-268,472
Balance as at 31/12/2020	**1,318,541**

CURRENT FINANCIAL LIABILITIES (20)

v EUR	31/12/2021	31/12/2020
Current financial liabilities to companies in the Group without interest	74,941	0
Current financial liabilities to companies in the Group for interest	6,245	4,754
Current financial liabilities to banks without interest	103,303,030	20,803,030
Current financial liabilities to banks for interest	43,111	25,556
Current derivatives	1,427,414	959,104
Other current financial liabilities	89,846	76,007
Total	**104,944,587**	**21,868,451**

Current loans received and the current part of principals of non-current loans maturing in 2022 and amount to EUR 33,303,030 account for the majority of current financial liabilities.

in EUR Movement of current financial liabilities	Current financial liabilities to companies in the Group without interest	Current financial liabilities to companies in the Group for interest	Current financial liabilities to banks without interest	Current financial liabilities to banks for interest	Current derivatives	Other current financial liabilities	Total
Balance as at 01/01/2021	**0**	**4,754**	**20,803,030**	**25,556**	**959,104**	**76,007**	**21,868,451**
Increase	26,274,941	38,080	175,000,000	3,535,043		1,149,324	205,997,388
Transfers from non-current liabilities			33,303,030				33,303,030
Current repayments	-26,200,000	-36,589	-105,000,000	-3,517,488		-1,135,485	-135,889,562
Non-current repayments			-20,803,030				-20,803,030
Other					468,310		468,310
Balance as at 31/12/2021	**74,941**	**6,245**	**103,303,030**	**43,111**	**1,427,414**	**89,846**	**104,944,587**
Balance as at 01/01/2020			**11,303,030**	**59,117**		**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 non-current liabilities			20,803,030				20,803,030
Current repayments	-39,200,000	-53,410	-40,000,000	-4,106,372		-1,154,379	-84,514,161
Non-current repayments			-11,303,030				-11,303,030
Other					959,104		959,104
Balance as at 31/12/2020	**0**	**4,754**	**20,803,030**	**25,556**	**959,104**	**76,007**	**21,868,451**

CURRENT FINANCIAL LIABILITIES FROM LEASES (21)

in EUR	31/12/2021	31/12/2020
Current financial liabilities from leases to companies in the Group	371,874	362,049
Current financial liabilities from leases from others	227,928	158,412
Total	**599,802**	**520,461**

in EUR Movement of current financial liabilities from leases	Current financial liabilities from leases to companies in the Group	Current financial liabilities from leases from others	Total
Balance as at 01/01/2021	**362,049**	**158,412**	**520,461**
Transfers from long-term liabilities	371,874	227,928	599,802
Long-term repayments	-364,167	-163,885	-528,052
Other	2,117	5,474	7,591
Balance as at 31/12/2021	**371,873**	**227,929**	**599,802**
Balance as at 01/01/2020	**118,924**	**155,340**	**274,264**
Transfers from long-term liabilities	362,049	158,412	520,461
Long-term repayments	-118,924	-155,340	-274,264
Balance as at 31/12/2020	**362,049**	**158,412**	**520,461**

CURRENT OPERATING LIABILITIES (22)

in EUR	31/12/2021	31/12/2020
Current operating liabilities to companies in the Group	64,037,937	42,074,795
Current operating liabilities to affiliated companies	1,524,187	1,585,616
Current operating liabilities to jointly-controlled companies	0	42,110
Current operating liabilities to suppliers	169,821,692	109,991,695
Total	**235,383,816**	**153,694,216**

Liabilities for procured electricity account for the majority of current operating liabilities of the Company.

in EUR	Country	31/12/2021	31/12/2020
DEM	Slovenia	8,583,725	10,186,090
mHE Lobnica	Slovenia	2,590	4,246
SENG	Slovenia	19,639,797	8,098,440
TEŠ	Slovenia	11,406,063	15,694,002
HSE EDT	Slovenia	76,096	48,378
PV	Slovenia	81	83
HTZ I.P.	Slovenia	145,524	19,166
HSE Invest	Slovenia	887,369	155,999
ECE	Slovenia	3,027,429	0
HSE Balkan Energy	Serbia	26,926	25,271
HSE MAK Energy	Macedonia	2,355,419	1,185,810
HSE BH	Bosnia and Herzegovina	17,886,918	6,657,310
Total		**64,037,937**	**42,074,795**

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CONTRACT LIABILITIES

in EUR	31/12/2021	31/12/2020
Current deferred revenue	22,454	0
Total	**22,454**	**0**

OTHER CURRENT LIABILITIES (23)

in EUR	31/12/2021	31/12/2020
Current operating advance payables	3,302,015	605,193
Current operating liabilities to employees	1,354,402	1,351,149
Current operating liabilities to state and other institutions	26,715,619	15,900,062
Current operating liabilities to others	161,426,407	14,068
Current accrued costs or expenses	85,567,533	67,277,767
Total	**278,365,976**	**85,148,239**

Other current liabilities mostly consist of liabilities to the state and other institutions, current accrued costs and expenses and current deferred revenue.

Current liabilities to the state and other institutions comprise VAT liabilities, customs duty liabilities, liabilities for December contributions for salaries and contributions on other employment-related benefits payable by the employer. Value added tax is shown as the highest liability of the Company. It refers to electricity invoices 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.

Liabilities to others where the Group shows a liability from the valuation of physical contracts at fair value through profit of loss account for the majority of current liabilities to others.

Accrued expenses are expenses related to 2021 and are included in the income statement; for 2021, no invoices or accounts related thereto have been received by the Company as of yet. Procurement of electricity for 2021 for our subsidiaries account for the majority of those. Other expenses are deviations from December 2021 schedules and interest on loans received for which no accounts for 2021 have been received as of yet.

CONTINGENT ASSETS AND LIABILITIES (24)

in EUR Contingent liabilities	31/12/2021	31/12/2020
Guarantees and parent warranties for subsidiaries in Slovenia	34,640,572	80,995,555
Bank warranties for subsidiaries in Slovenia	962,335	635,331
Bank and parent warranties for subsidiaries abroad	766,938	781,117
Total	**36,369,845**	**82,412,003**

Contingent liabilities include guarantees given and parent company guarantees.

in EUR Beneficiary	Debtor	Type of warranty	Validity	Contingent liability as at 31/12/2021	Contingent liability as at 31/12/2020
EBRD*	TEŠ	Warranty for EBRD loan	For credit contract validity period	34,578,572	80,571,429
Petrol d.d.	HSE	Warranty for liabilities of PV, TEŠ, SENG and DEM to Petrol d.d.	31/12/2020	0	199,468
Geoplin d.o.o.	TEŠ	Warranty statement	31/1/2022	62,000	224,658
Total				**34,640,572**	**80,995,555**

* The principal of the loan is disclosed as contingent liability.

Guarantees and parent company guarantees were primarily reduced compared to 2020 in view of the repayment of one part of the principle of EBRD's loan.

4.5.7.2 Income statement

REVENUE FROM CONTRACTS WITH CUSTOMERS (25)

in EUR	2021	2020
On the domestic market	**800,360,733**	**638,158,320**
Electricity	792,831,333	635,527,594
Other goods and material	3,508,962	832,419
Other services	4,020,438	1,798,307
On foreign market	**1,813,143,256**	**1,222,539,700**
Electricity	1,795,901,172	1,208,438,582
Other goods and material	5,055,250	4,691,779
Other services	12,186,834	9,409,339
Total	**2,613,503,989**	**1,860,698,020**

Sales of electricity account for the majority of revenue generated by the Company from contracts with customers. The revenue from the sale of electricity accounts for 99.06% of all net revenue from sales. Compared to 2020, revenue from contracts with customers has risen on account of higher electricity prices on both the domestic and foreign markets.

Revenue from services rendered was generated through electricity-sale related services (transmission capacities, contribution towards the allocation of transmission capacities, guarantees of origin) and services rendered by the Company for its subsidiaries.

HSE has been selling its self-generated electricity in compliance with the internally adopted Self-Generated Electricity Sales Policy. The policy covers the model sales method of self-generated electricity by production companies of the HSE Group and the procurement of the required CO_2 allowances. In compliance with the Policy, the Company has been selling electricity on the electricity market several years in advance, allowing it to generate stable revenue from the sales of electricity.

The average sales price of self-generated electricity in 2021 took into account all procurement and sales transactions concluded for 2021 from the portfolio of self-generated electricity, allowing the Company to generate EUR 349,933 in net revenue, 6,425 GWh in net sales volume and a 2021 average sales price of EUR 54.46/MWh.

Electricity generated by the DEM hydro-electric power plants accounts for 38% or 2,436 GWh; electricity generated by the SENG hydro-electric power plants accounts for 6% or 390 GWh; and electricity generated by the HESS hydro-electric power plants accounts for 3% or 204 GWh. The remaining sales volume derives from electricity generated by TEŠ, accounting for 53% or 3,395 GWh.

OTHER OPERATING REVENUE (26)

in EUR	2021	2020
Elimination of impairment of receivables		524
Revenue from damages and contractual penalties	2,531,222	9,104
Default interest	72,006	382,331
Profit from the sale of fixed assets	14,640	5,199
Profit from derivatives due to trading with electricity and emission coupons	123,983,044	4,311,356
Other	369,829	594,984
Total	**126,970,741**	**5,303,498**

Profits derived from trading with derivatives and emission allowances, which increased in 2021 compared to the preceding year on account of higher prices of electricity and emission allowances, account for the majority of other operating revenue.

COSTS OF GOODS, MATERIALS AND SERVICES (27)

in EUR	2021	2020
Purchase value of sold goods	2,424,178,100	1,699,938,825
Contingent costs of sold goods	34,439,461	34,723,597
Total purchase value of sold goods	**2,458,617,561**	**1,734,662,422**
Costs of energy	47,564	43,116
Costs of small tools	7,477	4,851
Other	622,663	650,576
Total material costs	**677,704**	**698,543**
Costs of transport services	61,239	96,397
Costs of maintenance	906,522	900,932
Costs of rents	311,608	298,328
Costs of reimbursements of work-related expenses to employees	50,040	45,277
Costs of insurance and bank services	1,559,821	1,209,553
Costs of intellectual and personal services	2,744,117	1,867,332
Costs of fairs, advertising and administration	485,191	564,657
Costs of services of natural entities	350,610	292,369
Costs of protection and supervision	1,064	499
Membership contributions	45,462	41,299
Other	2,345,252	2,190,718
Total costs of services	**8,860,926**	**7,507,361**
Total	**2,468,156,191**	**1,742,868,326**

in EUR Rental costs	2021	2020
Amortisation of rights to use	533,658	518,515
Financing expenses	33,346	43,085
Rental costs	86,261	89,886
Total	**653,265**	**651,486**

in EUR	2021	2020
Annual Report audit	15,500	15,500
Other certification services	500	500
Total	**16,000**	**16,000**

The cost of goods sold, accounting for 99.61% of our operating expenses, includes primarily the expenses related to the procurement of electricity and the accompanying expenses thereof.

The most important values of costs of materials include costs of specialist literature, costs of energy, costs of stationery and costs of covid-19 PPE consumption.

Costs of intellectual services, security, banking services, and software and computer equipment maintenance account for the majority of costs of services. Information-communication (IT) services account for the majority of other costs of services.

The Company used an exception with regard to recognising the right to use assets for short-term leased vehicles of a duration of up to 1 year in accordance with Item 5 of IFRS 16, amounting to EUR 50,063.

Apart for its audit of the annual report, Deloitte revizija d.o.o. received no other payments from the Company in 2021.

LABOUR COSTS (28)

in EUR	2021	2020
Salaries	10,573,374	9,769,328
Pension insurance costs	1,459,120	1,251,800
Other insurance costs	776,285	601,592
Other labour costs	1,332,512	1,291,022
Total	**14,141,291**	**12,913,742**

Labour costs include the costs of salaries and other remuneration of employees, including the employer's contributions. Costs of allowances actually paid for leave not taken in 2021 that may be taken by employees until 30 June 2022 are also included. Labour costs increased compared to 2020 due to a higher average number of employees compared to the preceding year.

Number of employees and average number of employees by educational structure	01/01/2021	31/12/2021	Average number of employees
4	4	4	4
5	14	13	14
6/1	21	19	20
6/2	55	60	58
7	84	88	86
8/1	28	25	27
8/2	3	5	4
Total	**209**	**214**	**212**

VALUE WRITE-OFFS (29)

in EUR	2021	2020
Amortisation of intangible assets	359,346	353,795
Amortisation of property, plant and equipment	401,524	388,134
Amortisation of leased premises	533,659	518,515
Receivables impairments/write-offs	967,132	0
Impairments in real property, plant and equipment	1,367	207
Sales in property, plant and equipment and intangible assets	863	66
Total	**2,263,891**	**1,260,717**

Value write-offs refer to the depreciation of the Company's assets and of leased premises.

OTHER OPERATING EXPENSES (30)

in EUR	2021	2020
Forming of provisions	23,200	149,052
Fee for the use of construction land	101,891	88,022
Donations	165,144	140,044
Valuation of commodity contracts at fair value	161,377,066	0
Other operating expenses	314,726	1,201,616
Total	**161,982,027**	**1,578,734**

The valuation of commodity contracts valued at fair value through profit or loss subject to IFRS 9 accounts for the majority of other operating expenses.

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FINANCIAL REVENUE (31)

in EUR	2021	2020
Financial revenue from dividends and other profit shares	5,228,335	172,934
Financial revenue from loans and deposits given	52,068	3,843,207
Other financial income	507,008	633,998
Total	**5,787,411**	**4,650,139**

Financial revenue from participating interest shows disbursed dividends of the Soenergetika joint venture (EUR 135,495), of the SENG subsidiary (EUR 4,863,648) and of the foreign subsidiary HSE Balkan Energy (EUR 229,193).

Accrued interest on loans given to Group companies accounts for the majority of financial revenue from loans and deposits given.

Parent company guarantees given to Group companies account for the majority of other financial revenue of the Company.

FINANCIAL EXPENSES (32)

in EUR	2021	2020
Financial expenses for interest	3,541,276	3,923,052
Financial expenses from impairment of financial investments in subsidiaries	59,530,797	314,250,147
Other financial expenses	523,723	393,693
Other financial expenses from leases	33,346	43,085
Total	**63,629,142**	**318,609,977**

Interest expenses consist of interest accrued on non-current and current loans received from banks (EUR 3,503,196), and interest accrued on current loans received from HSE Group companies (EUR 38,079).

The impairment loss of investments refers to the impairment of our investments in TEŠ and PV.

Other financial expenses refer to withholding tax costs of foreign loans and costs related to taking out loans.

TAX (33)

in EUR	2021	2020
Current tax	17,404,777	20,404,929
Deferred tax	-196,274	-41,843
Total tax from profit recognised in the income statement	**17,208,503**	**20,363,086**

The Company is liable to pay tax pursuant 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 2021 is paid at a 19% rate on the tax base in the Company's tax assessment.

Current tax of the Company in 2021 amounted to EUR 17,471,389. Based on the 2020 tax return, the Company paid EUR 20,404,929 in advance payments of corporate income tax in 2021. At year-end of 2021, the Company shows EUR 1,700,411 in corporate income tax advance payment liabilities and corporate income tax assets (EUR 2,933,540) in excess advance payment in 2021.

Deferred taxes include deferred tax assets. Their setting up and disbursement in terms of value are shown in the Deferred Tax Assets disclosure (explanatory note 7 in the Statement of the financial position).

The current tax base was established by revising revenue and expenses in relation to a tax base decrease and increase in compliance with the IFRSs, as shown in the table below.

in EUR	2021	2020
Profit (loss) before tax	36,089,600	107,670,308
Calculated tax at the applicable tax rate	6,857,024	20,457,359
Tax on revenues that lower the tax base	-997,827	-37,046
Tax on tax deductions	-178,182	-168,508
Tax on expenses that lower the tax base	-6,773	-629
Tax on non-deductible expenses	11,679,428	168,655
Tax from other changes in the tax balance sheet	51,107	-14,902
Tax levied	**17,404,777**	**20,404,929**
Deferred tax	**-196,274**	**-41,843**
Total taxes	**17,208,503**	**20,363,086**
Effective tax rate	**47.68%**	**18.91%**

As at 31 December 2021, temporary deductible differences for which deferred tax assets were not set up are shown to amount to EUR 978,553,664 due to impairments of investments in subsidiaries. In compliance with IAS 12 - Income Taxes, deferred tax assets shall be recognised only if the temporary difference is likely to reverse in the foreseeable future. The Company did not set up any deferred tax assets in relation thereto as it has no intention of disposing of these investments in the foreseeable future.

NET PROFIT OR LOSS (34)

in EUR	2021	2020
Gross operating return	2,740,474,730	1,866,896,638
Operating profit	93,931,330	107,379,999
Financial outcome	-57,841,730	-313,959,838
Profit (loss) before tax	36,089,600	-206,579,839
Net profit/loss for the year	**18,881,097**	**-226,942,925**

The Company ended 2021 with a EUR 18,881,097 net result. Hadn't it been for the impairment of its investments in TEŠ and PV, the Company would have ended the year with a net profit of EUR 78,411,894.

4.5.7.3 Related persons

Related persons are subsidiaries, associates and joint ventures either directly or indirectly controlled by the Company through its subsidiaries.

Related persons also include companies that are majority state-owned.

The sales and procurement columns show the turnover of all transactions (excluding VAT) between the Company and its associates in 2021. Loans given and received show the balance as at the end of 2021 (principal plus interest). Revenue from parent company guarantees given in 2021 are disclosed separately in net terms (excl. VAT). The values of parent company guarantees are disclosed in the Contingent Assets and Liabilities section (Note 20 to the Statement of financial position).

Outstanding receivables due from related persons are disclosed in the Current trade receivables section; and outstanding liabilities in the Current trade payables section.

in EUR	Sales	Purchases	Loans, guarantees and warranties given with interest	Received loans with interest	Revenue for given parent guarantees
DEM	9,666,274	63,665,482		804,528	
mHE Lobnica	4,080	15,613			
SENG	35,795,331	60,969,758		2,670	
TEŠ	94,306,448	211,788,954	3,943	20,097,873	499,888
HSE EDT	162,421	450,046	415,400		
PV	34,399,026	91,228,389	20,022,932		657
HTZ I.P.	896,485	25,007,534			
RGP	451,758	13,070,050	2,536,069		7,114
HSE Invest	317,378	4,116,728			
HSE Balkan Energy	5,591	156,980			
HSE MAK Energy	22,187,957	33,537,886			
HSE BH	75,135,423	84,077,120			
PLP	172,541	2,548,457			
SIPOTEH	156,739	2,889,524			
ECE	34,655,441	3,562,840			
Total 2021	**308,312,893**	**597,085,361**	**22,978,344**	**20,905,071**	**507,659**

Sales and procurement prices are services are defined based on the applicable internal price list of HSE Group companies, leases on the CUP method, electricity sales prices on the CUP and the cost-plus methods, electricity procurement prices on the cost plus, CUP methods or a combination of both.

The Company is 100% owned by the Republic of Slovenia. In 2021, the Company concluded no transactions with the Government of the Republic of Slovenia. In 2021 the Company paid no dividend to the owner.

in EUR Data on associated companies – Jointly-controlled companies	Sales	Purchases	Loans, guarantees and warranties given with interest	Received loans with interest	Revenue for given parent guarantees
HESS	20,378	9,866,884			
Total 2021	**20,378**	**9,866,884**	**0**	**0**	**0**

in EUR Data on associated companies – Jointly-controlled companies	Sales	Purchases	Loans, guarantees and warranties given with interest	Received loans with interest	Revenue for given parent guarantees
SOENERGETIKA	120	815,602			
Total 2021	**120**	**815,602**	**0**	**0**	**0**

The table shows transactions with companies directly or indirectly majority owned by the Republic of Slovenia (its participating interest therein exceeding 50 per cent) and are important for the HSE Group using the transaction size criterion (revenue or expenses in 2021 exceeding EUR 2 million), except banks where all transactions are disclosed. Other transactions with companies, ministries, agencies and other legal entities, where the Republic of Slovenia is a majority or minority owner, are irrelevant in terms of reporting.

Business partner	Outstanding receivables as at 31/12/2021	Outstanding liabilities as at 31/12/2021	Revenue as at 01-12/2021	Expenses as at 01-12/2021
BORZEN	1,479,505	2,667,304	8,183,093	18,183,146
BSP	390,101	1,615,197	175,738,211	211,905,889
ELES	3,981,812	431,924	19,347,296	689,337
ELEKTRO MARIBOR ENERGIJA PLUS	9,340,283	993,321	74,399,749	7,508,291
Energy companies – total	**15,191,701**	**5,707,746**	**277,668,349**	**238,286,663**
TALUM	1,754,624	581,966	16,861,361	2,907,149
Aluminium production	**1,754,624**	**581,966**	**16,861,361**	**2,907,149**
Other – total	**0**	**0**	**0**	**0**
SID	0	31,393,939	0	326,816
Banks – total	**0**	**31,393,939**	**0**	**326,816**
Total	**16,946,325**	**37,683,651**	**294,529,710**	**241,520,628**

4.5.7.4 Remuneration

The remuneration of managers and employees for whom the tariff part of the collective agreement does not apply, includes:

- gross remuneration included in the income tax return statement,
- other remuneration (meals, transport costs, daily subsistence allowances), and
- 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 committees.

In 2021, the Company approved no advances, loans and guarantees to these groups of persons. At the end of 2021, no receivables were due from Members of the Management and Supervisory Boards to the Company.

Current operating liabilities show liabilities for December salaries payable to Members of the Management Board and employees for whom the tariff part of the collective agreement does not apply and for December attendance fees payable to Members of the Supervisory Board and Members of the committees of the Supervisory Board.

REMUNERATION

in EUR	Gross salary	Other remuneration	Bonuses	Cost reimbursement	Meeting fees	Total
Members of the Management Board	442,342	20,136	14,938	4,957	37,566	519,939
Members of the Supervisory Board and of the Supervisory Board Committees			1,600	8,896	248,924	259,420
Employees not subject to the tariff part of the collective agreement	483,853	20,923	9,219	14,841	0	528,836
Total 2021	**926,195**	**41,059**	**25,757**	**28,694**	**286,490**	**1,308,195**

in EUR	Gross salary	Other remuneration	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 tariff part of 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**

REMUNERATION OF THE MANAGEMENT

in EUR	Gross salary	Other remuneration – vacation pay and PDPZ	Other remuneration	Bonuses	Cost reimbursement	Meeting fees	Total
Vračar Viktor, General Director	157,486	4,600		4,526	1,502	10,236	178,350
Podobnik Uroš, Business Director	148,950	4,600	6,336	3,706	1,510	15,055	180,157
Štrigl Marko, Business Director	135,906	4,600	0	6,706	1,945	12,275	161,432
Total remuneration	**442,342**	**13,800**	**6,336**	**14,938**	**4,957**	**37,566**	**519,939**

Under the attendance fee item, the amounts received by Members of the Management Board, Viktor Vračar, PhD, Uroš Podobnik, and Marko Štrigl, received as Members of Supervisory Boards of subsidiaries, associates and joint ventures are also taken into account.

REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD

in EUR	Meeting fee gross/ meeting	Special payment to the Supervisory Board	Bonuses	Meeting fee gross/basic payment	Net meeting fee	Travel expenses	Total
Celec Robert, Member of SB of HSE	4,411	2,354	160	16,360	11,899	1,314	20,188
Dover Franc, President of SB of HSE	4,235	2,354	160	22,158	16,116	2,077	26,750
Janša Andrej, Deputy President of SB of HSE	4,411	2,354	320	17,555	12,768	1,226	21,455
Seme Damjan, Member of SB of HSE 11/2021	4,235	2,354	160	16,184	11,771	750	19,448
Gutnik Janez, Member of SB of HSE	4,356	2,354	160	16,305	11,859	978	19,797
Otič Jernej, Member of SB of HSE	4,235	2,354	160	16,184	11,771	251	18,949
Jančar Boštjan, Member of SB of HSE	3,916	2,354	160	15,865	11,539	146	18,525
Rijavec Petja, Member of SB of HSE	4,235	2,354	160	16,184	11,771	320	19,018
Cukrov Vesna, Member of SB of HSE until 02/09/2021	2,420	0	160	11,155	8,113	294	11,609
Bele Denis, Member of SB of HSE until 02/09/2021	1,320	0	0	4,534	3,297	834	5,368
Total	**37,774**	**18,833**	**1,600**	**152,484**	**110,901**	**8,189**	**181,106**

REMUNERATION OF MEMBERS OF THE AUDIT COMMITTEE

in EUR	Meeting fee gross/ meeting	Meeting fee gross/basic payment	Meeting fee gross	Net meeting fee	Travel expenses	Total
Hočevar Marko, Member of the Audit Committee	3,025	11,181	14,206	10,332	211	14,417
Janša Andrej, President of the Audit Committee	2,376	4,372	6,748	4,908	220	6,968
Gutnik Janez, Member of the Audit Committee	2,332	2,716	5,048	3,672	29	5,077
Jančar Boštjan, Member of the Audit Committee	2,156	2,987	5,143	3,741	0	5,143
Total	**9,889**	**21,257**	**31,146**	**22,652**	**460**	**31,606**

REMUNERATION OF MEMBERS OF THE HR COMMITTEE

in EUR	Meeting fee gross/ meeting	Meeting fee gross/basic payment	Meeting fee gross	Net meeting fee	Travel expenses	Total
Dover Franc, Member of the Personnel Committee	660	2,987	3,647	2,653	77	3,725
Seme Damjan, President of the Personnel Committee 11/2021	660	4,372	5,032	3,660	0	5,032
Rijavec Petja, Member of the Personnel Committee	660	2,987	3,647	2,653	0	3,647
Cukrov Vesna, Deputy President of the Personnel Committee until 02/09/2021	616	2,358	2,974	2,163	0	2,974
Seme Damjan, President of the Personnel Committee since 30/11/2021	0	428	428	311	0	428
Total	**2,596**	**13,133**	**15,729**	**11,440**	**77**	**15,806**

REMUNERATION OF MEMBERS OF THE RESTRUCTURING COMMITTEE

in EUR	Meeting fee gross/meeting	Meeting fee gross/basic payment	Meeting fee gross	Net meeting fee	Total
Celec Robert, President of the Restructuring Committee since 13/10/2021	220	3,201	3,421	2,488	3,421
Seme Damjan, Member of the Restructuring Committee until 30/09/2021	220	2,716	2,936	2,136	2,936
Otič Jernej, Member of the Restructuring Committee	220	2,987	3,207	2,333	3,207
Cukrov Vesna, President of the Restructuring Committee until 02/09/2021	220	3,276	3,496	2,542	3,496
Bele Denis, Member of the Restructuring Committee since 13/10/2021	0	428	428	311	428
Total	**880**	**12,609**	**13,489**	**9,810**	**13,489**

REMUNERATION OF MEMBERS OF THE MARKETING AND INVESTMENT COMMITTEE

in EUR	Meeting fee gross/ meeting	Meeting fee gross/basic payment	Meeting fee gross	Net meeting fee	Travel expenses	Total
Celec Robert, Member of the Marketing and Investment Committee	1,100	2,987	4,087	2,973	132	4,220
Janša Andrej, Member of the Marketing and Investment Committee	1,100	2,716	3,816	2,776	33	3,849
Gutnik Janez, President of the Marketing and Investment Committee	1,100	4,372	5,472	3,980	5	5,477
Jančar Boštjan, Member of the Marketing and Investment Committee	880	2,987	3,867	2,813	0	3,867
Total	**4,180**	**13,063**	**17,243**	**12,541**	**170**	**17,413**

4.5.7.5 Financial instruments and Risk Management

This section is related to the Financial Risk Management section in the accounting report and the Financial Risk section in the business part of the annual report.

CREDIT RISK

The majority of activities where the Company is faced with the credit risk is primarily related to electricity trading. The majority of our portfolio of partners with which electricity sales and trading contractual relations are established are companies with a high creditworthiness and payment discipline. All activities aimed at managing credit risks are subject to the Company's adopted internal acts that clearly prescribe the procedures and due diligence applied while selecting and monitoring business partners. The type of business relation with partners is decided based on previous analyses of the partner's creditworthiness, which subsequently determine the potential extent and time horizon of operations, elements of our contractual relation and the required extent of additional securities, that the Company deems acceptable, in the form of bank and corporate guarantees and advances received, etc.

The Company monitors its 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 from current operating receivables is the carrying amount of current operating receivables less financial collateral and financial off-set of receivables and liabilities with those partners where it is legally and contractually possible. Receivables from partners are secured by means of bank and corporate guarantees, a pledge of receivables based on bank account management contracts, advance payments, enforcement drafts, and bills of exchange.

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 we are exposed to in doing business with individual partners. The most frequent among unsecured receivables are primarily receivables due 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.). Current receivables due from Group companies are managed in view of their liquidity and solvency. They are eliminated from the following analysis of receivables in respect of IFRS 9 and additionally required value adjustments of allowances.

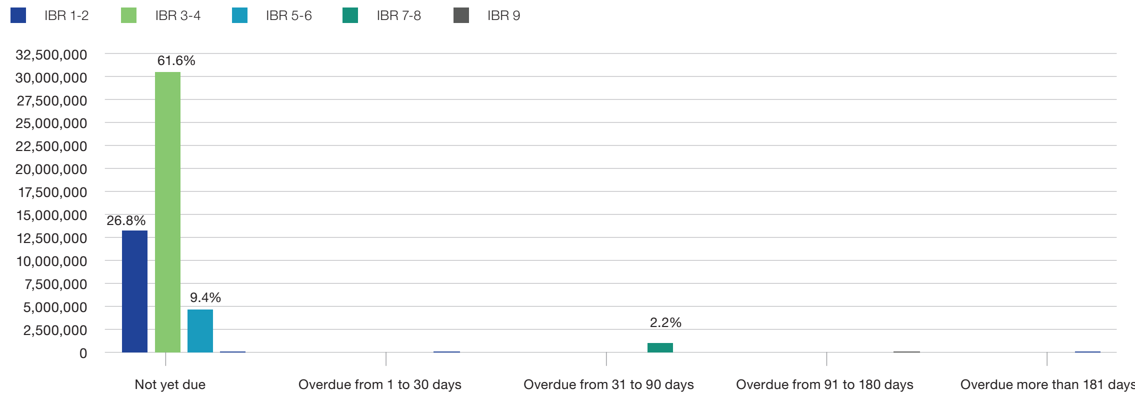
Operating receivables as at 31/12/2021	Receivables (in EUR)	Hedged receivables (in EUR)	%	Non-hedged receivables (in EUR)	%
Current receivables due from group companies	46,498,920	44,947,098	97%	1,551,822	3%
Current receivables due from affiliated companies	4,144	4,144	100%	0	0%
Current receivables due from jointly-controlled companies	0	0	0%	0	0%
Current trade receivables	208,043,758	158,617,971	76%	49,425,787	24%
Total	**254,546,822**	**203,569,213**	**80%**	**50,977,609**	**20%**

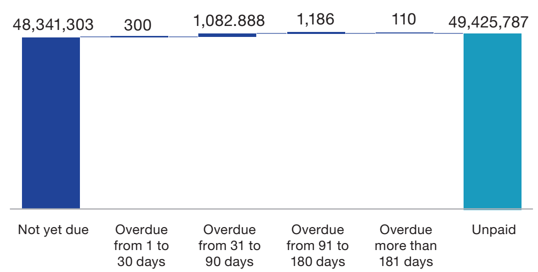
Operating receivables as at 31/12/2020	Receivables (in EUR)	Hedged receivables (in EUR)	%	Non-hedged receivables (in EUR)	%
Current receivables due from group companies	12,451,322	11,703,928	94%	747,394	6%
Current receivables due from affiliated companies	2,090	2,090	100%	0	0%
Current receivables due from jointly-controlled companies	146	146	0%	0	0%
Current trade receivables	158,197,049	133,703,072	85%	24,493,976	15%
Total	**170,650,607**	**145,409,237**	**85%**	**25,241,370**	**15%**

The following analysis shows unsecured current trade receivables as at 31 December 2021 in respect of the internal customer classification by credit rating, the age structure of unsecured receivables and the structure of receivables by country.

Based on granting an internal credit rating to individual partners (IBR) and their guarantors (in the case of financial collateral), defined on the basis of a combination of theoretical financial models and the credit rating agencies' transition matrices, the Company regularly monitors the risk of default by the partner or the guarantor, and accordingly adjusts the structure of collateral and approved limits. In line with internal methodology, this affects the quality and structure of the Company's operating receivables.

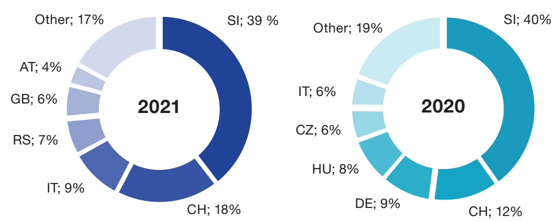
UNSECURED TRADE RECEIVABLES BY AGE STRUCTURE AND IBR AS AT 31 DECEMBER 2021





Compared to the balance at the end of 2020, the total value of trade receivables and unsecured trade receivables increased. As at 31 December 2021, trade receivables in Slovenia account for 39% of all trade receivables or the same level as in 2020.

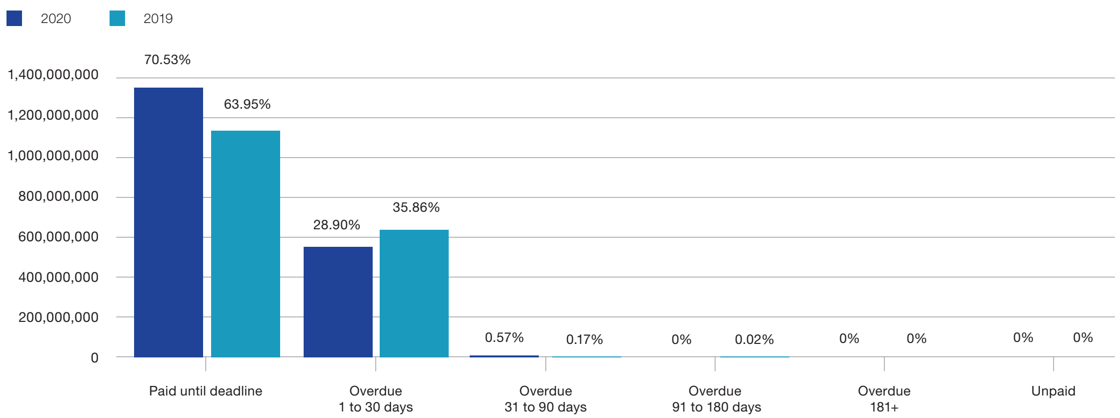
TRADE RECEIVABLES BY COUNTRY AS AT 31 DECEMBER 2021 AND IN 2020



The analysis of the partners' settlement dynamics and payment discipline in 2020 and 2021 (shown in the figure below) shows that partners regularly settled their liabilities in the past.

Defaulting debtors are charged with contractually agreed default interest.

DYNAMICS OF SETTLEMENT OF RECEIVABLES IN TERMS OF TOTAL INVOICED RECEIVABLES IN 2019 AND 2020



The Company establishes that the current internal policy of setting up allowances and impairing operating receivables is appropriate and that the application of the disclosure- related policies under IFRS 9 in view of the expected credit loss (ECL) on trade receivables has no significant effect on a fair view of the Company's assets. Based on the policies of the said standards and the findings of the analysis of past settlement patterns of the Company's customers by age structure, no loss from trade receivables for the Company as at 31 December 2021 is expected.

This allows for the conclusion that, given the total value of the operating receivables, the calculated ECL has no effect on a fair view of assets, as the Company already properly disclosed and set up allowances for current operating receivables in the past. The potential credit loss estimate took into account operating receivables as at 31 December 2021, the Company's ownership-related connection with the business partner, the past settlement dynamics of invoices issued, the risk of default of partners in view of their financial situation, the type of security received and the age structure of operating receivables as at 31 December 2021.

As at 31 December 2021, the Company shows EUR 2,056,299 in doubtful receivables. Receivables from the sale of electricity to foreign companies account for the majority of doubtful receivables.

	Due for payment			
in EUR	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
Non-current financial receivables and loans given to companies in the Group	324,000	820,000	0	1,144,000
Non-current operating receivables from others	0	0	1,550,547	1,550,547
Total as at 31/12/2021	**324,000**	**820,000**	**1,550,547**	**2,694,547**

	Due for payment			
in EUR	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
Non-current financial receivables and loans given to companies in the Group	3,698,000	9,585,500	83,932,956	97,216,456
Non-current financial receivables and loans given to companies in the Group for interest	513,075	799,289	7,350,370	8,662,734
Non-current operating receivables from others	0	0	797,501	797,501
Total as at 31/12/2020	**4,211,075**	**10,384,789**	**92,080,827**	**106,676,691**

in EUR	Due for payment				
Current operating and financial receivables by maturity date	Not past due	Up to 3 months past due (up to 90 days)	From 3 to 6 months past due (from 91 to 180 days)	Over a year past due (from 361 days onwards)	Total
Current financial receivables and loans given to companies in the Group	1,330,205				1,330,205
Current financial receivables and loans given to companies in the Group for interest	4,254				4,254
Current operating receivables from groups companies	44,727,850	957,661	813,410		46,498,921
Current operating receivables from affiliated companies	4,144				4,144
Current operating receivables from buyers	192,872,175	13,870,482	1,176,210	2,181,232	210,100,099
Current advances given	9,210,054				9,210,054
Current operating receivables from state and other institutions	34,960,700				34,960,700
Current operating receivables from others	107,064,751				107,064,751
Total as at 31/12/2021	**390,174,133**	**14,828,143**	**1,989,620**	**2,181,232**	**409,173,128**

in EUR	Due for payment				
Current operating and financial receivables by maturity date	Not past due	Up to 3 months past due (up to 90 days)	From 3 to 6 months past due (from 91 to 180 days)	Over a year past due (from 361 days onwards)	Total
Current financial receivables and loans given to companies in the Group	327,486				327,486
Current financial receivables and loans given to companies in the Group for interest	3,829				3,829
Current operating receivables from groups companies	12,088,501	362,821			12,451,322
Current operating receivables from affiliated companies	2,090				2,090
Current operating receivables from jointly controlled companies	146				146
Current operating receivables from buyers	151,983,008	7,304,390			159,287,398
Current advances given	1,456,035				1,456,035
Current operating receivables from state and other institutions	19,356,349				19,356,349
Current operating receivables from others	15,621,139				15,621,139
Total as at 31/12/2020	**200,838,583**	**7,667,211**	**0**	**0**	**208,505,794**

LIQUIDITY RISK

The liquidity risk is managed by planning the daily, monthly and annual cash flows and then, using this, by effectively distributing surpluses within the Group and ensuring suitable available credit lines from commercial banks. In 2021, HSE successfully reduced the current solvency risk with continuous reconciliation of maturity of receivables and liabilities and the timely recovery of outstanding receivables.

At the end of the year, the liquidity reserve of the Company consisting of undrawn granted non-current revolving loans and available cash amounted to EUR 70,000,000 in revolving loans and EUR 48,798,746 in cash. This reserve is intended for regulating cash flows and it significantly reduces the Company's and HSE Group's liquidity risk. As at 31/12/2021, the Company had drawn EUR 70,000,000.00 in revolving loans.

As at 31 December 2021, all outstanding current liabilities of the Company had already been settled.

The maturity of non-current operating and financial liabilities of the Company in the following years is presented in the tables below. A part of non-current loans due within a period of one year is shown under current financial liabilities.

The liquidity risk exposure from financial liabilities to banks on 31 December 2021 is illustrated in the table *Exposure to liquidity risk arising on financial liabilities to banks*. The amounts in the table are not discounted and include contractually envisaged interest rates and the costs of collateral.

The Company secured additional liquidity in 2021 as part of HSE Group's cash management from free cash of DEM and SENG.

Through centralised cash flow planning, implemented debt restructuring and maturity optimisation measures, a provided proper liquidity reserve, and an active attitude towards financial market, the Company managed to control and manage its liquidity in 2021 and to adequately manage the liquidity risk.

in EUR	Due for payment			
Non-current financial liabilities by maturity date	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
Non-current financial liabilities to banks	33,303,030	114,772,727	8,969,698	157,045,455
Non-current financial liabilities from leases to companies in the Group	624,330			624,330
Non-current financial liabilities from leases from others	232,435			232,435
Total as at 31/12/2021	**34,159,795**	**114,772,727**	**8,969,698**	**157,902,220**

in EUR	Due for payment			
Non-current financial liabilities by maturity dates	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
Non-current financial liabilities to banks	66,606,061	114,772,727	8,969,697	190,348,485
Non-current financial liabilities from leases to companies in the Group	992,256			992,256
Non-current financial liabilities from leases from others	48,668	277,617		326,285
Total as at 31/12/2020	**67,646,985**	**115,050,344**	**8,969,697**	**191,667,026**

in EUR	Due for payment					
Exposure to liquidity risk arising on financial liabilities to banks	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						
Non-current loans	-13,500,000	-19,803,030	-33,303,030	-114,772,727	-8,969,698	-190,348,485
Total as at 31/12/2021	**-13,500,000**	**-19,803,030**	**-33,303,030**	**-114,772,727**	**-8,969,698**	**-190,348,485**
Financial liabilities to banks without interest rate hedging						
Non-current loans	-1,000,000	-19,803,030	-66,606,061	-114,772,727	-8,969,698	-211,151,516
Total as at 31/12/2020	**-1,000,000**	**-19,803,030**	**-66,606,061**	**-114,772,727**	**-8,969,698**	**-211,151,516**

CURRENCY RISK

Currency risk is a risk associated with transactions involving foreign currencies and is subject to changes in exchange rates. The operating currency risk is minimal, since the majority of inflows and outflows are pegged to the domestic currency - the EUR. In 2021, the Company was exposed to some other currencies (HUF, RON) in the context of electricity trading, where, if required, the exposure was hedged by using derivatives.

Other currencies are present in minimal amounts and therefore the Company does not perform sensitivity analysis for the change in foreign exchange rates, since a change in the exchange rate would not significantly affect the profit or loss.

Additionally, the Company continuously follows developments on the money market, changes in prices and the values of currency hedging contracts.

The Company's assets and liabilities as at 31 December 2021 were restated using the following exchange rates:

Country	Currency code	Final currency in EUR for 2021	Final currency in EUR for 2020
Czech Republic	CZK	24.8580	26.2420
Hungary	HUF	369.1900	363.8900
Romania	RON	4.9490	4.8683
USA	USD	1.1326	1.2271
Great Britain	GBP	0.8403	0.8990
Bulgaria	BGN	1.9558	1.9558
Turkey	TRY	/	/
Croatia	HRK	7.5156	7.5519
Serbia	RSD	117.4400	117.5300
Macedonia	MKD	/	/

in EUR Exposure to risk of change of exchange rates	EUR	HUF	Other currencies	Total
Non-current financial receivables and loans	820,000			820,000
Non-current operating receivables	10,507,168		707,882	11,215,050
Current financial receivables and loans	1,334,459			1,334,459
Current operating receivables	398,767,172		7,015,155	405,782,327
Non-current financial liabilities	-157,045,455			-157,045,455
Non-current financial liabilities from leases to companies in the Group	-624,330			-624,330
Non-current financial liabilities from leases from others	-232,435			-232,435
Current financial liabilities	-104,944,587			-104,944,587
Current financial liabilities from leases to companies in the Group	-371,874			-371,874
Current financial liabilities from leases from others	-227,928			-227,928
Current operating liabilities	-427,182,723	-376,657	-168,015	-427,727,395
Net exposure of the SFT as at 31/12/2021	**-279,200,533**	**-376,657**	**7,555,022**	**-272,022,168**

in EUR Exposure to risk of change of exchange rates	EUR	HUF	Other currencies	Total
Non-current financial receivables and loans	1,144,000			1,144,000
Non-current operating receivables	1,313,667		236,880	1,550,547
Current financial receivables and loans	331,315			331,315
Current operating receivables	207,084,130			207,084,130
Non-current financial liabilities	-190,348,485			-190,348,485
Non-current financial liabilities from leases to companies in the Group	-992,256			-992,256
Non-current financial liabilities from leases from others	-326,285			-326,285
Current financial liabilities	-21,868,451			-21,868,451
Current financial liabilities from leases to companies in the Group	-362,049			-362,049
Current financial liabilities from leases from others	-158,412			-158,412
Current operating liabilities	-170,246,753	-149,837	-749,375	-171,145,965
Net exposure of the SFT as at 31/12/2020	**-174,429,579**	**-149,837**	**-512,495**	**-175,091,911**

in EUR Concluded contracts for currency swaps according to the maturity date	31/12/2021	31/12/2020
Concluded contracts for currency swaps according to the maturity date – purchase hedging	24,706,200	17,564,445
Concluded contracts for currency swaps according to the maturity date – sale hedging	510,502	6,096,140
Total	**25,216,702**	**23,660,585**

in EUR Currency swap effect	2021	2020
Realised loss of effective transactions	1,156,205	776,875
Realised loss of effective transactions	-345,847	-153,292

INTEREST RATE RISK

The Company is managing the interest rate risk adequately by regularly monitoring cash market developments as well as market interest rate and interest rate swap movements, with the aim of proposing interest rate hedging measures in a timely manner. The interest rate hedging decision is based on the interest rate trend forecasts, interest rate swaps and their effect on financial expenses, whereby it should be emphasised that the Euribor value was also negative throughout 2021. The Company has concluded non-current loan agreements in a way that the variable interest rate amounts to zero, if Euribor is negative (the so-called 'zero floor') and it is exposed to the growth of Euribor to the positive range. Under the circumstances in place on the money market and subject to interest rate trend forecasts, interest rate hedging would further increase the costs of financing and expose the Company to the interest rate decline risk. Consequently, the Company concluded no new interest rate hedging in 2021.

Interest-bearing and non-interest bearing financial assets and liabilities are outlined in the table below:

in EUR Financial instruments with variable interest rates	31/12/2021	31/12/2020
Financial liabilities	250,348,486	211,151,516

Cash flow sensitivity analysis with variable interest rate instruments

In 2021, the average amount of the 3M Euribor reference interest rate amounted to -0.549% and of the 6M Euribor to -0.523%. As a result, even an increase of the margin by +0.50 basis points would not have an effect on increasing interest expenses from loans with a variable interest rate.

As fixed interest rates have been agreed for the financial assets, no sensitivity analysis has been carried out for this part.

in EUR	Not profit or loss 2021		Not profit or loss 2020	
Financial instruments	Increase by 50 bt	Decrease by 50 bt	Increase by 50 bt	Decrease by 50 bt
Financial instruments bearing the variable interest rate	**0**	**0**	**-223,538**	**0**
Financial liabilities	n/a	n/a	-223,538	n/a

PRICE RISK

Future contracts for electricity

The Company sells and procures futures with the purpose of securing long-term positions from self-generated electricity, against price risks and with the purpose of position trading.

In the event of securing the price, the Company shall, upon concluding a physical delivery of electricity transaction, also simultaneously conclude a future of an offset volume and the same maturity or a future with the maturity complying with the planned volumes of self-generated electricity. In doing so, the Company shall financially fix its price differences, for example, that RVC loss generated from the procurement of futures is set off by RVC generated from the physical quantity of procured/sold or generated physical volume of electricity. The planned volumes of generated electricity shall serve as the basis used for implementing the Price Securing Strategy

in EUR Concluded standardised forward contracts for hedging	31/12/2021	31/12/2020
For electricity - trading - to hedge procurement	216,867,497	180,840,187
For electricity - trading - to hedge sales	458,789,759	129,572,114

in EUR Concluded standardised forward contracts for trading	31/12/2021	31/12/2020
For electricity - trading - purpose of purchase	212,280,829	125,023,179
For electricity - trading - purpose of sale	414,195,613	131,159,697

of Planned Volumes of Self-Generated Electricity. Thus, the Company is already selling electricity of subsidiaries during the current year for several years in advance, whereas the main objective of the strategy is to maximise profit and provide stable revenue from the sale of electricity.

At year-end, the Company has EUR 657,657,256 in concluded futures. Related disclosures are provided in the Capital section.

The procurement or sales of futures with the purpose of position trading at the time a position is opened increases the price exposure of the Company since the future 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 futures or physical contracts with an offset position. At the end of the year, the Company recorded EUR 626,476,442 in open future contracts held for trading.

Emission allowances

The Group concluded futures in 2021 for the procurement and sale of emission allowances in order to secure the price of volumes of emission allowances arising from self-generated electricity requirements; to a limited extent, the Company also concluded futures for the procurement and sales of trading activities not related to its self-generated electricity. At the end of 2021, the Company held EUR 256,444,840 in open contracts securing the procurement and sale of emission allowances. Related disclosures are provided in the Capital section.

in EUR Concluded standardised forward contracts for hedging	31/12/2021	31/12/2020
For emission allowances - trading - futures for hedging procurement	158,919,840	130,682,140
For emission allowances - trading - futures for hedging sales	97,525,000	56,055,000

in EUR Concluded standardised forward contracts for trading	31/12/2021	31/12/2020
For emission allowances - trading - intended for procurement	528,500	0
Total	**528,500**	**0**

CAPITAL MANAGEMENT

in EUR Capital management	31/12/2021	31/12/2020
Non-current financial liabilities	157,045,455	190,348,485
Non-current financial liabilities from leases	856,765	1,318,541
Current financial liabilities	104,944,587	21,868,451
Current financial liabilities from leases	599,802	520,461
Total financial liabilities	263,446,609	214,055,938
Capital	666,757,957	779,976,247
Financial liabilities/Capital	**0.40**	**0.27**
Cash and cash equivalents	48,798,746	37,486,059
Net financial liability	214,647,863	176,569,879
Net debt/Capital	**0.32**	**0.23**

The main purpose of capital management is to ensure the best possible credit rating and capital adequacy for the purposes of financing operations and investments. An adequate volume of capital guarantees the Company the trust of creditors, partners and potential investors while also maintaining the future development of activities.

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

The ratio shows the ratio between the Company's debt and capital. The financial leverage ratio at the end of 2021 was higher than in 2020 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 fair value.

in EUR	31/12/2021		31/12/2020	
Carrying amounts and fair values of financial instruments	Book value	Fair value	Book value	Fair value
Non-derivative financial assets at fair value	**111,500**	**111,500**	**111,500**	**111,500**
Financial assets available for sale	111,500	111,500	111,500	111,500
Non-derivative financial assets at amortised cost	**473,100,410**	**474,032,788**	**247,596,051**	**247,596,051**
Financial receivables	2,154,458	2,154,458	1,475,315	1,475,315
Operating and other receivables	422,147,206	423,079,584	208,634,677	208,634,677
Cash and cash equivalents	48,798,746	48,798,746	37,486,059	37,486,059
Total	**473,211,910**	**474,144,288**	**247,707,551**	**247,707,551**
Derivative financial liabilities at amortised cost	**161,410,681**	**161,410,681**	**0**	**0**
Derivatives (liabilities)	161,410,681	161,410,681	0	0
Non-derivative financial liabilities at amortised cost	**615,353,310**	**615,353,310**	**395,536,713**	**395,536,713**
Bank loans	260,391,595	260,391,595	211,177,071	211,177,071
Other financial liabilities	3,055,014	3,055,014	1,035,111	1,035,111
Operating and other liabilities	351,906,701	351,906,701	183,324,531	183,324,531
Total	**776,763,991**	**776,763,991**	**395,536,713**	**395,536,713**

in EUR	31/12/2021	Financial assets and liabilities at fair value by hierarchy as at 31/12/2021			
Carrying amounts and fair values of financial instruments	Book value	Fair value	Level 1	Level 2	Level 3
Non-derivative financial assets at fair value	**111,500**	**111,500**	**0**	**0**	**111,500**
Financial assets available for sale	111,500	111,500			111,500
Non-derivative financial assets at amortised cost	**473,100,410**	**473,100,410**	**0**	**0**	**473,100,410**
Financial receivables	2,154,458	2,154,458			2,154,458
Operating and other receivables	422,147,206	422,147,206			422,147,206
Cash and cash equivalents	48,798,746	48,798,746			48,798,746
Total	**473,211,910**	**473,211,910**	**0**	**0**	**473,211,910**
Derivative financial liabilities at amortised cost	**161,377,066**	**161,377,066**	**130,597,045**	**30,780,021**	**0**
Derivatives (liabilities)	161,377,066	161,377,066	130,597,045	30,780,021	0
Non-derivative financial liabilities at amortised cost	**615,353,310**	**615,353,310**	**0**	**0**	**615,353,310**
Bank loans	260,391,595	260,391,595			260,391,595
Other financial liabilities	3,055,014	3,055,014			3,055,014
Operating and other liabilities	351,906,701	351,906,701			351,906,701
Total	**776,730,376**	**776,730,376**	**130,597,045**	**30,780,021**	**615,353,310**

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4.5.8 Events after the reporting date

After the date of the statement of financial position in the Company, no events happened in the Company to affect the 2021 financial statements.

Below, there is a description of developments that do not have any effect on the 2021 financial statements:

The war in Ukraine

The escalation of the Russo-Ukrainian conflict rocked energy product and share markets and also led to an extreme rise in prices of energy products on a global level. Russia is namely the third largest producer of crude oil, the second largest producer of gas and one of the top five producers of iron, nickel, and aluminium. As a result, any effect on the reduction of supply leads to higher prices of these raw materials on the global markets. In addition, this has also resulted in a greater uncertainty in the expected fast recovery following the two-year COVID-19 pandemic. The conflict will have a major effect on economic growth primarily in Eastern Europe which is the most dependent on the import of commodities from Russia and Ukraine. The EU-Russia energy product co-dependence has turned into one of the key elements of negotiations to end the war.

The actual aftermath of the war will else be primarily dependent on the duration of the invasion and severity of its aftermath. Its effect is already reflected on global markets through:

- price shocks of raw materials causing inflationary pressures and eroding consumer sentiment;
- sanctions imposed against Russia, suspension and limitation of operations and the volatility of financial markets which are to experience severe financial implications (some even delayed);
- additional security and safety challenges (in addition to the already reflected cyber security effect) that could arise in the event of escalation or expansion of the military conflict.

In view of current geo-political developments, raw material prices are under extreme pressure. This primarily applies to the energy sector as Europe is highly dependent on the supply of oil and gas from Russia. The delivery-associated risk is currently under intense scrutiny in particular in relation to insecurity of supplies both in terms of supply willingness (Russia), receipt willingness (Europe), in addition to capacities related to the transport or transfer of energy products/raw materials. HSE operates on the majority of European market with its electricity and related products, where a similar reaction to the developments has been shown, causing a predominantly symmetric movement of prices and a high volatility of the products themselves. The crisis will not have a material effect on the prices of input raw materials used to generate electricity in the HSE Group, as our primary sources are water and coal (gas/ELKO accounts for a miniscule fraction thereof).

The most important concern of energy companies during recent months has been the financial stability of companies whose sudden and extreme fluctuations of electricity and CO_2 allowance prices have resulted in a severe financial exposure, caused primarily by the openness of positions on account of extreme volatility of electricity and CO_2 allowance prices. As a result, market organisers and clearing houses have been demanding increasingly higher multipliers in exchange for providing financial coverage of open positions, causing an additional increase in volatility of energy products (further changes in prices), which then lead to another round of coverage calls, thus a chain and spiral reaction. All of the above has led to much higher Company and HSE Group liquidity needs and associated risks which have been successfully managed during this period. The HSE Group has taken primarily financial measures, intended to providing the Group with sufficient financial resources, where the control of the total exposure of the HSE Group arising both from the financial positions of HSE Group and the selection of appropriate contractual partners shall be subject to strict discipline.

The other important risk is the ability and in some (albeit rare) cases also the willingness of our partners to perform existing contracts concluded at much lower prices. As such, additional attention shall be paid to the payment and market exposure of companies and keep up-to-date with all restrictive measures adopted by the EU against Russia in response to the Russian military aggression in Ukraine, as these could have extremely significant repercussions for the companies or entities involved. For this purpose, inter alia, the due diligence procedure of our contractual partners, which could face issues related to indirect or direct ownership of Russian natural or legal persons against which the EU has imposed restrictive measures, has been strengthened. These problems are addressed in collaboration with competent Slovenian institutions, the Chamber of Commerce and the Energy Industry Chamber of Slovenia, in addition to EU-level industry organisations. Despite continuous escalation of measures imposed against Russia (Package 4 of 15/03/2022 brought about additional bans in the energy industry), no direct effect on the performance of the core activity of HSE has been observed, as electricity and natural gas trading is currently still exempt from the adopted sanctions.

Related to current Russia and Ukraine-related events, the HSE Group has experienced an increase in incoming e-mail message rejection in our e-mail security system of the HSE Group. Related to a higher cyber-attack risk, information security activities aimed at securing our key IT systems and the operations or unimpeded functioning of production facilities of HSE Group companies have been strengthened. A team on call 24/7 to control the IT network with the knowledge and rights to temporarily unblock web traffic has also been established. In the event of a cyber-attack on the HSE Group or a network outage and/or a deliberate blockade of our telecommunication networks/services, there are already scenarios of manual management of production facilities of the HSE Group, including a trained team, an established communication system between teams and/or companies via radio communications, satellite phones, pagers, analogue telephony, etc., all with the key objective of preserving continuous operations and generation of electricity. Our own independent source of electricity to ensure continuous operation of all HSE Group companies and our own power supply has also been provided.

The national coal phase-out strategy

On 13/01/2022, the Government of the Republic of Slovenia adopted the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy. The adoption of the Strategy and its fastest possible implementation is essential for the energy transformation of Slovenia, both coal mining regions and everyone associated with the coal mining industry, allowing us to as quickly and comprehensively as possible provide for a just transition primarily for all affected workers and their families. The Strategy lays down that Slovenia will discontinue generating electricity from coal no later than 2033.

The adoption of the Strategy is also relevant for the timely drafting and adoption of a phased closure of the Velenje Coal Mine (PV) act, as TEŠ, whose production depends on the supply of coal, is an important supplier of electricity to HSE. This affects the operations of HSE and, as a result, reliable provision of electricity to Slovenia.

4.5.9 Additional disclosures pursuant to the Energy Act

In 2011, the company began generating electricity at a solar power plant in Velenje. In accordance with the provisions of the Energy Act, the Company is required to separately monitor its electricity generating activity at the SPP.

The income statement of the electricity generated 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,
- current operating liabilities show trade payables for the operation and maintenance of the solar power plant and the output value-added tax.

4.5.9.1 The statement of financial position as at 31 December 2021 (Energy Act)

in EUR Statement of financial position as at 31/12/2021 (Energy Act)	Trading with electricity	SE production	Total
ASSETS	**1,446,271,935**	**225,376**	**1,446,497,311**
A. NON-CURRENT ASSETS	**980,476,525**	**71,127**	**980,547,652**
I. Intangible assets	91,450,494		91,450,494
II. Real property, plant and equipment	14,803,430	71,127	14,874,557
III. Right to use leased assets	1,423,178		1,423,178
IV. Non-current financial investments in subsidiaries	819,037,665		819,037,665
V. Other non-current financial investments and loans	41,700,442		41,700,442
VI. Non-current operating receivables	11,215,050		11,215,050
VIII. Deferred tax receivables	846,266		846,266
B. CURRENT ASSETS	**465,795,410**	**154,249**	**465,949,659**
II. Inventories	3,584,557		3,584,557
III. Current financial investments	1,334,459		1,334,459
IV. Current operating receivables	254,546,241	581	254,546,822
V. Contract assets	395,489		395,489
VI. Current tax receivables	1,299,741		1,299,741
VII. Other current assets	155,989,845		155,989,845
VIII. Cash and cash equivalents	48,645,078	153,668	48,798,746
EQUITY AND LIABILITIES	**1,446,271,935**	**225,376**	**1,446,497,311**
A. EQUITY	**666,533,235**	**224,722**	**666,757,957**
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	-88,891,503		-88,891,503
V. Fair value reserves	-282,078		-282,078
VI. Retained profit/loss	-397,693,637	78,377	-397,615,260
B. NON-CURENT LIABILITIES	**160,422,719**	**0**	**160,422,719**
I. Provisions for severance pays and anniversary bonuses	1,771,464		1,771,464
II. Other provisions	507,127		507,127
III. Other non-current liabilities	241,908		241,908
IV. Non-current financial liabilities	157,045,455		157,045,455
V. Non-current financial liabilities from leases	856,765		856,765
C. CURRENT LIABILITIES	**619,315,981**	**654**	**619,316,635**
II. Current financial liabilities	104,944,587		104,944,587
III. Current financial liabilities from leases	599,802		599,802
IV. Current operating liabilities	235,383,816		235,383,816
IV. Contract liabilities	0		22,454
VII. Other current liabilities	278,365,322	654	278,365,976

4.5.9.2 Income statement for 2021 (Energy Act)

in EUR Income statement for 2021 (Energy Act)	Trading with electricity	SE production	2021
OPERATING REVENUE	**2,740,454,204**	**20,526**	**2,740,474,730**
1. Net sales revenue	2,613,483,463	20,526	2,613,503,989
4. Other operating income	126,970,741	0	126,970,741
OPERATING EXPENSES	**2,646,534,487**	**8,913**	**2,646,543,400**
5. Costs of goods, materials and services	2,468,152,358	3,833	2,468,156,191
6. Labour costs	14,141,291		14,141,291
7. Value write-offs	2,258,811	5,080	2,263,891
8. Other operating expenses	161,982,027		161,982,027
OPERATING PROFIT/LOSS	**93,919,717**	**11,613**	**93,931,330**
9. Financial revenue	**5,787,411**	**0**	**5,787,411**
10. Financial expenses	**63,629,142**	**0**	**63,629,142**
FINANCIAL OUTCOME	**-57,841,731**	**0**	**-57,841,731**
PROFIT (LOSS) BEFORE TAX	**36,077,986**	**11,613**	**36,089,599**
TAXES	**17,206,296**	**2,206**	**17,208,502**
11. Current tax	17,402,571	2,206	17,404,777
12. Deferred tax	-196,274		-196,274
NET PROFIT/LOSS FOR THE YEAR	**18,871,690**	**9,407**	**18,881,097**
Majority owner	18,871,690	9,407	18,881,097

The income statement of electricity generated at the solar power plant was thus drawn up in accordance with the following rules:

- the value of invoices issued to buyers of electricity generated by the solar power plant is shown among net operating revenue;
- costs of materials and services show costs related to the maintenance and operation of the solar power plant;
- depreciation costs refer to the depreciation of the SPP; and
- the current tax is calculated as corporate income tax based on the operating result of the activity.

4.5.9.3 Cash flow statement 2021 (Energy Act)

in EUR Cash flow statement 2021 (Energy Act)	Trading with electricity	SE production	2021
FINANCIAL FLOWS FROM FINANCING			
Net profit/loss	18,871,691	9,406	18,881,097
Adjustments for:			
Amortisation of intangible assets	359,346		359,346
Amortisation of property, plant and equipment	396,444	5,080	401,524
Amortisation of leases	533,658		533,658
Write-off of real property, plant and equipment	1,367		1,367
Operating receivables write-offs	967,132		967,132
Loss from sale of real property, plant and equipment	863		863
Financial revenue	-5,787,411		-5,787,411
Financial expenses	63,629,142		63,629,142
Profit from sale of real property, plant and equipment	-14,640		-14,640
Taxes	17,206,297	2,206	17,208,503
Operating profit before changes in net current assets and taxes	**96,163,889**	**16,692**	**96,180,581**
Changes in net current assets and provisions			
Change in:			
Inventories	-2,860,438		-2,860,438
Trade receivables and other assets	-209,799,889	-199	-209,800,088
Operating liabilities to suppliers and other liabilities	143,207,650	585	143,208,235
Advances received and other liabilities	26,433		26,433
Provisions	157,232		157,232
Profit tax paid	-30,246,680	-2,206	-30,248,886
Cash from operations	**-3,351,803**	**14,872**	**-3,336,931**
FINANCIAL FLOWS FROM INVESTMENT ACTIVITIES			
Interests received	51,643		51,643
Remuneration from other financing	504,290		504,290
Dividends received	5,228,335		5,228,335
Income from sale of real property, plant and equipment	28,378		28,378
Income from disposal of intangible assets	67,227,720		67,227,720
Income from reduction of current loans given	324,000		324,000
Expenses for purchase of real property, plant and equipment	-3,207,559		-3,207,559
Expenses for purchase of intangible assets	-88,067,588		-88,067,588
Expenses for purchase of leases	-145,616		-145,616
Expenses for purchase of subsidiaries	-11,118,000		-11,118,000
Expenses for increase of current loans given	-1,000,000		-1,000,000
Cash from investment	**-30,174,397**	**0**	**-30,174,397**

continues

in EUR Cash flow statement 2021 (Energy act)	Trading with electricity	SE production	2021
FINANCIAL FLOWS FROM FINANCING			
Income from current loans received	201,200,000		201,200,000
Expenses for loan interest	-3,522,230		-3,522,230
Expenses from other financial liabilities	-468,289		-468,289
Expenses from other financial liabilities	-20,803,030		-20,803,030
Expenses for repayment of current loans	-131,200,000		-131,200,000
Expenses for leases	-382,436		-382,436
Cash from financing	**44,824,015**	**0**	**44,824,015**
INITIAL BALANCE OF CASH AND CASH EQUIVALENTS	**37,347,263**	**138,796**	**37,486,059**
Profit or loss for the period	11,297,815	14,872	11,312,687
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**48,645,078**	**153,668**	**48,798,746**

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Appendix

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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	About the Company
102-4	Countries where the organisation operates	Presentation of the HSE Group
102-5	Ownership and legal form	About the Company
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 operations and HSE Company Presentation of HSE Group Sustainable development of the HSE Group
102-8	Data on employees (Type of employee, gender, region)	Presentation of the HSE Group Sustainable development of the HSE Group
102-9	Supplier chain management	Sustainable development of the HSE Group
102-10	Significant changes during reporting period	Chronology of important events of the HSE Group in 2021 Analysis of Group and HSE Company operations
102-11	Explanation whether the organisation uses the precautionary principle	Sustainable development of the HSE Group
102-13	Membership in organisations and associations	Sustainable development of the HSE Group
102-14	Letter by the management	Letter by the management
Ethics and integrity		
102-15	Key impacts, risks and opportunities	Statement on corporate governance Electricity economy market environment HSE Group risk management
102-16	Values, principles, standards, rules of conduct, such ethical code, compliance of operations, corporate integrity	Sustainable development of the HSE Group
102-17	Education about ethical operation and mechanisms of reporting unethical conduct	Sustainable development of the HSE Group

Indicator	Disclosure	Chapter
Management		
102-18	Management structure	About the Company Statement on corporate governance
102-20	Management's responsibility for economic, environmental and social topics	Statement on corporate governance Sustainable development of the HSE Group
102-22	Management and committee structure	About the Company
102-23	Highest ranking manager	About the Company
102-24	Method of appointment and selection for the highest management body	Statement on corporate governance
102-25	Prevention of conflict of interest	Statement on corporate governance Risk management of the HSE Group Sustainable development of the HSE Group
102-28	Evaluation of management performance	Report of the Supervisory Board Sustainable development of the HSE Group
102-30	Efficiency of managing economic, environmental and social risks	Risk management of the HSE Group HSE Group development strategy Sustainable development of the HSE Group
The inclusion of stakeholders		
102-40	The list of groups of stakeholders cooperating with the organisation	Sustainable development of the HSE Group
102-41	Collective contracts in Group	Sustainable development of the HSE Group
102-42	Starting poitns for recognising and selecting stakeholders cooperating with the organisation	Sustainable development of the HSE Group
102-43	Approaches in including stakeholders and the frequency of cooperating with them	Sustainable development of the HSE Group
Data about the report		
102-45	List of entities included in the consolidated financial statements	HSE company and Group performance analysis
102-46	Process of defining the content of the report and the delimitation of aspects	Corporate Governance Declaration About the Sustainability Report
102-48	The effects of changes of data from preliminary reports and reasons for changes	Highlights of Group operations and HSE Company 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 Group operations and HSE Company Presentation of HSE Group Sustainable operations and development
102-53	Contact information for questions regarding the report	Sustainable development of the HSE Group
102-54	Statement of conformity with the GRI Standard	Sustainable development of the HSE Group
102-55	Index according to GRI guidelines	Index GRI

Indicator	Disclosure	Chapter
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 Risk management of the HSE Group Development strategy of the HSE Group Sustainable development of the HSE Group

Indicator	Disclosure	Chapter
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 Financial report
201-2	Financial consequences and other risks due to climate change	Electricity economy market environment Risk management of the HSE Group Development strategy of the HSE Group
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)	Development strategy of the HSE Group Sustainable development of the HSE Group
GRI 205: ANTI-CORRUPTION OPERATION		
205-1	Number of identified corruption risks	Sustainable development of the HSE Group
205-2	Communication and education on anti-corruption operation	Sustainable development of the HSE Group

Indicator	Disclosure	Chapter
GRI 300: ENVIRONMENTAL IMPACTS		
GRI 301: MATERIALS		
301-1	Use of materials by weight and volume	Sustainable development of the HSE Group
GRI 302: ENERGY		
302-1	Consumption of energy in the organisation	Sustainable development of the HSE Group
302-2	Consumption of energy outside the organisation	Sustainable development of the HSE Group
302-3	Energy intensity	Sustainable development of the HSE Group
302-4	Energy consumption decrease	Sustainable development of the HSE Group
GRI 303: WATER		
303-1	Consumption of water by sources (surface, groundwater, municipal, etc.)	Sustainable development of the HSE Group
303-2	Sources of used water	Sustainable development of the HSE Group
303-4	Wastewater	Sustainable development of the HSE Group
303-5	Consumption of water	Sustainable development of the HSE Group
GRI 304: BIODIVERSITY		
304-1	Locations in protected areas with protected biodiversity	Sustainable development of the HSE Group
304-2	Impacts of activity on biodiversity in protected areas	Sustainable development of the HSE Group
304-3	Protected and restored habitats	Sustainable development of the HSE Group
GRI 305: EMISSIONS		
305-1	Direct greenhouse gas emissions	Sustainable development of the HSE Group
305-2	Indirect greenhouse gas emissions	Sustainable development of the HSE Group
305-3	Other indirect greenhouse gas emissions	Sustainable development of the HSE Group
305-4	Intensity of greenhouse emissions	Sustainable development of the HSE Group
305-5	Reduction of greenhouse emissions	Sustainable development of the HSE Group
305-7	NO_x, SO_2 and other important emissions	Sustainable development of the HSE Group
GRI 306: SEWAGE AND WASTE		
306-3	Waste by type and method of removal by weight	Sustainable development of the HSE Group
306-5	Waste for removal	Sustainable development of the HSE Group
GRI 307: CONFORMITY OF ENVIRONMENTAL MANAGEMENT		
307-1	Financial value of fines and the number of non-financial sanctions due to nonconformity with environmental legislation	Sustainable development of the HSE Group

Indicator	Disclosure	Chapter
GRI 400: SOCIAL EFFECTS		
GRI 401: EMPLOYMENT		
401-1	New recruitment and fluctuation of employees	Sustainable development of the HSE Group
401-3	Number of employees that utilised parental leave (by gender)	Sustainable development of the HSE Group
GRI 403: OCCUPATIONAL HEALTH		
403-1	Occupational Health and Safety Management System	Sustainable development of the HSE Group
403-2	Definition of hazards, risk assessment and investigations of accidents	Sustainable development of the HSE Group
403-4	Cooperation of employees and raising awareness of occupational safety	Sustainable development of the HSE Group
403-5	Education about occupational safety	Sustainable development of the HSE Group
403-6	Promotion of employee health	Sustainable development of the HSE Group
403-9	Injuries at work (number, reasons, gravity)	Sustainable development of the HSE Group
403-10	Occupational diseases (number, reasons, type of diseases)	Sustainable development of the HSE Group
GRI 404: TRAINING AND EDUCATION		
404-1	Average number of training hours per year per employee by gender and employee category	Sustainable development of the HSE Group
404-2	Programmes for upgrading skills and knowledge transfer programmes	Sustainable development of the HSE Group
404-3	Proportion of employees who regularly receive evaluations of their work and personal progress, by gender and category	Sustainable development of the HSE Group
404-4	Training and education	Sustainable development of the HSE Group
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 development of the HSE Group
GRI 406: NON-DISCRIMINATION		
406-1	Number of discrimination reports and corrective measures	Sustainable development of the HSE Group
GRI 412: HUMAN RIGHTS		
412-1	Number of cases, reviewed due to violation of human rights	Sustainable development of the HSE Group
412-2	Education of employees about human rights and methods of reporting abuse	Sustainable development of the HSE Group
GRI: 413: COOPERATION WITH LOCAL COMMUNITIES		
413-1	Cooperation with local communities, impact assessment and development programmes	Sustainable development of the HSE Group
413-2	Activities with actual and potentially negative impacts on the local community	Sustainable development of the HSE Group
GRI 415: PUBLIC POLICIES		
415-1	Contributions to public policies	Sustainable development of the HSE Group
GRI 419: SOCIO-ECONOMIC CONFORMITY		
419-1	Non-conformity with laws and rules in the social and economic field (penalties, fines, pending procedures)	Sustainable development of the HSE Group

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5.2 Abbreviations

AJPES	Agency of the Republic of Slovenia for Public and Legal Records and Services
ARRS	Slovenian Research Agency
ARSO	Slovenian Environment Agency
BDP	Gross Domestic Product (GDP)
ČHE	Pump-fed hydroelectric power station
DDV	Value Added Tax (VAT)
DEM	Dravske elektrarne Maribor d.o.o.
DIIP	Investment Project Identification Document
DPN	National Spatial Plan
DPP	Family Friendly Company
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
ECB	European Central Bank
EE	Electricity
EES	Electricity system
ELES	ELES d.o.o., transmission system operator (TSO)
EIB	European Investment Bank
EU	European Union
EUR/€	Euro
EU ETS	European Union Emissions Trading System
Fit for 55	Fit for 55
GRI	Global Reporting Initiative
HE	Hydro-electric power plant
HESS	Hidroelektrarne na Spodnji Savi d.o.o.
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
HTZ	HTZ harmonija tehnologije in znanja invalidsko podjetje d.o.o. Velenje
IFP	Statement of financial position
IP	Investment programme
IKT	Information-communications technology
ISO	International Organization for Standardization
ISO/IEC	Information Security Management System
ISDA	International Swaps and Derivatives Association
IT	Information technology
JTF	Just Transition Fund
KK	HR Committee
KP	Restructuring committee
KTI	Marketing and investment committee
LRF	Linear Reduction Factor
MF	Ministry of Finance
mHE	Small-scale hydro-power
MOP	Ministry of the Environment and Spatial Planning
MRS	International Accounting Standards (IAS)
MSR	Market Stability Reserve
MSRP	International Financial Reporting Standards (IFRS)
MZI	Ministry of Infrastructure
NEK	Nuklearna elektrarna Krško d.o.o.
NEPN	National Energy and Climate Plan (NECP) of the Republic of Slovenia
NS	Supervisory Board
OHSAS	Occupational Health and Safety Management System
OPEC	The Organization of the Petroleum Exporting Countries
OPMSRP	IFRS International Interpretations Committee
OZN	United Nations (UN)
OVE	Renewable energy sources
PLP	PLP Lesna industrija d.o.o. Velenje
PoI	Certificates of Origin
PV	Premogovnik Velenje d.o.o.
PVO	Environmental Impact Assessment (EIA)
RGP	RGP Rudarski gradbeni program d.o.o.
RK	Audit Committee
SDH	Slovenski državni holding d.d.
SE	Solar power plant
SENG	Soške elektrarne Nova Gorica d.o.o.
SIPOTEH	SIPOTEH Strojna in proizvodna oprema d.o.o.
SODO	Electricity distribution system operator
SONDO	Electricity distribution network codes
SOPO	Transmission system operator (TSO)
SRF	Solid Recovered Fuels
SRESA	Srednjesavske elektrarne d.o.o.
STS	Slovenian Technical Approval
SUVI	IT security management system
TE	Thermal power plant
TEŠ	Termoelektrarna Šoštanj d.o.o.
URE	Energy efficiency
USD	US Dollar
VE	Wind power plant
VZD	Occupational health and safety
ZDA	United States of America (USA)
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 Slovenia
ZGD	Companies Act
ZSDH	Slovenian Sovereign Holding Act

5.3 About us in brief

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