hse Group

2021 Sustainability Report

of the HSE Group

HSE group

The biggest

generator and seller of self-generated, local electricity in Slovenia.

more on page 9

A reliable

pillar for the stable operations of the electricity system in Slovenia.

more on page 17

Efficient

by way of our reliable and dedicated employees.

more on page 15

Competitive

in 24 markets.

more on page 11

Responsible

towards our natural and social environments.

more on page 30

Sustainable

for generations to come.

more on page 48

Contents

1 About sustainability reporting[1]

Sustainability 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 an important part 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, and social 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.

In June 2020, Regulation (EU) 2020/852, also known as the EU Taxonomy, was adopted, amended by Regulation (EU) 2021/2178. Both regulations lay down the information that shall be disclosed by companies on their environmentally sustainable economic activities and their reporting methods. Mandatory reporting in compliance with EU Taxonomy for companies shall enter into force in 2023.

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. This report has been drawn up by the controlling department of the HSE Group in collaboration with subsidiaries and other departments.

1 GRI: 102-46; 102-53; 102-54.

2 Letter of the Management Board[2]

Distinguished

business partners, representatives of our owner, employees, and other stakeholders that we encounter and collaborate in the course of our operations: we hereby present to you the first Sustainability Report of the HSE Group.

Our conduct always pursues excellence in all areas, whether it be our record operating results in 2021 or the protection of the environment, where we endeavour to use state-of-the-art technology at our disposal. Our conduct is based on the most recent available science. Not forgetting about our people, our employees, to whose adaptability, commitment, and responsibility we owe a continuous, reliable, and safe electricity supply to Slovenia throughout the last two years of the covid-19 epidemic. All other processes in the HSE Group were also under way without a hitch, allowing us to generate a record EUR 2.9 billion in revenue.

DEM, SENG and HESS (in the latter, we have a 49 per cent participating interest) deserve the credit for almost 56 per cent of our electricity having been generated from RSE. At national level, our Group generated more than 70 per cent of all RSE energy. All of this gives us pride and the conviction that a bright future awaits.

The covid-19 pandemic, people's lives and companies' operations made people's lives and companies' operations during the past years frequently unpredictable, challenging, and required great flexibility. In such challenging times, the HSE Group with its own, local energy product, proved to be the key pillar of providing electricity to Slovenia. This has been re-affirmed as a strategic advantage during the tragic Russo-Ukrainian crisis, as the HSE Group has been able to demonstrate itself as a key, reliable, and indispensable electricity self-sufficiency generation source.

The HSE Group supports the goals of sustainable development set and is aware of the urgency to transition from a post-industrial to a neutral society to be achieved in compliance with just transition principles.

During the past year, the ECE company that sales electricity to final consumers was welcomed into our Group, allowing us to expand our operations to a new area. The vertical integration from generation to the end user brings about both new business opportunities and responsibilities. At a time of a reduce scope of supply chains, strained energy product market conditions and volatile energy product and CO_2 emission coupon prices leading to an increase in the costs of energy supply for both corporate and household clients, we will provide for continuous electricity supplies and seek solutions with our partners that would prevent us to collapse under the weight of high exchange electricity prices. In light of the above, we see the biggest potential in developing comprehensive energy solutions that would have a beneficial effect both on energy consumption and its price.

2 GRI: 102-14.

Viktor Vračar, PhD
CEO of HSE

Uroš Podobnik
CBO of HSE

Marko Štrigl, M.Sc.
CBO of HSE

Agenda 2030 (UN), the Paris Agreement and the European Green Deal are key international documents providing guidelines to both countries and companies on how to adapt their operations to achieving environmental and social responsibility in tandem with creating value for the respective company. The HSE Group supports the goals of sustainable development set and is aware of the urgency to transition from a post-industrial to a neutral society to be achieved in compliance with just transition principles.

The electrification of traffic, heating, and cooling, and the digitalisation of practically all sphere of our lives will lead to a significant increase in electricity needs. Our objective is to remain the biggest generator of electricity in Slovenia. We are committed to have all development-oriented investments of the HSE Group in zero- or low-carbon generation units fit activities and technologies compliant with the EU Taxonomy and the accompanying technical screening criteria. In practical terms, this means that, on the back of a progressive phase-out of coal, the Group has been intensively focusing on constructing hydro, solar, and wind power plants and investing in the development of other renewable sources, including in degraded areas or at the locations of existing thermal power plants with a view to the further development of coal mining regions in Slovenia. The Group has continued its siting and permit obtaining procedures for the construction of a chain of hydro-electric power plants on the Middle Sava River. It gave us great joy to have the biggest solar power plant, Prapretno, springing up at a previously degraded area of the former Trbovlje Thermal Power Plant in the Zasavje Coal mining Region, connected to the electricity grid. The erection of even bigger solar power plants at the location of the existing Formin and Zlatoličje hydro-electric power plants is also planned. The Group has been actively obtaining permits for erecting wind farms in the Ojstrica, Paški Kozjak and Rogatec regions. Together with our partners, we have been also studying the option of utilising geothermal energy in Prekmurje. More than a half billion euros will have been invested into new zero- or low-carbon generation units by 2030.

We are committed to have all development-oriented investments of the HSE Group in zero- or low-carbon generation units fit activities and technologies compliant with the EU Taxonomy and the accompanying technical screening criteria.

As of next year, large companies shall report on the compliance of their activities with the EU Taxonomy in accordance with the relevant EU directive. The EU Taxonomy contains a definition of activities and technologies that facilitate a green transition or the attainment of ambitious climate objectives by 2050. The HSE Group has decided to report on the shares of compliant activities as early as this year. Only too well aware that the Taxonomy will show the decarbonisation direction of various industries, primarily through the accessibility of European funds and loans by financial institutions. It has been found that our activities as defined by the EU Taxonomy are in line with the technical and environmental screening criteria. We are positive that all our planned investments in new generation units are also in line therewith.

The HSE Group is both focused on the future and proud of its past. It is incumbent upon all of us that the inhabitants of the once pillar of the industrial era in Slovenia, the Šalek Valley, are provided with a just transition and the required coal mining region restructuring funds.

Aware of the importance of the HSE Group for the electricity self-sufficiency of Slovenia, we have begun to walk the path of transition into a zero- and low-carbon generation of electricity. In compliance with the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy, adopted by the Government of the Republic of Slovenia in January 2022, laying down the complete phase out of coal for the generation of electricity by Slovenia no later than 2033, the Group is planning to make investments that will preserve the electricity self-sufficiency and independence of Slovenia. The adoption of the national strategy also serves as the basis for adopting the Velenje Coal Mine Progressive Closure Act, under which the state will provide additional funds and resources to close the coal mine, rehabilitate the degraded areas and allow for a controlled progressive closure and financially sound operations of the Velenje Coal Mine.

As TEŠ has foreseen to discontinue the use of Block 5 for commercial purposes this year, our objective is to reduce CO_2 emissions on account of a reduced consumption of coal by 10 per cent. The Velenje Coal Mine has already been drawing up its operating strategy in compliance with the restructuring process of the parent company and associates in the PV Group. A set of projects to preserve jobs in the Šalek Valley has already been drawn up. This part of Slovenia boasts a wealth of technological and expert knowledge that has great potentials for new project and challenges that will bring an added value to the HSE Group.

All of the above, in addition to the record operating results, adds to our confidence that the future is ours for the taking.

Marko Štrigl, M.Sc.
CBO of HSE

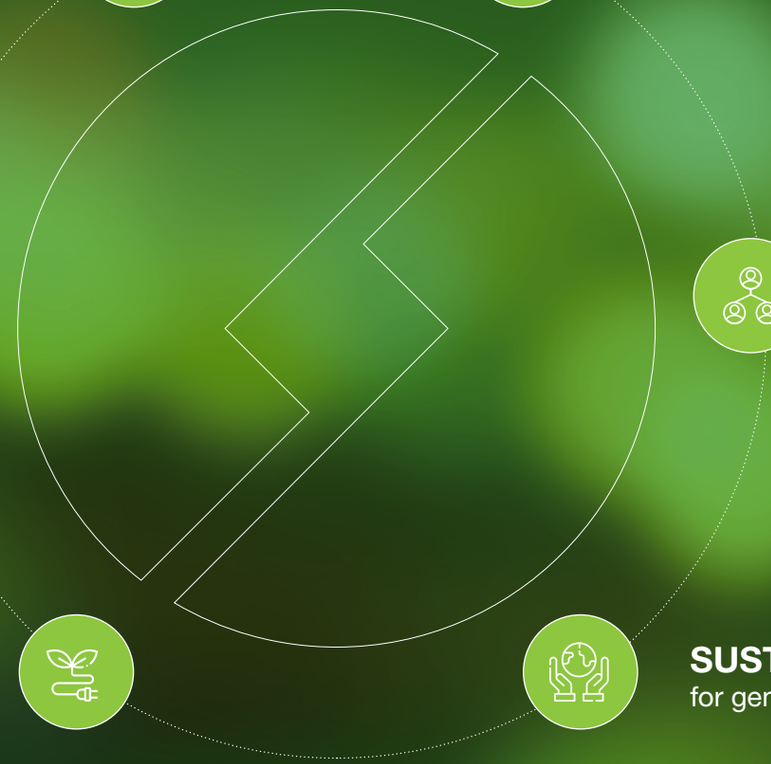
Uroš Podobnik
CBO of HSE

Viktor Vračar, PhD
CEO of HSE

3 Who are we – the HSE Group?[3]

THE BIGGEST
generator and seller of self-generated, local electricity in Slovenia.

A RELIABLE
pillar for the stable operations of the electricity system in Slovenia.



COMPETITIVE
in 24 markets.

EFFICIENT
by way of our reliable and dedicated employees.

RESPONSIBLE
towards our natural and social environments.

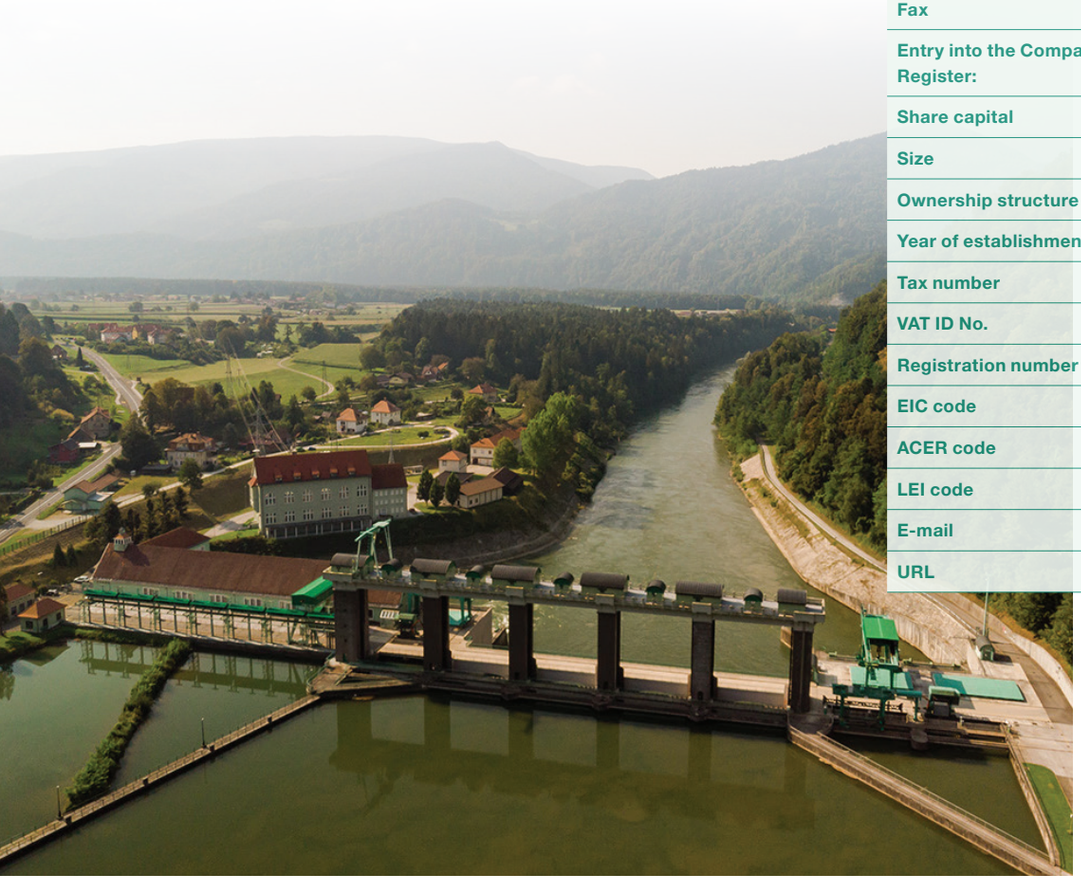
SUSTAINABLE
for generations to come.

3 GRI: 102-6; 102-7; 102-16; 102-28.

3.1 Company profile of HSE[4]

Our oldest hydro-electric power plant, Fala, providing electricity since as early as

1918.



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	+ 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	info@hse.si
URL	www.hse.si/en/

We are the biggest generator and seller of self-generated, local electricity in Slovenia. 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.

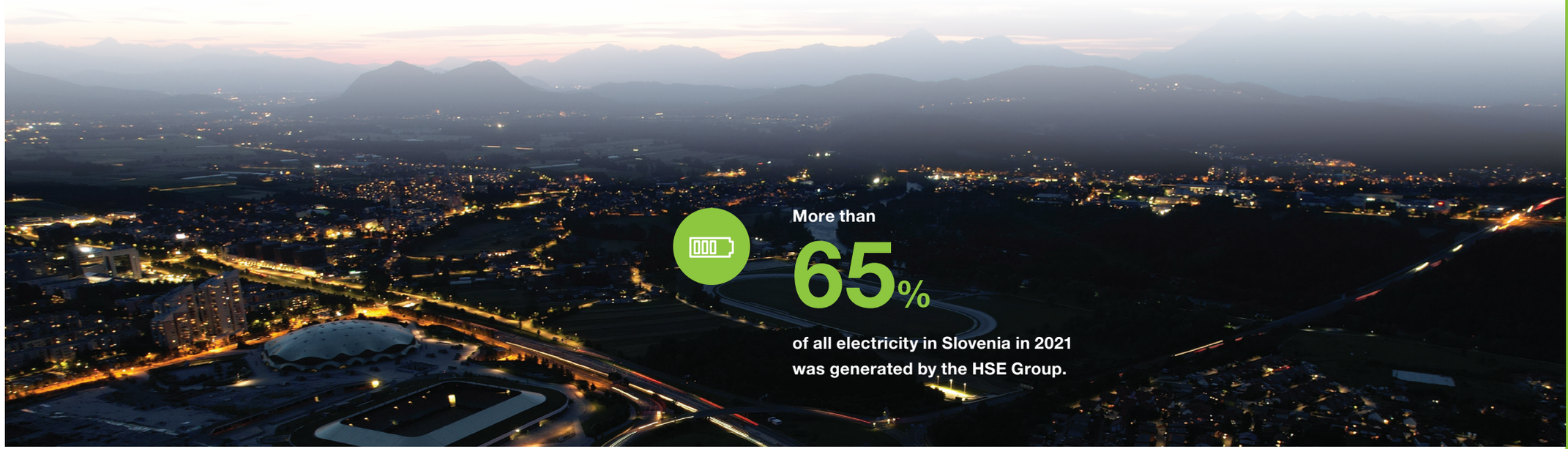
The generated electricity is sold in the domestic and European wholesale markets. We trade in electricity and all its derivative and related products at various energy exchanges all over Europe. We are present in 24 markets, including Slovenia. The acquisition of ECE allowed us to enter the retail market. A vertical integration aimed at optimising our processes from generation to end customers to provide for reliable electricity at competitive prices is currently under way.

The key competitive edge of the HSE Group lies in it being the biggest generator of RSE electricity, thanks for DEM, SENG and HESS, their hydro-electric power plants, small-scale hydro, the Avče pump-fed hydro-electric power station and solar power plants. Together with the Šoštanj Thermal Power Plant, whose operations make use of local lignite from the Velenje Coal Mine, we are the key pillar of reliable and stable operations of the electricity system in Slovenia. We are the self-sufficiency and energy independence foundation of Slovenia.

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 is engaged in a wide range of energy and environment management activities:

- solar, hydro, and thermal power generation,
- thermal energy generation,
- extraction of lignite,
- the sale and trade in electricity and thermal energy, futures contracts for electricity, CO_2 emission allowances, gas, etc.,
- production optimisation in the HSE Group,
- provision of the system services required for the functioning of the electric system in Slovenia,
- the management and implementation of energy and environmental projects,
- the sales of electricity and gas to end customers.

4 GRI: 102-1; 102-3; 102-5.



3.2 The key pillar of the Slovenian energy industry[5]

In 2021, the HSE Group generated 7.1 TWh or more than 65 per cent of all electricity generated in Slovenia. Together with HESS, RSE electricity accounted for 56 per cent, compared to 54 per cent in 2020. The HSE Group generated more than 70 per cent of RSE electricity in the country, consolidating its central role in the green transition of the Slovenian energy industry to climate neutrality. Furthermore, we have been following, analysing, and actively putting forward proposals to European and national regulatory frameworks adopted in order to provide for a just, financially sound and technologically acceptable transition to climate neutrality.

Our objective is to remain a leading national generator and seller of electricity and a key pillar of self-sufficiency and sustainable energy transition in Slovenia. Having joined forces with a new Group company, ECE, engaged in selling electricity to end customers, new comprehensive solutions for companies, households, and communities are being planned.

Our efforts will be focused on growth of generation of renewable electricity and the expansion of content, scope, and profitability of operations in a way that allows for reducing negative effects on the environment and acting as a socially responsible partner of all stakeholders. By monitoring business, market, and technological market trends, the group shall seek the best business answers to upcoming challenges in compliance with circulatory economy principles, Industry 4.0, and sustainable development. We will continue to take part in energy policies of our state and seek sustainable electricity supply solutions for Slovenia.

5 GRI: 102-7.

3.3 HSE Group companies

The HSE Group is proud of its hydro power division which generates the majority of renewable electricity in Slovenia. The division includes DEM, SENG and a 49 per cent participating interest in HESS. Our thermal power division (Block 6 of TEŠ) provides for one third of electricity generated in Slovenia, whereas HSE EDT has been rehabilitating the area of the former Trbovlje Thermal Power Plant. It is there were the biggest solar power plant in Slovenia, Prapretno, has sprung up. A primary source, i.e. lignite, is required for the operations of our thermal power division, provided to TEŠ by the Velenje Coal Mine.

HSE is in charge of selling the generated electricity and trading in electricity, CO_2 emission allowances, and related products. Group companies are also located in Serbia, Bosnia and Herzegovina, North Macedonia, and a branch in the Czech Republic. We are in touch with end customers via ECE which has been drawing up new energy solutions for households, companies, and communities.

Organisation chart of the HSE Group as at 31/12/2021

HSE GROUP

generation

Dravske elektrarne Maribor d.o.o.
(HSE 100%)

↳ **MHE Lobnica d.o.o.**
(DEM 65%)

Soške elektrarne Nova Gorica d.o.o.
(HSE 100%)

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

Srednjesavske elektrarne d.o.o.
(HSE 60%)

Termoelektrarna Šoštanj d.o.o.
(HSE 100%)

HSE - Energetska družba Trbovlje d.o.o.
(HSE 100%)

Premogovnik Velenje d.o.o.
(HSE 100%)

HTZ I.P. d.o.o.
(HSE 100%)

Sipoteh d.o.o.
(PV 100%)

PLP d.o.o.
(PV 100%)

global network

HSE BE d.o.o.
(HSE 100%)

HSE BH d.o.o.
(HSE 100%)

HSE MAK ENERGY DOOEL
(HSE 100%)

HSE Subsidiary in Prague

investments

SOENERGETIKA d.o.o.
(HSE 25%)

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%, DEM 86.9%, SENG 4%, TEŠ 5.1%)

sales to end customers

ECE d.o.o.
(HSE 51%)

4 Starting points, values, mission, and vision[6]

4.1 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. All of the above was also taken into account in the Development Plan of the HSE Group. 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:

6 GRI: 102-16.

Values

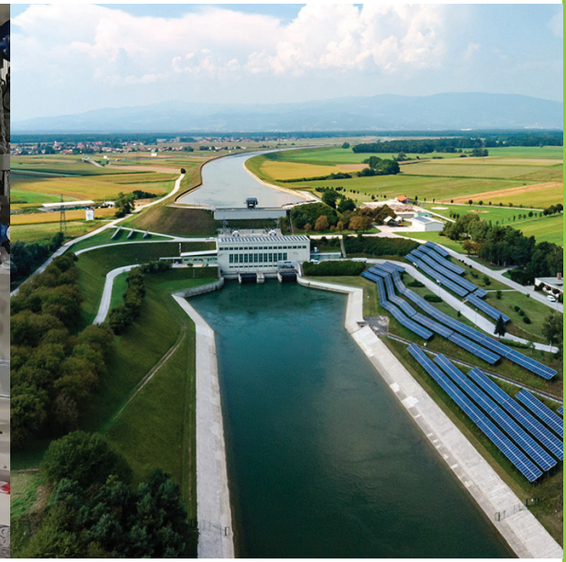
Our values are respect for people, users, employees, business partners, owners, and other stakeholders. Aware that our activities affect the environment, we seek to mitigate our effects on the environment on a daily basis, in addition to investing work and resources in the conservation of nature and biodiversity. Our corporate culture primarily promotes responsibility, efficiency, innovation, and creativity of all employees who are all expected to exude fairness, credibility, respect, and collaboration. All of the above are driven by a positive mindset and commitment to attain the objectives set.

Mission

The HSE Group is Slovenia's largest producer and dealer in self-generated and RSE electricity. In 2021, the Group generated almost 90 per cent of all renewable electricity in Slovenia. **Our mission** is to provide for a safe, reliable, competitive and profitable generation of electricity via our experienced and dedicated employees in an efficient and responsible manner towards 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 vision** is focused on the growth of RSE power generation and the expansion of the content, scope and profitability of operations. By monitoring business, market, and technological environment trends, we will seek the best business answers to any upcoming challenges and continue to actively participate in national energy policies.



5 Economic effect of the HSE Group[7]

Despite the covid-19 epidemic, the HSE Group was able to ensure reliable electricity supply throughout the entire year of 2021. The HSE management centre operated without a hitch. All system service provision objectives were also attained. As the mine was also faced with challenging geo-mechanical conditions in 2021, our coal power generation fell by 17%. Occasional coal extraction issues and the almost three-month-long overhaul of Block 6 of TEŠ 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 even higher due to an above average hydrology in 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 and without taking into account the Avče pump-fed hydro-electric power station) or 2 per cent more compared to the preceding year. 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.

Table: 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
Employees at the end of the year	number	3,093	3,074	3,147	3,151	3,203	102

7 GRI: 102-7; 201-1.

For a detailed presentation of financial indicators and an operating analysis of HSE and the HSE Group, please refer to the 2021 Annual Report of HSE and the HSE Group.

Table: Key data of the HSE Group

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

6 Governance of HSE and the HSE Group[8]

Members of the Management Board of HSE d.o.o. as at 31/12/2021:

Mr. Viktor Vračar,
PhD – CEO

Mr. Uroš Podobnik,
CBO

Mr. Marko Štrigl,
M.Sc., CBO

Members of the Supervisory Board of HSE d.o.o as at 31/12/2021:

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

Mr. Andrej Janša,
Deputy President of the Supervisory Board

Mr. Denis Bele,
Member of the Supervisory Board

Mr. Robert Celec,
PhD, Member of the Supervisory Board

Mr. Janez Gutnik,
Member of the Supervisory Board

Ms. Petja Rijavec,
M.Sc., Member of the Supervisory Board, representative of employees

Mr. Jernej Otič,
Member of the Supervisory Board, representative of employees

Mr. Boštjan Jančar,
Member of the Supervisory Board, representative of employees

6.1 HSE and HSE Group corporate governance description

The management of HSE and the HSE Group entails a comprehensive Group management and monitoring system, including internal and external controls. The Company governed 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. The founder has a role and powers of a General Meeting in accordance with the Articles of Association of HSE, the Companies Act (ZGD-1) and the legislation in force. The management and supervisory bodies of HSE are the Management and Supervisory Boards.

The performance management system is monitored and followed via daily, weekly, monthly reports by operating area. KPIs and objectives are laid down in strategic and operational business plans and documents of SDH.

A three-member Management Board is in charge of managing HSE, out of which each member is in charge of specific management areas. The CEO, Viktor Vračar, PhD, is in charge of selling self-generated electricity and trading, European and energy policies, controlling and strategic planning, development and investments, IT, and corporate communications. Member of the Management Board, Uroš Podobnik, is in charge of HR and administrative affairs, corporate security, legal affairs, procurement, corporate governance, and internal controls. Member of the Management Board, Marko Štrigl, M.Sc., is in charge of implementing the vertical integration and of developing end customer products, finances, and accounting.

Our subsidiaries each have their own Management Board, usually consisting of a CEO and General Manager, and three-member Supervisory Board, consisting of representatives of the parent company and one representative of employees. 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.

6.2 Operating in compliance with the highest standards

Awareness 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. The operations of the company in compliance with the obtained ISO standards also contribute to quality and responsible conduct.

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. The methodology of assessing environmental risks and the effects of our conduct on the environment has been harmonised at the HSE Group for environment protection purposes. Group companies re-assessed environment risks, which resulted in an updated Register of Environment Effects of the HSE Group.

8 GRI: 102-18; 102-20; 102-22; 102-23; 102-24; 102-28; 102-30; 405-1.

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

✓ Certification ☑ Consideration of mandatory control ⇤ In phase of preparation for implementation

HSE EDT and ECE have no certificates.

6.3 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 HSE.

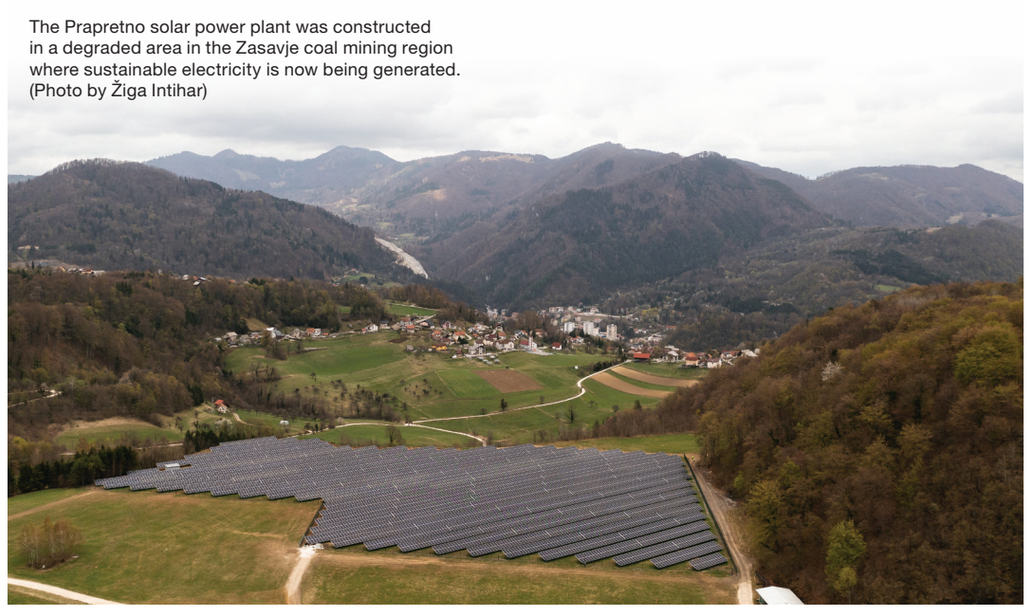
At HSE Group level, the following policies have been adopted and established:

- **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.
- **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.
- **Information security management policy of the HSE Group:** The fundamental objective of the IT security management policy of the HSE Group is to protect information and data. The development of an electricity market system, new technologies, and organisational models leads to new operating challenges which could become insurmountable if no proper action is taken. For this reason, an IT security management system has been introduced, allowing us to increase the level of confidentiality, integrity, and availability of company information. By implementing the ISO/IEC 27001 information protection standard, proper mechanisms to allow for continuous control and assessment of information safety and, on the basis thereon, also the management of IT assets have been provided for. An important factor in the process is also raising awareness of employees on the urgent need to introduce certain security controls.
- **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 development plan of 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 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 HSE Group and evaluation criteria of potential candidates in addition to the implementation of the proper candidate selection process.

6.3.1 Investment in new RSE generation capacities

In the field of development and investments, the HSE Group pursued sustainable development principles by increasing the volumes of electricity generation using renewable energy sources, which will gradually replace generation from fossil fuels. By way of a well-thought-out strategy, the Group is following national and EU CO_2 emission reduction targets (55% by 2030) and the climate neutral society target to be achieved by no later than 2050. In 2022, the first KWh of the currently biggest solar power plant in Slovenia, Prapretno, constructed in a degraded area of the former Trbovlje Power Plant, were sent into the electric grid.

The Prapretno solar power plant was constructed in a degraded area in the Zasavje coal mining region where sustainable electricity is now being generated. (Photo by Žiga Intihar)



The Suhadol hydro-electric power plant will be one of the first constructed hydro-electric power plants on the Middle Sava River, allowing for a multi-functional character of the facility and a co-habitation of the generation facility with its social and natural environment.

In the light of the National Coal Phase-Out and Coal Mining Region Restructuring in Compliance with Just Transition Principles Strategy that foresees 2033 as the year of coal phase-out, the HSE Group is planned to be climate neutral after that.

For this reason, we actively participate in seeking and creating a set of projects that could be financed through the Just Transition Fund and that would pave the way for the just transition of both coal mining regions (the Central Sava - Zasavje - and Šalek Valleys).

After signing the concession agreement for the construction of hydro-electric power plants on the Middle Sava River, project management, planning, and administrative proceedings were launched in October 2020. This was followed by siting procedures until the acquisition of a comprehensive permit involving the drawing up of the National Spatial Plan (DPN), a comprehensive environmental effect study and an environmental report (CPVO and OP) in addition to designing the construction permit documentation (DGD).

Investments key to the sustainable competitiveness of the HSE Group, to increase our RSE generation share, in the maintenance and restoration of existing generation facilities, and in the protection of the environments, continued in 2021. In the future, we plan to invest in development projects, in renewable energy sources in the region (solar power plants, wind farms, and small-scale hydro), develop energy storage facilities (battery storage, pump-fed hydro-electric power stations, hydrogen technologies, zero-emission corridor), we plan to continue the already initiated activities related to RES (large-scale hydro) and efficient energy use projects, all pursuant to national and EU policies and adopted strategic documents. 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.

6.3.2 Investments in existing generation facilities

HSE Group investments allow us to preserve our primacy as the biggest RSE or low-carbon generator of 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. Investments in maintenance also implement the vision of the Group related to growth of electricity generated from various RES and a sustainable energy transition.

EUR 70 million were invested in the maintenance and operation of generation facilities, in 2021.

We utilise the synergies within the HSE Group by carrying out internal ordering and consolidating human resource potentials. In 2021, investments in the security and reliability of operations of our existing thermal and hydro-electric power plants (overhauls of equipment and aggregates, reconstructions of small-scale hydro, restorations of dams, overhauls of operating locks, preservation of the energy potential, replacement of secondary systems, rehabilitation of bridges, etc.) were made.

6.3.3 Vertical integration

The acquisition of a 51 per cent participating interest in the electricity seller to end customers - ECE - was completed in 2021. In mid-2021, an agreement on the acquisition of a 51 per cent participating interest in Energija plus, also engaged in the sales of electricity and services to end customers, was signed with Elektro Maribor. The integration of the leading generator of RSE or green electricity in the country, the HSE Group, into Energija plus will be completed upon the consent of the Competition Protection Agency (AVK).

Liaising with various retail companies will provide the HSE Group with access to end customers, reduce its dependence on the wholesale market, additional revenue and an increased added value of the generation portfolio and the entire HSE Group through new energy products and services. This will open up unlimited operating diversification opportunities. At a time of extremely volatile prices of energy products, electricity, and their related products, it is our great responsibility and commitment to provide customers with electricity at acceptable prices.

6.3.4 Marketing of energy products and other services

By entering the retail market, opportunities to sell additional products (sales of other energy products, energy services, energy and IT services tailored to the customer, energy performance contracting, comprehensive energy solutions, digitalisation, applications for end users, etc.) are opening up. We are also penetrating new energy product markets, primarily the wholesale natural gas market.

6.3.5 Efficient management of existing generation costs

The Group continuously provides for the optimisation of its own generation price in order to improve its competitiveness by reducing fixed costs (investments, maintenance), reducing variable costs (materials, services), reducing its own consumption of electricity in all generation facilities, including PV, and energy efficiency measures at all HSE Group locations. At the same time, providing high-quality services and a stable, safe, and reliable supply of electricity.

On the basis of the presented five tenors, the HSE Group is properly positioned to implement changes dictated by national and European law. The HSE Group actively co-creates the content and speed of change.

The key challenge after 2033 will be to compensate for one third of Slovenian electricity generated from coal-fired power blocks and provide for a stable supply.

The key challenge of the HSE Group lies in changing its business system after it discontinues using coal. The Government of the Republic of Slovenia adopted 2033 as the coal phase-out year, which serves as the basis for adopting the Velenje Coal Mine Closure Act and the Coal Mining Region Restructuring on the Basis of Just Transition Principles Act. The key challenge after that year will be to compensate for one third of Slovenian electricity generated from coal-fired power blocks and allow for stable supply as RSE generation is unpredictable.

6.4 The Management Board has been dictating sustainable operations of the HSE Group

The HSE Group continuously examines its position at a national, European, and global level, and consequently adapts its operations at company and Group level.

The following are regularly monitored:

- market conditions;
- the development of market products, electricity generation technologies, environmental technologies, products for final customers of electricity, digital solutions;
- the development of the social environment, ecological requirements, the legislative framework, strategic documents;
- the development and scaling up of internal advantages and addressing disadvantages - “people are the system”.

Key development areas allowing for a green transition in compliance with the principle to leave nobody behind and to provide for a sustainable value of the HSE Group have been laid down facilitating successful future operations of HSE and the HSE Group. In compliance with the policies of the Management Board, the following main development areas have been laid down in the Development Plan of the HSE Group:

- efficient management of the existing generation infrastructure (asset management), property management by using predictive maintenance;
- investments in new RSE generation capacities;
- vertical integration;
- marketing energy and new products.

6.5 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.

6.6 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 HSE Group companies.

7 Transparency of financial relations[9]

The companies in the HSE Group also 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.

HSE

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.

DEM

EUR 67,869 in grants were awarded to DEM in 2021.

The majority of which, EUR 29,912, relates to the awarded grants for the roof and exterior builders' joinery at the Zlatoličje hydro-electric power plant.

The remaining EUR 37,957 relate to co-financing training, its research activity and the settlement of state aid. Pursuant to Article 106 of the Act Determining Intervention Measures to Assist in Mitigating the Consequences of the Second Wave of COVID-19 Epidemic (ZIUPOPDVE), the company received EUR 9,560 in state aid for virus tests. Pursuant to Article 26 of the Additional Measures to Mitigate the Consequences of COVID-19 Act (ZDUOP) , the company received EUR 5,583 in state aid to off-set the paid-out crisis allowance for December 2020.

SENG

In 2021, SENG was reimbursed by the Financial Administration of the Republic of Slovenia for the crisis allowance (EUR 278.26) and EUR 4,880 to co-finance rapid testing, both arising from mitigating the consequences of the covid-19 epidemic. In addition, it also received EUR 1,248 in incentives for sustainable employment of young trainees.

TEŠ

In 2021, EUR 91,095 were reimbursed to TEŠ, namely for isolation, quarantine, force majeure - childcare and sick leave up to 3 days without a sickness certificate - compensation.

PV

EUR 482,514 in grants were awarded to PV in 2021.

EUR 261,196 in funds were obtained to promote and implement practical training or work-study programmes for students of secondary vocational education and of technical colleges, to promote apprenticeships and co-finance their R&D activity.

The remainder of state aid (EUR 221,318) was received pursuant to intervention legislation to contain or mitigate the consequences of the covid-19 epidemic.

RGP

RGP received EUR 16,024 in grants in 2021. On account of the Act Determining Temporary Measures to Mitigate and Remedy the Consequences of COVID-19 - PKP5, the company is also entitled to EUR 4,805 in state aid due to the absence of its employees (quarantine, force majeure, short-term sick leave without a sickness certificate), whereas, pursuant to the Act Determining Intervention Measures to Assist in Mitigating the Consequences of the Second Wave of COVID-19 Epidemic (ZIUPOPDVE) - PKP7, the company recorded total EUR 8,783 in state aid for the pay out of the crisis allowances. The company spent EUR 2,436 out of total EUR 5,960 in received state aid to co-finance rapid and PCR testing.

9 GRI: 201-4.

8 Sharing common values with our stakeholders[10]

8.1 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 manager, 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.

8.2 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.

8.3 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.

8.4 Supplier chain

From the perspective of sustainable operations, the relationships with suppliers and the management of the supply chain are also significant. In addition to the standard, economically measurable 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 or the carbon footprint of their products. 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.

10 GRI: 102-9; 102-13; 102-42; 102-43; 413-1; 413-2.

8.5 Key stakeholders of the HSE Group[11]

1. Employees and social partners:

- representative trade unions of the HSE Group;
- Joint works' council of the HSE Group;
- Works' council of HSE Group companies;
- sports and other interest groupings of HSE Group employees.

5. Financial institutions:

- international and local banks and other financial institutions;
- international and local credit rating companies and agencies;
- international and local insurance companies.

HSE Group

2. Buyers of goods and services:

- international and domestic electricity generators and traders in electricity, CO_2 emission allowances, and other certificates related to generating electricity, gas, and other energy products required for generating electricity;
- European distribution system operators;
- major domestic business and industrial customers and public utility companies;
- companies that sell electricity to final customers;
- distribution system operators (DSOs);
- distribution companies.

4. EU and national institutions and regulators:

- The Republic of Slovenia as our 100 per cent owner, the Slovenian Sovereign Holding (SDH) as the manager of the property of the Republic of Slovenia;
- The Ministry of Infrastructure, the Ministry of Finance, the Ministry of the Environment and Spatial Planning, and other ministries and state institutions;
- international and local electricity market regulators;
- The Court of Auditors of the Republic of Slovenia and inspectorates.

3. Organisers of market activities and exchanges:

- European organisers of electricity markets;
- international auction houses;
- European daily and futures electricity and other related product exchanges.

11 GRI: 102-40.

HSE Group

6. International, national, and regional media:

- print media;
- electronic media;
- online media;
- agencies.

7. Civil society:

- citizens' initiatives;
- NGOs and non-profit organisations;
- sports, cultural, and other institutions.

8. Local communities:

- municipalities;
- local associations and initiatives;
- influential individuals.

9. Suppliers of equipment and services:

- international and local suppliers of raw materials, materials, and services outside the HSE Group as required for the operations of the HSE Group.

10. Trade and professional associations:

- Energy Industry Chamber of Slovenia (IPET or Energy Market Data Exchange Section);
- Chamber of Commerce and Industry of Slovenia;
- Employers' Association of Slovenia;
- Electrotechnical Association of Slovenia;
- Slovenian Committee of Electric Power (CIGRE - CIRED);
- Slovenian Chamber of Engineers;
- Slovenian Quality and Excellence Association – Energy Industry Section;
- SI:RISK;
- Institute for Corporate Security Studies (ICS);
- The Slovenian Institute of Auditors - Slovenian IIS Section;
- ACFE Slovenia Association;
- Slovenian Directors' Association;
- Manager Association;
- Slovenian Corporate Treasurers Association;
- The Savinja-Šalek Chamber of Commerce and Industry;
- Slovenian National Committee on Large Dams (SLOCOLD);
- Slovenian Maintenance Society and the Chamber of Commerce of Styria;
- The Slovenian Association for Energy Economics, etc.;
- Euroelectric (operating under the Energy Industry Chamber of Slovenia);
- The Slovenian Association of Energy Economics (SAEE) brings together Members of the International Association for Energy Economics - IAEE;
- Slovenian Committee of Electric Power (CIGRE - CIRED Paris);
- EUROCOAL European Association;
- EFET (European Federation of Energy Traders), etc.

11. Research and educational institutions:

- universities;
- elementary and secondary schools;
- research institutes.

9 High ethical standards of conduct[12]

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.

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.

We provide our employees with equal opportunities, regardless of sex, race, religion, nationality 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.

12 GRI: 102-17; 102-25; 205-1; 205-2; 405-1; 406-1; 412-1; 412-2; 419-1.

9.1 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.

9.2 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%.

9.3 We protect personal and private information

In compliance with the General Data Protection Regulation (GDPR), categories of personal data processed have been defined and our data flows are regulated, allowing us to safeguard our 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 limited 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.

10 Our employees are our most valuable asset[13]

10.1 Employees by company

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.

Table: Employees by HSE Group company

Company	12/31/20	12/31/21
HSE	211	214
HSE EDT	0	0
DEM	242	246
SENG	122	124
TEŠ	322	316
PV	1,164	1,152
HTZ	815	786
Sipoteh	39	41
PLP	36	35
RGP	151	160
HSE Invest	46	50
HSE BH	1	1
HSE MAK	0	0
HSE BE	2	2
ECE	0	76
Total	**3,151**	**3,203**

10.2 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. The number of employees increased by three 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.

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.

The average age of employees of HSE at the end of 2021 was 44.2 years. The majority or 37% (80) of our employees are aged between 41 and 50; 30% (64) between 31 and 40; 22% (48) between 51 and 60; 7% (15) are aged maximum 30 years and 3% (7) are older than 61 years.

The average age of our employees in the Group fell somewhat, to 43.7 years (in 2020, it had amounted to 43.9 years).

The majority of HSE Group employees are in the 41 to 50 age bracket (1,137 or 35% employees). There are 807 or 25% each of employees in the 31 to 40 and 51 to 60 age bracket. 388 or 12% of Group employees are maximum 30 years old. 64 or 2% of Group employees are older than 61.

The composition of employees by gender changed 1 per cent in favour of female employees. The HSE Group employs 14% women and 86% men (in 2020: 13% women and 87% men). Most women are aged between 51 and 60 (40%). Most men are aged between 41 and 50 (36%).

Table: HSE employees by age and gender

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

Table: HSE Group employees by age and gender

	2020				2021			
Age class	number of employees	in %	men	women	number of employees	in %	men	women
up to the age of 30 years	380	12	370	10	388	12	375	13
31–40 years	799	25	726	73	807	25	721	86
41–50 years	1.123	36	985	138	1.137	35	979	158
51–60 years	795	25	620	175	807	25	624	183
over 61 years	54	2	44	10	64	2	52	12
Total	**3,151**	**100**	**2,745**	**406**	**3,203**	**100**	**2,751**	**452**

13 GRI: 102-8; 102-41; 401-1; 401-3; 403-6; 403-10; 404-1; 404-2, 404-3; 404-4; 405-1.

10.2.1 Level of 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.

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

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

10.2.2 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. In 2021, it thus amounted to 6.6% (5% in 2020).

A total of 84 employees retired, amounting to 35% of all terminations of service. 48% of all terminations of service (116 employees) were due to a dismissal or termination agreement. 4% of all terminations of service (10 employees) were due to the suspension of their employment agreement. 13% of all terminations of service (31 employees) were due to redeployment to other HSE Group companies. These are not included in the turnover calculation.

Table: Departure of employees in the HSE Group

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

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

Table: Employee turnover in the HSE Group

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

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 has been followed. For this reason, 2020 data slightly differ from the data published in the 2020 Annual Report.

10.2.3 Absenteeism

The rate of absenteeism in the HSE Group remained the same as in 2020 (it accounted for just under 9%). Sickness accounts for the majority of absenteeism borne by the employer (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.

Table: Absenteeism in the HSE Group

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

Table: Sick leave in hours in the HSE Group

Sickness benefits	**2020**	**2021**
Fewer than 30 days of absence		
Sickness benefit - regular	171,569	179,296
Sickness benefit - family and care commitments	12,573	15,683
Occupational injury	40,906	29,066
Injury not related to work	36,501	36,364
Total	**261,549**	**260,409**
More than 30 days of absence		
Sickness benefit - regular	189,388	191,946
Sickness benefit - family and care commitments	584	1,648
Occupational injury	80,652	80,292
Injury not related to work	57,222	49,628
Total	**327,846**	**323,514**

10.3 Recruitment

New employees are recruited in various ways. We take active part in career fairs, our vacancies are advertised on various job portals, in print media, the Group also collaborates with faculties; social media are also used to a great extent, all aimed at having our vacancy advertisements reach as many potential applicants as possible and at consolidating our highly respectable employer brand.

Special attention is paid to recruitment or redeployment within the HSE Group. Employees in all HSE Group companies are notified of all advertised vacancies. This method has proven to significantly diversify the range of job applicants. As a rule, Group employee are more quickly trained to perform their tasks independently.

Two rounds of interviews are usually carried out, allowing us to meet many job applicants in person. This part is extremely important, as we seek workers who, in addition to professional knowledge, also enrich our team with their personality. Ultimately, we want to work with those applicants who resonate with the values of our Group. This is why they are occasionally selected by using tools for evaluating personalities, abilities and potentials.

We continuously monitor the satisfaction of job applicants and, if required, properly adjust or update our recruitment processes.

10.3.1 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.

10.4 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.

Despite the pandemic, significantly more training and education sessions were carried out - the figure rose by 47% in terms of hours. In 2021, HSE Group employees trained for 79,204 hours (2020: 53,731 hours). On average, each employee trained for 25 hours.

We are actively involved in projects intended to develop the professional and personal competences of our employees:

Table: Education of employees in the HSE Group

Training	2020	2021
Total number of hours of training	53,731	79,204
Average number of hours of training per employee	17	25
Number of internal trainings	137	162

“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

10.4.1 Mentorship

Aware of the significance of transfer of know-how among our employees, a mentorship system has been set up. A properly set up mentorship programme makes it easier for our new employees to enter the working environment and provides a proper foundation for the transfer of key knowledge at the workplace.

Mentors involved in the mentorship process have been trained in upgraded soft skills, in recognising their own knowledge, improving their self-image and transferring their know-how to younger colleagues in a high-quality manner Our mentorship system was presented at the “Let’s get creative” online conference as part of the Competence Centre for the Development of HR in the Electricity Industry as a good practice example. The purpose of the mentorship programme set up in such a way is to contribute to higher levels of creativity and innovation in the HSE Group.

In addition to introducing our most recent recruits to the mentorship programme, we preserve, develop, and upgrade key knowledge and skills required for autonomous working at the new workplace. This promotes internal succession and an inter-generational transfer of know-how. The above primarily applies to expertise which is extremely hard or even impossible to obtain in the market.

Knowledge is transferred to younger generations also via additional expert training (courses, seminars) delivered by internal lecturers. Their knowledge and rich experience are extremely valued in our midst.

10.4.2 Internal (in-house) education

In 2021, particular attention was paid to the internal transfer of knowledge, organising as many as 162 (primarily virtual) different internal workshops for our employees.

Our training or workshops organised every last Friday of the month, called the “Megawatt Hours”, continued. Megawatt Hours are used to have departments and services and their respective employees in addition to joint projects and work areas as part of the HSE Group present themselves. The purpose of Megawatt Hours is to present our employees’ co-workers and their work. They allow us to bond and make other colleagues better understand the work of individual organisational units, allowing for a better mutual collaboration.

Certain education or programmes are mandatory for all employees and are, wherever possible and feasible in terms of achieving the training objectives, carried out in the form of self-learning or distance learning (such as occupational safety, IT security, compliance, etc.).

10.4.3 Key HR pool

HSE Group companies are aware of the fact that our employees by way of their know-how are an invaluable asset that serves as one of the foundations of a good reputation of HSE Group companies and the Group as a whole. Our employees have been asked to join the “Key HR Pool” project.

32 employees
of the HSE Group are involved in the »Key HR Pool«.

A group of experts, our key HR, with a high potential and motivated to develop further in addition to being willing to assume the most challenging work tasks, project and working groups management, executive and senior management positions in the Company, has been set up. These key HR are included in a special, partially individualised development programme at the HSE Group level in which their competences and potentials are developed.

10.4.4 Developing leaders

In order to improve and develop leadership skills and raising awareness on the role and tasks of leaders in ensuring a great performance and carrying out the mission and sustainable operations of the Company, several goal-oriented leadership programmes have been implemented. These have involved activities, all the way from assessing leadership potential to adapted, tailored, individual plans, workshops, and group and individual coaching sessions.

The performance of leaders is monitored via anonymous rating systems, competence assessments, various surveys and regular annual reviews that serve as the basis for goal-oriented and effective leader upskilling planning of leaders. Potential successors for key senior management and executive positions that we wish to timely train to assume management functions or more challenging jobs via separate educational programmes and other development-oriented activities have been identified.

Potential successors whom we wish to timely train to assume management functions have been identified for our key senior management and executive positions.

10.4.5 Leadership

In addition to the training and development of leaders, a lot of ‘operating’ attention is also paid to this area. Several tools helping leaders improve the performance of their employees, motivating them and communicating with them, are in place.

10.4.5.1 Goal-oriented leadership and feedback

Goal-oriented leadership seeks to match the achievement of long-term strategic objectives of the HSE Group and short-term operating objectives of companies with the objectives of our employees. We want to improve the performance of our employees, their satisfaction and motivation to achieve their goals. To ensure a high level of success of the system, leaders are continuously trained and attend organised workshops allowing them to learn about objective-setting methods, the advantages of leading with objectives, and how to properly communicate with employees, in particular in terms of assessing, encouraging, and motivating employees. Goal-oriented leadership is attained through clearly set objectives of each company and the HSE Group as a whole in advance. At regular annual reviews, leaders set objectives for individual organisational units that shall be harmonised with the objectives of the company.

10.4.6 Reaching out to young potential HR

In 2021, the HSE Group as a socially responsible employer combined energy with youth with whom we connect via scholarships, mandatory placements, and other faculty collaboration methods. By inviting recent graduates and senior university students of various programmes, we seek to attract young potential that will bring the freshness and energy to achieve our common objectives into our company and work. Our collaboration has been envisaged in the form of mandatory placements, student work and traineeships with an opportunity to become an employee for an indefinite period of time.

There are currently
103 scholarship
holders in the HSE Group.

Specific jobs were prepared in line with our current HR needs for those with social study degrees. A separate circulation programme, as part of which they initially learnt about the various operating areas of HSE and the HSE Group, on the basis of which the best match of both the abilities and wishes of the respective applicant and the actual HR needs of HSE and the HSE Group, was prepared for those with technical degrees.

Our scholarship policy, in particular related to mining, mechanical and electrical engineering, plays an important role in recruiting appropriate job applicants. As such, our scholarship holders constitute an important pool of potential talent for the company. There are currently 103 or 20 more scholarship holders in the HSE Group at the moment compared to 2020. Apprenticeships for 17 apprentices (machinery trade workers, mechatronics engineers - operators, and electricians) are also under way.

We work closely with the Velenje School Centre and the Faculty of Natural Sciences and Engineering in Ljubljana; we also collaborate with the Celje School Centre, the Slovenj Gradec School Centre, technical faculties in Ljubljana and Maribor, the Maribor Secondary School of Electrical Engineering and Computer Science, the Ravne Secondary School, the Maribor School of Mechanical Engineering, the Ptuj School of Mechanical Engineering, the Maribor Technical School Centre, the Faculty of Mechanical Engineering and the Faculty of Electrical Engineering and Computer Science in Maribor, the Faculty of Economics in Ljubljana, and the Nova Gorica School Centre. We are also a Member of the Young Researchers for the Development of the Šalek Valley Movement.

We have also been in touch with elementary school students. A virtual “Open Day of the Velenje Coal Mine” was prepared for ninth graders and their parents in addition to presenting mining jobs and scholarship and employment opportunities via the Facebook and YouTube social media platforms.

Similarly to previous years, children of our employees were invited to take a summer job with us. Summer jobs were taken primarily by high school students who wishes to make some extra cash in addition to using the opportunity to learn about their parents’ jobs and, in particular, accumulating their first work experience

10.4.7 The pandemic and accelerated digital development

The onset of the pandemic also brought about accelerated digital development. The effect of the pandemic was particularly noticeable in the introduction of working from home and an increased number of e-training. E-training was well received among employees as it allowed a large number of employees to train by reducing the burden on their working hours. The digital development acceleration process involved various digital literacy workshops. By attending them, our employees acquired new skills allowing them to work with new tools. Employees regularly use the MS Teams tool that has become a staple in the everyday working process and other tools required to communicate and complete our tasks, also for working from home.

Digital development also included the introduction of e-pay stubs and thus facilitating access to their e-pay stubs to all employees who wish to receive documents electronically. Our annual review implementation, performance

assessment and other applications were upgraded to digitalise certain forms. The introduction of digitalised forms allowed us to simplify, standardise, allow for digital signatures, traceability, and archiving of procedures. This allowed us to increase the level of automation of tasks, reduce the error and increase the productivity rate.

10.4.8 Innovation

In 2021, the Group was creative as part of the first HSE Hackathon that brought together ten teams and led to ten inventive and daring design concepts. Our employees gained invaluable experience in collaboration, teamwork, creating and selecting ideas. In addition to an award and recognition, the best teams were given the opportunity to develop the final solution in collaboration with our expert departments and be also financially rewarded.

Innovation carries new applicability, a higher quality, lower costs, a higher reputation and also a competitive edge of the Company.

Innovation carries new applicability, a higher quality, lower costs, a higher reputation and also a competitive edge of the Company. The HSE Group is aware of the significance of innovation. For this reason, more emphasis is put to a conducive environment, collaboration, further education, and rewarding innovation. Our employees are encouraged to make useful proposals and report useful innovation, which allows them to be also financially rewarded under the innovation and improvement system. This is monitored by a separate commission that deliberates on all proposals and evaluates them subject to relevant rules adopted by individual Group companies for this very purpose.

10.4.9 Annual reviews

All HSE, HSE Invest, DEM, and SENG employees undergo an annual review at the beginning of each year. In 2021, 617 employees underwent an annual review. An annual review was conducted with all employees, except for those who have been absent for a long time due to illness or parental leave and for employees whose employment is being terminated.

By conducting annual reviews, constructive communication between leaders and employees are promoted, the achievements of the previous year are evaluated and objectives for the future are set. On the basis of annual reviews, further development of employees, any career changes given the wishes of our employees and needs of the Company, training, the improvement of their knowledge and skills are planned. This year, the annual review application has been upgraded with the introduction of an interim objective re-prioritisation of objectives. At the beginning of the second half of the year, our employees were asked to review their objectives and, if needed, taking into account the circumstances, adjust and re-prioritise them. In doing so, we wish to set realistic and achievable objectives and that the objectives and tasks of employees and organisational units are clear to everyone. We seek to set SMART (simple, measurable, achievable, realistic, and time-bound within a single year) objectives.

10.4.10 Rewarding and motivating employees

We want our employees to be motivated and committed. Performance evaluation and promotion systems with well-calibrated criteria have been set up. Our employees are expected to produce high-quality and professional work, to proactively engage in their work and to keep a high level of communication.

This provides an extra incentive for achieving better results. Our reward system promotes individual and team successes. Rewards are based on pre-defined or expected results and are based on an assessment of the level of achievement of the objectives set. Our employees are rewarded through various stimulations and rewards for exceptional successes. Rewards are paid out subject to company agreements and other internal acts.

Team rewards are based on pre-defined or expected results. Performance bonuses are paid out subject to the operating results generated at the end of the year. Our employees also receive jubilee benefits as both a reward and incentive for working in the HSE Group.

Table: Regular annual reviews in the HSE Group

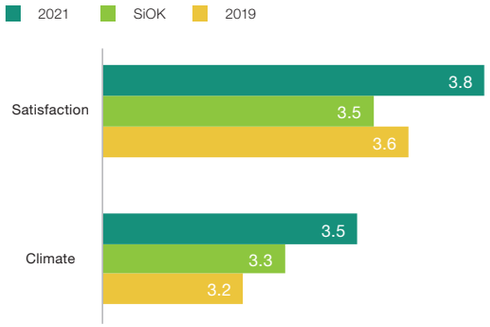
Key data	2017	2018	2019	2020	2021
Number of employees that underwent a regular annual review	0	318	601	322	617
Total number of employees	3,100	3,090	3,127	3,151	3,203
Percentage (%) of employees that underwent a regular annual review out of the total number of employees	0.0	10.3	19.2	10.2	19.3

10.5 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.

Graph: Organisational climate



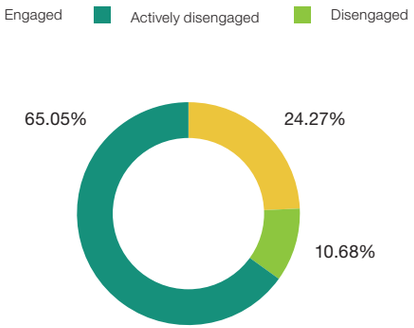
10.5.1 Above-average work engagement

The work engagement of our employees has been assessed as high; a little over 24% HSE employees are committed to their work. The average assessment of engagement deviates by +0.09 points compared to 2019 and by +0.11 points compared to the Slovenian average.

Employees have all the required equipment for performing well at work (4.31); we know what is expected of us (4.14), and we also expect other employees to perform their duties well (4.07).

There are challenges in improving learning and growth, encouragement, commendation, and the feeling of being important to the Company. 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.

Graph: Work engagement



10.5.2 The pulse of HSE

During the past year, the internal “The pulse of HSE” survey performed periodically subject to the eNPS (Employer Net Promoter Score) was continued. The survey serves to measure our loyalty to the company and our satisfaction with HSE as an employer, aimed at identifying any oscillations, responding thereto and adjusting our activities accordingly.

CRITICS
Score 0-6
17% of the employees

PASSIVE
Score 7-8
28% of the employees

PROMOTORS
Score 9-10
58% of the employees

58% Promotors - 17 Critics = 41% (eNPS)

10.6 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 balanced 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 commitment 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.

Employees of HSE Group companies are allowed to take up to seven extraordinary days off due to personal circumstances. In 2021, there were 1,647 such absences, which means that approximately one half of the employees took advantage of this extraordinary absence option due to personal circumstances one day a year.

50 %
of our employees took extraordinary time off due to personal circumstances in 2021.

Budding students who started school for the first time this year were surprised with a gift package of school and craft supplies.

Christmas time at the HSE Group was made even more special by giving Christmas presents to children of our employees, just like we had done for many years before that. In 2021, as many as 472 children received a present.

We use various forms of above-standard insurance to ensure that the employees and their family members have the option of reaching a doctor as soon as possible. Ensuring this, we enable our employees to return to their work environment following an illness or injury as soon as possible. Contributing into the second retirement pillar in the form of a voluntary supplementary retirement scheme of our employees forms an integral part of the HSE Group remuneration policy. The employees at the parent company and all of the subsidiaries of the HSE Group are included in this pension scheme. Therefore, as an aware employer, we try to provide our employees with greater financial security even after retirement.

Flexible working arrangements have been made for employees commuting from remote locations, thus allowing them to reduce their commute time by adjusting the time they leave work. This allowed employees to reconcile their work and family life more easily.

Working process permitting, employees can also work from home. Pursuant to that, new employment agreements have been entered into in compliance with the law.

10.7 Well-being at the workplace

HSE Group companies are aware that efficiency, engagement, motivation, a good organisational climate, and well-being at the workplace are inextricably linked. In spring, team-building sessions were organised to help our employees bond, increase their levels of motivation to achieve common objectives, reconcile our common values, and improve inter-employee communication.

Each month of the past year was also themed in a meaningful way for our employees and the theme was given particular weight during the particular month. The theme of the month was the common theme guiding us in selecting the content of our workshops, Megawatt Hours, and various activities and events that involved the collaboration and bonding of employees.

HSE CALENDAR 2021

JANUARY –
The Month of Motivation.
January was dedicated to thanking, commending, and recognising a work well done and collaboration in the preceding year.

FEBRUARY –
The Month of Creativity and Innovation.
We learnt how to come up with new ideas and tried that out in practice by participating in the Hackathon.

MARCH –
- The Month of Collaboration.
Collaboration between our departments was promoted, the "Put Yourself in My Shoes" campaign was organised, allowing us to change our job for one day.

APRIL –
The Month of Energy Industry Development.
We took charge of our own development and established which competences of the future are projected by trends.

MAY –
The Month of Social Responsibility.
We learnt how to help shape society in a sustainable way that can actually address current issues and improve the quality of living.

JUNE –
The Month of Reading and Promoting Reflection.
Books that had accompanied us during the summer were exchanged as part of the "Bring Yours, Take Mine" campaign. As part of a socially responsible campaign, our employees recorded a fairytale audiobook for the blind and partially sighted.

JULY AND AUGUST –
Months of Summer Energy.
A photography contest for our employees entitled "Summer Energy" was launched. The best three photographs as voted by our employees were also rewarded.

SEPTEMBER –
The Month of Energy.
Energy accompanies us every step of the way, it is the driving force of the whole world and our lives. A social gathering was organised for our employees on the Day of HSE to commemorate the 20th anniversary of the founding of HSE, during which we took a look back into the past and gazed into the future.

OCTOBER –
The Month of Health.
We raised awareness of our employees on a healthy lifestyle also in their working environment. Several activities related to health at the workplace and prevention were organised.

NOVEMBER –
– we unleashed talents, potentials, and abilities.
We learnt how to develop and use them and, most of all, how to utilise them to the maximum.

DECEMBER –
The Month of Charity.
During the festive period, we drew attention to our fellow human beings in need of our support and aid. Our employees participated in several charity campaigns that provided aid to people in need.

10.8 Employee stress management and burn-out prevention

The HSE Group is extremely concerned about the health of our employees and preventive care. Great emphasis is put on stress management, burn-out prevention, and the overall satisfaction of our employees. The Group is also included in various medical prevention programmes and programmes intended for employees exposed to harsh working conditions. Several healthy lifestyle and diet trainings were organised. Our employees were able to attend the “Communicating with Stress” and the “Psychological Stability during an Epidemic” workshops.

Through various communication channels, our employees are continuously informed of healthy lifestyle news, on how to organise their working environment, on a healthy diet, and on how to take care of one’s well-being. Our virtual active break (exercise) made sure that they were able to exercise sufficiently at the workplace. They were granted access to various guided exercising sessions prepared by certified fitness instructors. Sports association provide a wide array of afternoon recreational sessions for our employees, who can also become involved in various prevention activities and are able to avail of wellness services at reasonable prices. Our employees can also avail of free-of-charge physiotherapy services and psychological counselling.

Organised meals, with a warm meal option, also affect the satisfaction of our employees. Some HSE Group companies have also organised commuting services to and from work. Other employees can avail of free-of-charge parking facilities.

Useful healthy lifestyle information and tips are also available for our employees on a designated intranet portal.

10.9 Concern for our employees outside working hours

The HSE Group wishes to be an employee-friendly company where employees are given opportunities for creative work and development. With a sense of social responsibility, we support cultural, sports, and other activities that our employees can partake in during their free time. Initiatives by our employees are supported, as we believe that a socially responsible action is a process consisting of small steps and, primarily, the mindset we pursue in our conduct.

Great attention is also paid to sports and recreation and the overall concern for our employees’ health. Our employees are consistently encouraged to pursue a healthy and active lifestyle as part of various activities organised by sports association.

Cultural participation of our employees is well provided for. The Brass Band of the Velenje Coal Mine celebrated its honourable 100th anniversary in 2019. It most likely began even earlier than that. Employees of the Velenje Coal Mine were brought together by their love for singing, which led to the Velenje Mining Octet that has been faithfully performing its mission throughout more than 40 years of its existence. The Barbara Accordion Orchestra has also been operating as part of the Culture Committee for almost 25 years.

The Coal Mining Museum of Slovenia, established on the Mining Holiday in 1999, displays numerous exhibitions of various art forms, high-visibility concerts and other events are also organised.

Many employees are also actively engaged in various external sports, cultural, fire-fighting, and other associations.

Our employees can also spend their holidays in our holiday facilities at various locations in Slovenia and Croatia.

The Brass Band of the Velenje Coal Mine has been bringing a smile to our faces for more than 100 years.

10.10 Communication with employees

The HSE Group is aware of the important role played by internal media and that employees are the first and, at the same time, also the most demanding public. Our employees are proactively informed of all current developments throughout the year. Additional communication channels have been set up at the HSE Group level, the intranet has been modernised to assure up-to-date and transparent communications on the developments in individual Group companies and the HSE Group as a whole.

All important information on the operation of the companies and current affairs are available to our employees through the intranet, our internal newsletters, the Energija online newspaper, the radio, the internet, LinkedIn profiles, Twitter, Facebook, Instagram, and YouTube. Video pages, updated daily with the latest news, have been established for employees who do not work on computers. We also communicate with our employees via virtual events for all employees during which the management presents the operations of the companies, the most important projects, and plans for the future. The MS Teams tool, through which our employees remain in touch, connect, and collaborate, is also a very important communication tool. Various types of meetings, such as boards, working meetings, and workshops, are organised to transmit information. Virtual “Current news with the Management Board” quarter meetings have also been introduced to remain up-to-date with operating information on the HSE Group.

Employees are encouraged to comment current news, events, and smart ideas on the intranet, which is an excellent opportunity to ask questions, initiate debates, and give feedback. We are additionally informed by the weekly HSE newsletter received every Wednesday via e-mail and also published on our intranet. On the intranet portal, we can also sign up for various educational, business, and entertainment events.

During the pandemic, we actively communicated with our employees on a daily basis via e-mail and other activities (e-mails by the Management Board, prevention measures, various posts on the intranet). This allowed us to build confidence and bond.

11 Living with the coronavirus[14]

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 safe work are provided for, 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.

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.

HSE Group employees spent

265,886 hours

in 2021 working from home.

14 GRI: 403-9.

12 Protecting the health of our employees is the key to stable operations[15]

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.).

Health and safety are one of our fundamental commitments and simultaneously requirements of company operations in all Group companies. We comply with all occupational health and safety obligations in relation to our employees as stipulated by the law. In addition to statutory requirements, which serve only as a minimum basis, we are also bound to take care of our health by the received occupational health and safety certificate.

In addition to continuous safety (regular training, emergency drills, inspections of working equipment, continuous control of the working environment, selection of the appropriate safety equipment, etc.) and health (medical check-ups) assurance activities, significant attention is also paid to the so-called “conscious safety”, as part of which:

- our employees are encouraged, taught and motivated to find safer working methods;
- our employees identify hazardous events or incidents;
- our employees are actively engaged in analysing hazardous events, assessing risks, and laying down measures;
- our employees pass on a safety culture on newly recruited employees and other contractors in our companies;
- our employees are guided to perceive a healthy lifestyle from all health aspects.

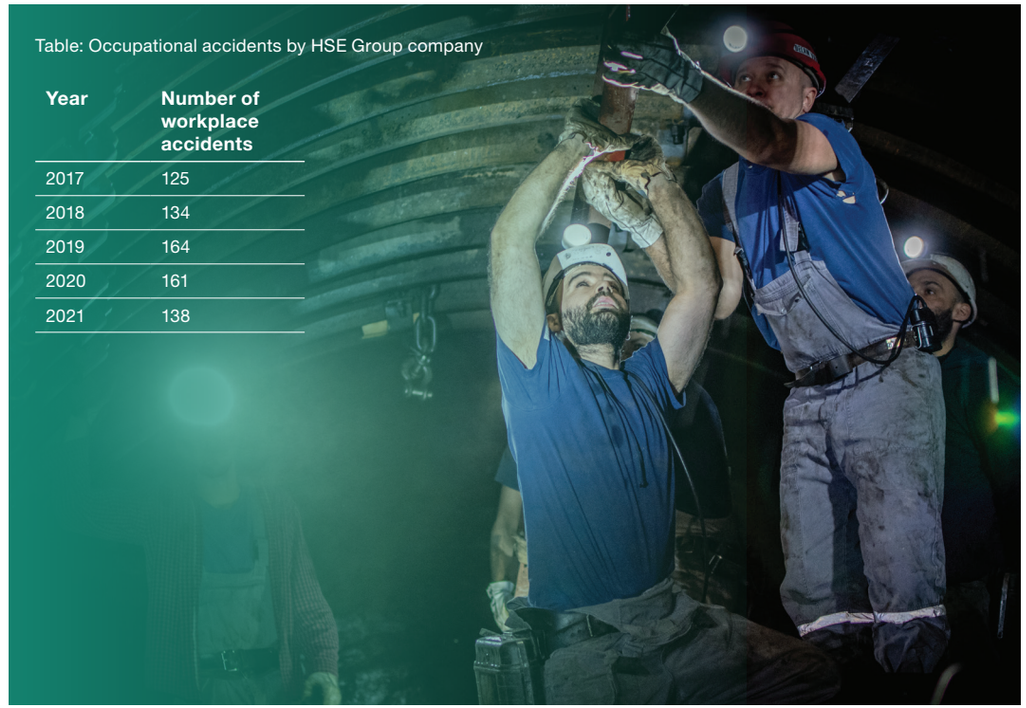
We all wish and strive towards ensuring that our work does not negatively affect our health, both in terms of accidents and excessive psychological stress. Even though the majority of measures in 2021 gave way to the epidemic, we were able to successfully follow the plans set for occupational health and safety and fire safety.

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.

Training, healthcare, health promotion, the procurement of personal safety equipment and the new Statement of Safety with Risk Assessment proved extremely challenging and required a lot of work during the past year. Luckily, no major extraordinary events related to fire safety, working equipment and conditions were reported last year.

Table: Occupational accidents by HSE Group company

Year	Number of workplace accidents
2017	125
2018	134
2019	164
2020	161
2021	138



15 GRI: 403-1; 403-2; 403-4; 403-5; 403-9.

13 The social role of the HSE Group[16]

13. 1 An exceptional financial contribution into the state treasury

The operations of HSE Group companies significantly affects general local and national government receipts. Municipalities are funded by the ground exploitation fee. In 2021, the HSE Group paid out a total of almost EUR 11.5 million thereof. We are the biggest contributor into the Climate Fund into which EUR 91 million were contributed this year for the procurement of CO_2 emission allowances. Another EUR 25 million were spent on concession fees and other environmental duties. We also paid close to EUR 60 million in Value Added Tax and over EUR 20 million in corporate income tax. Roughly the same amount was spent on employers' contributions into various state treasuries. The total effect of the HSE Group on the financing of public services thus amounted to a total of EUR 240 million. 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 two years.

Table: Duties of the HSE Group

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

16 GRI: 201-1, 201-4; 203-1.
17 GRI: 413-1.

13.2 In harmony with the social environment[17]

Socially responsible conduct forms an integral part of the strategic direction of the Company and is one of the key tools to achieve sustainable development. Our environmental policy derives from our strategic objectives related to our concern for a healthy working and living environment, for the health of our employees and other local inhabitants, and to prevent any environmental burdens and to mitigate negative effects on the environment.

Various activities serve to raise the awareness of our employees on the significance of social responsibility. For this purpose, various charity and socially responsible campaigns have been organised. Our employees have donated their own money to people in need and participated in various organised clean-up efforts. Our employees are also involved as volunteers in their local associations.

During the Month of Social Responsibility, we did not forget about our environment and nature. New ecological waste separation islands were installed inside our premises. A package of cotton bags for fruit and vegetables was prepared for employees. They were encouraged to use their brand-new reusable eco bags for buying fruit and vegetables instead of plastic bags.

During the Month of Reading, employees collaborated with the Minka Skaberne Library for the Blind and Visually Impaired in recording the "300 Rabbits" audiobook of Slovenian folktales edited by Anja Štefan in their free time.

In the Month of Charity, December, employees joined forces in a socially responsible manner to help the "Safe House" with material funds, fill piggy banks and collect packages for "Christmas' Anna's Star" charity campaign. The money collected by the employees and HSE was used to buy food and fill packages for the charity campaign; in part, the funds were used to buy new supplies for the mothers and children in the Safe House.

13.3 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.

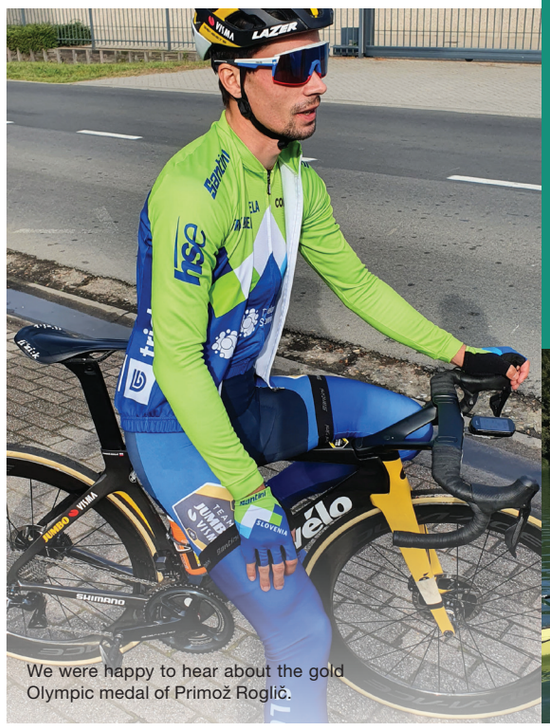
Sponsorships and donations in the HSE Group are governed by the *Sponsorship and Donation Allocation Strategy of the HSE Group*. This document is published on the website of the parent company and subsidiaries in addition to applicant forms. Many requests are received on a daily basis and, alas, not all of them can be granted. For this reason, the received applications are deliberated on by expert committees 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.

The criteria on the basis of which the merits of donations are specified, include social hardship, natural disaster prevention and post-disaster rehabilitation, humanitarian, ethical, social and human rights programmes, volunteering and natural, cultural, and technical heritage programmes.

In 2021, the HSE Group continued to sponsor the umbrella sports organisation in Slovenia, the Olympic Committee of Slovenia. As a long-standing sponsor of the *Kayak Association of Slovenia*, we rejoiced at the gold Olympic medal of the canoeist Benjamin Savšek. As a sponsor of the *Cycling Association of Slovenia*, we were happy to hear about the gold Olympic medal of Primož Roglič and the bronze Olympic medal of Tadej Pogačar. We also sponsored some promising sports clubs in the Šalek Valley, where the only Slovenian coal mine and thermal power plant operate.

The HSE Group has also demonstrated its social responsibility by donating 170,000 face masks to various humanitarian, recreational, and youth associations, schools, kindergartens, organisations of people with disabilities and many others, primarily to the vulnerable groups of the population and those who are in touch with them. We sponsored five volunteer fire brigades and the Malči Beličeve Youth Home in Ljubljana.

Dravske elektrarne Maribor, which is the biggest RSE generator, has been the proud sponsor of the *DEM Rowing Club* for more than 60 years. Its competitors have been producing



We were happy to hear about the gold Olympic medal of Primož Roglič.

The HSE Group spent

EUR 637,528

in sponsorships in 2021.

EUR 497,239

were spent on donations by the HSE Group in 2021.

The DEM Rowing Club has been reaching for top spots at local and international competitions for more than 60 years.

As a long-standing sponsor of the *Kayak Association of Slovenia*, we rejoiced at the gold Olympic medal of the canoeist Benjamin Savšek.

excellent results at Slovenian and international competitions. In 2021, it sponsored the *Lent Festival* cultural event and the *Golden Fox* ski competition as many times before that. To mark the 70th anniversary of the company, it donated money to the *Maribor Youth Home* to support the implementation of programmes for a supportive growing up of children and youth living in the residential community of a youth home on account of a dysfunctional family situation.

The Velenje Coal Mine has been traditionally supporting cultural, sports, and other activities that its employees can partake in during their free time. The *Sports Association of the PV Group* that makes sure to provide a much easier, better, higher quality and primarily a more organised access to sports activities to employees, their family members, and retired persons, *the Brass Band of the Velenje Coal Mine* and *the Velenje Mining Octet*. The latter two have been diligently fulfilling their missions for more than 40 years and have been playing an important role in the local cultural environment; the Miners' Day and other important days for the company are almost unthinkable without them. The Velenje Coal Mine also sponsors the *Volunteer Industrial Fire Brigade of the Velenje Coal Mine* operating as the only industrial fire brigade of the Šalek Valley Fire Fighting Association. The **Šoštanj Thermal Power Plant** sponsored the *TEŠ Sports and Cultural Association* in 2021.

Soške elektrarne Nova Gorica brought joy to the *Dr. Franc Derganc General Hospital* by buying a ventilator intended to treat critically ill and injured patients. They also sponsored the operations of *the Bovec Fire Fighting Association, the Sonček Solkan Sports Association, the Nova Gorica Youth Centre, the Šempter Vrtojba Handball Club and the France Bevk Nova Gorica Library.*

13.4 Blood donations

Donating blood is undoubtedly one of the most noble things one can do to help another human being. At HSE Group companies, we support our employees who choose to donate blood – as many as 797 of them in 2021. In addition to the rights our employees are entitled to subject to the collective agreement, they are also rewarded with an additional day off for their first blood donation of the year.

797 of the employees
in the HSE Group donated blood in 2021.

SENG sponsored many public institutes and associations in the Goriška region.

14 Risks and opportunities of the HSE Group[18]

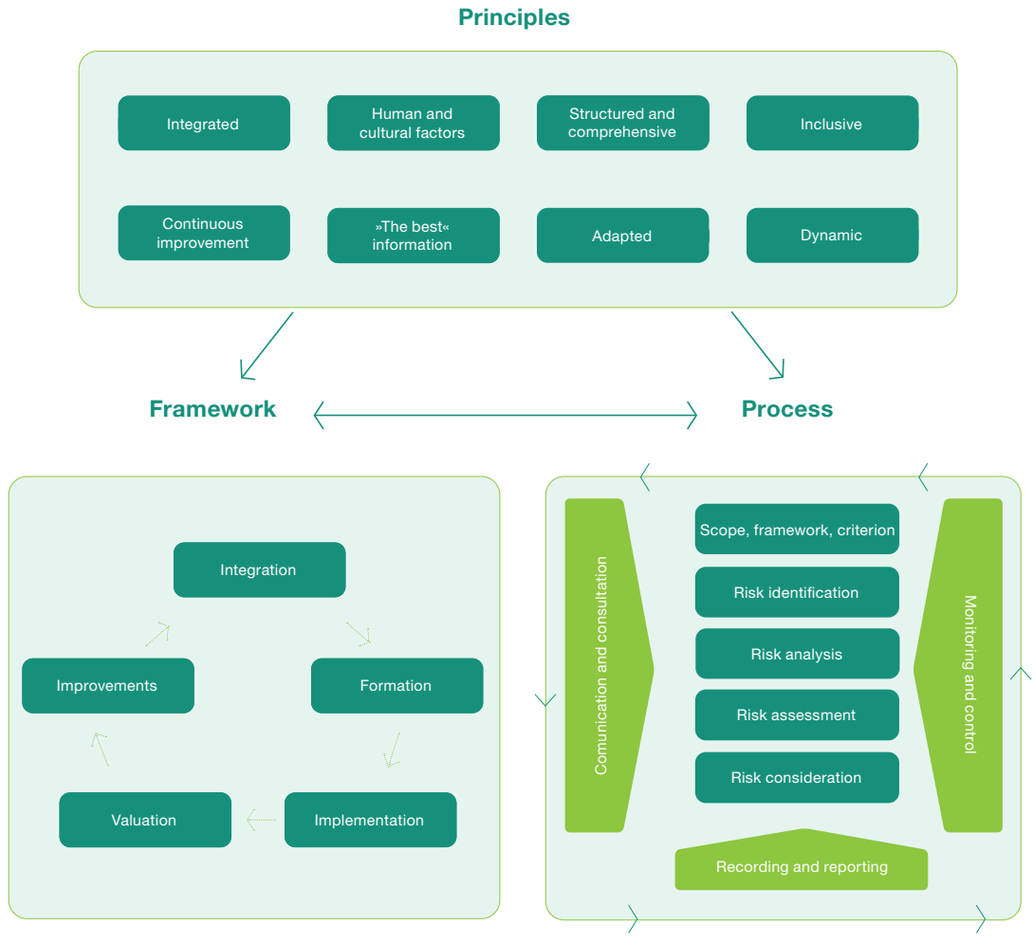
As the biggest electricity generator in Slovenia, the HSE Group has been facing significant energy industry changes which require a fresh perspective on our key business processes. Energy efficiency and a new application of existing or the development of new energy products have been gaining ground in the energy industry. National and European legislation making it necessary for companies to operate sustainably and pursue decarbonisation are also being adopted. In the HSE Group, we are aware of the significance of sustainable development; for this reason, we have been pursuing a standardisation of our processes and tools that allow for a comprehensive management of risks. 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.

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. At the same time, new development opportunities for the HSE Group arising through the green transition process are also recognised.

The HSE Group has been successfully managing risks and recognising opportunities arising from green transformation.

Graph: Risk profile of the HSE Group



18 GRI: 102-15; 102-30; 201-2; 413-2.

14.1 Key risks of the HSE Group

All key HSE Group risks are grouped subject to the nature of risks into six major categories, namely generation/volume risks, market risks, strategic and business risks, operational risks, security risks, and financial risks.

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.

14.1.1 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.

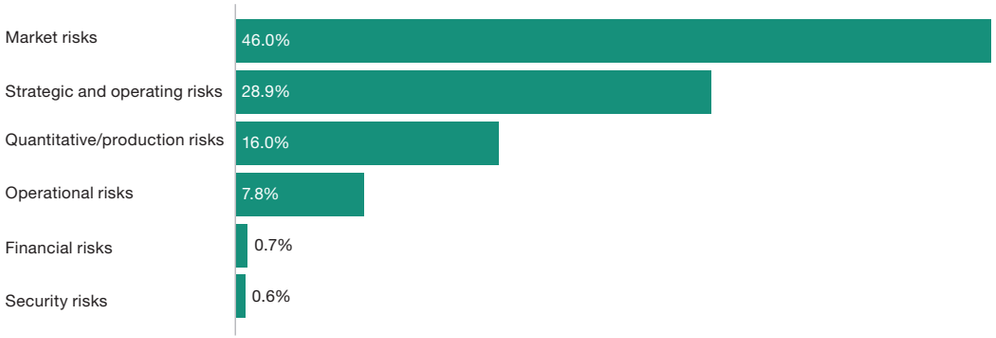
14.1.2 Market risks

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 CO_2 emission allowance prices also play a significant role. Price risks are managed at the Group level within the activities of the HSE parent company. In addition to the said effects of prices, another two key factors are the difference between the volume of planned generation and the procured and sold electricity at the moment of supply in the future, i.e. the open position.

14.1.3 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.

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



14.1.4 Regulatory risks

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 the Velenje Coal Mine (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 of the Republic of Slovenia 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 the Velenje Coal Mine 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 to actively monitor the significant methane emission reduction requirement 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 Group 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.

14.1.5 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 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, all of which has already been detailed in this report.

14.1.6 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) in 2021. 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.

In 2021, the HSE Group placed a great emphasis on attracting job candidates in particular in specific trading and generation vacancies (technical staff). 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.

14.1.7 Environmental risks

These 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, the degradation and usurpation of space, 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. 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.

14.1.8 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.

In 2021, the HSE Group continued to comply with all covid-19 transmission prevention measures. Great emphasis was placed on providing for the health of our employees, continuous operations in changed circumstances, and identifying and managing risks.

14.1.9 IT security risks

Secure information and communication are high on the priority list of HSE Group companies, more recently primarily on account of the Ukrainian crisis. This is particularly reflected in the introduction of new IT solutions accompanied by the digitalisation of 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 were launched.

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. For this reason, additional efforts were made to improve the security of the IT system of the HSE Group 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 to continuously reduce information risk-related risks.

14.1.10 Financial risks

Financial risks arise from managing credit, interest rate, and financial risks in compliance with the established credit risk management system, the partner approval and status maintenance policy, regular monitoring of our exposure towards our partners, various financial instruments, regular strategy reviews, and the provision of appropriate securities.

14.1.11 Investment risks

Development 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 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.

14.2 Strategic guidelines for developing the risk management function

- The HSE Group has been monitoring the developments in energy markets and proactively adjusting our operations and objectives with the aim of achieving our strategic objectives.
- The liquidity risk in the HSE Group is managed by planning the daily, monthly and annual cash flows and then 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 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 of the HSE Group is being constantly monitored and upgraded.
- 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.
- New investments of the HSE Group are reconciled with our strategic and financial plans and other HSE Group-level normative documents. 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 regularly monitors legislative changes, analyses their effects on the operation of the HSE Group and actively responds 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 HSE Group has been pursuing continuous improvements to the security of its IT system and to reducing relevant risks.
- The HSE Group is aware of and is actively engaged in developing and educating its HR and monitoring the organisational climate.

15 European and national legislation and challenges for the HSE Group[19]

The main theme of our 2021 national 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 adopted Strategy has laid down 2033 as the coal phase-out year, on the basis of which the HSE Group shall draw up and implement all the required activities to realise business opportunities and restructure the thermal power division of the HSE Group, including the absorption of earmarked national and EU grants. Upon adopting the Strategy, the Government of the Republic of Slovenia 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. The adoption of a law on the restructuring of the SAŠA (Savinja-Šalek Valley Region) to facilitate the absorption of funds intended for restructuring, investments, and new projects to provide for new sustainable jobs, is also significant.

By assuming a proactive position to the drawing up of the Act on the Promotion of the Use of Renewable Energy Sources, the Electricity Supply Act, the Gas Supply Act, Resolution on the Long-term climate strategy of Slovenia until 2050, Law on Energy Policy, the Environmental Protection Act and the Mining Act, we were able to achieve significant amendments for the HSE Group in light of a positive effect on realising RSE (hydro, solar, and wind power) and natural gas projects of the HSE Group: a legislative recognition of the status of natural gas as a transitional energy product towards climate neutrality, the release of funding arrangements of statistical RSE transfers on account of failing to achieve the national RSE objective by the Climate Fund, a legislative option to introduce the capacity mechanism in Slovenia, the recognition of the significance of further harnessing hydro power (the construction of hydro-electric power plants above 10 MW has been deemed a public benefits), solar power plants in degraded areas and involving local communities in the development of wind power, proposed extension of the concession right of the Velenje Coal Mine even if does not possess all land within the extraction area.

15.1 Just transition projects

The HSE Group is of the view that it is essential and viable for the national economy to finance energy projects with EU and state grants required for an economically efficient and socially and environmentally acceptable coal phase-out. In order to comply with the coal phase-out year as adopted by the Government of the Republic of Slovenia, the HSE Group was actively involved in drawing up a programme to have SAŠA and Zasavje Region restructuring projects be financed by the Just Transition Fund - JTF. A selection of projects that governmental departments find to be eligible to receive these funds has already been drawn up.

They can be divided into six clusters:

1. Projects of reconverting existing energy locations for new low-carbon generation sources, including the use of hydrogen and low-carbon gases and generation facilities with new technologies allowing a climate neutrality of the Company by 2050.
2. Projects of constructing new flexible generation units to compensate for the generation from the existing coal blocks with a natural gas and low-carbon gas co-incineration option.
3. Pilot projects of constructing industrial heating and e-mobility products using hydrogen.
4. Projects of re-cultivating the extraction area of the Velenje Coal Mine.
5. Pilot projects of using woody biomass to generate hydrogen and for remote heating purposes.
6. Projects of constructing large-scale solar power plants in degraded areas, including setting up floating solar power plants on lakes that have been created as a result of mining operations.

15.2 The HSE Group is advocating for a just transition

The HSE Group is advocating for the implementation of just transition principles which we understand as a set of measures, sources of finance and entrepreneurial decisions which shall:

- enable energy companies to implement all business decisions allowing them to preserve their competitiveness on the market in changed operating conditions, while at the same time being justly compensated for the revenue foregone and for an increase in costs on the account of political decisions on early coal phase-out for energy purposes;
- ensure that all state measures are implemented, which refers to both the redundancies social restructuring policy as well as the restructuring of the region and the creation of new, sustainable jobs in the region, while at the same time promoting entrepreneurial initiatives for production and service activities in areas that contribute to realising the climate neutrality objective by 2050.

The HSE Group is aware that the SAŠA region is highly dependent on the operations of the Velenje Coal Mine and TEŠ. Issues related to the social, economic, and societal effects of the coal phase-out shall be resolved by the Šalek Region Restructuring Act to lay down the required activities to kick-start the local economy and create new jobs in the light of reducing the negative effects of a coal phase-out in the region - the energy industry namely generates almost 30% of all revenue generated in the local economy and the PV directly employs almost 10% of the active population in the Šalek Valley, in addition to another 10% who are directly linked to the coal mining industry.

19 GRI: 201-2; 415-1.

16 Our position on the “Fit for 55” package and the EU Taxonomy[20]

Aware of the effect of climate change on nature and people’s lives, the HSE Group is committed to complying with the Paris Agreement and Green Deal to transform EU into a modern, resource efficient, and competitive economy. In that respect, our net greenhouse gas emissions will have been reduced by a minimum of 55% by 2030 and a climate neutrality will have been achieved by 2050. The path towards these objectives is laid down in detail by the “Fit for 55” package and the EU Taxonomy. It is clear that the EU has been spearheading a global transformation of the economy to allow for climate neutrality. It has thus reduced its greenhouse gas emissions by more than a billion tons of CO_2 since 2006.

Despite the war in Ukraine, the EU has been encouraging its Member States to discontinue using coal as an energy product and shift to zero- and low-carbon electricity generation methods as soon as possible. Globally speaking, it has been shown that more than two thirds of coal were consumed by Asia in 2020 and that China consumes more than a half of all globally consumed coal. The highest European country in terms of coal consumption is Germany (10th globally).

Table: Countries with the highest consumption of coal and their global shares in 2020

Country	Coal consumption in 2020 (in exajoules)	Global percentage (%) in 2020
China	82.3	54.3
India	17.5	11.6
USA	9.2	6.1
Japan	4.6	3.0
South Africa	3.5	2.3
Russia	3.3	2.2
Indonesia	3.3	2.0
South Korea	3.0	2.0
Vietnam	2.1	1.4
Germany	1.8	1.2

Source: IAE

Table: Countries with the highest CO_2 emissions, t heir global share in 2017

Country	CO_2 emissions (in billion tonnes)	Global percentage (%)
China	9.8	27
USA	5.3	15
India	2.5	7
EU 27	2.5	7
Russia	1.7	5

Source: ourworldindata.org, statista.com

16.1 We are ready

The legislative proposals of the European Commission forming part of the “Fit for 55” package are bringing about significant changes in relation to trading CO_2 emissions, promoting the use of RSE, energy efficiency, low-carbon traffic or transport, heating, and cooling, and thus constitute the key regulative framework for the future operations and development of the energy industry in Slovenia. They bring about numerous opportunities and challenges for the HSE Group for a progressive, cost-effective, and just transition to a climate neutral society that the energy industry is firmly committed to.

The HSE Group as the biggest RSE generator in Slovenia will strive to have our planned hydro, solar, and water power projects significantly contribute to achieving the ambitious RSE objective by 2030. At the same time, we hope our projects will be recognised as projects in the general economic interest of the state which shall be prioritised in siting and permit acquisition procedures, as Slovenia is facing a major challenge to achieve the target share of RSE, requiring fast and coordinated action.

At the same time, the energy mix of Slovenia will be significantly changed, posing a complex challenge in terms of restructuring and compensating for coal as an energy source. This challenge shall require significant additional funds as one third of all electricity in Slovenia is generated from coal. For this reason, the HSE Group has been endeavouring to have Slovenia included as an eligible party in the Modernisation Fund of the EU, intended to help EU Member States co-finance energy industry modernisation projects aimed at increasing its efficiency and a resulting reduction of CO_2 emissions, as part of the EU ETS system reform.

20 GRI: 201-2.

16.1.1 Regulation of methane

At the end of 2021, a proposal for a legislative act to reduce methane emissions in the energy sector, foreseeing a significant tightening of methane emissions from underground coal mines, was presented under the second part of the "Fit for 55" package. As the contribution of underground coal mines to methane emissions is marginal and since the Velenje Coal Mine has become a medium-term progressively closed mine following the adoption of a National Coal Phase-Out Strategy, the HSE Group is of the view that it can only support the minimum methane emission reduction measures that do not have any additional effects on the operations of the Velenje Coal Mine, as economically unjustified investments in costly methane emission reduction technologies under such circumstances is uneconomical.

16.2 Our way forward

During the following years, the EU Taxonomy or technical screening and environmental criteria to lay down the sustainability of projects will play a significant role, as it will provide for easier access to financial resources, also EU funds, for technologies meeting sustainability criteria. The technical screening criteria of sustainability of projects using RSE as an energy product recognise the sustainable nature of solar, wind, geothermal, and hydro power, hydrogen projects and pump-fed hydro-electric power stations, which is key for our existing and planned RSE projects.

The adoption of technical screening criteria for the sustainability of gas projects and our potential natural gas-fired projects is also key to preserve our energy location in the Šalek Valley. Natural gas is namely an important transitional energy product towards climate neutrality. For this reason, it is extremely important for it to be included in the Taxonomy. Technical screening criteria shall take into account the current state of state-of-the-art gas technologies at our disposal and the development phase and speed of renewable and low-carbon gas technologies.

Regulation (EU) 2020/852 on the framework to facilitate sustainable investment (the so-called "EU Taxonomy") covers six environmental objectives that all companies having more than 500 employees or with an annual turnover of minimum EUR 40 million shall report on as of 2023. These environmental objectives are:

1. climate change mitigation;
2. climate change adaptation;
3. the sustainable use and protection of water and marine resources;
4. the transition to a circular economy;
5. pollution prevention and control; and
6. the protection and restoration of biodiversity and ecosystems.

A delegated regulation on the technical screening criteria for determining the conditions of sustainability of individual economic activities shall be drawn up for each objective.

At the moment, the delegated regulation 2021/2139 establishes technical screening criteria for determining the conditions under which a specific economic activity qualifies as contributing substantially to climate change mitigation and adaptation. Delegated regulations for the remaining four objectives are currently pending and are foreseen to be published during the first half of 2022.

Mandatory disclosure of the implementation of sustainable activities for non-financial companies as part of a non-financial report, applicable also to the HSE Group in 2022, has also been laid down. Non-financial reporting shall include the following disclosures:

1. the proportion of turnover derived from products or services associated with economic activities that qualify as environmentally sustainable;
2. the proportion of capital expenditure and the proportion of operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable.

As of 2023, a detailed report pursuant to the prescribed KPIs laid down in the delegated regulation 2021/2178 to further specify the details of the content and presentation of the information in relation to the mandated disclosures of companies on their environmentally sustainable economic activities.

17 Compliant with the EU Taxonomy

The HSE Group verified the compliance of its activities with the EU Taxonomy as early as one year before the reporting on compliance therewith becomes mandatory. This is based on the documents available, regular measurements, and the best assessments of the situation. We have been also monitoring and reconciling our development plans to comply with the required environmental and technical conditions. As almost all RSE generated electricity in the HSE Group derives from our hydro-electric power plants, we wanted to know if they comply with the EU Taxonomy.

17.1 Technical conditions

The key technical requirement is that the life-cycle (from generation to decommissioning) greenhouse gas emissions of an installation do not exceed 100g CO_2eq/kWh (grams of carbon dioxide equivalent per kilowatt-hour of electricity generated). Solar, wind, and hydro-electric power plants easily fit into this category. The technical screening criteria are further tightened for the latter, as these shall comply with one of the following additional conditions:

- that the hydro-electric power plant is run-of-river and that it does not have water storage;
- that the power density of the hydro-electric power plant does not exceed 5W/m².

HSE Group companies engaged in activities regulated by the Taxonomy are DEM, SENG, and HSE. All our hydro-electric power plants and small-scale hydro on the Drava and Soča Rivers comply with all the three conditions. It, however, needs to be clarified that an assessment has been made on the 100g CO_2eq/kWh (grams of carbon dioxide equivalent per kilowatt-hour of electricity generated). In our professional conviction, this condition shall be easily met. This suggests that the generation of electricity in DEM and SENG is technically fully compliant with the EU Taxonomy. In all generation units, the prescribed environmental standards are achieved, with the exception of some where no fish ladders have been set up and no wholly appropriate fish migration measures are in place as of yet. We wish to improve this as soon as possible. For this reason, design documentation is being drawn up for all facilities where no fish passage has been ensured yet.

In 2022, the Prapretno solar power plant was connected to the electric grid as part of HSE which also does not exceed the permissible life-cycle greenhouse gas emissions.

17.2 Climate-friendly

The EU Taxonomy has adopted two environmental impacts, namely climate mitigation and adaptation measures. There are no special conditions applicable to solar and wind power plants. However, an EIA (Environmental Impact Assessment) shall be carried out prior construction. There are some more requirements pertaining to assessing the compliance of hydro-electric power plants.

Key requirements are:

Climate change mitigation

- Does the activity comply with the 2000/60/EC Water Framework Directive?
- Do existing hydro-electric power plants carry out all technical and ecologically sound fish migration measures?
- Do existing hydro-electric power plants carry out all technical and ecologically sound measures that provide for minimum ecological and sediment flow?
- Do existing hydro-electric power plants carry out all technical and ecologically sound measures to sustain or improve habitats?
- Has an EIA or inspection been carried out?
- Are mitigation or compensatory measures being carried out?

All hydro-electric power plants and small-scale hydro of the HSE Group comply with the climate change mitigation conditions. The only exception are fish migration measures. However, all installations where this is yet to be facilitated, documentation ensuring the provision of the required measures is being drawn up. This suggests that our hydro-electric power plants and small-scale hydro comply with EU Taxonomy requirements.

Climate change adaptation

- Has the economic activity introduced physical and non-physical solutions that significantly reduce the most material physical climate risks relevant for the activity?
- Has a climate risk assessment for temperature, water, and soil been carried out?

The HSE Group shall draw up a climate risk assessment for all its installations or activities regulated by the EU Taxonomy. According to our experience and expert evaluation, there are no major climate risks for these activities during the next ten years. For this reason, we believe our hydro-electric power plants and small-scale hydro to be compliant with the EU Taxonomy also subject to these criteria.

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

The HSE Group has been developing and investing in compliance with sustainable development principles, namely by increasing the electricity and other synergistic forms of energy generation output using environmentally friendly technologies, allowing the energy industry to fully become 'green' and connected with other industries, such as transportation. With our well-thought-out strategy, we follow national and EU CO_2 emission reduction objectives and pursue a successful transformation of our activity.

In 2021, the construction of the Prapretno (3 MW) and Zlatoličje - Segment 5 (2.5 MW) solar power plants, for which we had successfully received grants for one part of our planned investments following a call for tenders of the Ministry of Infrastructure, began. We also continued drawing up investment and other documentation for other solar, wind, and geothermal power plant projects, in addition to other zero- and low-carbon electricity generation sources. Our projects have taken part in creating a set of green policies and projects included in regional plans and which will, through national and European financial incentives, contribute to an easier and more just restructuring of coal mining regions. In 2021, we continued with investments that are key for the sustainable competitiveness of the HSE Group, both in terms of increasing the proportion of RES in electricity generation as well as in terms of investments in maintaining and renewing generation at existing plants and environmental protection investments. A considerable proportion of our investments are committed to investment maintenance and investments in generation reliability.

We utilise the synergies within the HSE Group by carrying out internal ordering and consolidating human resource potentials. In 2021, investments in the security and reliability of operations of our existing thermal and hydro-electric power plants (overhauls of equipment and aggregates, reconstructions of small-scale hydro, restorations of dams, overhauls of operating locks, preservation of the energy potential, replacement of secondary systems, rehabilitation of bridges, etc.) were made.

After signing the concession agreement for the construction of hydroelectric power plants on the Middle Sava River, we initiated project management, planning, and administrative proceedings. We continued with siting procedures until obtaining a comprehensive permit including the drawing up of the National Spatial Plan (NSP), a Comprehensive EIA and an Environmental Report (CEIA and ER) in addition to the construction permit documentation (CPD).

We have been carrying out new projects to tender for national and European calls for tenders to receive grants to earn back our investments or for the operational support within the first 15 years of operations. In the future, we plan to invest in development projects, in renewable energy sources in the region (solar power plants, wind farms, and small-scale hydro), develop energy storage facilities (battery storage, pump-fed hydroelectric power stations, hydrogen technologies, zero-emission corridor), we plan to continue the already initiated activities related to RES projects (large hydroelectric power plants) and projects for efficient energy use, all pursuant to national and EU policies and adopted strategic documents. By way of its 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.

21 GRI: 203-1.

19 With an ear for the environment[22]

The energy industry and the HSE Group as an organisation with the majority share of the Slovenian generation of electricity have a material effect on the Slovenian environment. Aware that we infringe space, affect the natural environment, biodiversity, water sources, air, soil, etc., by supplying electricity to Slovenia, the HSE Group set up its own environmental policy and objectives which are subject to regular revisions and upgrades soon after launching its operations. In particular, we strive to:

- generate electricity in compliance with all environmental legislation;
- comply with all waste management legal standards and requirements;
- introduce the best technologies at our disposal, thus reducing our effects on the environment and our surroundings;
- promote the development of RSE aimed at reducing pollutant emissions;
- strictly apply the precautionary principle.

No environmental incidents which would have a significant effect on the quality of air, soil, and water and which would degrade the habitat of flora, fauna, or people, were documented in the HSE Group in 2021. As a result, no fines or non-financial sanctions were imposed on the grounds of non-compliance with environmental legislation.

There were two inspections in TEŠ. The environmental inspection held in September 2021 inspected the environmental monitoring of authorised institutions on account of amendments to the Environmental Permit. No irregularities were found. In autumn, the Financial Administration of the Republic of Slovenia inspected the operations of TEŠ in relation to environment duties on CO_2 emissions.

An inspection was held in SENG in May 2021. The Inspectorate of the Republic of Slovenia for the Environment and Spatial Planning inspected the emissions of substances from the small combustion plant installed in a facility in the town of Most na Soči. No law infringement was established. As such, the proceedings were stayed in compliance with Article 28 of the Inspection Act.

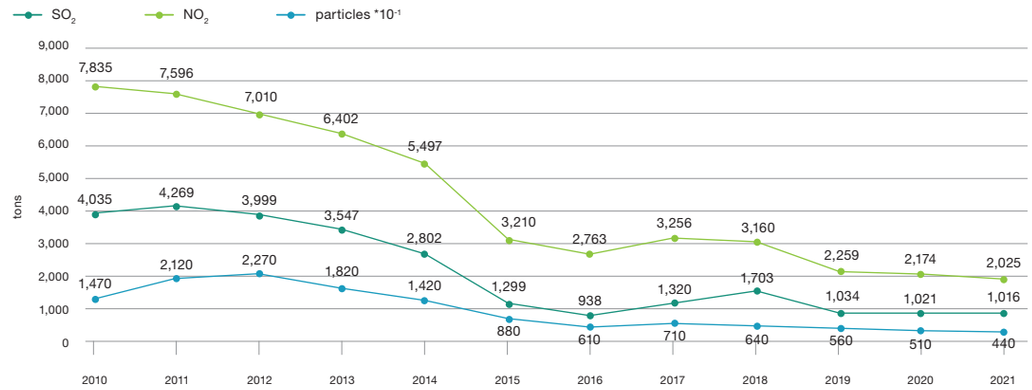
19.1 Demonstration of the effects of the measures taken

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.

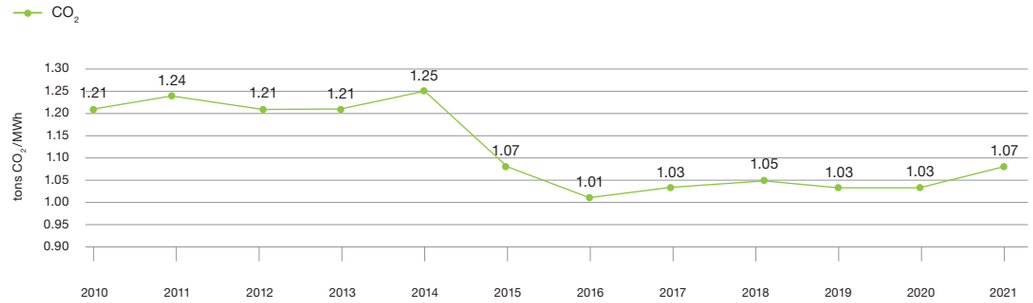
Block 6, which is one of the most modern thermal power plant blocks in Europe, allowed us to reduce CO_2 emissions by a third per unit of generated electricity compared to classic technology.

TEŠ's total emissions have remained at a similar level to 1991. Nevertheless, an unprecedented greater power of the blocks and the resulting generation of electricity are installed in Šoštanj at the moment. Blocks 1-5 namely operated until 2008 with a total installed 755 MW power, whereas, the current blocks, the restored Block 5 and new Block 6, have a total 945 MW power. A significantly higher power thus generates the same level of emissions. Our investments intend to reduce the emissions even further.

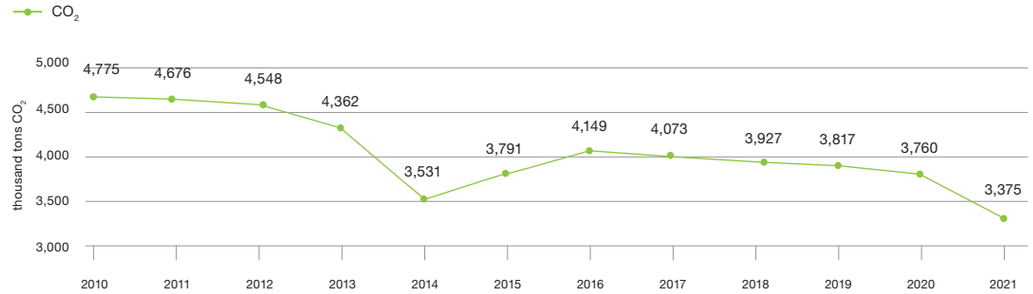
Graph: Total emissions of substances into the air by TEŠ between 2010 and 2021



Graph: Specific CO_2 emissions into the air by TEŠ between 2010 and 2021



Graph: Total CO_2 emissions by TEŠ between 2010 and 2021



22 GRI: 102-11; 307-1; 413-2.

20 We quantifiably reduce our environmental effects

Wherever humans look for energy, we make interventions into the landscape. Pier-type power plants placed in the riverbed have less influence on the environment than do channel-type ones. Undertakings performed with regard to channel-type power plants are more extensive; however, through more carefully thought-out solutions, they could also protect and enrich the environment. The operation of hydro-electric power plants using suitable technological solutions does not burden the environment; however, their construction can affect the visual landscape, changes to the hydrological regime of the river, and, as a result, to riverine environments. Therefore, responsible environmental management begins as early as during the technological solution planning, by preventing any undesirable effects and by continuously monitoring the environmental operating effect of hydro-electric power plants. Unfortunately, some effects are impossible to fully prevent; therefore, it is even more important to minimise their consequences.

Ecological projects of the Maribor Drava Power Plants (Dravske elektrarne Maribor) are primarily focused on rehabilitating the accumulations and, simultaneously, revitalising and regulating riverbanks in addition to removing alluvial sediments and ecologically using organic waste. The rehabilitation of reservoirs involves regulating influents and effluents, creating dykes, artificial islands, alluvial sediment retention barriers, and similar interventions that contribute to a natural balance in the environment. A proper regulation of reservoirs and riverbanks is also the basis for developing tourism and recreational activities related bodies of water.

The company whose operations are fully based on sustainable development and responsible environmental management principles collaborates with many organisations and associations in its environmental projects.

The HSE Group regularly monitors, measures and supervises numerous environmental indicators. Our strategy is based on stable and safe generation of electricity. This is achieved by applying the following two policies:

- to continuously improve the operations of our installations and
- to focus all our development investments on zero- and low-carbon sources of energy.

23 GRI: 305-1; 305-2; 305-3; 305-4; 305-7.

20.1. Reducing greenhouse gas emissions[23]

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 the Velenje Coal Mine 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 table shows that the absolute emission values of greenhouse values have been reduced during the past years. In 2021, emissions fell by as many as 700,000 tons (demonstration of total emissions) compared to five years prior. This is a reflection of our continuous investments in improving the efficiency of Block 6 of TEŠ and reducing the consumption of coal. 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 improved to reduce their emissions even further.

Table: Greenhouse gas emissions in the HSE Group

Greenhouse Gases/Carbon Footprint	Unit of measurement	2017	2018	2019	2020	2021
Direct emissions (Scope 1)						
From coal combustion	t CO_2eq	3,976,500	3,848,962	3,739,414	3,677,806	3,291,126
– out of which for own use	*t CO_2eq*	*440,309*	*434,747*	*422,965*	*421,302*	*388,701*
From natural gas combustion, ELKO	t CO_2eq	23,030	9,809	14,452	19,248	21,924
Indirect emissions (Scope 2)						
Energy products for the direct pursuit of business (construction machinery, business leases, business trips)	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 (Scope 3)						
Commuting	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 measurement	2017	2018	2019	2020	2021
Emissions intensity of SO_2 of electricity production	mg/kWh	333	454	278	280	321
Emissions intensity of NOx of 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, listed as being NO_2	t	3,271	3,168	2,270	2,185	2,032
Carbon monoxide (CO)	t	886	783	721	740	690
Particulate matter (PM)	t	162	105	65	70	89
Methane	t	9,783	4,184	3,752	4,772	3,501

20.2 Consumption of energy products[24]

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.

20.3 Responsible waste management[25]

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. It is important to have fly ash, slag, and gypsum converted into construction materials used to fill the small lakes between the Velenje and Družmir Lakes.

Table: Consumption of energy in the HSE Group

Energy	Unit of measure	2017	2018	2019	2020	2021
Total energy end-use (electricity, heat, cooling)	GWh	97.91	95.27	92.82	77.47	87.96
Energy end-use in commercial buildings per employee	kWh/ employee	69,621	71,296	64,957	61,264	60,861

Fuels	Unit of measure	2017	2018	2019	2020	2021
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

Table: Waste and waste water management in the HSE Group

Waste conservation (in million m³)	2017	2018	2019	2020	2021
Evaporation	7.09	7.04	7.03	7.71	6.64
Industrial waste water	4.21	4.56	4.03	3.90	3.91

Waste (in tonnes)	2017	2018	2019	2020	2021
All waste	802,634	793,660	686,420	768,029	595,947
Hazardous waste	461	502	271	347	359
Non-hazardous waste	802,173	793,158	686,149	767,682	595,587
Recovered waste	796,344	732,453	675,648	749,368	583,722
Alluvium	1,128	11,716	1,349	2,485	721

24 GRI: 302-1; 302-2; 303-3; 304-4.
25 GRI: 306-3; 306-5.

20.4 Efficient consumption of materials[26]

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.

Table: Consumption of input materials in the HSE Group

Input materials (in tonnes)	2017	2018	2019	2020	2021
Products of limestone ($CaCO_3$, CaO, $Ca(OH)_2$)	170,931	158,244	146,813	145,601	142,050
Ammonium hydroxide	3,000	2,945	2,711	2,530	2,338
Hydrochloric acid	275.64	365.86	261.84	304.38	218.95
Lubricants, oils	164	150	160	152	164
Steel	6,960	7,592	10,038	8,216	8,492
Wood	4,996	5,037	5,754	5,193	6,036

20.5 The water cycle[27]

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.

Table: Water management in the HSE Group

Water	Unit of measure	2017	2018	2019	2020	2021
Use of river water*	mio m^3	3.282	3.623	3.380	3.443	3.480
Use of accumulation and lakes*	mio m^3	6.157	5.754	5.216	5.246	4.054
Use of groundwater	mio m^3	2.414	2.786	2.479	2.629	2.775
Use of drinking water	m^3	209,739	215,674	202,015	146,350	123,077
Use of water for production at HPP	mio m^3	62,695	79,832	73,889	85,343	79,504

* For cooling technical devices

26 GRI: 301-1.
27 GRI: 303-1, 303-2; 303-4; 305-5.

20.6 Products and services[28]

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.

Table: 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

* The stabilising agent contains fly ash, gypsum, and slag. Excess materials are sold in the market.

20.7 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.

Table: Nature conservation expenses in the HSE Group

Nature conservation expenditure (in EUR thousand)	2017	2018	2019	2020	2021
Protection of ambient air and climate	36,547	38,955	46,070	81,149	100,660
– out of which for climate change	*26,862*	*26,564*	*35,867*	*69,961*	*91,027*
Waste water management	3,319	5,273	3,442	2,987	2,830
Waste management	2,438	4,026	3,848	5,694	3,920
Protection and remediation of soil, groundwater and surface water	2,035	962	2,755	6,177	4,448
Noise and vibration abatement	63.41	4.34	16.66	8.47	18.77
Protection of biodiversity and landscape	156.50	186.64	210.85	335.69	309.24
Research and development	31.97	9.60	33.64	4.87	33.11
Other	3,243.56	3,092.93	3,493.25	3,289.89	4,309.19
Total	**47,834**	**52,509**	**59,869**	**99,646**	**116,528**

28 GRI: 306-3; 306-5.

20.8 Energy savings and efficiency

The Energy Act provides that all suppliers of energy to final customers shall provide for energy savings of the same. Pursuant to the Act on Energy Efficiency and the Decree on energy savings requirements, an annual report on the achieved savings is sent to the Energy Agency once a year. The table below contains data for the HSE Group as reported for 2021.

Under legislation, the savings (or losses) achieved are transferred for the past three years. The annual savings requirement calculation is 0.8% of sold energy in the preceding year. As such, the HSE Group had to generate a little less than 4 million kWhs in energy savings in 2021. Given the completed investment maintenance and excess savings between 2018 and 2020, our total residual energy savings excess amounts to as many as 5 million kWhs.

HSE Group companies improve the energy efficiency of their generation facilities, thus providing for energy savings, through regular renovations and investment maintenance. Investment maintenance includes energy recovery of facilities by renovating insulation jackets, installing more energy efficient builders' joinery and more energy efficient equipment (lighting, etc.). Reconstructions involve the replacement of worn-out equipment with new, more energy efficient equipment. In 2021, the reconstruction of the Knežke Ravne 1 small-scale hydro was completed, whereas, the reconstruction of the Hubelj and Podselo small-scale hydro began. Special attention is paid by DEM and SENG to the annual removal of grit from the reservoirs, allowing them to preserve the energy potential of the accumulations and flood safety.

In 2021, the Velenje Coal Mine saved energy primarily by changing the pitch of blades at ventilation stations, allowing us to save 1,292 MWh. 1,360 MWh in heat was saved through the rationalisation project related to the shaft of the heat station of NOP (Nove Preloge) and Škale.

Savings generated in 2021			
Volume of energy sold in 2020 (in kWh)	498,013,910.00		
0.80% of energy sold in 2020 (in kWh)	3,984,111.28		
0,30 % of motor gasoline and diesel fuel sold in 2020	0,000		
Savings generated in 2021 (in kWh)	**2,816,473.00**		
Remaining savings surplus from 2018 (in kWh)	5,297,052.53		
Remaining savings surplus from 2019 (in kWh)	61,000.00		
Remaining savings surplus from 2020 (in kWh)	2,208,189.61		
TOTAL remaining energy savings surplus (in kWh)	**5,085,662.61**	Remaining savings surplus from 2019 (in kWh)	61,000.00
		Remaining savings surplus from 2020 (in kWh)	2,208,189.61
		Remaining savings surplus from 2021 (in kWh)	2,816,473.00

21 In harmony with the natural environment[29]

Renewable sources of energy (RSE) include all sources of energy harnessed from continuous natural processes, such as solar radiation, wind, river water flow, photosynthesis, earth thermal flows, and sea currents. Due to their fast turnover rate and a rather uniform distribution, they never run out in nature. Water is one of the most important renewable sources of energy. By replacing other electricity generation methods, hydro power reduces greenhouse gas emissions by approximately 10 per cent. As such, hydro power is one of the main greenhouse effect reduction methods in addition to contributing to a more useful consumption of energy and its preservation. There is considerable potential to further develop hydro power exploitation methods, both in renovating and upgrading existing systems and in constructing new ones. An important role is also played by pump-fed hydro-electric power stations as power storage facilities.

The principle of sustainable development stands for promoting economic and social development which takes into account the equal possibilities of meeting the needs of the present without compromising the ability of future generations to meet their own needs and allows for the long-term conservation of the environment. Particular attention is paid to the operation of our hydro-electric power plants, as proper operations and planning bring about more benefits for local communities, the environment, and biodiversity.

On the banks of HE Zlatoličje (in the photo) and HE Formin we will build solar power plants

The main environmental objective also laid down by the Water Framework Directive, is to achieve a good water status by 2015 or by no later than 2027. For artificial and heavily modified bodies of water, a good ecological potential as an environmental objective must be achieved instead of a good ecological status.

The Water Framework Directive is complemented by special target directives, such as the Groundwater Directive, the Drinking Water Directive, the Bathing Water Directive, the Nitrates Directive, the Urban Waste Water Treatment Directive, the Environmental Quality Standards Directive, and the Floods Directive.

The main objectives of the Environment Management System is to establish a system supporting the sustainable management of the hydro-electric power plant chain on the Drava and Soča Rivers in a way that takes into account sustainable management principles and obligations of DEM and SENG (concessionaires) in compliance with the requirements of the Water Framework Directive incorporated into Slovenian law through the Water Management Plan. The entire river system with all its interactive functions and spatial links is taken into account for the sustainable management of the hydro-electric power plant chain, whereby not only energy objectives, but also relevant areas, such as the protection of nature and waters, flood protection, and other use, are taken into consideration.

The law specifies environment status monitoring tasks. At national level, the monitoring of natural phenomena, environmental and pollution status is carried out. The monitoring of natural phenomena encompasses the monitoring and control of meteorological, hydrological, erosional, geological, seismic, radiological, and other geophysical phenomena. The monitoring of the environmental status encompasses the monitoring and control of the quality of soil, water, and air and biodiversity. The monitoring of the pollution status encompasses the monitoring and control of emissions into the soil, water, and air.

The construction of high dams, such as hydro-electric dams, impede the migration of fish along the river stream. The most efficient fish migration route establishment measure is to construct fish passages or fish ladders which are artificially constructed paths allowing fish to travel both up- and downstream unhindered and which help them avoid any barriers that restrict their habitat. Fish ladders are constructed parallel to the riverbed and their shape and length depend on the fish species that live in the river and use these ladders.

In 2016, the Government of the Republic of Slovenia adopted the Decree on the river basin management plan for the Danube Basin and the Adriatic Sea Basin (OG of the RS, no. 67/16), by way of which the River basin management plan for the Danube Basin for the period between 2016-2021 (hereinafter referred to as the "NUV") was adopted and entered into force. One of the essential requirements and objectives of the NUV was to establish the longitudinal connectivity of watercourses for aquatic organisms. The required measures include functional passages for aquatic organisms over anthropogenic structures in water bodies. DEM and SENG have taken an active approach to perform our tasks. In the beginning, we successfully renovated and made operational the aquatic organism passage at the Mariborski otok hydro-electric power plant barrier, which has been operating since 2017. The Fisheries Research Institute of Slovenia has monitored the passage of aquatic organisms. Their assessments suggest a successful rehabilitation as shown by the number and diversity of migrating organisms.

21.1 Respect for rivers and lakes

Despite its use for energy purposes, the Drava River also remains important in natural conservation terms, as it is surrounded by rich riparian habitats provided with an exceptional ability to adjust to various interventions by flowing water. The Dravograd Lake is an artificial lake behind the Dravograd hydro-electric power plant dam. Nevertheless, important

29 GRI: 203-1; 304-1; 304-2; 304-3.

wetlands with a rich world of living organisms have come into being next to it. The area includes important spawning grounds for fish. Around 150 bird species live on the lake on a temporary or permanent basis. A beaver colony has also decided to inhabit the area. There are also many botanical attractions.

The largest artificial lake in Slovenia - the Ptuj Lake - has been created in front of the Markovci dam on the Drava River, allowing the city of Ptuj to get a large body of water important for various types of recreation next to and on the water and for fishing. More than 200 bird species live on or next to the lake on a permanent or temporary basis that smaller islands, created as part of the LIFE Drava project, are dedicated to. It is also an important perch for birds between their autumn and spring migration.

The Šturmovci regional park, distinguished by a distinct interplay between floodplain forests, dead river branches and meadows with a rich world of living organisms, used by around 90 bird species as a nesting area and serving as a habitat for dragonflies and butterflies and more than 500 plant species, can be found downstream from the Ptuj dam, in a corner between the Drava riverbed and the Dravinja River at the right riverside of Drava.

Large parts of the floodplain on the left side of Drava are protected as the Danube-Drava National Park. The national park conserves extremely diverse habitats with a rich flora and fauna, namely from gravel bars in the riverbed to wetlands, dead river branches with backwaters, floodplain forests, and wet grasslands. All of the above suggests that the co-existence of industry, nature, and people is not impossible. The interweaving of constantly new knowledge, scientific findings, and will can make sure an area is suitable for all.

21.2 The beauties of the Soča River

The environment in the Soča river basin is extremely bio-diverse. As an RSE generator, the Company is directly connected to nature and its laws. Responsibility towards the natural world and the environment and the respect for nature are present in all our areas of operation, primarily in our environmental policy, which implements not only legally defined rules but also internal environmental programmes which guide and lay down environmental protection activities and the resulting relevant responsibilities.

SENG now consists of 30 RSE facilities in the Northern Primorska (Littoral) and Notranjska (Lower Carniola) regions. In the Soča basin, it manages five large-scale and 23 small-scale hydro power plants. The company also includes the pump-fed Avče hydro-electric power station which is the first and currently only pump-fed hydro-electric power station in Slovenia. The power plant has been operating since 2009 and meaningfully supplements the Soča River hydro-electric power plant chain. Its operations allow for a more economical exploitation of the water source. Its advanced technology - it is one of the first pumped storage plants with variable rotation speed among hydro pump-storage power-generating facilities in Europe - also brings about several other advantages: system reserves, voltage regulation, reactive power compensation, that thus improve the operations of the electric grid.

Since October 2020, the first solar power plant (Hubelj) located at the Hubelj small-scale hydro in Ajdovščina has been operating in the company, designed in a way that optimises the exploitation of the existing roof and joint of the existing Hubelj small-scale hydro and the remaining local infrastructure constructed for generating and transmitting electricity.

In order to comply with its commitment to implement the principles of sustainable development and unobtrusive inclusion of the energy industry into the natural attractions of the Soča basin, the company complies with international environmental standards, its concession obligations and comprehensive environment management systems, public opinion, and cost implications. A lot of attention is paid to long-term stable partnership relationships with the local environment and the multi-purpose use of facilities.

At the concession area, SENG also makes sure to remove sediments and alluvium.

The reservoir of the Avče pump-fed hydro-electric power plant providing for storage of electricity.

The company monitors its environmental activities on an annual basis, namely:

- an assessment of compliance with statutory requirements and other requirements the organisation has agreed to;
- effects of the organisation's environmental managements;
- framework and implementation programmes;
- monitoring programmes and key environmental parameters;
- environmental initiatives and complaints;
- measures arising from previous management reviews; and results of opinions, objectives, improvements, and activities for the following planned period.

The environmental policy of the company includes the setting up and annual review of the following indicators:

- monitoring: water of the Soča River (quality, fauna, flora); technical inspection of the barriers of the Soča hydro-electric power plants and the Avče pump-fed hydro-electric power station and seismic inspection of the Soča hydro-electric power plants and the Avče pump-fed hydro-electric power station;
- operational ambient noise monitoring for hydro-electric power plants and small-scale hydro facilities;
- measuring electromagnetic radiation in the natural environment and habitat;
- inspecting the leakage and recovery of fluorinated greenhouse gases or ozone-depleting substances;
- flood safety measured through the volume of extracted gravel;
- the quantities of removed waste by type;
- the number of extraordinary events affecting the environment;
- monitoring sustainable environmental indicators and costs.

Preliminary 2021 monitoring results were found to comply with legislation. On the basis of the measurements carried out during 2021 and the provision of partial reports, no deviations from statutory criteria are expected.

Ambient noise operational monitoring measurements were carried out at the Bača, Knežke Ravne 1, Trebuša, and Zadlaščica small-scale hydro in 2021. The measured noise levels have been found to be in the margin of tolerance and do not exceed the threshold values of noise indicators and peak noise levels for sources of noise for an area with Level 3 of noise protection.

In 2021, electromagnetic radiation measurements for the natural environment and habitat were carried out at the Plave 1 and Plave 2 hydro-electric power plants. The measured and re-calculated values of both facilities were below the threshold values as laid down by the Decree on electromagnetic radiation in the natural environment and habitat.

The company is in the possession of equipment containing ozone-depleting substances or fluorinated greenhouse gases at the Avče pump-fed hydro-electric power station (extinguishing agent) and in the SENG administrative building (refrigerant). A leakage or tightness inspection for these substances is carried out every six months for the extinguishing agent and every 12 months for the refrigerant. Performed measurement data are collected in the Fluorinated gas volume report for the preceding year sent to the Ministry of the Environment and Spatial Planning (MOP) - the Slovenian Environment Agency (ARSO) every year by the end of March. Measurement results in 2021 of both installations complied with statutory requirements.

The environmental programmes implemented by the company under its environmental policy are:

- **The alluvium and sediment removal programme at the concession area of Soča hydro-electric power plants:** This programme is implemented in compliance with annual programmes approved by the competent ministry and within the hydrological conditions. Pumping was carried out at the following locations: Plave II hydro-electric power plant, the Doblar 2 and 6 reservoirs and in the sediment traps in the Tolminka and Bača Rivers in October 2021. The total volume of extracted gravel was 27,416.59 m^3, out of which 19,268.82 m^3 in the sediment traps. The total volume of removed gravel was below the planned volume in the Annual 2021 extraction plan.
- **Programme of the multi-purpose utilisation of space at reservoir embankments:** In compliance with the Regular maintenance work plan (for water infrastructure facilities) for 2021, all the required permits and consents to regulate the coastal protection of the right embankment of the Soča River in the Doblar hydro-electric power plant reservoir, downstream from the Tolmin Bridge, were obtained. The coastal protection in this section was completed in October 2021. In 2021, design documentation to obtain a water consent and a planning permission for regulating the embankments at the confluence of Soča and Idrijca was drawn up in collaboration with the Municipality of Tolmin. Consents are currently pending.
- **Environmental monitoring to reduce environmental effects caused by the abstraction of water:** Regular technical and environmental monitoring at all facilities in the concession areas are underway. Reports for 2021 will be drawn up during the first half of 2022.
- **Obtaining a concession for the commercial exploitation of water:** In compliance with amendments to the law replacing the concession right with a water permit, amending concession agreements into water permits for all small-scale hydro is currently pending by the competent ministry. By the end of 2021, final water permits had been obtained for the Log hydro-electric power plant, the Gradišče small-scale hydro, the Možnica small-scale hydro, the Podmelec small-scale hydro, the Mesto small-scale hydro, the Pečnik small-scale hydro, the Cerkno small-scale hydro, the Trebuša small-scale hydro, the Jelenk small-scale hydro, the Mrzla Rupa small-scale hydro, the Planina small-scale hydro, the Knežke Ravne 1 small-scale hydro, the Knežke Ravne 2 small-scale hydro, the Tolmin small-scale hydro, and the Klavžarica small-scale hydro. Water permits with the existing situation for the Hubelj, Plužna, Marof, and Bača small-scale hydro are currently pending amendments or reconciliation at the Ministry of the Environment and Spatial Planning.
- **The small-scale hydro reservoir washing-out programme:** The programme is intended to reduce the effect on the environment during washout (stream turbidity, sludge, fish, and other organisms). In compliance with the agreed procedure, the required permits (planning permission) are pending and the washout of small-scale hydro reservoirs is communicated. In 2021, a washout of the Log and Plužna small-scale hydro pools was carried out.
- **Programme to partially lower the Doblar hydro-electric power plant reservoir to an altitude of 148 meters above sea level:** In compliance with the Programme to partially lower the Podselo small-scale hydro reservoir to an altitude of 148 meters above sea level, the Doblar hydro-electric power plant was partially lowered at the beginning of January 2022, which is a pre-condition to perform reconstruction works at the Podselo small-scale hydro In 2021, the programme was harmonised with all spatial planning stakeholders and was approved by the Water Agency of the Republic of Slovenia of the Ministry of the Environment and Spatial Planning.

21.2.1 Multi-functionality of the facilities of SENG

The Soča River unites the peaks of the Triglav National Park (TNP), the Goriška Brda and the Vipava Valley. The river is an important habitat for many animal species, such as marble trout (Salmo marmoratus). Due to the high altitude of its source (990 meters above sea level) and its relatively short length (140 km), the great energy potential of Soča and its tributaries had already been recognised and exploited as early as before World War II.

Nowadays, SENG operates 29 hydro-power installations. These include: the oldest Mesto small-scale hydro, operating since 1909; the Plave I and Doblar I hydro-electric power plants, constructed before World War II, and the only pump-fed hydroelectric power station in Slovenia, Avče, constructed in 2009. As many as three small-scale hydro power plants are located in the Triglav National Park. The currently only solar power plant of SENG, Hubelj, set up on the roof of the Hubelj hydro-electric power plant machinery area, has been operating since 2020.

The HSE Group is aware that development and conservation of nature might preclude on another. Nevertheless, a comprehensive and long-term-oriented approach can enrich development and creates new opportunities in the local area. This is why projects for new hydro-power exploitation opportunities are focused on finding appropriate solutions for all stakeholders. Reviewing hydro-power exploitation opportunities in the Soča catchment area, particularly in terms of multi-functional exploitation of facilities, should undoubtedly be allowed for water source, Posočje and SENG development purposes. Each facility namely contributes to the development of infrastructure in many other areas as well. For this reason, the local population living next to the Soča River have always accepted electric power facilities as part of their own infrastructure and not only as a source of energy.

The relevant legislation, local population, and other interested public have recognised the need to conserve natural and cultural heritage both in TNP and in the wider area. Conflicts related to conserving the natural landscape, primarily in relation to land use, have been successfully resolved by the company with an environment-friendly water energy exploitation strategy. This includes reducing powerful effects on karst geomorphological phenomena (valleys, karst plains, sinks, karst springs). Instead of constructing large-scale hydro-electric power plants, a network of small-scale hydro on Soča plays a prominent role in sustainable and renewable generation of electricity, adapted to geomorphological features, natural environment, and cultural heritage to the greatest possible extent. The power plants have been developing during the last three decades without any major construction operations. The hydro-electric power plants have been constructed and rehabilitated using the existing infrastructure, such as dams, channels, and pools.

The principles of multi-functionality have thus been fully observed in the hitherto completed siting projects and investments during the last three decades. Hydro-electric power plants are namely so much more than just mere electricity generation facilities; they are a reliable source during accidents and natural disasters; water storage facilities in periods of drought; they serve as a multi-functional and multi-purpose facility associated with water supply, fish farming, recreational and tourism areas.

The in 1989 constructed Zadlaščica hydro-electric power plant is an excellent example of siting an industrial installation into a sensitive natural area of the Triglav National Park. At the same time, it is a multi-purpose facility providing potable water to the wider Tolmin and Most na Soči area. The Tolmin Water Supply began operating at the same time as the first out of a total of two Zadlaščica hydro-electric power plant aggregates. In addition to the hydro-electric power plant, the same facility also includes a pumping area for the Tolmin Water Supply with three pumps that can pump as many as 100 litres of water per second in total.

The Tolmin small-scale hydro and a fish farm have been operating in harmony on the Tolminka River since 1995. The locations of both activities are inter-connected as they use common facilities, such as the barrier with its catchment area, supply canal, and the ground water exit. The facility is a wonderful example of collaboration between the energy and fish farming industry. The water of Tolminka is primarily intended for the needs of the fish farm and only secondarily to generating electricity. The company namely shares pools, the barrier, and supply channels with the Tolmin Fishing Family. Deep gorges are used for trout by the fish farm.

The Kanomlja klavže (water barriers) are also a wonderful example of multi-functionality of an energy-generation facility. They were built during the reign of the Emperor Napoleon I in 1813 at the Klavžarica watercourse. They accumulated up to 16,000 m³ water needed by the Idrija Mine until 1912. The long-foreseen renovation of the water barriers began in 2001 and was completed in spring 2005. They were rehabilitated in compliance with the Cultural Heritage Protection Act and in collaboration with the Ministry of Culture of the Republic of Slovenia and the City Museum of Idrija. The water accumulated behind the water barriers is now used to generate electricity by the Klavžarica small-scale hydro. The reservoirs behind the Doblar, Plave, and Solkan hydro-electric power plants are used not only for energy-generation, but also for tourism, fishing, sports, and recreational purposes.

By ingeniously siting the Avče pump-fed hydro-electric power station, which utilises the natural properties of the area to the maximum, whereby the existing Ajba accumulation pool behind the Plave hydro-electric power plant on the Soča River serves as the lower, outflow pool of Avče and the new upper reservoir of 15 ha in size has been constructed in a natural waterhole, the power plant brings about new development opportunities. New potentials for use, such as the option of developing tourism and other positive effects on regional development, have thus been introduced into the area.

The Doblar, Plave, and Solkan hydro-electric power plant reservoirs are not only used for energy, but also for tourism, fishing, sports, and recreational purposes.

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305-3	Other indirect greenhouse gas emissions	Reducing greenhouse gas emissions
305-4	Intensity of greenhouse emissions	Reducing greenhouse gas emissions
305-5	Reduction of greenhouse emissions	Reducing greenhouse gas emissions
305-7	NOX, SO_2 and other important emissions	Reducing greenhouse gas emissions
GRI 306: SEWAGE AND WASTE		
306-3	Waste by type and method of removal by weight	Responsible waste management
306-5	Waste for removal	Responsible waste management
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	With an ear for the environment

Indicator	Disclosure	Chapter
GRI 400: SOCIAL EFFECTS		
GRI 401: EMPLOYMENT		
401-1	New recruitment and fluctuation of employees	Our employees are our most valuable asset
401-3	Number of employees that utilised parental leave (by gender)	Our employees are our most valuable asset
GRI 403: OCCUPATIONAL HEALTH		
403-1	Occupational Health and Safety Management System	Protecting the health of our employees is the key to their health
403-2	Definition of hazards, risk assessment and investigations of accidents	Protecting the health of our employees is the key to their health
403-4	Cooperation of employees and raising awareness of occupational safety	Protecting the health of our employees is the key to their health
403-5	Education about occupational safety	Protecting the health of our employees is the key to their health
403-6	Promotion of employee health	Our employees are our most valuable asset Living with the coronavirus Protecting the health of our employees is the key to stable operations
403-9	Injuries at work (number, reasons, gravity)	Protecting the health of our employees is the key to their health
403-10	Occupational diseases (number, reasons, type of diseases)	Our employees are our most valuable asset
GRI 404: TRAINING AND EDUCATION		
404-1	Average number of training hours per year per employee by gender and employee category	Our employees are our most valuable asset
404-2	Programmes for upgrading skills and knowledge transfer programmes	Our employees are our most valuable asset
404-3	Proportion of employees who regularly receive evaluations of their work and personal progress, by gender and category	Our employees are our most valuable asset
404-4	Training and education	Our employees are our most valuable asset
GRI 405: DIVERSITY AND EQUAL OPPORTUNITIES		
405-1	Structure of management bodies and employee structure by categories (age, gender, other relevant indicators)	Governance of HSE and the HSE Group Our employees are our most valuable asset
GRI 406: NON DISCRIMINATION		
406-1	Number of discrimination reports and corrective measures	High ethical standards of conduct
GRI 412: HUMAN RIGHTS		
412-1	Number of cases, reviewed due to violation of human rights	High ethical standards of conduct
412-2	Education of employees about human rights and methods of reporting abuse	High ethical standards of conduct

Indicator	Disclosure	Chapter
GRI 413 COOPERATION WITH LOCAL COMMUNITIES		
413-1	Cooperation with local communities, impact assessment and development programmes	Sharing common values with our stakeholders In harmony with the social environment
413-2	Activities with actual and potentially negative impacts on the local community	Risks and opportunities of the HSE Group With an ear for the environment
GRI 415: PUBLIC POLICIES		
415-1	Contributions to public policies	European and national legislation and challenges for the HSE Group Our position on the “Fit for 55” package and the EU Taxonomy
GRI 419: SOCIO-ECONOMIC CONFORMITY		
419-1	Non-conformity with laws and rules in the social and economic field (penalties, fines, pending procedures)	High ethical standards of conduct