4 ... 2015 ... 2016 ... 2017 ...

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TERMOELEKTRARNA ŠOŠTANJ

Skupina hse

2018 ANNUAL REPORT

TERMOELEKTRARNA ŠOŠTANJ

Skupina hse

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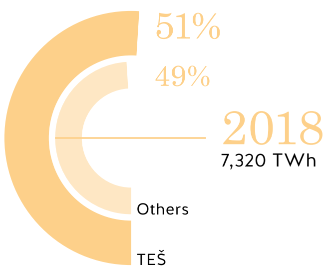
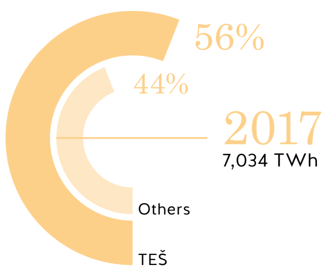
01 BUSINESS REPORT

1.1 INTRODUCTION

TEŠ is the largest thermal production facility in the HSE Group with its share accounting for 65% in total electricity production in Slovenia. The power plants of the HSE Group produce approx. 7.5 TWh of electricity, of which TEŠ generates 4 TWh.





It is worth mentioning that the share of Termoelektrarna Šoštanj is indispensable in providing energy independence, which was again confirmed in the summer month of the year 2018, when hydro power plants produced significantly less due to the drought than budgeted and TEŠ operated fully and thus contributed to the electricity supply and the independence from the import.

The operating excellence of the largest thermal production facility is evident also in the achieved record daily production of 18,811,373 kWh that was reached on 6 September and was recorded as the highest daily production so far.

1.2 LETTER OF THE MANAGING DIRECTOR

Dear all,

the year 2018 was more than a succesful financial year for TEŠ d.o.o. We produced and sold 3,753 GWh of electricity and 332 GWh of thermal energy. The company generated over EUR 200 million in revenue.

In this year, the environmentally rehabilitated Unit 5 was again included in the operation and its restart was important as TEŠ thus enabled the cold reserve for Unit 6. Unit 5 will be able to operate at any time and produce electricity under the assumption that the prices in the market are favourable and that a sufficient quantity of coal is available.

The first regular overhaul of Unit 6 as the indispensable source of electricity production in Slovenia was carried out. In the future, we will ensure that the unit will be well-managed and the business processes will be continuously improved so that the Unit will be operationally best prepared for price fluctuations in the electricity market.

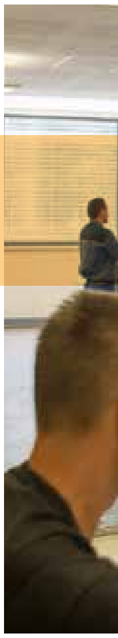
We are aware that business, operational and other success achieved are based on the comprehensive thinking, heavy investments in the maintenance, development of production facilities and competence of the employees. The key to success is you, the employees who have broad knowledge, skills, flexibility and above all reliability. We have started the year 2019 with a committed team of employees and with their help each of the objectives set is achievable.

Šoštanj, 17 May 2018

Termoelektrarna Šoštanj d.o.o.

Managing Director
Mitja Tašler

1.3 OPERATING HIGHLIGHTS IN 2018 [1]



TEŠ will remember the previous year for investment activities by means of which we managed to increase the reliability of production as one of the most important components of our operations. In August, after less than three years and the completed environmental rehabilitation Unit 5 was again synchronised with the Slovenian electricity network and thus the cold reserve for Unit 6 was prepared. Termoelektrarna Šoštanj that is fired by the Slovenian coal from the Velenje Mine, operates now with the environmentally rehabilitated and revitalised Unit 5 and with Unit 6 where the first regular overhaul was carried out and two gas units. The newly revitalised power plant contributes to the cleaner environment in the Šaleška Valley and the quality of life of local inhabitants.
After 46 years of operation Termoelektrarna Šoštanj permanently shut down the operation of Unit 4 due to the expiry of its service life.

In 2019, stable operation of Unit 6 and Unit 5 and the production of electricity exceeding 4 TWh are expected.

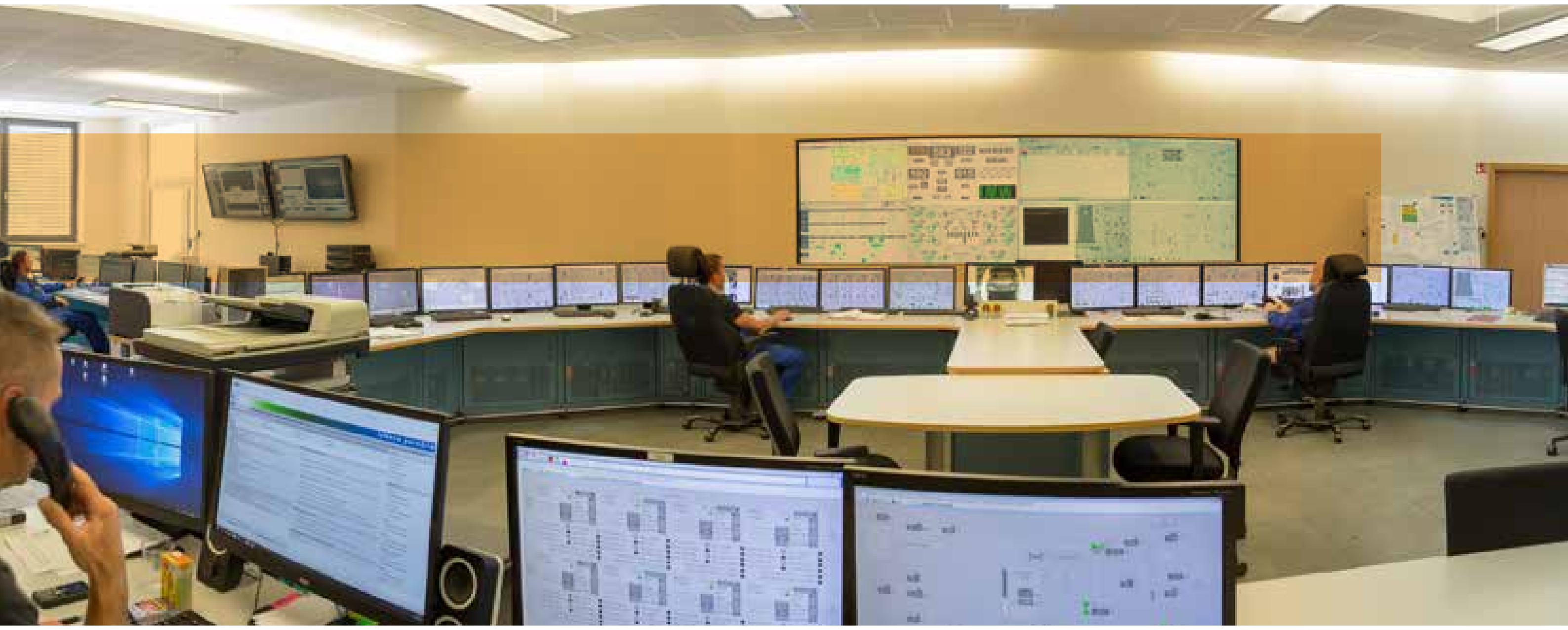
Item	2018	2017	2018 / 2017
Revenue from sales (EUR)	**196,812,774**	204,951,675	96
Profit or loss for the period (EUR)	**(58,529,301)**	(32,594,162)	
Income (EUR)	**200,568,853**	207,288,559	97
Expenses (EUR)	**259,098,154**	239,882,721	108
EBIT = operatng result (EUR)	**(33,026,009)**	(5,834,254)	
EBITDA = EBIT + write-downs (EUR)	**22,211,796**	30,306,694	73
Assets (EUR)	**1,027,242,961**	1,076,292,041	95
Equity (EUR)	**352,624,004**	411,121,663	86
Borrowings from banks (EUR)	**523,073,953**	565,249,170	93
Brrowings from Group companies (EUR)	**87,547,901**	21,028,074	416
Investments (EUR)*	**21,547,219**	9,003,624	239
Number of employees at the year-end	**312**	311	100
Electricity sold (GWh)	**3,753**	3,968	95
Added value (EUR)	**35,750,290**	41,644,159	86
Added value per employee (EUR)	**114,768**	131,959	87

* The data on the decrease in costs of decommissioning Unit 6 is not included in investments.

In 2018, TEŠ generated EUR 196,812,774 in **revenue from the sales of electricity,** which was a reduction of 4% over the year 2017, due to the lower volume of electricity sold.

In 2018, TEŠ generated a net loss in the amount of EUR 58,529,301. The loss was primarily influenced by the low selling prices of electricity, unchanged prices of coal and high prices of emission coupons. Additionally, the impairment of property, plant and equipment had a strong impact on the high loss in 2018; the impairment was

[1] **CONSISTENCY OF PRESENTATION:** the capitalised own products and services in 2018 reduce operating expenses, but in the previous period they were recorded under operating revenue. The change has an impact on the revenue and operating efficiency ratio.



recognised on the basis of the assessment of recoverable amount of Company's long-term assets as at 30 September 2018.

EBITDA as the cash flow approximation is positive, but is poorer than in the previous year, as it decreased by EUR 8.1 million; operating revenue reduced by 3% due to the lower volume of electricity sold, but operating expenses increased by 1%.

The assets of the Company were lower by 5% over the year 2017, mainly due to depreciation and amortisation of the assets that the Company needs for the performance of the core activity and due to impairment of property, plant and equipment.

In the field of investments the performance of revitalisation and environmental rehabilitation of Unit 5 focused on the reduction in hazardous emissions of substances in flue gases is of vital importance. The costs of this refurbishment exceeded EUR 10 million. The major share was intended for a machine decomposing nitrogen oxides (NOx), connection of the unit to the 220 kV network by replacing the block transformer, renewal of the unit control system and replacement of excess heat collectors. In line with the environmental legislation the operation of Unit 5 was thus enabled to the year 2030.
At the beginning of July the first regular overhaul of Unit 6 that began on 7 May 2018 was successfully completed and in the time-frames agreed.

Indebtedness to banks amounted to EUR 523,073,953 and was by 7% lower than at the end of 2017. In 2018 the Company repaid regular the principal amounts of long-term borrowings from EIB and EBRD, and all short-term loans raised with business banks. Indebtedness to group companies (HSE) amounted to EUR 87,547,901 and increased when compared to the balance at the end of 2017 by the loans drawn (including accrued interest) for the payment of financial liabilities under loan agreements and provision of assets for investments.

As at 31 December 2018, the Company employed 312 persons, which is 1 person more than at the end of 2017.

In 2018, TEŠ produced and sold 3,753 GWh of electricity. The annual production was by 5% lower than the production achieved in 2017. The reason is the first regular overhaul of Unit 6 that lasted two months and was successfully completed in accordance with the criteria of time and financial assets.

OVERVIEW OF PERFORMANCE

Overview of performance

	2017	2018	Change
Revenue from sales in mio €	205	197	-4 %
Electricity produced (GWh)	3.968	3.753	-5 %
Net profit or loss in mio €	-33	-59	+80 %
EBITDA = EBIT + write-downs in mio €	30	22	-27 %
Assets in mio €	1.076	1.027	-5 %
Equity in mio €	411	353	-14 %
Employees as at 31 Dec	311	312	+0,3 %

1.4 OVERVIEW OF SIGNIFICANT EVENTS IN 2018

On 8 January 2018, Unit 6 of TEŠ was reconnected to the grid after the planned shut-down on 19 December 2017. During the shut-down the inspections of equipment and warranty-covered repairs of the steam collector were conducted. When Unit 6 was shut down, TEŠ provide electricity and thermal energy from Unit 4.

On 15 March 2018, Unit 6 was shut down as planned due to the conduct of warranty inspections and measurements on the cold start-up of the unit before the beginning of the overhaul and on 9 March it was again synchronised with the electricity network.

On 7 May 2018, the first overhaul of Unit 6 started.

On 28 June, TEŠ obtained from EIB a waiver for the operation of Unit 4 until the end of 2018.

On 3 July 2018, Unit 6 was synchronised with the Slovene electricity network, after the completed first regular overhaul of the unit. During the overhaul some major works on the unit were carried out as well as warranty repairs for which it was planned to be performed during the overhaul period. The assembly works on Unit 6 were completed on Sunday, 1 July and its start-up began on 2 July. Unit 4 provided safe and reliable supply of electricity and thermal energy during the overhaul of Unit 6.

On 6 July 2018, the operation of Unit 4 was permanently discontinued after 46 years. This event marks the gradual continuation of the shutdown of worn and torn power plant units. The shutdown of Unit 4 was one of the conditions for the start-up of Unit 5, after the successfully carried out revitalisation. In its service life Unit 4 operated 294,854 hours and produced 63,524,119 MWh. It used 59,594.927 tons of coal for the production mentioned. In Europe, similar units are shutdown after approximately 200,000 operating hours and the shutdown of Unit 4 is undoubtedly a result of proper maintenance and control.

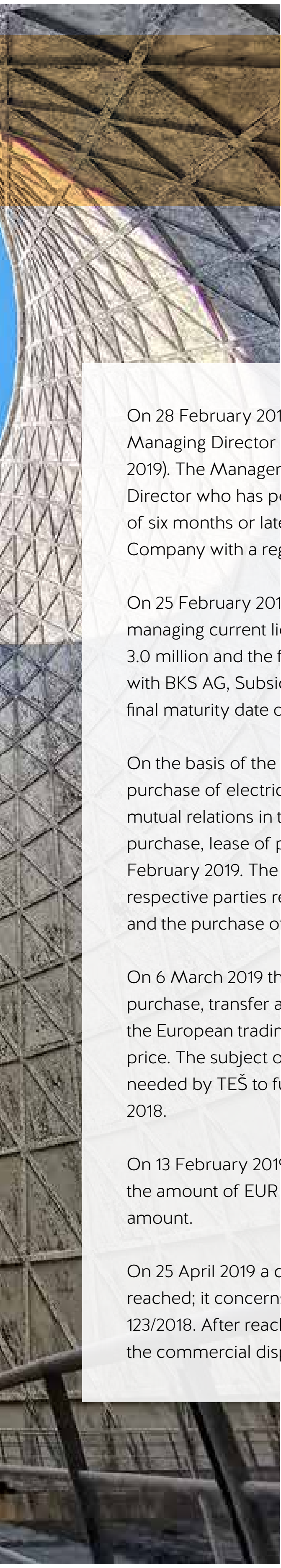
On 30 July 2018, the first test start-up of the boiler in Unit 5 was efficiently carried out by the use of oil burners. On the basis of the analysis results the systems in the boiler area were reset and then a test start-up of the boiler with coal was conducted.

On Thursday, 16 August 2018, Unit 5 started again supplying electricity to the Slovene grid after less than three years and the completed environmental rehabilitation. Thus, a two-month testing phase and test operation began. The environmental rehabilitation of Unit 5 was intended for the reduction in hazardous emission of substances in flue gases. When compared to the recently permanently shutdown Unit 4 these values were lower by 60% for nitrogen oxide (NOx), by 50% for sulphur oxide (SO2) and 80% for dust particles. The revitalised unit will most probably operate to the year 2030 in case of increased demand for electricity or as a replacement for Unit 6 when it is shut down or overhauled.

On 6 September TEŠ observed a record daily production of electricity on both coal units, i.e. Unit 6 = 12,229,355 kWh and Unit 5 = 6,582,018 kWh. Total 18,811,373 kWh.

The operation of Unit 6 in TEŠ was shut down on 16 December. The shutdown was urgent due to the demolished of material in the wall of one of the high-pressure oil delivery pipes on the hydraulic cylinder of the boiler's high-pressure safety-regulating valve. Due to oil dispersion in the surroundings a fire broke out when the oil mist touched the hot valve housing. In 15 minutes firemen from the fire brigade in Šoštanj efficiently put out the fire by manual extinguishers. The failure of Unit 6 caused no substantial material damage due to the fast and successful intervention of the firemen and maintenance staff. As the shutdown of this Unit was already planned for December in accordance with the annual plan of operation and maintenance works, the unit was shut down from Friday, 21 December and during the Christmas-New Year holidays. The TEŠ team carried out all the planned maintenance works during the holidays and Unit 6 started operating again on 4 January 2019.

HSE, as the sole shareholder adopted the Business Plan of TEŠ for the year 2019 with an additional plan for the years 2020 and 2021 on 20 December.



1.5 IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On 28 February 2019 Arman Koritnik was discharged from the position of the Managing Director of TEŠ on the basis of the notice of withdrawal (3 January 2019). The Management Board of HSE appointed Mitja Tašler the interim Managing Director who has performed this function since 1 March 2019 and up to a maximum of six months or latest until the appointment of the Managing Director of the Company with a regular four-year term of office.

On 25 February 2019 the Company concluded with UniCredit, for the purpose of managing current liquidity, two short-term loan agreements in the amount of EUR 3.0 million and the final maturity date on 31 December 2019 and on 12 February 2019 with BKS AG, Subsidiary Ljubljana, in the amount of EUR 2.0 million, also with the final maturity date on 31 December 2019.

On the basis of the Long-term Contract on the coal purchase, lease of power and purchase of electricity signed on 12 March 2015 and the Contract on the regulation of mutual relations in the area of electricity market performance, the Contract on coal purchase, lease of power and purchase of electricity in 2019 was concluded on 15 February 2019. The contract specifies in more detail the rights and obligations of the respective parties regarding the purchase of coal, lease of power, ancillary services, and the purchase of electricity produced from coal in 2019.

On 6 March 2019 the Company signed the Sales/Purchase Contract on the sale, purchase, transfer and acceptance of emission coupons valid in the third period of the European trading scheme (2013-2020), and payment of the contractually agreed price. The subject of the contract is the purchase of 3,929,544 emission coupons needed by TEŠ to fulfil its obligations arising from its greenhouse gas emissions in 2018.

On 13 February 2019, HSE and TEŠ concluded the Framework Loan Agreement for the amount of EUR 31.3 million and with maturity date on 31 January 2026, in one amount.

On 25 April 2019 a court settlement between TEŠ and the Municipality of Velenje was reached; it concerns the court proceedings of the District Court in Celje, File No. I Pg 123/2018. After reaching this court settlement the parties have no claims relating to the commercial dispute and the Agreement of 9 May 2014.

1.6 PRESENTATION OF THE COMPANY

Termoelektrarna Šoštanj is a limited liability company whose sole shareholder is Holding Slovenske elektrarne d.o.o.

1.6.1 COMPANY PROFILE AS AT 31 DECEMBER 2018

GENERAL INFORMATION	
Company name	Termoelektrarna Šoštanj d.o.o.
Legal form	Limited liability company with a sole shareholder
Address	Cesta Lole Ribarja 18, 3325 Šoštanj
Telephone	03 8993 200
Fax	03 8993 485
Registration no.	10051100 - District Court of Celje
Share capital in EUR	578,579,850
Size	Large
Year of establishment	1956
Tax number	92189903
VAT ID no.	SI92189903
Company ID no.	5040388
Website	www.te-sostanj.si
E-mail	info@te-sostanj.si
Activity code	35.112

DATA ON TRANSATION ACCOUNTS

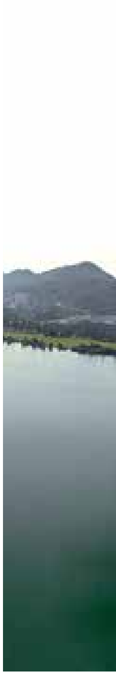
BANK	Transaction account
BANKA KOPER	101000038312861
NLB	024260017217937
NOVA KBM	045150001707126
UNI CREDIT	290000003080383

DATA ON MANAGEMENT AS AT 31 DECEMBER 20178

POSITION	Name and surname	Start	End
Managing Director	Arman Koritnik, LL.M.	1 Dec 2015	28 Feb 2019
Managing Director	Mitja Tašler	1 Mar 2019	up to 6 months maximum

OWNERSHIP STRUCTURE OF COMPANY

Member / Shareholder	Address	Share in EUR as at 31 Dec 2018	Share in % as at 31 Dec 2018
Holding Slovenske elektrarne d.o.o.	Koprska 92, Ljubljana	578,579,850	100,00%



1.6.2 BUSINESS ACTIVITIES OF THE COMPANY

The Company has several registered activities. Its core activity is the production of electricity in thermal power plants.

1.6.3 COMPANY BODIES AND REPRESENTATION

The Company's managing body is:
• the Managing Director.

The Managing Director represents the Company and conducts its business affairs on his own responsibility. In accordance with the Company's Articles of Association and applicable legislation, the shareholder has the role and competence of a general meeting, as applies to a limited liability company with a sole shareholder.

1.6.4 CORPORATE GOVERNANCE STATEMENT

The company Termoelektrarna Šoštanj d.o.o., Cesta Lole Ribarja 18, 3325 Šoštanj, hereby presents its Corporate Governance Statement in compliance with paragraph 5 of Article 70 of the Companies Act (ZGD-1). The statement refers to the period from 1 January 2017 to 31 December 2018.

As Managing Director of TEŠ, I hereby declare that the Company's governance is in accordance with the applicable laws and other regulations, the applicable Articles of Association of the limited liability company TEŠ, the Company's internal rules, and in line with good business practices.

As Managing Director of TEŠ, I hereby declare, in line with Article 60a of the Companies Act (ZGD-1), that the annual report and all integral parts thereof, including the corporate governance statement, have been compiled and published in conformity with the Companies Act (ZGD-1) and the International Financial Reporting Standards.

Statement of compliance with the Corporate Governance Code for companies with state capital investments

As Managing Director of TEŠ, I hereby declare that the governance of TEŠ in 2018 was in compliance with the Corporate Governance Code for Companies with state capital assets (May 2017), and in line with the Recommendations and Expectations adopted by the Slovenian Sovereign Holding (Slovenski državni holding, d.d. – SDH) (May 2018). The Code and the Recommendations and Expectations of SDH are publicly accessible on the website of SDH.

As Managing Director of TEŠ, I hereby declare, in accordance with the provisions of the Code that TEŠ has decided to apply the Code on a voluntary basis. The Company meaningfully considered the Code in its business operations, taking into account the activities and other particularities of the Company.

In 2018 the Company fully observed the majority of recommendations of the SDH Code in accordance with the comply-and-explain principle. The Company did not or only partially observed the following recommendations:

- Recommendation no. 3.2: The Company has not adopted a company management policy. Its management is conducted in compliance with the Articles of Association, the business plan, and the applicable regulatory framework.
- Recommendation no. 3.6: The Company has not adopted a diversity policy – the Articles of Association foresee a single-member management.
- The Company does not have a supervisory board.
- Recommendation no. 8.1.1: The recommendation is only partially applied – the Company does not carry out any activities in the areas of research and development.
- Recommendation no. 8.5: The recommendation is not applied – the Company is a limited liability company (d.o.o.) with a sole shareholder.

In 2018 the Company did not or only partially observed the following Recommendations and Expectations of the Slovenian Sovereign Holding:

- Recommendation no. 3.3: Public announcements on the public procurement portal and not on the Company's web pages.
- Recommendation no. 4.3: The recommendation is partially applied.
- Recommendation no. 4.5: The recommendation is partially applied – the Entrepreneurial Collective Agreement, the Rules on Salaries and the Rules on Promotion are published on the Company's web pages.
- Recommendation no. 5: The attainment of quality and excellence in the operation of companies by self-assessment according to the tested EFQM European excellence model was not observed. Its implementation will be analysed and coordinated in future within the framework of the HSE Group.
- Recommendation no. 6.9: The recommendation is partially applied.

Managing bodies of the Company

In line with the Articles of Association of TEŠ, the shareholder manages the Company directly and through the Company's bodies.

Shareholder

The shareholder independently decides on the following matters:

- modifications of and amendments to the Company's Articles of Association;
- change in the registered office on the proposal of the Board of Management;
- adoption of the Company's development strategy on the proposal of the Board of Management;
- adoption of the Company's fundamental corporate policy and development programme on the proposal of the Board of Management;
- investment programmes on the proposal of the Board of Management;
- adoption of regulations, policies and other general acts that generally apply to all companies of the HSE Group;
- the Company's business plan;
- adoption of the annual report;
- appropriation of accumulated profit and covering of loss;

• granting of discharge to the Board of Management;
• purchase, division and termination of business interests;
• measures to increase or decrease equity;
• changes in the Company's share capital;
• changes in the status and winding-up of the Company;
• appointment of the Company's auditor;
• appointment of the Company's holder of procuration and proxies;
• adoption of measures for improving the Company's operations and eliminating any deficiencies or irregularities found;
• granting consent to transactions of the Company's Board of Management in line with the Articles of Association;
• appointment and recall of members of the Company's Board of Management (directors);
• entry into employment contracts with members of the Board of Management (directors of the Company);
• requests regarding reports of the Board of Management on the Company's business operations and other issues related to the operations of the Company and other subsidiaries;
• other matters defined by regulations and in conformity with this act.

In accordance with Article 526 of the Companies Act (ZGD-1), the decisions adopted by the shareholder are entered in the Book of Resolutions.

Managing Director

The Company's managing body is the Managing Director. The Managing Director represents the Company and manages its business affairs on its own responsibility. The shareholder appoints and recalls the Managing Director. The term of office of the Managing Director is 4 years, with the possibility of re-appointment.

In accordance with the relevant provision of the Articles of Association, the Managing Director shall require the consent of the Company's shareholder for the conclusion of transactions or the adoption of decisions relating to the following:
• conclusion of legal transactions and raising of loans in the amount exceeding EUR 333,834.08 for the same subject of business in the respective financial year;
• disposal and pledge of real property;
• equity investments of the Company in other legal entities;
• start of an investment whose projected value exceeds EUR 100,000.00 (due to the need for co-ordinated strategic development of the HSE Group);
• start of an investment in IT whose projected value exceeds EUR 50,000.00 (due to the need for coordinated development of IT in the HSE Group), after obtaining the opinion of the Head of IT from the shareholder;
• issuing of collaterals, warranties or guarantees for other parties' liabilities, and
• operating or financial lease.

Internal Audit is organised in the parent company. Internal audit is conducted in the entire HSE Group in line with the International Framework for Professional Practice of Internal Auditing. It functions with the aim of adding value in achieving strategic and business objectives.

Internal controls and risk management within the Company in relation to the financial reporting procedure

From the aspect of providing accounting data that comply with the criteria of the International Financial Reporting Standards, the Company has established internal controls designed to reduce risks related to accounting reporting.
By means of accounting controls, we ensure the credibility, correctness and completeness of accounting data.
We provide for the regular professional training of employees, which enables them to contribute quality, accurate and timely accounting data through their work. Our central IT system (SAP) has an important role in providing quality accounting data.

We understand the Company's internal controls system as the planned and systematic establishment of procedures and methods which, in the course of their operation, ensure punctuality, reliability and completeness of data and information, as well as accurate and fair preparation of financial statements, prevent and detect errors in the system, and ensure compliance with the laws and other regulations and the internal acts of the Company.

For the purpose of ensuring greater transparency, efficiency and responsible business operations, the Company has established an operating system of internal controls and risk management through its organisational structure, the ISO 9001 quality management standard, the OHSAS 18001 occupational health and the internal acts of the Company, together with a developed reporting system in individual organisational units. The internal controls system is supported by an IT controls system which, among other things, ensures adequate limitations and control over the network, as well as precise, up-to-date and complete data management.
With the aim of setting up a comprehensive risk management system in the Company so as to provide its management and the founder with sound bases for managing and governing the Company, as well as to achieve the planned goals, the Managing Director of the Company established a consultative body – the Risk Management Committee. The committee's organisation, composition, method of work, and tasks are defined in the Rules of Procedure for the Work of the Risk Management Committee. The Company has adopted a code of ethics, which is published on the Company's web pages.

The Managing Director is responsible for the establishment, operation, supervision and continuous improvement of the internal controls system, as well as for the correctness and completeness of data.

The Company has not adopted a diversity policy, as its Articles of Association foresee a single-member management (managing director). The Company also does not have a supervisory board.

I, the undersigned, have been informed about the contents of the integral parts of the Annual Report of TEŠ d.o.o. for 2018, and thus also about the entire Annual Report of TEŠ d.o.o. for 2018. I agree with the annual report, which I confirm with my signature.

Šoštanj, 17 May 2019

Termoelektrarna Šoštanj d.o.o.

Managing Director
Mitja Tašler

1.6.5 RELATIONS WITH THE CONTROLLING COMPANY

Termoelektrarna Šoštanj d.o.o. is part of the Holding Slovenske elektrarne Group. On 31 December 2018, Holding Slovenske elektrarne d.o.o., with its registered office at Koprska 92 in Ljubljana, was the Company's sole shareholder, i.e., controlling company, which prepared the 2018 consolidated annual report for the group companies under its control.

Pursuant to Article 545 and 546 of the Companies Act, the Company's management submitted a report on relations with the controlling company and other subsidiaries in the Group, establishing that given the circumstances known to the Company at the time of a specific legal transaction, TEŠ d.o.o. assesses that it had not been disadvantaged in any such transactions with the controlling company and its related companies, and that in 2018 no legal transaction, act or omission that could be potentially damaging to the Company had taken place as a result of influence exercised by Holding Slovenske elektrarne d.o.o.

1.6.6 CAPITAL LINKS WITH OTHER COMPANIES

TEŠ has no controlled or associated companies

1.7 COMPANY'S BUSINESS POLICY

MISSION

The mission of Termoelektrarna Šoštanj is to provide customers with sufficient quantities of energy through the production of electricity and thermal power, and thus contribute to developing the quality of work and life of energy consumers.

VISION

Termoelektrarna Šoštanj is and strives to remain the largest thermal power system in Slovenia, which will provide its customers with reliable, safe, competitive and optimally the most environment-friendly production of electricity and thermal power. We are endeavouring to be the most flexible company in all areas of our operation.

PRINCIPAL LONG-TERM GOAL

To maintain our production capacities and ensure the long-term reliable, safe, competitive and environment-friendly production of electricity and thermal power based on the use of diverse primary sources.

To fulfil our principal goal, we have set long-term, special area objectives that include annual goals.

1.8 MANAGEMENT SYSTEM POLICY

1.8.1 CHIEVEMENT OF OBJECTIVES IN THE AREAS OF QUALITY, ENVIRONMENTAL MANAGEMENT, OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT, AND INFORMATION SECURITY MANAGEMENT

The policy of quality that is an integral part of business policy the Company's Board of Management obliges to fulfil the vision in the long-term and consistently achieve the objectives set. In doing so, it will assert the corporate culture based on the quality, risk control, information security, security of employees and the environment, investments in the employees, provision of their commitment and their satisfaction through the principles of work life balance and last but not least on continuous improvements.

TEŠ has established an integrated management system comprised of:
- a quality management system as required by SIST ISO 9001:2008 (since 05 April 2000);
- an environmental management system as required by SIST EN ISO 14001:2004 (since 25 February 2003);
- an occupational health and safety management system as required by OHSAS 18001:2007 (since 6 July 2005), and The establishment and efficiency of the established management system is determined on the basis of integrated internal audits, external audits carried out by a certification body, independent reviews by certified institutions, and through the achievement of the objectives planned. As every year so far, in 2018 we successfully passed an external repetitive audit of the integrated management system. Based on this successfully completed repetitive external audit, the certification body issued new certificates to the Company for a period of three years, i.e., from 2015 to 2018.

External auditors assessed that the audited management system, in particular with regard to the:
- scope and policy,
- definition of process goals and their monitoring,
- identification and regular monitoring/assessment of risks (jeopardising customers, information security, environmental safety, health and safety of employees), safety aspects of the organisation, and legal or statutory requirements,
- qualifications, experience and competence of employees in relation to the management system,

- activities aimed at informing employees about the management system,
- conduct of internal audits and managerial reviews,
- ensuring a continuous improvement process,
- compliance with legal requirements and demands of customers, is effective, and that the bases have been provided for maintaining and improving the management system.

In addition to the faultless functioning of the systems good communications, regular verification and monitoring of operation of all the systems and finally continuous improvements contribute to the efficient system.

1.8.2 OCCUPATIONAL HEALTH AND SAFETY AND FIRE SAFETY

A safe and healthy working environment is one of the fundamental principles of the power plant's operation. Our occupational health and safety system is regulated systematically on the basis of the OHSAS 18001 standard, which has been successfully certified for several years.

In 2018, the Occupational Safety Department carried out regular preventive measures ensuring a high level of occupational health and safety and fire safety on all organisational levels.

In addition to performing legislation-compliant operations, we have established effective mechanisms for identifying negative aspects and risks, which allow us to develop measures, goals and improvements.

In 2019, the Company will continue to devote considerable attention to the occupational safety training of employees, regulation of fire safety within the Company, inspections of working equipment, and the purchase of quality safety and working equipment which employees will like to use and wear.

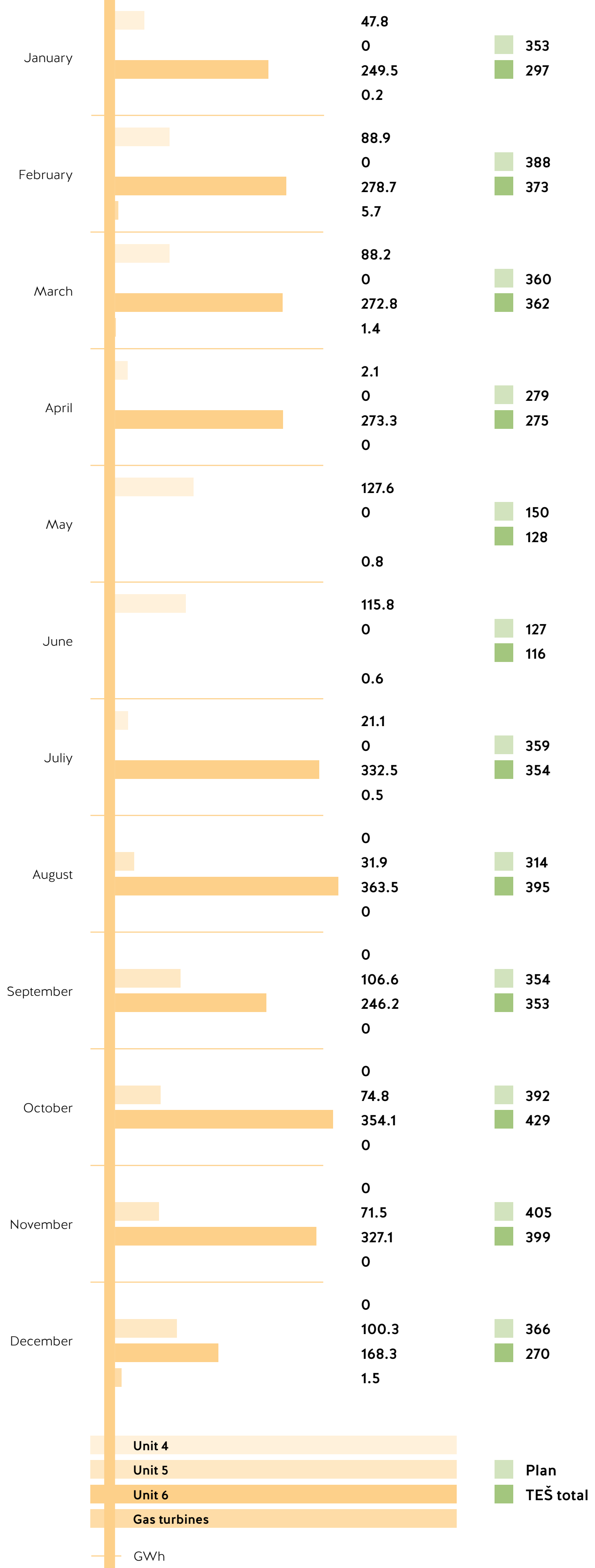
In the given economic circumstances, we shall devote our best efforts to improving health and safety at work in the Company, and remind our employees that health is our greatest wealth.

19 PRODUCTION

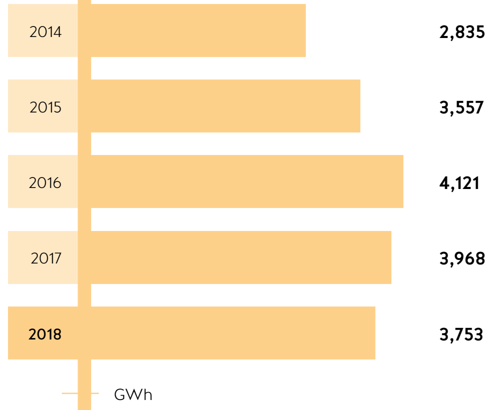
Production of electricity (net)

In 2018, TEŠ produced and supplied to the network 3,753 GWh of electricity, which is 215 GWh or 5 % less than in 2017. Electricity production was lower primarily due to the shutdown of Unit 6 for a period of two months needed for the conduct of the first regular overhaul.

3,743 GWh of electricity was produced from coal and 10 GWh from gas.

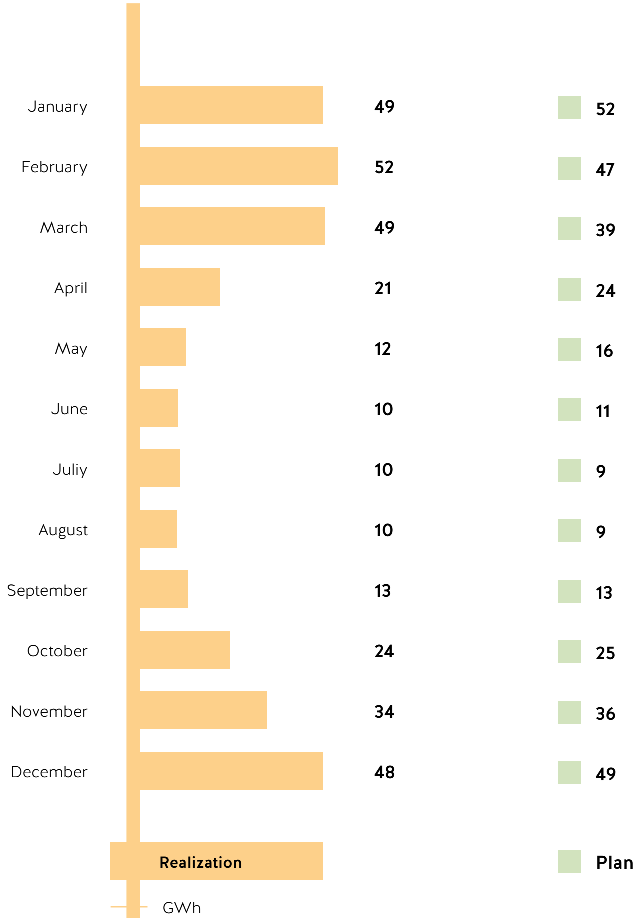


Net eletricity production per year

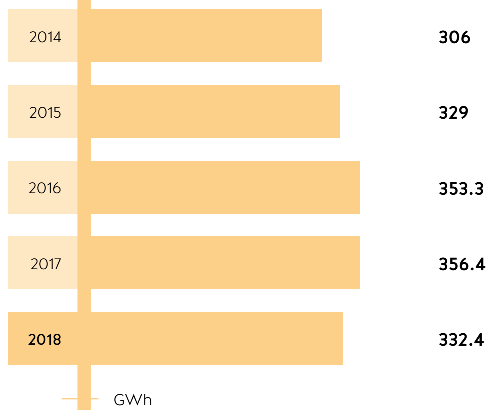


Thermal energy production

In 2018, TEŠ produced 332 GWh of thermal power for heating, which is 24 GWh or 7% less than in 2017. This was due to the lower demand for thermal energy.



Thermal energy production per year



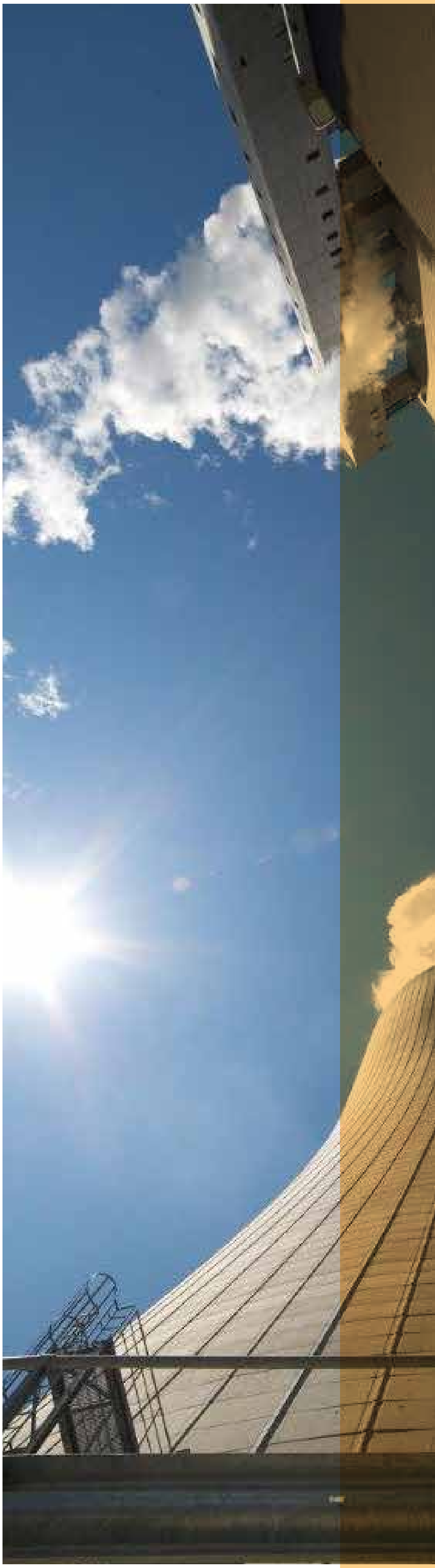
Consumption of energy products

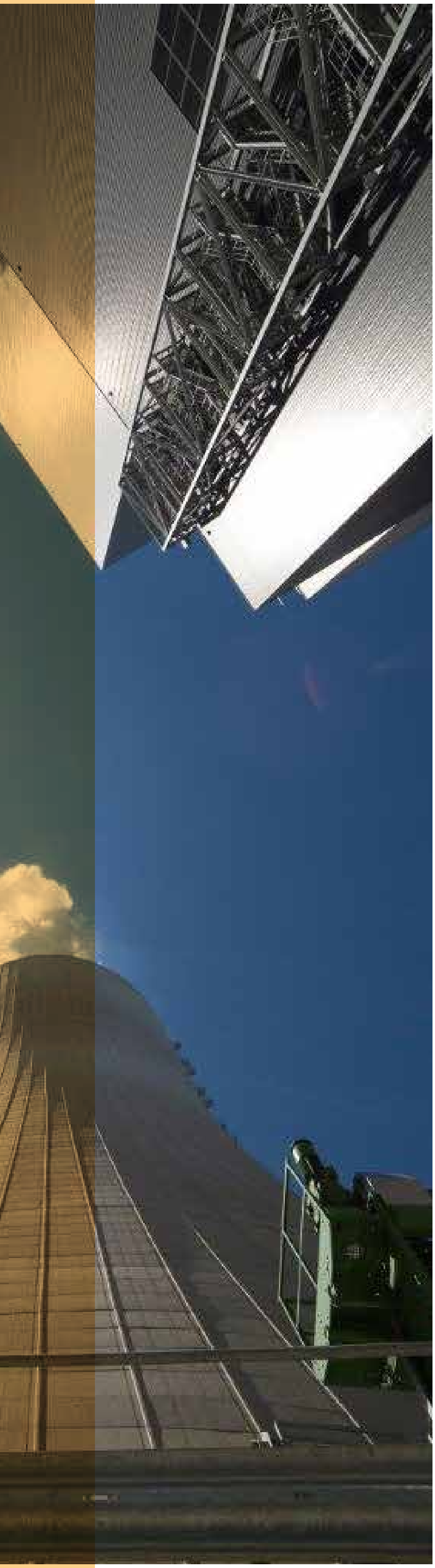
In 2018 we used 3,259 thousand tons of coal, of which 3,172 thousand tons for electricity production and 86 thousand tons for thermal energy production. The average calorific value of supplied coal (gallery coal and coal from the coal deposit) was 11,521 kJ/kg, which is lower than in 2017, when the calorific value amounted to 11.640 kJ/kg.

Emission coupons

CO_2 emissions are the most important factor of global warming, as they account for approx. 80 percent of total greenhouse gas emissions. Global CO_2 emissions rose in 2018, the reason being an increasing consumption of petroleum and natural gas driven by the strong economic growth. It is expected that carbon dioxide emissions will continue to grow also in 2019. Nevertheless, scientists emphasize that there are reasons for optimism as the economy is becoming more and more efficient, and the economic growth is higher than the growth in emissions. Slovenia also managed to reduce emissions in the period of economic growth.

In 2018, TEŠ emitted 3,929,900 tons of CO_2 into the environment through electricity production, which is 143,542 tons of CO_2 less than in the previous year. According to the provisions of the Environmental Protection Act, the Company is consequently obliged to pay an environmental pollution tax (1 coupon per ton of CO_2) by 30 April 2019. To settle this tax, TEŠ possesses 45,335 free coupons (Decision of the Slovene Ministry of the Environment). The difference in the amount of 3,884,565 emission coupons will be purchased from HSE (sales/purchase agreement for the purchase of emission coupons, concluded in March 2019).





1.10 MAINTENANCE

To ensure the undisturbed production of electricity, the power plant had to maintain three steam production units (Units 4, 5, and 6), two gas production units (intended for the tertiary reserve) three thermal stations, coal transport system, water preparation in the hydrogen production facility, and joint facilities. The maintenance of Unit 3 was intended to provide the safety of people. Unit 5 was overhauled and by the revitalisation its maintenance was activated. All of these facilities, plants and installations need to be systematically maintained if we are to operate safely and reliably, in an environmentally sustainable manner, with high availability, high flexibility of production units and an optimal utilisation rate, until the end of the foreseen service life of the units.

Maintenance works are performed on the basis of plant operation monitoring, operational events, assessment of remaining service life, with the help of demolition and non-demolition methods of material control, and in line with the requirements for safe and reliable operation, as well as the adopted guidelines, and/or strategy, for plant operation and maintenance.

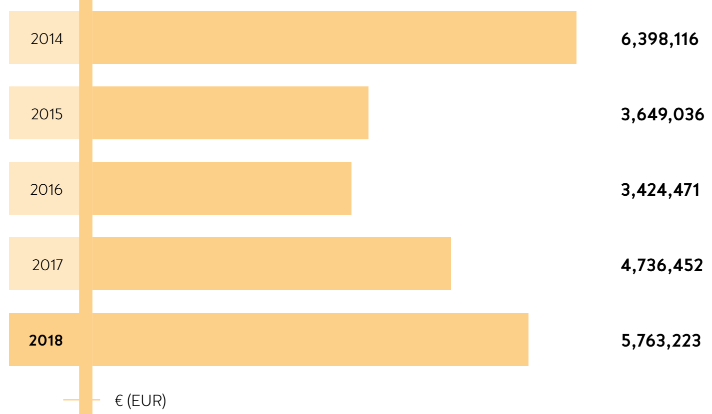
Regular preventive maintenance comprises inspections, controls, analyses and interventions, all of which ensure the reliable operation of all plants. This also includes repairs and replacement of individual plant assemblies. Unavoidable work on plants is performed during the shutdown of units, which is usually on weekends.

This area also includes maintenance activities such as inspections, measurements, assembly, installation and dismantling, repairs and replacement of machine and plant spare parts that require the elimination of machines and plants, or of an entire production unit, from operation. Their purpose is to restore or preserve the future economic benefits expected on the basis of the initially assessed level of efficiency of resources.

A total of EUR 5,763,223 was spent on the maintenance of all drive units, other facilities and plants, which is 22% more than in 2017. Maintenance costs increased primarily due to the beginning of operation of Unit 5, as well as related higher costs of remedying the leaking boiler, maintaining heating and after-burning systems and ventilator system. Due to the overhaul of Units 5 and 6, the maintenance costs of lifting devices and freight elevators and passenger lifts increased over the previous year.

Changes in maintenance costs per year

Despite the higher maintenance costs, it was assessed that all plant repairs were performed economically. Regular plant maintenance is highly important in order to preserve the value of plants and working equipment, ensure the expected service life of plants, and prevent any down times due to equipment failure. In upcoming years, our attention will continue to be focused on searching for ways to optimise maintenance costs while observing the maintenance works prescribed by the producers.



1.11 MARKET POSITION

1.11.1 MARKET ENVIRONMENT IN 2018

ECONOMIC GROWTH IN EUROPE

2018 1.8 % ▼
2017 2.4 %

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

EURIBOR 12 M INTEREST RATE

2018 -0.121 % ▲
2017 -0.186 %

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

EXCHANGE RATE

2018 1.1440 ▼
2017 1.1942

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

OIL PRICES

2018 54 USD/Bbl ▼
2017 67 USD/Bbl

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

GAS PRICES

2018 23 eur/MWh ▲
2017 18 eur/MWh

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

COAL PRICES

2018 88 USD/t ▼
2017 90 USD/t

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

WATER ENERGY IN SE EUROPE

2018 44.7 TWh ▲
2017 36.8 TWh

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

ABLE ENERGY SOURCES IN GERMANY

2018 149 TWh ▲
2017 139 TWh

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

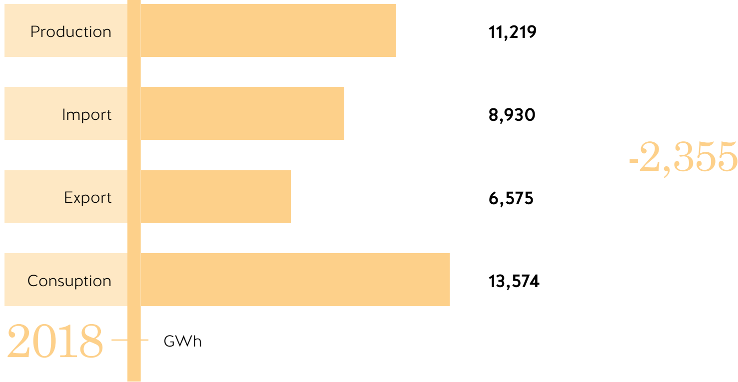
CO_2 PRICES

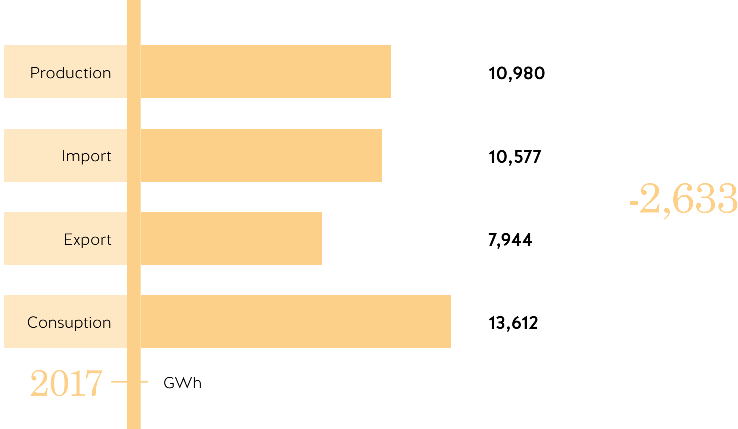
2018 25.0 EUR/t ▲
2017 7.4 EUR/t

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

Slovene electricity market in GWh

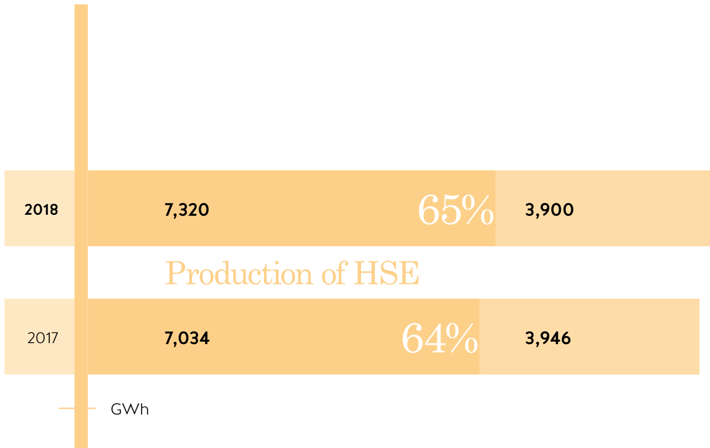
The first half of 2018 was marked by the above-average hydrological conditions and higher temperature fluctuations, and a good economic growth additionally stimulated the consumption of energy. Due to a higher Slovene production the demand for the import of electricity decreased and the export of energy dropped mainly due to a higher consumption in the Slovene market. In the second half of the year the situation changed as the hydrological conditions were poor; the production of hydro power plants was below the plan and therefore the higher import of electricity was needed. Totally, the Slovene market was a net importer of electricity in 2018.





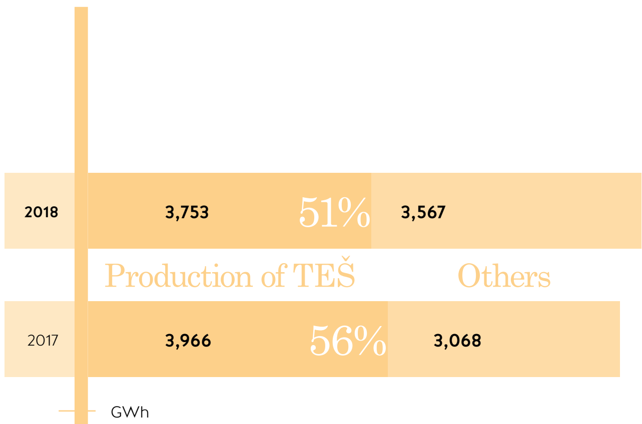
Share of the HSE Group production in total electricity production in Slovenia

In 2018 the production of the HSE Group exceed the plan, which was a result of very favourable hydrological conditions in the first half of the year. Accordingly, the market share of the HSE Group increased and was by 1% percentage point higher over the year 2017.



Share of the TEŠ production in total elect4ricity production of the HSE Group

In 2018, TEŠ produced 3,753 GWh of electricity. The production was by 213 GWh lower than in 2017, and the reason was the first overhaul of Unit 6 that lasted two months.



1.11.2 SALES AND CUSTOMERS

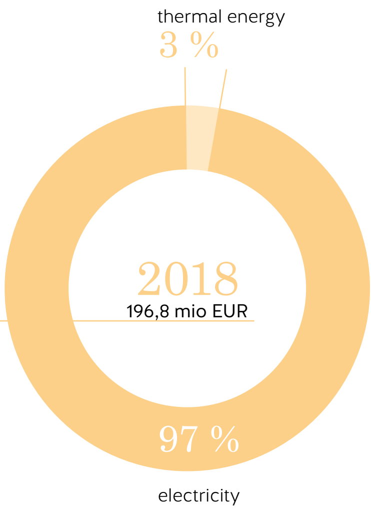
In 2018, Termoelektrarna Šoštanj generated EUR 196,812,774 in revenue from the sale, which is EUR 8,138,901 or 4% less than in 2017, primarily due to a lower volume of electricity sold.

Sale of electricity

In 2018, TEŠ generated revenue from the sale of electricity in the amount of EUR 190,102,974, which is 4% or EUR 8,950,791 less than in 2017. The lower revenue from the sale in 2018 was predominantly the result of the lower volume of electricity sold.

The Company sells electricity in the market through the owner, Holding Slovenske elektrarne d.o.o.

Structure of revenue from the sale in 2018:



In the structure of revenue from the sale Holding Slovenske elektrarne d.o.o., is the major customer that purchases total electricity produced, which accounts for 97% of total sales.

Revenue from the sale of electricity by year:

2014	2015	2016	2017	2018
163.640.056 € (without Unit 6)	149.780.319 € (without Unit 6 until PAC)	193.705.820 €	199.053.765 €	**190.102.974 €**

Sale of thermal energy

In 2018, the Company generated EUR 5,985,749 in revenue from the sale of thermal energy, which is 18 % above the 2017 figure. The revenue from the sale of this energy increased due to the increase in the selling price, but the costs of purchase of emission coupons also increased (quantity and price).

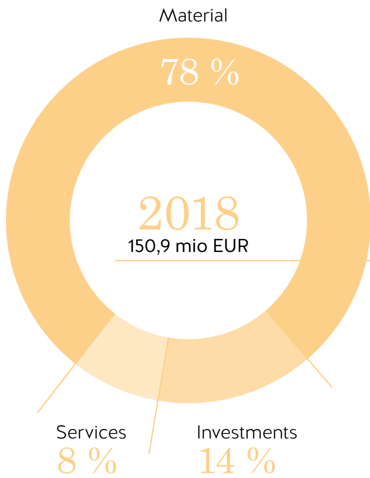
Other sales

Other revenue from the sale of products and services in the amount of EUR 724,051 comprises revenue from the sale of fly ash and gypsum, sale of industrial water, rental of premises, sale of waste materials, and other. This revenue accounted for less than 1% in the structure of revenue from the sale.

1.11.3 PURCHASING AND SUPPLIERS

The main objective of purchasing is to provide raw materials, materials, spare parts, equipment and services required for regular operation, as well as the purchase of investment equipment, at the most favourable prices, under the most favourable terms of payment and delivery, from the most reliable sources, and through optimal supply lines. Only such an approach will enable the Company to achieve its development and strategic goals.

Purchasing structure in 2018:



TEŠ is obliged to carry out public procurements in line with the Public Procurement Act (ZJN-3), effective as of 1 April 2016, which replaced the previously applicable Public procurement in the water, energy, transport and postal services sectors Act.

The Company's most important strategic supplier is Premogovnik Velenje d.d. (Velenje Coal Mine). The purchase of coal for electricity and thermal energy production accounts for 69% of all purchases. In the previous year 36,530 TJ of coal was used for electricity production, and 991 TJ of coal for thermal energy production.

1.12 INVESTMENTS

Electricity users expect electricity to be available when they need it, which is why the principal task of the electric power supply system is the punctual, sufficient and reliable supply of quality electricity. The efficient performance of production activities therefore requires timely development planning and investments in reliable production, which will eliminate technological and technical risks in ensuring production.

in EUR

INVESTMENT MAINTENANCE WORKS	2018
1. INVESTMENTS IN PRODUCTION RELIABILITY	**20,725,936**
Major maintenance of Unit 6 (overhaul)	8,144,412
Major maintenance of Unit 5 (overhaul)	3,510,639
Revitalisation of Unit 5 - primary measured with SNCR for reducing Nox	3,922,146
Revitalisation of Unit 5 - connecting the unit transformer with GIS	1,564,103
Revitalisation of Unit 5 - migration of SP components	1,499,641
Revitalisation of Unit 5 - exchange of the output PP collector	628,746
Restoration of the channel smoke gases on Unit 5	373,225
Overhaul of the depot PB 10 machinery	359,707
Overhaul of DEKA	178,797
Overhaul of the industrial pipline	144,672
Other investments within maintenance	399,848
2. STUDIES, INVESTMENT AND PROJECT DOCUMENTATION	**7,000**
3. MINOR INVESTMENTS	**665,073**
4. BUSINESS INFORMATION SYSTEM	**149,210**
5. TOTAL COMPANY	**21,547,219**

In line with the business plan, the Company allocated most of its investment funds to the conduct of the first regular overhaul of Unit 6 in 2018. The major works on the unit were carried out and they included the revision of ventilator power, replacement of oil on the carrying bearing of the air heater, revision of the ventilator draught and replacement of two collectors of steam reheating. Warranty repairs that were planned to be carried out during the overhaul included the replacement of a sensor on a turbine, level measuring devices on high-pressure heaters, equipment in the low-tension distribution cabinet, repairs of insulation on the medium-pressure turbine, sealing of oil-leaking on the turbine oil tank, replacement of internal valve parts for injections of the medium-pressure steam system, replacement of input reheating collectors, replacement of spindles on hydraulic drives of stop valves of a medium-pressure turbine, renewal of fire-resistant walls on dust burners and replacement of clutches in drives of steam blowers.

Already in September 2017 the first activities relating to the revitalisation of Unit 5 were performed. The costs of this refurbishment exceeded EUR 10 million (including the overhaul). The largest share was allocated to the purchase of a device for nitrogen oxide decomposition (NOx), connection of the unit to the 220 kV network by replacing of the block transformer, update of the system for block control and replacement of collectors. Most probably the revitalized block will operate to the year 2030 in case of increased demand for electricity or as a replacement for Unit 6 when it is shutdown or due to its overhaul. Other investments were reduced to a minimum.

Investments in 2018 were financed through borrowings from the parent company..

1.13 BUSINESS PERFORMANCE ANALYSIS

1.13.1 BUSINESS OPERATIONS IN 2018

The business operations of TEŠ in 2018 were based on the Long-term contract for coal purchase, lease of power and purchase of electricity dated 12 March 2015 and concluded between TEŠ d.o.o., HSE d.o.o. and Premogovnik Velenje d.d.; the Contract on coal purchase, lease of power and purchase of electricity concluded between TEŠ, HSE and Premogovnik Velenje for the year 2018, together with the annexes to this Contract, the Business Plan of TEŠ for the year 2018, together with an additional plan for 2019 and 2020.

In 2018, the Company generated net profit or loss – loss in the amount of EUR 58,529,301. The low selling price of electricity and the unchanged price of coal were the main reasons for the poor profit or loss. The impairment of property, plant and equipment had an additional impact on the high loss in 2018; the impairment was recognised on the basis of the assessment of recoverable amount of long-term assets of the Company as at 30 September 2018.

in EUR

PROFIT OR LOSS FROM OPERATIONS	2018	2017
Result from operating activities	(33,026,009)	(5,834,254)
Result from financing activities	(25,503,292)	(26,759,908)
PROFIT OR LOSS FROM OPERATING ACTIVITIES	**(58,529,301)**	**(32,594,162)**
Current tax	0	0
Deferred taxes	0	0
PROFIT OR LOSS FOR THE PERIOD	**(58,529,301)**	**(32,594,162)**

The Company recorded an operating loss in the amount of EUR 33,026,009 in 2018. When compared to the previous year, the loss was higher by EUR 27.2 million due to higher operating expenses. The impairment of property, plant and equipment of the Company mainly contributed to the poorer operating result. A negative impact had also higher costs of the compensation fee for building site use, disposal site for products, employee benefits and maintenance (Unit 5).

The financial result of 2018 was negative and amounted to EUR 25,503,292. The negative result was influenced by interest on and costs of loan guarantees received from banks and HSE for financing investments and sustainable business operation.

Revenue

	2018	%	2017	%
OPERATING INCOME	200,515,405	99,97	206,926,381	99,83
FINANCE INCOME	53,448	0,03	362,178	0,17
INCOME	**200,568,853**	**100,00**	**207,288,559**	**100,00**

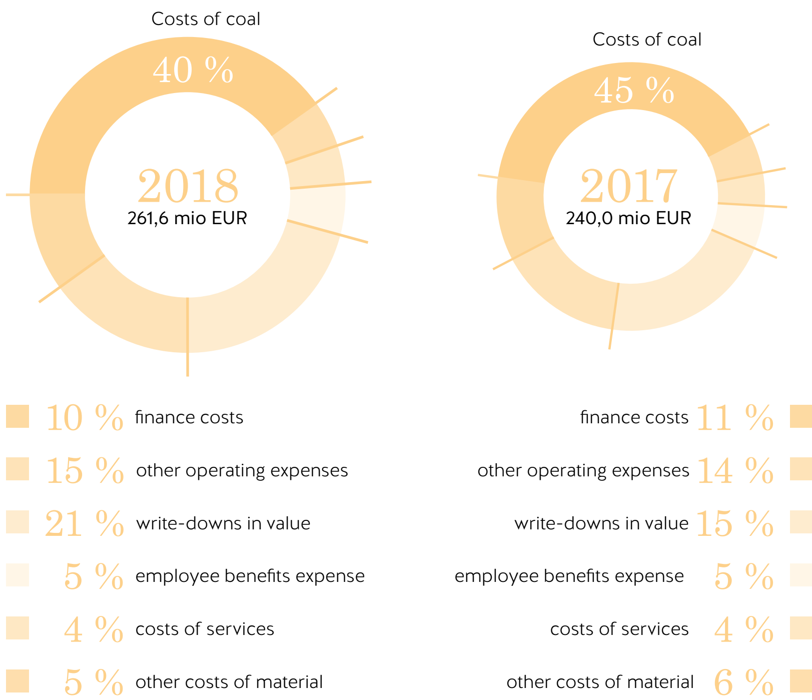
In 2018, the Company earned EUR 200,568,853 in revenue. The 2018 revenue was lower by 3% compared to the previous year due to the lower volume of electricity sold.

Expenses

	2018	%	2017	%
OPERATING COSTS	233,541,414	90,14	212,760,635	88,69
FINANCE COSTS	25,556,740	9,86	27,122,086	11,31
COSTS	**259,098,154**	**100,00**	**239,882,721**	**100,00**

In 2018, expenses amounted to EUR 259,098,154, which was 8% more than in 2017. Operating expenses increased by 10% in 2018 in comparison with the previous year, primarily due to impairment of assets. Financial expenses decreased by 6%, reflecting the reduction of indebtedness.

Expense structure:



Note: The expense structure does not include the costs of capitalisation that amounted to EUR 2.5 million in 2018 (material EUR 2.1 million, employee benefits EUR 0.4 million).

The expense structure is similar to the one of the year 2017, except write-downs that went up by 6% in the structure due to the impairment of long-term assets and costs of coal that reduced by 5% in the structure, on account of the lower consumption of this energy product due to lower electricity production.

Assets, equity and liabilities

The Company's balance sheet total amounted to EUR 1,027,242,961 and decreased by 5% or EUR 49,049,080 in comparison with the balance sheet total as at 31 December 2017.

Taking into account the inflation rate (December 2018/December 2017), which stood at 1.4%, the balance sheet total was 5.9% lower in real terms

Assets

As at 31 December 2018, the Company's assets amounted to EUR 1,027,242,961 (31 December 2017: EUR 1,076,292,041) and decreased by 5% from the beginning of the year. Long-term assets decreased by 3% and current assets by 17%.

Long-term assets account for 93% of all assets of the Company. The most important among these assets are property, plant and equipment. In 2018 the value of these assets decreased by EUR 34,430,144, primarily due to depreciation expense and impairment of these assets.
They had a positive impact on the new investments (the overhaul of Unit 6, revitalisation and the overhaul of Unit 5).

Current assets account for 7 % of all assets of the Company and decreased by EUR 14,413,505 in comparison with the previous year. A decrease was recorded in short-term trade receivables due to early payments of the electricity sold, and their total amounts were allocated to the prepayments of coal deliveries. The inventories of material increased due to the transfer of spare parts for Unit 6 from long-term assets.

Equity and liabilities

As at 31 December 2018, the Company's equity to debt ratio stood at 1:1.9, which means that the share of equity decreased in comparison with the previous year (negative operating result).

Under equity and liabilities, equity represents 34% of the total amount, which is less than at the end of 2017 (38%). In 2018, equity decreased by 14 % or EUR 58,497,659. The lower equity was due to the current loss in the amount of EUR 58,529,301.

Long-term liabilities, mostly consisting of long-term borrowings, account for 55% of total equity and liabilities. In 2018, long-term financial liabilities to HSE increased by the utilisation of borrowings from HSE for financing of investments and sustainable operation (+ EUR 66.6 million, including accrued interest). The principal amounts of long-term borrowings falling due for payment in 2018 were transferred to short-term financial liabilities.

Short-term liabilities account for 9% of the total equity and liabilities, and decreased by EUR 11,525,135 in 2018. These liabilities decreased primarily due to the lower liabilities to group companies and due to prepayments for coal deliveries.

Activities of the Company

The activities of electricity production and steam & hot water supply recorded a negative net profit or loss in 2018, primarily due to the low selling prices of both electricity and thermal power and impairment of property and equipment. Other activities concluded their operations with a positive net profit or loss.

1.13.2 ENSURING SOLVENCY

TEŠ operates in accordance with business and financial standards and the rules laid down in the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act, as well as the Act on the Prevention of Late Payments.

The basic task of financial management is to ensure long-term and short-term solvency, which in turn enables the undisturbed business operation of other business functions.

To ensure short-term solvency, several measures had to be carried out in order to resolve solvency problems, namely:
• streamlining of daily operations,
• drawing of long-term and short-term loans from HSE,
• daily planning of inflows and outflows.

To manage daily liquidity in 2018, we also utilised two short-term loans raised with a commercial bank, which were repaid by the end of the year.

1.13.3 CAPITAL ADEQUACY

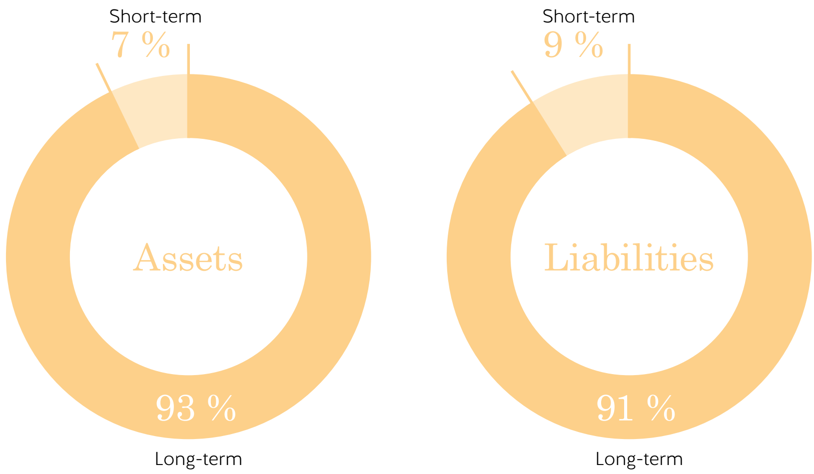
Ensuring capital adequacy is one of the most important tasks of responsible persons at TEŠ. The Company's goal is to secure sufficient capital for its operations with regard to the scope and type of transactions it performs and the risks to which it is exposed. Capital adequacy is a prerequisite for borrowing and investing capacity, as well as a consequence of previous business decisions.

A horizontal analysis of the structure of assets and liabilities as at 31 December 2018 indicates that the Company's assets are financed as follows:
• with long-term sources – 91 % (of which 34% refer to equity and 57% to long-term liabilities), and
• with short-term sources – 9%.

The Company finances 2% of long-term assets with short-term sources.

The Company's working capital is positive and, in comparison with the previous year, it slightly reduced primarily due to the decrease in short-term trade receivables.

Structure of the Statement of financial position as at 31 December 2018:



1.13.4 DEBT RATIO

As at 31 December 2018, the Company's financial liabilities (short-term and long-term) totalled EUR 610,621,854 and accounted for 59% of the total equity and liabilities. The majority of these liabilities relate to long-term loans raised for the construction of replacement Unit 6.

1.14 COMPANY RATIOS

The Company monitored its business performance from the financial evaluation perspective with the following indicators:

Financial performance ratios (in EUR)

EQUITY FINANCING RATE	31 Dec 2017	31 Dec 2018
1. Equity and liabilities	1,076,292,041	1,027,242,960
2. Equity	411,121,665	352,624,005
Equity financing rate (%) = 2 / 1	**38,20**	**34,33**

At year end, the Company's equity accounted for 34% of its total equity and liabilities, In comparison with 2017, the equity financing rate decreased by 4 percentage points due to the current loss,

LONG-TERM FINANCING RATE	31 Dec 2017	31 Dec 2018
1. Equity	411,121,665	352,624,005
2. Long-term liabilities	561,540,551	582,514,268
3. Total (1 + 2)	972,662,216	935,138,273
4. Equity and liabilities	1,076,292,041	1,027,242,960
Long-term financing rate (%) = 3 / 4	**90,37**	**91,03**

TEŠ financed 91 % of its assets from long-term resources and 9% from short-term resources, The long-term financing rate was higher by 1 percentage point in comparison with the end of 2017, This was primarily due to the decrease in short-term liabilities (liabilities to group companies),

OPERATING FIXED ASSETS RATE	31 Dec 2017	31 Dec 2018
1. Property, plant and equipment	990,962,746	956,532,602
2. Intangible assets	357,848	193,981
3. Total fixed assets at carrying amount (1 + 2)	991,320,594	956,726,584
4. Assets	1,076,292,041	1,027,242,961
Operating fixed assets rate (%) = 3 / 4	**92,11**	**93,14**

The ratio shows the share of operating fixed assets in the Company's total assets, Property, plant and equipment and intangible assets account for 93% of the Company's assets, A high operating fixed assets rate can be expected, as the Company operates in a very intensive sector in terms of technology,

Horizontal financial structure ratios (EUR)

EQUITY TO FIXED ASSETS RATIO	31 Dec 2017	31 Dec 2018
1. Equity	411,121,665	352,624,005
2. Property, plant and equipment	990,962,746	956,532,602
3. Intangible assets	357,848	193,981
4. Total fixed assets at carrying amount (2 + 3)	991,320,594	956,726,584
Equity to fixed assets ratio = 1 / 4	**0,41**	**0,37**

The equity to operating fixed assets ratio stood at 0,37 at the end of 2018, which means that less than half of the most illiquid assets were financed from equity, Compared to the balance at the end of 2017, the ratio worsened, primarily due to the impairment,

QUICK RATIO	31 Dec 2017	31 Dec 2018
1. Cash and cash equivalents	196,512	541,941
2. Short-term investments	13,227,905	12,887,971
3. Short-term operating receivables	28,230,672	9,380,115
4. Total (1 + 2 + 3)	41,655,089	22,810,027
5. Short-term liabilities	103,629,825	92,104,688
Quick ratio = 4 / 5	**0,40**	**0,25**

VThe quick ratio stood at 0,25 at the end of 2018, which means that TEŠ covers 25% of all its short-term liabilities from short-term receivables,

CURRENT RATIO	31 Dec 2017	31 Dec 2018
1 Current assets	84,755,520	70,342,014
2. Short-term liabilities	103,629,825	92,104,688
Current ratio (short-term liabilities) = 1 / 2	**0,82**	**0,76**

The current ratio was 0,76 at the end of 2018, which means that TEŠ covered 76% of all its short-term liabilities from its short-term assets, Compared to the balance at the end of 2017, the ratio is lower as the short-term assets reduced by more than short-term liabilities,

Operating efficiency and profitability ratios (EUR)

OPERATING EFFICIENCY RATIO	2017	2018
1. Operating revenue	206,926,381	200,515,405
2. operating expenses	212,760,635	233,541,414
Operating efficiency ratio = 1 / 2	**0,97**	**0,86**

The operating efficiency ratio indicates that despite the optimisation of costs and expenditures, the achieved operating revenue of TEŠ has not yet given a positive operating result,

NET RETURN ON EQUITY RATIO (ROE) - at an annual level	2017	2018
1. Net profit or loss	-32,594,162	-58,529,301
2. Average equity	403,841,025	381,872,835
Net return on equity ratio = 1 / 2	**-0,081**	**-0,153**

The net return on equity ratio (ROE) for 2018 is negative, This is due to the loss generated in 2018, which is higher than in 2017, The loss is primarily the consequence of the continuing low prices of electricity and the unchanged prices of coal and the impairment of long-term assets of the Company,

DEBT SERVICE RATIO	2018
1. Cash flow from operating activities (indirect cash flow statement)	21,802,596
+ Capital contributions/loans from the owner	64,791,457
2. Cash payments to acquire PPE, intangible assets	20,791,738
3. Interest paid on loans	17,956,696
4. Cash flow from operating activities +owner's payments – money for cash + interest (1-2+3)	83,759,011
5. Cash repayments of borrowings/loans	52,695,557
6. Interest paid on loans	17,956,696
7. Total (G+o)	70,652,253
HDSCR=4/7	**1,18**

The debt service ratio is within the conditions determined by EBRD,

1.15

By implementing a comprehensive risk management system in all its activities, the Company ensures a systematic approach to timely risk identification and management. Such a comprehensive risk management system is performed using adequate management strategies, consistent criteria for dealing with risks, monitoring and identification of risk levels, and with prompt information and measures.
The key risks that the Company faces are recognised, addressed and assessed in the catalogue of risks. Risks are regularly monitored, and activities for their control are performed.

Financial risks

The most important financial risks are the following:

- The HSE Group does not provide sufficient sources for long-term loans/capital increase, which directly impacts the Company's liquidity. The consequences of such risk include unpaid liabilities or delayed payments, which in turn directly impacts the cash flow and increases operating expenses. Probability and impact are assessed as low. The risks were controlled by the careful planning of cash flows, streamlining of operating expenses, and the sources of financing ensured by the parent company.
- The risk of nonfulfillment of financial ratios agreed with banks and TEŠ's other commitments, as well as the nonfulfillment of financial ratios agreed with banks at the HSE Group level, and the nonfulfillment of commitments to the state, which have a direct impact on the Company's solvency. The consequence of this risk could be the early recall of loans, insolvency, or capital inadequacy. Probability is assessed as low, and the impact of risk as high. The risks were controlled by careful and efficient business operation and regular monitoring of financial ratios and commitments. Waivers for extending the operation of Unit 4 until 30 June 2018 were obtained from EIB.
- The risk of nonfulfillment of the requirements under the Financial Operations, Insolvency Proceedings and Compulsory Winding-up Act (ZFPIPP) has a direct impact on the Company's liquidity and solvency. The consequence of this risk is the insolvency of the Company. Probability is assessed as low and the impact of the risk is assessed as high. The Company regularly monitors and verifies the achievement of capital adequacy (ratios – monthly monitoring).

Operating risk

The most important operating risks refer to the following:

- The risk of failure of coal production devices and gas units, derives from the mechanisms of degradation and wear / tear of materials, overload and high dynamics of operation, lack of supervision over the status of equipment and postponing of urgent maintenance works. The consequences mean unplanned and major outages (also limitations) of production infrastructure. TEŠ carefully monitored the functioning of equipment and failures and carried out regular and preventive maintenance. The first regular overhaul of Unit 6 was performed in 2018.
- The supply of coal (production deadlock in the Velenje Coal Mine), which in case of insufficient supplied quantities may cause disturbances in electricity production. The consequence is possible power reduction or shutdown of units and loss of income. To control this risk, the required quantities are coordinated on a daily basis according to the planned electricity production.

RISK MANAGEMENT

Within the scope of operating risks, we identified the key following environmental risks: fines for exceeding environmental parameters, environmental disasters, inadequate handling of hazardous wastes, creation of illegal waste disposal sites, spills of hazardous substances into watercourses, etc. The risk is controlled by observing instructions on handling of wastes and hazardous substances, and by conducting management controls of records of hazardous waste disposal, and other.

Risk of loss of environmental permit

The risk involves the loss of a permit or part of a permit due to nonfulfillment of environmental permit or relevant legal requirements in spite of a decree issued by the inspectorate, or due to failure to prevent pollution (e.g., inability to prevent leaching from rehabilitation areas of collapsed formations). The consequence is a loss in environmental permit. The risk is controlled by regular and consistent fulfilment of requirements specified in the environmental permit. In August 2018 TEŠ obtained a supplemented environmental permit and thus the risks mentioned reduced.

Investment risk

The risk stems from the unplanned return on invested funds as the result of untimely, uneconomical or technically inadequate execution of investment projects. The consequences include loss of income, increased investment expenses, non-competitiveness, loss of a market share, lack of profitability of investments, and sunk costs of investments. The risk is controlled by the elaboration of tender documentation, preparation and conclusion of quality contracts, and by ensuring adequate supervision in the contract implementation phase. Investments in the revitalization of Unit 5 were made within the deadlines planned or even earlier so that Unit 5 has operated again since August 2018. In February 2019 guarantee measurements confirming contractual parameters were carried out.

Risk of protection of tangible property

The risk stems from unauthorised access to and alienation/destruction of intellectual property, energy facilities, or other important information. Destruction on the part of employees/sabotage, on the part of external stakeholders, etc. The consequences include higher expenses related to rehabilitation and property damage. The risk is controlled by installing a video surveillance system, restricting access, protecting property and equipment, as well as personal responsibility for equipment and plants.

Risk of occupational health and safety and fire safety

The risk derives from difficult working conditions, driving hazards, electric shock hazard, general danger of fire, explosion, stress, physical overload in the workplace, etc. The consequences include higher labour costs, injuries, reduced productivity, increased absence from work, higher insurance premiums, and claims for damages. The risk is controlled by observing the adopted rules in the areas of occupational health and safety and fire safety, as well as adopting appropriate additional measures, regularly managing and monitoring status indicators, complying with legislation in the areas of occupational health and safety and fire safety, conducting workplace health promotion programmes, verifying and, if necessary, updating the register of occupational health and safety perspectives, harmonising jobs and the working environment with risk assessment requirements.

1.16 SUSTAINABLE DEVELOPMENT

1.16.1 RESPONSIBILITY TO EMPLOYEES

Striving for continuous development and employee education, an effective promotion system, monitoring the commitment and satisfaction of employees, and measuring our organizational culture are the main guiding principles of human resources management. On its evolutionary path, TEŠ has stepped resolutely into the second half of a century, and on this long path we have been creatively developing new ideas.

Unfortunately, the economic situation and circumstances in the past decade have not been entirely in our favour, and this is where the Company's business culture takes on additional force. The business decisions lying ahead are linked to a process of transformation that is generally stressful. Primarily because we are passing from something that is known, stable and safe into the unknown. Changes need to be understood first and as soon as possible, and then accepted. Those who are more flexible and speedier have the advantage. The fact is that we cannot move forward without change, and people are the creators – and above all promoters – of development and progress.
We lay great emphasis on mutual communications. Cooperation among employees is enabling us to actively create the best conditions for work, and thus also conditions facilitating the achievement of our personal and business goals.

1.16.2 HUMAN RESOURCES

On 31 December 2018, TEŠ had 310 full-time employees. Besides full-time employees, TEŠ had 2 employees on a fixed-term contract at the end of 2018. The total staff count thus amounted to 312 employees, which is 1 more person than at the end of 2017.

As at 31 December 2018, the average age structure of employees with employment contracts concluded

for an indefinite period of time was 46 years and 6 months, and their average period of service was 26 years and 5 months. On this day the Company's permanently employed staff comprised 286 males (92%) and 26 females (8%).

FIXED TERM / INDEFINITE TERM	31 Dec 2018	31 Dec 2017
Fixed tem	2	1
Indefinite term	310	310
TOTAL	**312**	**311**

CA / MC	31 Dec 2018	31 Dec 2017
Collective Agreement	309	308
Management contract	3	3
- of which: no. of management board members	1	1
TOTAL	**312**	**311**

Employing disabled persons

As at 31 December 2018, TEŠ had 12 disabled workers (3.9%) among its employees, which is the same as in the same period of the previous year; 10 of these disabled workers are full-time employees and 2 are part-time employees with a 6-hour working day.

Employee absenteeism

Absence from work due to sick leave is monitored on a yearly basis. In this period, sick leave accounted for 37,984 hours or 5.91% of all employees, which means that it decreased over the same period of the previous year (7.32% in 2017).

We shall continue to devote our efforts to ensuring proper working conditions and encouraging our employees to maintain a healthy lifestyle outside the working environment as well.

1.16.3 EDUCATION AND TRAINING

Investments in knowledge are investments in the future. For this reason we devote considerable attention to adequate human resources development. By offering opportunities for education and other forms of training, we are cultivating a supportive attitude towards our employees.

In 2018, the Company carried out 12,838 hours of training (not including practical training of secondary and higher education students and external contractors). Of these, 11,460 hours were in-house and 1,378 hours were external training programmes. Statistically, each employee received 41 hours of training.

In future we shall continue to carry out training programmes related to management, handling, and maintenance. Our employees are also actively participating in various specialised training programmes.

1.16.4 RESPONSIBILITY TO THE NATURAL ENVIRONMENT

Responsibility towards the natural environment has for several years been carried out through constant controls, warnings and measures. For this purpose we are monitoring the production of by-products, emissions and ambient air quality, supervising the consumption of raw and additional waters as well as the quantity and quality of waste waters, monitoring the accumulation of wastes and their management, implementing environmental administrative procedures, and proposing necessary measures.

By the end of March we prepared all environmental balance sheets for the previous year, namely the balance sheet of raw and waste waters, balance sheet of the closed water circuit, balance sheet of combustion products and a review of generated waste. We received annual environmental reports from monitoring contractors, studied them and timely submitted them to ARSO. The required data was prepared for the need of the European pollutant register and submitted to ARSO. The statistics of water and environmental expenses was prepared for the statistical office. In the last quarter of 2018 we renewed the instructions for actions when dust immissions and emissions are exceeded.

Major differences between the mixture from Unit 4 and the mixture from Unit 6 were observed in the field of processing waste into a stabilised side product. The mixture of Unit 4 was poorer, but was compensated at the time of simultaneous operation with Unit 6 so that that the combined mixture was relatively suitable from the aspect of dry composition. After the permanent shutdown of Unit 4 or its replacement by Unit 5 the situation of dry composition improved. The situation with regard to the wet composition was less favourable, as there was generally insufficient moisture in the material. An environmental management system programme for adding moisture in the intermediate storage facility was prepared several years ago, and the system started functioning at the end of 2018. The situation with regard to adding slag was also poor as excessive quantities were often added. A special study on more suitable and environmentally friendly use of combustion products in TEŠP has been conducted.

In line with the requirements and the EBRD form we prepared a review of environmental requirements for the year 2017 in the first quarter of 2018 and answered the questions of banks, mainly those relating to adapting of TEŠ to the requirements of BAT and following the environmental regulations.

In March the quantities of emitted CO_2 were reported to the coupon register.
In connection with public tender requirements, we prepared technical specifications, requirements and criteria for the selection of contractors to conduct monitoring in the rehabilitation areas of collapsed formations, and monitoring of emissions and immissions as well as industrial waste waters at TEŠ and monitoring of dispersed emissions at the coal deposit site. The specification for the order of the first noise measurements when Units 5 and 6 operate at the same time was prepared. Bids for monitoring of areas of collapsed formations and monitoring of emissions and the air, waste water monitoring in 2019 were reviewed and the evaluation regarding technical requirements was also carried out.

Based on the call for supplementing the environmental permit application received at the end of December 2017 we prepared the supplements referring primarily to the determination of final points of start-up and stopping of large combustion plants, identification of potential emergency situations and disasters causing increased emissions, and measures for the prevention and reduction of consequences, storage capacities for wastes intended for processing, and several data related to the storage of hazardous substances and decanting sites.

In connection with the supplements of inspection of technical measures for preventing the pollution of soil and ground waters, which is required under Decree no. 57/2015 and is a necessary component of the initial report, we cooperated intensively with the contractor, HSE Invest, and reviewed the transformers on the coal deposit and rehabilitation of the closed circuit water system and some of the missing transformers in the narrow TEŠ area in the first quarter.

As regards the remainder of the initial report, we diligently prepared for the contractor, Eurofins, all the necessary documentation and were consequently able to send the initial report to ARSO by the deadline, i.e. 19 January 2018.

On the basis of repeated verification of the ownership status and actual spatial use we supplemented the list of devices and updated the list of land plots and submitted these documents to ARSO on 14 February. In March a letter calling to supplement was received. It was divided into two sections. The first one referred to the division of land plots into a narrow area, coal deposit site and rehabilitation area of collapsed formations, additional requirements for the operating points, emergency situations, disasters and storage capacities. The first section of the supplement was submitted on 30 March. For this purpose a sheet tab for environmental issues was added to the TEŠ website where the supplements of the environmental permit were published so that they are accessible to the employees of TEŠ. In March ARSO sent us a call for an oral hearing that was carried out at the beginning of April together with the inspection of the TEŠ devices. The second supplement referring to the additions of plans and schemes concerning the hazardous substances and explanations of the initial report and the report on the review of technical measures was submitted on 6 April 2018.

At the beginning of May a letter calling to supplement the processing of waste material into a stabilised side product, storing for the needs of processing and emissions during the processing was received. The supplement was submitted on 18 May 2018 and the Company asked for the early issue of the environmental permit. A partial environmental permit was issued on 28 August 2018.

On the basis of all previous decisions concerning the environmental permit a proposal of the managers responsible for individual items of the environmental permit was prepared in the last quarter. The list of devices that are important for safety reasons was renewed in the same period and the documents accessible on the TEŠ website were also renewed for the employees.

At the end of May a letter calling to supplement the initial report was received. In this relation a specification for the order of additional measurements was prepared. Due to the problems of establishing the existing piezometer, where the tests of underground water were needed, we requested an extension of the deadline for the supplement. In spite of that the supplement concerning primarily ground plans, cross and longitudinal sections of devices for collecting hazardous waste liquids and pressure tests was submitted on 27 August 2018. A part of the supplement relating to the inspection of equipment, measurements of underground water and proposals for further monitoring of the ground and underground water was submitted on 28 September 2018.

In April ARSO sent us the information on the renewal of the procedure concerning the provision of space for the subsequent installation of devices for carbon capture readiness (the so-called CCR) and a call to supplement, which was submitted on 29 May 2018. In June ARSO invited TEŠ to an oral hearing that was carried out at the beginning of Juley in the premises of the administrative authority and in the presence of two non-governmental organisations.

In the last quarter a need for two changes arose and it concerned the possibility of a switchover of the ventilation system of PV to the chimney of Unit 4 and the supplement of permitted fuel. The documents applying for the change that includes the permanent shutdown of Unit 4 were prepared. The documents concerning the change in fuel were submitted on 21 November 2018.

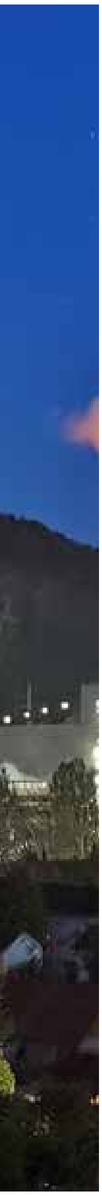
Based on the widespread action of the Ministry of the Environment and Spatial Planning for the performance of extended inspections of devices for which environmental permits had been issued we participated in two inspections; namely the inspection of an inspector in charge of the energy and environment. With respect to the requirements of these inspections we posed a question to the Slovenian Water Agency about the non-response to the application for the extension of a water permit for TEŠ and started remedying some defects on electrical installations.

In the field of introducing the reconstructed Unit 5 the emission concentrations have been carefully monitored since August. The administrative authority was informed about the beginning of operation of Unit 5 and the planned three-month period in which TEŠ will organise the performance of the first measurements. After the receipt of the environmental permit we studied the effects of adipic acid and urea on the reduction in concentrations. In the period under review, it was found that the biggest problem for the achievement of the required SO2 concentrations is the poor tightness of the flue gas recuperator and therefore we proposed a new sampling point for measuring SO2 emissions in front of Unit 5. With respect to the beginning of re-operation of the revitalised Unit 5 the first measurements of noise were coordinated with the operation of Units 5 and 6 and the calibrations of gas

meters and the first measurements of emissions of substance into the air from Unit 5 in the last quarter. After a review all the reports on individual measurements were submitted to ARSO.

Due to the need for obtaining the renewed Slovenian Technical Permit the representatives of ZAG inspected the production of the stabilised side product, interim storage facility and the rehabilitation areas of collapsed formations and took additional samples from the testing fields. They expressed a doubt about non-adding water up the optimal moisture and non-performance of the compression on the rehabilitation areas of collapsed formations. On this basis TEŠ started moistening the stabilised side product of Unit 6, and subsequently PV started rolling it. After the start-up adding water to the stabilised side product was not regulated in Unit 5. In this period ZAG supervised the installation by occasional control inspections and sampling. In the meantime stricter requirements for the production and installation were prepared which then reflected in the text of the Slovenian Technical Permit issued on 22 October 2018.

In scope of direct acquisitions and import waste packaging, waste electrical and electronic equipment and lubricants were reported to Financial Administration of the RS of Slovenia (FURS). In the first quarter a statement on more than 5 and less than 15 tons of packaging acquired in 2017 was also submitted to ARSO. Due to the fact that the acquisition of packaging of hazardous substances was identified in the third quarter, a technical section of the order for the transfer of the obligations relating to the packaging to DROE was prepared.



In the field of waste water control tables for a web weekly review of waste water parameters were prepared.

1.16.5 RESPONSIBILTIY TO THE BROAD SOCIAL COMMUNITY

Both by its location and activities, TEŠ is strongly integrated in the local community as well as the broad environment. We at TEŠ are aware of the importance of the environment in which we operate and which we are actively co-shaping. We are particularly aware of this because of the impacts of our electricity production on the environment.

We realize that the presence of TEŠ in the local community is not undisturbing, which is why we shall continue to assume a responsible role in its development by participating in various projects and supporting them.

Owing to the optimisation of business operations, the funds intended for donations and sponsorships have been reduced.

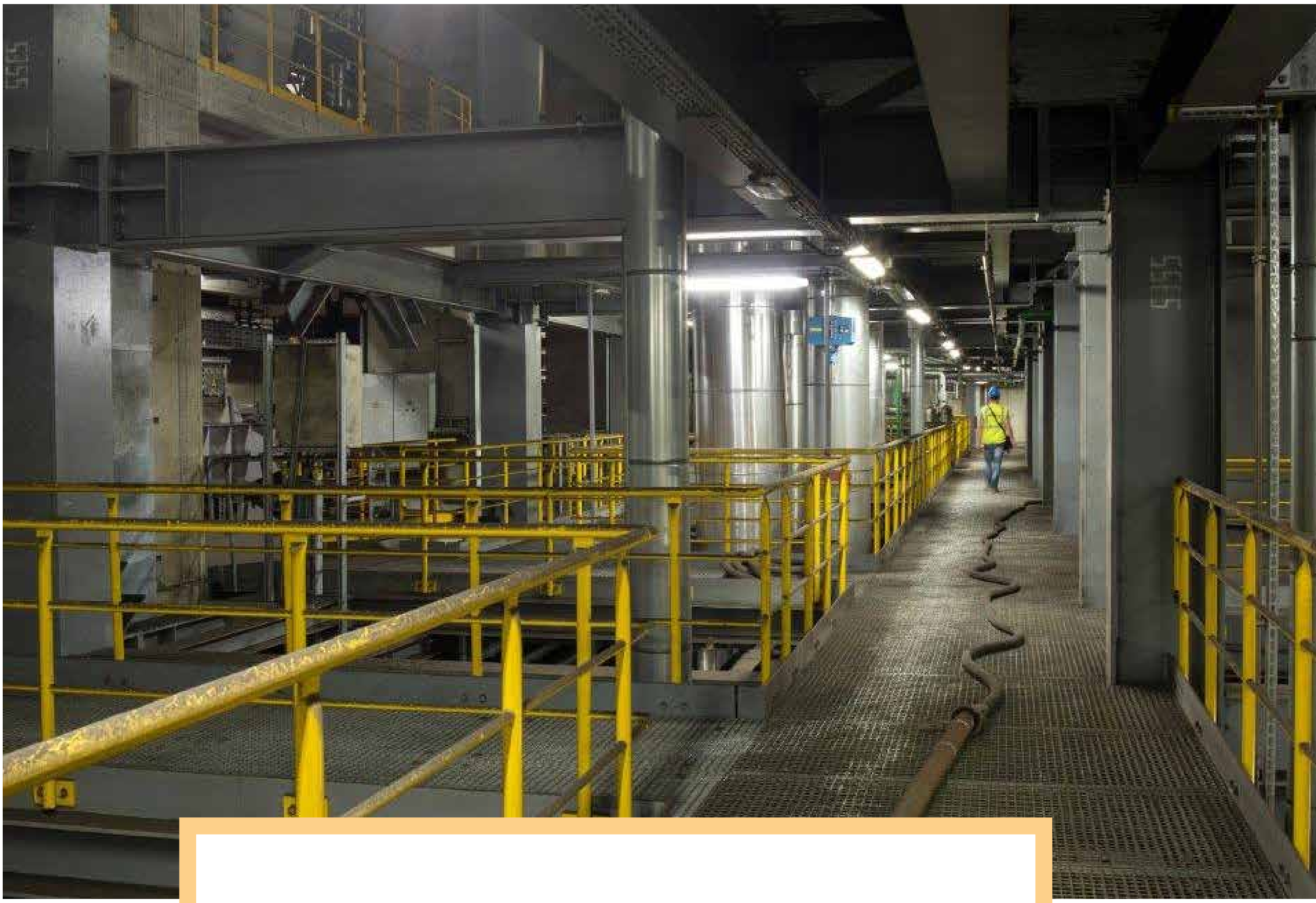
1.16.6 PUBLIC RELATIONS

Public relations activities were carried out in line with the decision on the policy of managing sponsor, donor and advertising applications in the Company and in the HSE Group, as well as the decision on the uniform monitoring of media in the HSE Group.

The basic communication tools with the external and internal publics continue to be TEŠ's website, press releases, responses, articles and interviews in various local and national media, the electricity sector newspaper »Naš stik« (Our Contact), and the HSE Group publication »HSE Energija« (HSE Energy).

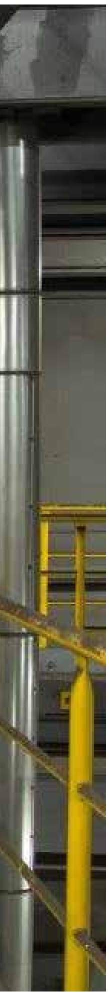
For the exchange of experience, knowledge and opinions among all employees of the HSE Group, we have access to the intranet in the HSE Group. The intranet portal of the HSE Group is the responsibility of HSE's Corporate Communications Department.

TEŠ's website features news and events, as well as postings on current developments at TEŠ. The website of Termoelektrarna Šoštanj an »Ask us« section is available, where visitors can post questions and receive our carefully considered replies. Another section on our website is »Open house day«, where visitors receive current information on the operations of the Company and its facilities. Using the above-mentioned tools, we punctually inform the target public on current events at TEŠ.



1.17 RESEARCH AND DEVELOPMENT

The Company is not engaged in research and development activities, but fosters the development of a culture that encourages innovations on various levels, as their direct applicability in daily business operations is of great importance.



1.18 FUTURE PROJECTIONS

In future, the Company intends to further pursue its long-term goals in the following areas:

Production of electricity and thermal energy
- net production of electricity from coal (net): 4,286 GWh,
- production of thermal energy: 327 GWh,
- provision of the necessary system services (secondary reserve of Unit 6, possibly up to
- +/-45 MW),
- ensuring tertiary reserve of PT 52 and PT 51 (1x36 MW + 1x38 MW),
- optimisation of the average specific consumption of Units 6 and 5
- optimisation of coal consumption,
- ensuring high reliability and availability F > 0.970.

Sales of electricity and other services
- electricity: at least 4,286 GWh,
- thermal energy 327 GWh,
- marketing of business premises (leases),
- marketing of other TEŠ products (ash, gypsum,...).

Capital investments
- investments in production reliability and other minor investments (IT, low-value investments)

Purchase of primary resources, spare parts, materials and services
- coal for electricity production: 39,406 TJ,
- coal for thermal energy production: 952 TJ,
- purchase of energy products, emission coupons, spare parts, materials and services under the most favourable conditions

Assurance of funds for development and undisturbed operation
- providing long-term sources of financing for funding investments by ensuring optimal sources of financing,
- ensuring short-term liquidity by implementing an appropriate liquidity policy,
- borrowing within the HSE Group to ensure short-term and long-term solvency,
- generating revenue from the sale of products and services as foreseen in the business plan.

Streamlining and management of costs
- achieving the lowest possible purchase prices of services, materials, spare parts and energy products with transparent publication of tender documentation (Public Procurement Act (ZJN-3)),
- optimising maintenance costs of plant and equipment through prevention activities aimed at preventing the occurrence of breakdowns, rational depletion of materials used, and shortening deadlines for the repair of individual devices so that maintenance costs do not exceed the planned amount, EUR 5.7 million,
- implementing the cost optimisation plan.

Assurance of appropriate structure, skills, efficiency and availability of human resources while optimising employee benefits
- employment: 314 persons,
- optimisation of employee benefits.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ACCOUNTING REPORT

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

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

Independent Auditors' Report

To the owners of the TERMOELEKTRARNA ŠOŠTANJ d.o.o.

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of the TERMOELEKTRARNA ŠOŠTANJ d.o.o. ("the Company") which comprise the statement of financial position as of 31 December 2018, the statement of profit or loss, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

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

Other Information

Management is responsible for other information. The other information comprises the Business Report included in the Annual report, but does not include the financial statements and our auditor's report thereon.

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

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

INDEPENDENT AUDITOR'S REPORT

KPMG

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

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

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

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

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

Responsibility of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of Financial Statements

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

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

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

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KPMG

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

22 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management is responsible for preparing financial statements for each individual financial year in accordance with the International Financial Reporting Standards (IFRS) and applicable laws as adopted by the European Union, in such a manner that they give a true and fair view of the financial position of the company Termoelektrarna Šoštanj d.o.o.

The management reasonably expects that in the foreseeable future, the Company will have sufficient assets to continue its operations, and therefore the financial statements have been prepared on a going concern basis.

The management's responsibility in preparing the financial statements includes the following:

- accounting policies are appropriately selected and consistently used;
- judgments and assessments are reasonable and prudent;
- financial statements are prepared in accordance with IFRS as adopted by the EU.

The management is responsible for keeping relevant records which, at every moment, present the Company's financial position with reasonable precision, as well as for ensuring that the Company's financial statements are consistent with IFRS. The management is also responsible for protecting the Company's property, as well as preventing and detecting abuse and other irregularities.

The management confirms that the financial statements are prepared in accordance with the provision of IFRS without qualifications as to their use.

The management approved the Company's financial statements for the financial year ended 31 December 2018 on 16 May 2019.

Šoštanj, 17 May 2019

Termoelektrarna Šoštanj d.o.o.

Managing Director
Mitja Tašler

2.3 INTRODUCTORY NOTES TO THE PREPARATIN OF FINANCIAL STATEMENTS

Pursuant to a resolution of the General Meeting of the owner of Termoelektrarna Šoštanj dated 20 August 2010, as of 1 January 2011 the Company prepares the financial statements and the accompanying notes in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the EU.

The auditing company KPMG Slovenija d.o.o. has audited the financial statements and the accompanying notes and has prepared the independent auditor's report included at the beginning thereof.

2.3.1 REPORTING ENTITY

Termoelektrarna Šoštanj d.o.o. (hereinafter: the »Company«) is a company with its registered office in Slovenia. The address of its registered office is: Cesta Lole Ribarja 18, Šoštanj. Separate financial statements of the Company for the year ended 31 December 2017 are presented below.

The consolidated financial statements of the Holding Slovenske elektrarne Group are prepared by Holding Slovenske elektrarne d.o.o. The consolidated annual report of the HSE Group is available at the company's registered office at Koprska ulica 92 in Ljubljana.

2.3.2 BASIS FOR PREPARATION

In preparing the financial statements as at 31 December 2018, the Company considered the following:

- the IFRS, which include the International Accounting Standards (IAS), Interpretations issued by the Standing Interpretations Committee (SIC), International Financial Reporting Standards (IFRS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union;
- the Companies Act;
- the Energy Act;
- the Corporate Income Tax Act and its implementing regulations;
- the Accounting Rules of Termoelektrarne Šoštanj d.o.o., and
- other applicable legislation.

a) New standards and interpretations issued by IASB and adopted by the EU, which are not yet effective

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

IFRS 16 – Leases

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

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

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

The new Standard introduces a number of limited scope exceptions for lessees which include:
- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

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

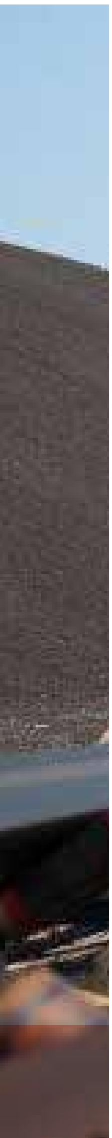
New standards, interpretations and amendments to the existing standards as adopted by the European Union and stated below are not yet applicable and were not taken into account during the compilation of the annual financial statements for the fiscal year that started as of 1 January 2018.

The Company will recognise new assets and liabilities for its operating leases (rent relating to business premises in the municipality of Velenje, car rentals). The nature and costs relating to these leases will consequently change, as the Company will recognise depreciation rights to the use of assets and interest costs for liabilities arising under the lease. In previous years, the Company recognised costs from the operating lease on the basis of straight-line depreciation over the lease period, and recognised the assets and liabilities in a scope, in which there was a time difference between the actual payments of lease and the recognised expenses. In addition, the Company will no longer recognise provisions for operating leases that are deemed by the Company as onerous. The Company will instead include payments of liabilities, which fall due under the lease. A larger impact on Company's finance leases is not expected. Given the currently available information, the Company assesses that additional lease liabilities will be recognised as at 1 January 2019 in the amount of EUR 1,242,280. The Company does not expect that the adoption of IFRS 16 will have an impact on its ability to meet the maximum leverage threshold in connection with loans received and does not expect that it will have a significant impact on the value of rations from the contracts concluded with lessors.

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

IFRIC 23 – Uncertainty over Income Tax Treatment
(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.)

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



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

Amendments to IFRS 9 – Prepayment Features with Negative Compensation
(Effective for annual periods beginning on or after 1 January 2019.)

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

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

b) New standards and interpretations not yet adopted by the EU

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures
(The European Commission decided to defer the endorsement indefinitely.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company expects that the amendments, when initially applied, will have a material impact on its financial statements.

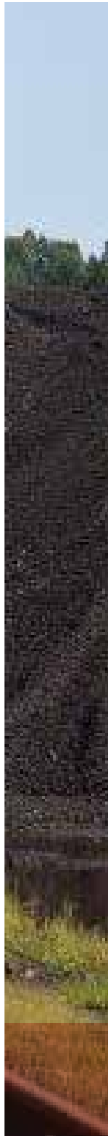
IFRS 17 – Insurance Contracts
(Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.)

This amendment was not yet endorsed by the European Union.

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

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

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



Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017))
(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

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

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

Annual improvements to IFRS 2015–2017 Cycle (issued on 12 December 2017)
(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

The Improvements to IFRSs (2015-2017) contains 4 amendments to standards. The main changes were to:
- clarify that the company remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations;
- clarify that the company does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements;
- clarify that the company should always accounts for income tax consequences of dividend payments in profit or loss in the income statement, other comprehensive income or equity according to where the company originally recognized past transactions or events that generated distributable profits; and
- clarify that the company should exclude from the funds that the company borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

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

Amendments to IAS 19 - Employee Benefits
(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

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

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

Amendments to IFRS 3 – Business Combinations
(Effective for annual periods beginning on or after 1 January 2020.)

These amendments are not yet endorsed by the European Union.

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

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

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

These amendments are not yet endorsed by the European Union.

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

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

2.3.3 BASIS OF MEASUREMENT

The financial statements of the Company are prepared on the basis of historical values of balance sheet items.

The financial statements are prepared on the basis of the going concern assumption and taking into account the occurrence of a business event.

The financial statements of the Company are prepared on the basis of historical values of balance sheet items.

The following qualitative characteristics of financial statements have been considered:
- fair presentation and compliance with International Financial Reporting Standards (IFRS): the financial statements present fairly the financial situation, financial performance and cash flows of the Company.
- consistency of presentation: the presentation and classification of items in the financial statements is the same from one period to another. Compared to 2017, certain items are for the accounting period 2018 disclosed more appropriately in terms of recognition.
- based on IFRS 15, the financial statements include the new item »contract assets«.
- materiality and aggregation: each material group of similar items is presented separately in the financial statements. Dissimilar items or roles are presented separately unless they are immaterial.
- off-setting: neither assets and liabilities nor revenue and expenses are offset, unless so required or allowed by a standard or a note.
- comparative information: comparative information from previous periods is to be reported for all amounts disclosed in the financial statements, unless a standard

or note allows or requires otherwise. Comparative information is included among narrative and descriptive information, where it is relevant to understanding the financial statements of the current period.
- changes to significant accounting policies: the same accounting bases, policies and recognition-related policies were observed while compiling the consolidated financial statements as for the fiscal year 2017, except for the changes stated below.

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

IFRS 9 – Financial Instruments

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

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

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

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

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

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

Effect of the adopted IFRS 9 as at 1 January 2018

in EUR

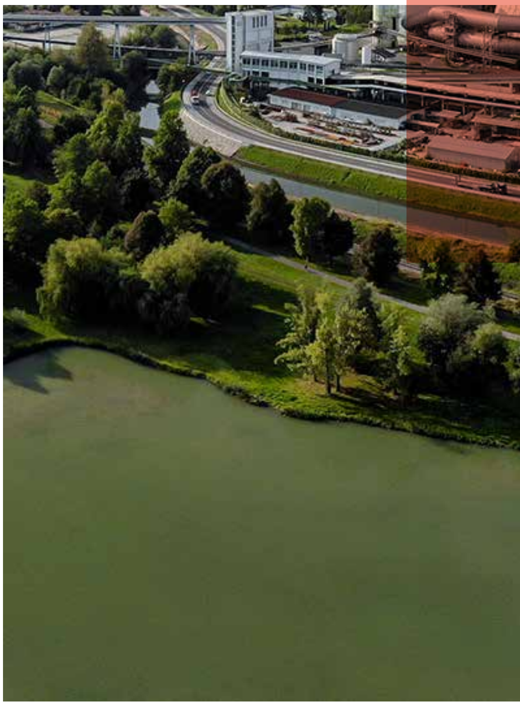
	31 Dec 2017	Change of IFRS 9	1 Jan 2018
ASSETS			
Financial assets available for sale	500	-500	0
Financial assets at fair value through other comprehensive income		500	500
Other	991,536,022	0	991,536,022
Long-term assets	**991,536,522**	**0**	**991,536,522**
Short-term assets	**84,755,520**	**0**	**84,755,520**
TOTAL ASSETS	**1,076,292,041**	**0**	**1,076,292,041**
EQUITY AND LIABILITIES			
Equity	**411,121,665**	**0**	**411,121,665**
Long-term liabilities	**561,540,551**		**561,540,551**
Short-term liabilities	**103,629,825**		**103,629,825**
TOTAL EQUITY AND LIABILITIES	**1,076,292,041**	**0**	**1,076,292,041**

The adoption of the new IFRS 9 – Financial Instruments had no impact on the Company's financial statements and neither on its retained earnings or losses.

IFRS 15 – Revenue from Contracts with Customers

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

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



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

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

Effects of the adopted IFRS 15

in EUR

	31 Dec 2017	Change of IFRS 15	1 Jan 2018
ASSETS			
Long-term assets	**991,536,521**	**0**	**991,536,521**
Contract assets	0	26,016,297	26,016,297
Other short-term assets	29,812,640	(26,016,297)	3,796,343
Other	54,942,880	0	54,942,880
Short-term assets	**84,755,520**	**0**	**84,755,520**
TOTAL ASSETS	**1,076,292,041**	**0**	**1,076,292,041**
EQUITY AND LIABILITIES			
Equity	**411,121,663**	**0**	**411,121,663**
Long-term liabilities	**561,540,554**	**0**	**561,540,554**
Short-term liabilities	**103,629,824**	**0**	**103,629,824**
TOTAL EQUITY AND LIABILITIES	**1,076,292,041**	**0**	**1,076,292,041**

The adoption of the new IFRS 15 – Revenue from Contracts with Customers had no impact on the Company's separate financial statements and concurrently on retained earnings or losses..

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

2.3.4 CURRENCY REPORTING

2.3.4.1 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements contained in this report are presented in euro (EUR) exclusive of cents. The euro has been the functional and presentation currency of the Company. Due to the rounding of amounts, minor but insignificant deviations exist in the tables.

2.3.4.2 FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated to the respective functional currency at the exchange rate at the date of the transaction.
Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.
Exchange rate differences are recognised in the consolidated income statement by applying the net principle.

2.3.5 USE OF ESTIMATES AND JUDGEMENTS

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

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

Estimates and assumptions are present at the following judgements:
- assessment of useful life of amortisable assets,
- impairment testing of long-term assets,
- assessment of net realisable value of inventories,
- assessment of realisable value of receivables,
- assessment of provisions for post-employment and other long-term employees benefits,
- assessment of other provisions,
- recognition of contingent assets and liabilities.

2.3.6 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Significant events after the date of the statement of financial position:

According to the final Report on the monitoring of greenhouse gas emissions in 2018, TEŠ emitted 3,927,162 tons of CO_2 into the environment through electricity and thermal energy production. As at 24 April, the Company submitted, in line with the provisions of the Environmental Protection Act, 3,927,162 emission coupons (1 coupon/ton of CO_2) as payment for environmental pollution tax. To settle this tax, the Company will utilise 3,881,827 emission coupons purchased from HSE and 45,335 free coupons.

2.3.7 SIGNIFICANT ACCOUNTING POLICIES

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

2.3.7.1 INTANGIBLE ASSETS

Intangible assets are long-term assets enabling performance of the Company's registered activity, whereas physically they do not exist. The Company's intangible assets comprise long-term property rights, computer software and emission coupons.

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

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

Intangible assets are subsequently measures using the cost model.

Emission coupons are long-term property rights with an indefinite useful life and are measured in accordance with the interpretations of the Slovenian Institute of Auditors.

Amortisation is calculated using the straight-line amortisation method, taking into account the useful life of an individual (integral) part of an intangible asset. Amortisation begins to be calculated from the cost when an asset is available for use.

The residual value of an intangible asset is an estimated amount which the Company would receive upon the disposal of such an asset after it is reduced by the estimated costs of disposal, if such asset were old enough and if its state reflected the end of its useful life. The Company has no intangible assets for which it would record the residual value upon their purchase.

Intangible assets with indefinite useful lives are not amortised, but impaired.

Amortisation methods, useful lives and other values of groups of intangible assets are examined at the end of each financial year and adapted, if needed.

If the useful life of an asset is extended, the cost of amortisation for the financial year decreases. If, on the other hand, the useful life of an asset is shortened, the amortisation cost increases. The adjustment of useful life has to be calculated in a manner that the intangible asset will be amortised in the new, predicted useful life. The change in useful life is considered as a change in the accounting estimate, and it affects only the period in which the accounting estimate was changed, and every following period of the remaining useful life.

Useful lives – intangible assets

	in years from - to
Software	3-11 years
Licences	3-5 years

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

2.3.7.2 PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated losses from impairments, except land and other assets that are not amortised and are presented at cost, less all impairments. Cost includes costs that can be directly attributed to the acquisition of an item of property, plant and equipment. The parts of items of plant and equipment with different useful lives are accounted for as individual assets.

The anticipated costs of major regular inspections and repairs (overhauls) of plant and equipment are considered as parts. These include repairs that are usually carried out every few years (periodically) and require substantial resources.

The Company has no items of property, plant and equipment acquired free of charge.

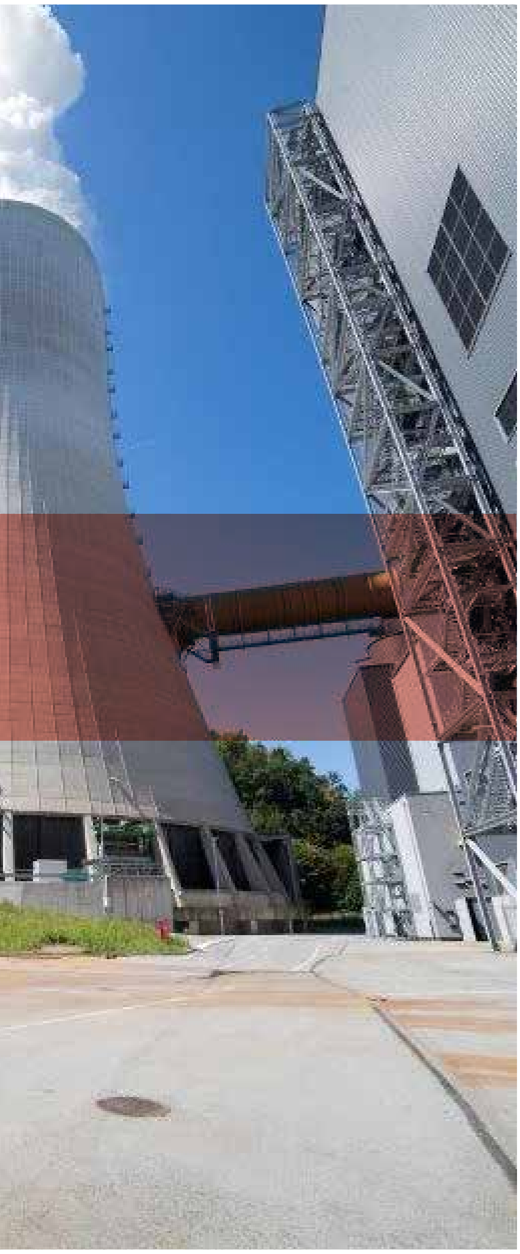
Borrowing costs that are directly allocated to the purchase, construction or production of a qualifying asset, i.e., until capitalisation of the asset, are recognised as part of the cost of such an asset.

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

Depreciation is calculated using the straight-line method of depreciation, taking into account the useful life of each individual (integral) part of an asset and the residual value. Depreciation is calculated on the basis of cost, when an asset is available for use. Assets that are in the process of production or construction are not depreciated.

The depreciation rates of property, plant and equipment are defined on the basis of the management's assessment with regard to the estimated useful lives of individual production units.

Useful lives – property, plant and equipment, production equipment and parts of production equipment



	In years from - to
Buildings	12-40 years
Parts of buildings	12-40 years
Production equipment:	
B5 (major maintenance and other)	4-12 years
B5 revitalisation	12 years
B6	5-40 years
Parts of production equipment:	
Major maintenance of B5	4 years
Major maintenance of B6	2-3 years
Computer equipment	2-5 years
Furniture	3-10 years
Small tools	5 years
Personal vehicles	5-8 years
Other vehicles	5-20 years
Other plant and equipment	3-50 years

Methods of depreciation, useful life, and other values of the groups of assets are examined at the end of each financial year and adapted, if needed.

In case useful life is extended, the Company decreases accrued depreciation costs in the financial year discussed, whereas if useful life is shortened, it increases them. The adjustment of useful life has to be calculated in a manner that the asset will be depreciated in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and only affects the period in which the accounting estimate was changed and every subsequent period of the remaining useful life.

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

The residual value of an asset is the estimated amount the Company would receive upon disposal of such asset after its reduction by the estimated costs of disposal, if such asset were old enough and if its state reflected the end of its useful life.

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

2.3.7.3 FINANCIAL INSTRUMENTS

Upon initial recognition, the Company's financial instruments are classified as follows:
- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income, and
- financial assets measured at fair value through profit or loss.

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

a) Financial assets at fair value through profit or loss

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

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

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

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

b) Financial assets at amortised cost

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

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

2.3.7.4 FINANCIAL LIABILITIES

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

Profits and losses are recognised in the income statement upon derecognising the financial liability within the amortisation of the applicable interest rate.

losses are recognised in the income statement upon derecognising the financial liability within the amortisation of the applicable interest rate.

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

If the envisaged transactions can no longer be expected, the amount in other comprehensive income must be directly recognised in profit or loss.

2.3.7.5 DERIVATIVES

Derivatives are used for the hedging of Company's cash flow exposure against risks (e.g. price, interest and foreign currency risk).

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

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

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

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

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

2.3.7.6 ASSETS HELD FOR SALE

An asset or a group of assets held for sale are those assets for which it can be reasonably expected that their value will be settled through sales in the following 12 months, and not with further use.

An asset or a group of assets held for sale is measured at carrying amount or fair value less costs of sale, whichever is lower.

2.3.7.7 INVENTORIES

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

Inventories of materials, spare parts and low-value assets are valued using the moving average price method. The respective method is also applied when recording costs or expenses.
The first-in first-out (FIFO) method is only used by the Company for the valuation of coal and gas used, since the coal and gas that are purchased first are also used first. At year-end the Company presents a safety stock of coal in the amount of 1,722 TJ.

Net realisable value is estimated on the basis of the selling price in the ordinary course of business less the estimated costs of completion and the estimated sales costs. Write-offs of damaged, expired and useless inventories are regularly performed during the year per individual items.
At least once a year, at the reporting date, the evidence on the impairment of inventories is assessed. The impairment of inventories is assessed for each individual type of inventory. Individual types of inventories are classified as groups of inventories with similar characteristics on the basis of the time component of changes in inventories. In the assessment of impairment for an individual group, the criteria of professional assessment, further use, or sale are applied.

2.3.7.8 IMPAIRMENT OF ASSETS

2.3.7.8.1 FINANCIAL ASSETS

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

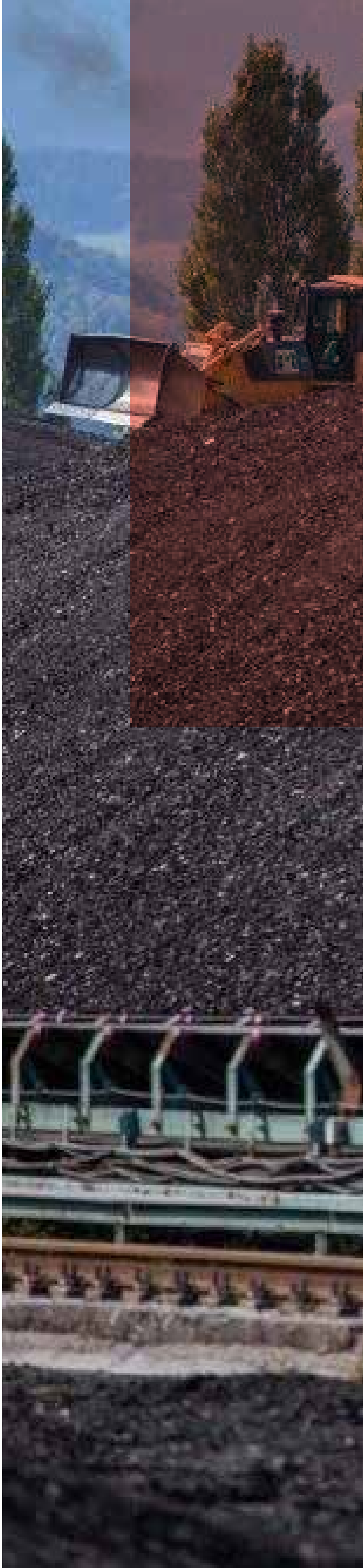
A financial asset is considered impaired if there is objective evidence from which it is evident that, due to one or more events, the expected future cash flows arising from these assets that can be reliably measured have been decreased.

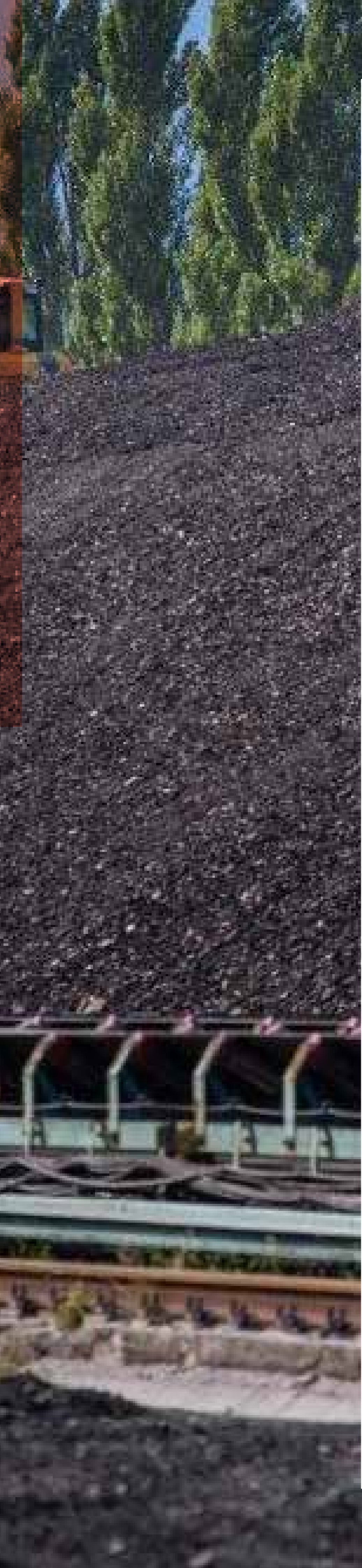
Objective evidence on the impairment of financial assets can be: non-compliance or violation by the debtor, signs that the debtor will go bankrupt; restructuring the amount, owned to the company by others, and disappearance of active market for such instrument.

2.3.7.8.2 IMPAIRMENT OF RECEIVABLES AND LOANS

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

Appropriate supporting documents are required for the final write-off of receivables such as: final decisions on compulsory settlement, bankruptcy proceeding, court decision or other relevant documents.
The impairment assessment is based on the expected credit losses associated with the probability of defaults on loans and receivables in the next 12 months, unless the credit risk significantly increased since the initial recognition. In these cases, the impairment assessment is based on the probability of default over the entire duration of the financial asset (CECL). Expected credit losses represent the difference between contractual cash flows that are due under the contract and all cash flows for which





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

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

Disputed receivables are those which comply with one of the following conditions:
- the legal collection procedure began at the court;
- the decision on beginning of compulsory settlement, liquidation or bankruptcy is published.

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

In case all actions were performed with the carefulness of a good manager, with intention to repay certain unsettled receivable and in case that due to the amount of receivable, it would not be economic for the Company to enter the collection procedure through court, receivables are finally written down in full based on the management's decision.
The Company assesses evidence on loan impairment for each individual loan. Impairment loss related to financial asset carried at realisable value is calculated as difference between the carrying amount of an asset and expected cash flows discounted at historical interest rate. Loss is recognised in the income statement among operating expenses.

2.3.7.8.3 IMPAIRMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Expenses arising on impairment of financial assets at fair value through other comprehensive income are recognised so that that potential accumulated loss, which is initially recognised in other comprehensive income and disclosed in fair value reserve, is transferred to profit or loss. Subsequent increase in fair value of impaired available-for-sale financial assets is recognised in other comprehensive income or in the fair value reserve.

2.3.7.8.4 NON-FINANCIAL ASSETS

On each reporting date the company verifies the carrying amount of significant non-financial assets with the purpose to establish whether there are any signs of impairment. If such signs exist, the recoverable amount of the asset is assessed based on impairment testing.

The recoverable amount of an asset or cash-generating unit is the higher of the two: value in use or fair value less costs of sale. When determining the value of an asset in use, the expected future cash flows are discounted to their current value by using the discount rate before tax that reflects regular market assessments of the time value of money and risks that typically occur in relation to the asset. For the purpose of impairment test, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from further use and are mostly independent from earnings of other assets and groups of assets (cash-generating unit).

The impairment of an asset or the cash-generating unit is recognised when its carrying amount exceeds its recoverable amount. Impairment is disclosed among operating expenses in the income statement.

Impairment losses recognised in prior periods are assessed by the Company at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss would have been recognised in previous years.

2.3.7.9 EQUITY

Total equity of the company represents its liability to owners which falls due if the company ceases to operate, whereby the amount of equity is adjusted with respect to the then attainable price for the company's net assets.

Total equity of the company represents its liability to owners which falls due if the company ceases to operate, whereby the amount of equity is adjusted with respect to the then attainable price for the company's net assets. It is determined by both the amounts invested by owners and the amounts generated in the course of operation that belong to the owners. It is decreased by the loss incurred in the course of operations and increased by the profit in the period.

Share capital and capital surplus represent owner's cash contributions and contributions in kind.

Capital surplus comprises the general equity revaluation adjustments. The amount may only be used for capital increase and covering of loss.

Legal and other reserves from revenue are amounts that are intentionally retained from the previous years' profit. They are created on the basis of a decision adopted by a relevant management body and a supervisory body.

Fair value reserve represents the revaluation amounts of derivatives and actuarial gains relating to payables to employees for termination benefits upon retirement.

Retained earnings include unallocated profit of the current year, as well as previous periods.

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

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

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

If the expected liabilities do not occur, the reversal of created provisions is carried out and recognised under other operating revenue.

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

2.3.7.11 EMPLOYEE BENEFITS

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

2.3.7.12 OTHER PROVISIONS

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

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

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

If the expected liabilities do not occur, the reversal of created provisions is carried out and recognised under other operating revenue.

2.3.7.13 OTHER ASSETS AND OTHER LIABILITIES

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

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

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

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

2.3.7.14 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liability is:

- a possible liability arising from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events that the Company does not fully control; or
- a present obligation arising from past events, which is not recognised, since it is not probable that the outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be reliably measured.

A contingent asset is an asset that could arise from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events which the Company does not fully control.

The Company does not yet recognise contingent assets and liabilities in the statement of financial position.

2.3.7.15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognized when control over goods or services is transferred to the buyer in an amount that reflects the consideration, which the company believes to be entitled to receive in return for these goods or services. Revenue from contracts with customers are recognised at fair value of received repayment or receivable arising thereunder.
The revenue is disclosed when the buyer assumes all significant types of risks and benefits related to the ownership of the asset, when there is a certainty in relation to recoverability of a fee and related costs or possibility of repayment of products and when the company stops deciding on products sold.

Sale of products and goods – the performance obligation occurs upon the supply. Goods are invoices on a monthly basis.
The sale of electricity accounts for the largest share within the sale of goods structure, which is followed by the sale of thermal energy and other waste material.

Sale of services - the performance obligation arises when rendering the services, while invoicing is performed on a monthly basis.
The largest share within the structure of sale of services relates to services provided in connection with allowances for using inlet capacities, rentals and other.

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

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

2.3.7.16 OTHER OPERATING AND FINANCE INCOME

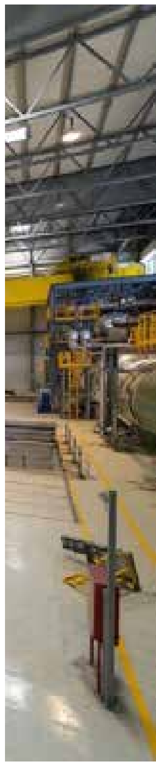
Other operating income relating to products and services include income from reversal of provisions, income from using deferred income, gains arising from sales of fixed assets, reversal of impairment of receivables, received compensations and contractual penalties and similar revenue (e.g. government grants).

A government grant is treated as deferred revenue which is recognised by the Company on a strictly consistent and prudential basis as other operating revenue over the useful life of the relevant asset (on the other hand, the Company presents the costs of depreciation of such an asset under operating expenses).

Finance income comprises income from shares in investments, interest income from loans granted and deposits, foreign exchange gains from financing, and profits of associates.

2.3.7.17 OTHER OPERATING AND FINANCE COSTS

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



Costs of materials are historical costs of materials purchased that are directly used for creating products and services (direct costs of materials), as well as costs of materials that do not have such nature and are included in relevant purpose (functional) groups of indirect operating costs. The first subgroup includes costs of raw materials, other materials and purchased parts and semi-finished products whose consumption can be related to creating products and services. The second subgroup includes costs of auxiliary materials for maintenance of property, plant and equipment, low-value assets whose useful life does not exceed one year, office supplies, specialised literature, and other items. Costs of materials also cover the accrued costs of shrinkage, spill, failure and breakage. If the Company has more negative than positive exchange differences from operations, these are presented under costs of materials.

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

Write-downs in value include amortisation/depreciation costs related to consistent transfer of value of amortisable property, plant and equipment and depreciable intangible assets to profit or loss. Write-downs in value also comprise impairments, write-downs and losses from the sale of intangible assets and property, plant and equipment, as well as impairments or write-downs of receivables and inventories.

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

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

Finance costs comprise borrowing costs (if these are not capitalised), negative exchange differences, changes in fair value of financial assets at fair value through profit or loss, and losses due to impairment of value of financial assets recognised in the income statement. Borrowing costs are recognised in the income statement using the effective interest rate method.

2.3.7.18 TAXATION

Taxes include current and deferred tax liabilities. Current tax is included in the income statement. The deferred tax is recorded in the income statement and the statement of financial position.

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

Taxes include current and deferred tax liabilities. Current tax is included in the income statement. The deferred tax is recorded in the income statement and the statement of financial position.

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

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

2.3.8 STATEMENT OF OTHER COMPREHENSIVE INCOME

The statement of other comprehensive income comprises items of income and expenses that are not recognised in the income statement but have an impact on the amount of company's equity in the period. It comprises all changes in equity in the current period resulting from transactions and events, other than those resulting from transactions with the owner.

2.3.9 STATEMENT OF CASH FLOWS

The cash flows statement comprises changes in the balance of cash and cash equivalents for the period for which it was compiled. In the part relating to operating activities, the cash flow statement is prepared by using the indirect method and data from the statement of financial position, the income statement, and tables outlining the movements in assets and liabilities pursuant to International Financial Reporting Standards (IFRS).

2.3.10 DETERMINATION OF FAIR VALUE

With reference to disclosing fair values of non-financial and financial assets and liabilities, the determination of fair value is required either for measuring individual assets or due to additional fair value disclosures.

Fair value is the amount by which an asset can be sold, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

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

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

2.3.11 FINANCIAL RISK MANAGEMENT

The Company is exposed to the following types of financial risk: credit, liquidity and interest rate risk. Financial risks are described in more detail in section 1.15 on risks in the management report. In terms of value, financial risks are disclosed in item 2.10 of the Notes.

2.4 STATEMENT OF FINANCIAL POSITION

in EUR

	Note	31 Dec 2018	31 Dec 2017
ASSETS		**1,027,242,961**	**1,076,292,041**
A. LONG-TERM ASSETS		**956,900,946**	**991,536,521**
I. Intangible assets	1	193,981	357,848
II. Property, plant and equipment	2	956,532,602	990,962,746
V. Other long-term investments and loans	3	107,860	500
VI. Long-term oprating recevables	4	56,879	68,894
VII. Other-long term assets	5	9,624	146,533
B. SHORT-TERM ASSETS		**70,342,015**	**84,755,520**
I. Assets (disposal groups) held for sale	6	201,723	201,723
II. Inventories	7	20,932,282	16,532,479
III. Short-term investments and loans	8	12,887,971	13,227,905
IV. Short-term trade receivables	9	7,761,868	24,784,261
V. Contract assets	10	26,238,324	0
VI. Other short-term assets	11	1,777,906	29,812,640
VII. Cash and cash equivalents	12	541,941	196,512
EQUITY AND LIABILITIES		**1,027,242,961**	**1,076,292,041**
A. EQUITY	**13**	**352,624,004**	**411,121,663**
I. Called-up capital		578,579,850	578,579,850
II. Capital surplus		47,259,354	47,259,354
V. Fair value reserve		(317,182)	(331,716)
VI. Retained earnings or losses		(272,898,018)	(214,385,823)
B. LONG-TERM LIABILITIES		**582,514,268**	**561,540,554**
I. Provisions for termination benefits and jubilee premiums	14	3,274,044	2,570,334
II. Other provisions	15	11,554,152	15,698,773
III. Other-long term liabilities	16	116,899	168,112
IV. Long-term financial liabilities	17	567,569,173	543,103,335
C. SHORT-TERM LIABILITIES		**92,104,689**	**103,629,824**
II. Short-term financial liabilities	18	43,052,681	43,198,909
III. Short-term operating liabilities	19	12,580,939	24,545,104
V. Other short-term liabilities	20	36,471,069	35,885,811

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

2.5 INCOME STATEMENT

in EUR

	Note	2018	2017
OPERATING INCOME		**200,515,405**	**206,926,381**
1. Net sales revenue	1	196,812,774	204,951,675
2. Other operating income	2	3,702,631	1,974,706
OPERATING EXPENSES		**233,541,414**	**212,760,635**
3. Costs of goods, material and services	3	129,360,505	130,928,436
4. Employee benefits expense	4	13,538,494	11,524,314
5. Write- downs in value	5	55,237,805	36,140,948
a) Depreciation and amortization		36,592,857	36,124,068
b) Impairments/write-offs/sales of intangible assets , property, plant and equipment		18,538,230	12,004
c) Impairments/write-offs of receivables			4,876
d) Impairments/write-offs of inventories		106,718	
7. Capitalised own products and own services	6	(2,486,881)	(156,179)
8. Other operating expenses	7	37,891,491	34,323,116
OPERATING PROFIT OR LOSS		**(33,026,009)**	**(5,834,254)**
9. Finance income	8	53,448	362,178
10. Finance costs	9	25,556,740	27,122,086
FINANCIAL RESULT		**(25,503,292)**	**(26,759,908)**
PROFIT OR LOSS BEFORE TAX		**(58,529,301)**	**(32,594,162)**
TAX	**10**	**0**	**0**
NET PROFIT OR LOSS FOR THE PERIOD	**11**	**(58,529,301)**	**(32,594,162)**

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

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2.6 STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR

	Note	2018	2017
Profit or loss of the period		**(58,529,301)**	**(32,594,162)**
Actuarial gains and losses of employee defined benefit plans		31,641	(103,912)
Items that will not be transferred to profit or loss		31,641	(103,912)
Total comprehensive income for the period		**(58,497,660)**	**(32,698,074)**

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

2.7 STATEMENT OF CHANGES IN EQUITY

in EUR

	CALLED-UP CAPITAL			RETAINED EARNINGS OR LOSSES		
	Share capital	**Capital surplus**	**Revaluation surplus**	**Retained earnings or losses**	**Net profit or loss for the period**	**Total**
Balance as at 1 Jan 2017	**578,579,850**		**(204,359)**	**(134,588,287)**	**(47,226,819)**	**396,560,385**
B.1. Transaction with owners	0	47,259,354	0	0	0	47,259,354
Additional paid - in capital		47,259,354				47,259,354
B.2. Changes in total comprehensive income	0	0	(127,357)	23,445	(32,594,162)	(32,698,072)
Profit or loss for the period					(32,594,162)	(32,594,162)
Items that will not be transferred to profit or loss	0	0	(127,357)	23,445	0	(103,912)
Actuarial gains and losses of employee defined benefit plans			(127,357)	23,445		(103,912)
B.3. Changes within equity	0	0	0	(47,226,819)	47,226,819	0
Allocation of the remaining portion of net profit of the comparable period to other equity components				(47,226,819)	47,226,819	0
Balance as at 31 Dec 2017	**578,579,850**	**47,259,354**	**(331,716)**	**(181,791,661)**	**(32,594,162)**	**411,121,665**
Balance as at 1 Jan 2018	**578,579,850**	**47,259,354**	**(331,716)**	**(181,791,661)**	**(32,594,162)**	**411,121,665**
B.2. Changes in total comprehensive income	0	0	14,534	17,107	(58,529,301)	(58,497,660)
Profit or loss for the period					(58,529,301)	(58,529,301)
Items that will not be transferred to profit or loss	0	0	14,534	17,107	0	31,641
Actuarial gains and losses of employee defined benefit plans			14,534	17,107		31,641
B.3. Changes within equity	0	0	0	(32,594,162)	32,594,162	0
Allocation of the remaining portion of net profit of the comparable period to other equity components				(32,594,162)	32,594,162	0
Balance as at 31 Dec 2018	**578,579,850**	**47,259,354**	**(317,182)**	**(214,368,716)**	**(58,529,301)**	**352,624,004**

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

2.8

in EUR

	2018	2017
Cash flows from operating activities		
Profit or loss for the period	(58,529,301)	(32,594,162)
Adjustements for:		
Amortisation of intangible assets	58,448	59,684
Depreciation on property, plant and equipment	36,534,410	36,064,384
Write-offs of intangible assets, property, plant and equipment	18,489,037	0
Write-offs of inventories	106,718	0
Reversal of provisions	0	(500,000)
Impairment of property, plant and equipment	34,830	0
Impairment of trade receivables	0	4,877
Reversal of allowances for trade receivables	(82)	(14,523)
Loss and sale of property, plant and equipment	14,362	12,004
Finance income	(53,448)	(362,178)
Finance cost	25,556,741	27,122,086
Gain on sale of property, plant and equipment	(46,690)	(431,873)
Cash generated from operating activities before change in net current assets and taxes	**22,165,025**	**29,360,299**
Chang in net current assets and provisions		
Change in:		
Inventories	(4,506,521)	(10,087,299)
Trade and other receivables	19,116,140	2,502,566
Trade and other payables	(11,430,121)	1,975,852
Provisions	(3,541,927)	(878,215)
Cash flows from operating activities	**21,802,596**	**22,873,203**

STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS

in EUR

	2018	2017
Cash flow from investing activities		
Interest received and income from other financing activities	751	107
Received dividends	0	104,000
Proceeds from sale of property, plant and equipment	153,021	729,632
Cash receipts from sales of associated companies	52,697	258,071
Proceeds from sale of other short-term investments	13,227,905	2,512,514
Acquisitions of property, plant and equipment	(20,757,142)	(4,643,059)
Acquisitions of intangible assets	(34,596)	(41,593)
Acquisitions of other financial investments	(107,360)	0
Costs for increasing other short-term investments	(12,887,971)	(13,227,905)
Net cash used in investing activities	**(20,352,695)**	**(14,308,233)**
Cash flow from financing activities		
Proceeds from long-term borrowings	64,791,457	27,259,354
Proceeds from short-term borrowings	10,516,155	27,500,000
Payment of interest on borrowings and costs for other financial liabilities	(23,716,527)	(25,503,618)
Repayment of long-term borrowings	(42,179,402)	(26,759,561)
Repayment of short-term borrowings	(10,516,155)	(10,910,000)
Net cash used in financing activities	**(1,104,472)**	**(8,413,825)**
Opening balance of cash and cash equivalents	**196,512**	**45,367**
Financial result	345,429	151,145
Closing balance of cash and cash equvalents	**541,941**	**196,512**

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

NOTES TO THE FINANCIAL STATEMENTS 2.9

2.9.1 NOTES TO THE STATEMENT OF FINANCIAL POSITION

NOTE 1

Intangible assets 193,981 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Emission coupons	**94,255**	**243,048**
Other long-term property rights	99,727	114,800
Total	**193,981**	**357,848**

Movement of intangible assets

in EUR

	Emission coupons	Other long-term property rights	Total
Costs at 1/1/2018	**243,048**	**1,785,183**	**2,028,231**
Acquisitions	26,134,926	34,595	26,169,521
Disposals - write-offs, sales	(26,283,718)		(26,283,718)
Transfers - restatements		8,778	8,778
Cost at 31/12/2018	**94,256**	**1,828,556**	**1,922,812**
Write-downs at 1/1/2018		**1,670,383**	**1,670,383**
Depreciation		58,448	58,448
Write-downs at 31/12/2018		**1,728,831**	**1,728,831**
Carrying amount at 1/1/2018	**243,048**	**114,800**	**357,848**
Carrying amount at 31/12/2018	**94,256**	**99,725**	**193,981**

	Emission coupons	Other long-term property rights	Total
Costs at 1/1/2017	**200,193**	**1,749,261**	**1,949,454**
Acquisitions	28,170,495	9,240	28,179,735
Disposals - write-offs, sales	(28,197,242)	(2,595)	(28,199,837)
Transfers - restatements	69,602	29,272	98,874
Cost at 31/12/2017	**243,048**	**1,785,178**	**2,028,226**
Write-downs at 1/1/2017		**1,613,294**	**1,613,294**
Disposals - write-offs, sales		(2,595)	(2,595)
Depreciation		59,684	59,684
Write-downs at 31/12/2017		**1,670,383**	**1,670,383**
Carrying amount at 1/1/2017	**200,193**	**135,967**	**336,160**
Carrying amount at 31/12/2017	**243,048**	**114,795**	**357,843**

In upcoming years, the quantity of free emission coupons will decrease. In March 2018, TEŠ purchased 3,924,163 emission coupons from HSE in order to fulfil its obligations arising from emissions generated in 2017.

Most of the movement of the Company's intangible assets refers to the emission coupons. Pursuant to the Environmental Protection Act and the Ordinance on the list of operators of installations emitting greenhouse gases, the state granted 579,013 free emission coupons to the Company for the period from 2013 to 2020. The amount of emission coupons granted for the year 2018 is 45,335. In upcoming years, the quantity of free emission coupons will decrease. In March 2018, TEŠ purchased 3,924,163 emission coupons from HSE in order to fulfil its obligations arising from emissions generated in 2017. In April 2018, the amount of coupons declined by 4.073.442 (Report on assessment of the Report on greenhouse gas emissions for 2017) coupons that were handed over for the emissions produced in 2017. As at the balance sheet date, the Company recorded among its intangible assets 94,255 free emission coupons.

Intangible assets include EUR 99,727 worth of licences and other software which, depending on their useful life, are amortised at rates ranging from 9.09 % to 33.33 %.

The Company does not have any intangible assets under financial lease, nor does it have in its bookkeeping records any intangible assets given as a guarantee for liabilities related to contract commitments for the acquisition of intangible assets.

NOTE 2

Property, plant and equipment 956,532,602 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Land	2,648,850	2,648,850
Buildings	57,352,361	58,528,651
Production equipment	893,034,183	921,950,258
Other equipment	2,939,259	3,028,370
Property plant and equipment being acquired	557,949	4,806,617
Total	**956,532,602**	**990,962,746**

Movement of property, plant and equipment

in EUR

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being aquired	Total
Costs at 1/1/2018	**4,049,882**	**282,691,234**	**2,335,145,581**	**14,902,234**	**4,806,617**	**2,641,595,548**
Acquisition					20,757,142	20,757,142
Disposals				(512,001)		(512,001)
Transfers from investments		530,294	24,679,531	542,687	(25,752,512)	0
Transfers - restatements		(6,625)			(8,779)	(15,404)
Reducing provisions for dismantling			(755,481)		755,481	0
Write-offs			(19,650,481)	(180,746)		(19,831,227)
Cost at 31/12/2018	**4,049,882**	**283,214,903**	**2,339,419,150**	**14,752,174**	**557,949**	**2,641,994,058**

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being aquired	Total
Write-downs at 1/1/2018	**1,401,032**	**224,162,583**	**1,413,195,323**	**11,873,864**	**0**	**1,650,632,802**
Disposals				(481,771)		(481,771)
Transfers - restatements		(6,625)				(6,625)
Depreciation		1,706,584	34,316,456	511,369		36,534,409
Impairments			18,489,038			18,489,038
Write-offs			(19,615,850)	(90,547)		(19,706,397)
Write-downs at 31/12/2018	**1,401,032**	**225,862,542**	**1,446,384,967**	**11,812,915**	**0**	**1,685,461,456**
Carrying amount at 1/1/2018	**2,648,850**	**58,528,651**	**921,950,258**	**3,028,370**	**4,806,617**	**990,962,746**
Carrying amount at 31/12/2018	**2,648,850**	**57,352,361**	**893,034,183**	**2,939,259**	**557,949**	**956,532,602**

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being aquired	Total
Costs at 1/1/2017	**4,049,882**	**281,882,891**	**2,330,495,289**	**16,852,888**	**6,381,626**	**2,639,662,576**
Acquisition					5,738,610	5,738,610
Disposals		(289,138)		(1,878,204)		(2,167,342)
Transfers from investments		1,097,481	4,650,292	391,128	(6,138,901)	0
Transfers - restatements				3,076	(1,174,718)	(1,171,642)
Write-offs				(466,654)		(466,654)
Cost at 31/12/2017	**4,049,882**	**282,691,234**	**2,335,145,581**	**14,902,234**	**4,806,617**	**2,641,595,548**
Write-downs at 1/1/2017	**1,401,032**	**222,719,997**	**1,379,354,581**	**13,403,221**	**0**	**1,616,878,831**
Disposals		(257,988)		(1,585,771)		(1,843,759)
Depreciation		1,700,574	33,840,742	523,068		36,064,384
Write-offs				(466,654)		(466,654)
Write-downs at 31/12/2017	**1,401,032**	**224,162,583**	**1,413,195,323**	**11,873,864**	**0**	**1,650,632,802**
Carrying amount at 1/1/2017	**2,648,850**	**59,162,894**	**951,140,708**	**3,449,667**	**6,381,626**	**1,022,783,745**
Carrying amount at 31/12/2017	**2,648,850**	**58,528,651**	**921,950,258**	**3,028,370**	**4,806,617**	**990,962,746**

Družba je v letu 2018 za nepremičnine, naprave in opremo na podlagi cenitve preverila njihovo nadomestljivo vrednost. Cenitev so izvedli pooblaščeni cenilci z licenco Slovenskega inštituta za revizijo, kjer je bilo na podlagi cenitvenega poročila ugotovljeno, da je dolgoročna sredstva družbe potrebno oslabiti.

V spodnji preglednici so predstavljene upoštevane predpostavke pri izvedbi preizkusov oslabitve in rezultati preizkusov oslabitve.

ASSETS IN TERMOELEKTRARNA ŠOŠTANJ	
2018	**2017**
Method used to define the recoverable value in the impairment test	
Value in use (present value of expected free cash flows)	Value in use (present value of expected free cash flows)
Date of impairment testing	
30 September 2018	30 September 2017
Relevant assumptions used in the performance of the impairment test	
The Company's business operation until 2054.	The Company's business operation until 2054.
Discount rate in the nominal value of 7.71%, adjusted to the real level: 5.54% in the October - December 2018 period, and 5.57% from and including 2019 onwards.	Discount rate in the nominal value of 7.50 %, adjusted to the real level: 5.81 % in the October - December 2017 period, 5.59 % in 2018 and 5.39 % from 2019 onward.
Stock market prices of standardized forward contracts for electricity on the HUPX stock exchange for the 2019-2021 period; initial price EUR 40.39/MWh, 26.32% price change in the period.	Stock market prices of standardized forward contracts for electricity on the HUPX stock exchange for the 2018 - 2020 period; initial price 40.72 EUR/MWh, 8.7 % price change in the period.
Stock market prices of standardized forward contracts for electricity on the EEX stock exchange for the 2019-2021 period; initial price EUR 6.45/t, 230.95% price change in the period.	Stock market prices of standardized forward contracts for electricity on the EEX stock exchange for the 2018 - 2020 period; initial price 40.72 EUR/MWh, 8.7 % price change in the period.
Long-term projections of movements of sales/market prices of electricity (Poyry Management Consulting) for the 2022-2040 period; initial price EUR 55.85/MWh, 32.14% price change in the period.	Long-term projections of movements of sales/market prices of electricity (Poyry Management Consulting) for the 2021 - 2040 period; initial price 48.04 EUR/MWh, 58.7 % price change in the period.
Long-term projections of movements of market prices of CO_2 emission coupons (Poyry Management Consulting) for the 2022-2030 period; intial price EUR 15.09/t, 50.10% price change in the period. From 2031 onward, the ratio of prices of electricity and CO_2 emission coupons remains on the level of 33%.	Long-term projections of movements of market prices of CO_2 emission coupons (Poyry Management Consulting) for the 2021 - 2030 period; intial price 12.32 EUR/t, 107 % price change in the period. From 2031 onward, the ratio of prices of electricity and CO_2 emission coupons remains on the level of 34 %.
In the 2041-2054 period, the prices of electricity and CO_2 emission coupons from 2040 are considered.	In the 2041 - 2054 period, the prices of electricity and CO_2 emission coupons from 2040 are considered.
Average annual electricity output in coal-fired power plants of 3.7 TWh in the 2019-2030 period, 2.5 TWh in the 2031-2040 period, and 2.0 TWh in the 2041-2054 period.	Average annual electricity output in coal-fired power plants of 3.6 TWh in the 2018-2030 period, 2.5 TWh in the 2031-2040 period, and 2.0 TWh in the 2041-2054 period.
Value of other income (revenue from provision of system services, thermal energy, revenue from the sale of ash and gypsum) in amounts ranging from EUR 27,926,000 in 2018 to EUR 18,475,000 in 2054.	Value of other revenue (revenue from provision of system services, thermal energy, revenue from the sale of ash and gypsum) in amounts ranging from 20,030 TEUR in 2018 to 19,169 TEUR in 2054.
CAPEX in the period of projections in the amount of EUR 151,221,000.	CAPEX in the period of projections in the amount of EUR 179,730 thousand.
Results of performed impairment tests	
Carrying amount of assets value before impairment test in the amount of EUR 981,900,000.	Carrying amount of assets value before impairment test in the amount of EUR 998,640 thousand.
Recoverable value in the amount of EUR 963,411,000.	Recoverable value in the amount of EUR 1,005,550 thousand.
Revaluation expenses due to impairment in the amount of EUR 18,489,000.	Revaluation expenses due to impairment in the amount of EUR 0 thousand.

Sensitivity analysis by category

Long-term fixed assets	Recoverable value in EUR	Sensitivity (change) in recoverable value in EUR					
		Change in discount rate (WACC) (%)		Change in NOPLAT (EBIT-tax) (%)		Change in CAPEX (%)	
		(0.5)	0.5	(5)	5	(5)	5
In TEŠ	963,411,000	3,636,500	-3,260,750	-24,407,500	24,407,500	4,096,500	-4,096,500

The Company does not have any item of property, plant and equipment under mortgage or financial lease.

Land 2,648,850 EUR

As at 31 Dec. 2018, the value of land equals the value established at the end of 2017.

Buildings 57,352,361 EUR

The value of buildings declined over the previous year by the amount of accounted depreciation. Investments in the overhaul of the industrial pipeline from stage 1 to stage 3, inclusive of the Lipa-Skorno section, in addition to a few minor investments were capitalised within the scope of building values.

Production plants, machinery and other equipment 895,973,442 EUR

The value of production plants, machinery and other equipment decreased over the previous year by the amount of accounted depreciation, by the sold fire-fighter vehicles, as well as passenger cars and other vehicles. Write-off of production equipment mostly relates to the elimination of old inventory numbers for the major maintenance of the Unit 6 and the write-off of the old transformer of the Unit 5. Write-offs of unserviceable equipment predominantly relate to write-offs of obsolete and unusable air conditioning and other equipment.

The value of production plants, machinery and other equipment increased primarily due to the capitalised investments into the production's reliability (i.e. major maintenance of the Unit 6 in the amount of EUR 8,506,462, major maintenance of the Unit 5 in the amount of EUR 3,784,182, revitalisation of the Unit 5 in the amount of EUR 11,328,434 and other investments in the production's reliability in the amount of EUR 1,454,773).

The decline in investments in Unit 6 also includes the effects of recalculated costs of decommissioning due to the change in the discount rate in the amount of EUR 755,481. On the basis of a technical detailed report and commitments under the Energy permit, the Company has assessed the costs of decommissioning in the amount of EUR 16,200,000. Provisions for the costs of decommissioning of Unit 6, taking into account the discount rate of the 30-year German bond as at 31 December 2018, amounted to EUR 10,729,722.

Property, plant and equipment being acquired 557,949 EUR

Most of increases in property, plant and equipment being acquired includes investments made for the production's reliability (e.g. revitalisation of Unit 5 and other investments) and major maintenance of Units 5 and 6 in the total amount of EUR 20,725,937, and the decrease in costs of dismantling the replacement Unit 6 in the amount of EUR 755,481.

Other investments were completed in a value of EUR 786,687 and relate to the supply of low-value appliances and equipment, and other items.

In 2018, investments in a total value of EUR 24,997,031 were capitalised. The total value of unfinished investment maintenance works amounts to EUR 557,949 and predominantly relates to works commenced within the investments made in connection with production's reliability (e.g. restoration of the plateau at the intermediary warehouse for products, overhaul of the PB10 landfill machine, restoration of the PB20 treadmill, and exchange of the reverse transporter to B6).

Movements of investments in property, plant and equipment being acquired

in EUR

	Investments in production reliability	Investment documentation	Investments in Unit 5 and Unit 6	Other property, plant and equipment being acquired	Total
Cost as at 1 Jan 2018	**4,134,745**	**5,800**	**635,593**	**30,478**	**4,806,616**
Acquisitions	9,070,885	7,000	11,655,051	779,687	21,512,623
Reducing provisions for dismantling			(755,481)		(755,481)
Transfer from PPE under construction	(12,783,207)		(11,535,163)	(678,661)	(24,997,031)
Reposting			0	(8,778)	(8,778)
Cost as at 31 Dec 2018	**422,423**	**12,800**	**0**	**122,726**	**557,949**

	Investments in production reliability	Investment documentation	Investments in Unit	Other property, plant and equipment being acquired	Total
Cost as at 1 Jan 2017	**2,299,051**	**0**	**4,021,996**	**60,578**	**6,381,625**
Acquisitions	2,693,266	5,800	2,727,499	312,045	5,738,610
Transfer from PPE under construction	(857,572)		(4,971,537)	(309,792)	(6,138,901)
Reposting			(1,142,365)	(32,353)	(1,174,718)
Cost as at 31 Dec 2017	**4,134,745**	**5,800**	**635,593**	**30,478**	**4,806,616**

NOTE 3

Other long-term investments 107,860 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Other long-term investments	107,860	500
Total	**107,860**	**500**

Movement of other long-term investments

in EUR

	2018	2017
Balance at 1 Jan	**500**	**60,003**
Additions	107,360	
Disposals		(59,503)
Balance at 31 Dec	**107,860**	**500**

Long-term investments are classified as available-for-sale financial assets. The value of long-term investments recorded in the statement of financial position represents their cost.

In 2018, the Company increased other long-term assets by the non-monetary contribution made in the RGP company in the amount of EUR 107,360, which accounts for the 5.1% equity interest. The RGP has the status of a joint company, which means that the shareholder who submits engagements for direct execution must verify whether all terms and conditions as set forth in the Protocol for the submitting engagements for direct execution to the joint venture RGP d.o.o. are met. No indication of impairment was identified in relation to the disclosure of long-term investments as at 31 December 2018.

Other shares in the amount of EUR 500 represent investments in Center odličnosti nizkoogljične tehnologije (Centre of Excellence for Low-carbon Technologies).

The Company has made investments in holiday facilities (Krvavec, Rab, Portorož) in the amount of EUR 154,133. These investments were impaired as of 31 December 2010 in the total amount of invested funds due to formally unresolved ownership and management relations and unexpected future cash flows.

A long-term investment in Razvojni center energije (Energy Development Centre) is recorded under long-term investments in the amount of EUR 200,000. The investment was impaired in its entirety on 31 December 2014.

In 2018, the Company increased other long-term assets by the non-monetary contribution made in the RGP company in the amount of EUR 107,360, which accounts for the 5.1% equity interest.

NOTE 4

Long-term operating receivables — 56,879 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Long term advances	56,879	67,025
Other long-term receivables		1,869
Total	**56,879**	**68,894**

Recorded under long-term operating receivables are long-term advances receivable in the amount of EUR 56,879, whereas long-term receivables from buyers of apartments sold under the Housing Act (Official Gazette of RS, no. 18/91) are no longer recorded by the year-end of 2018.

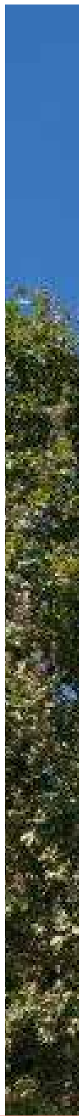
NOTE 5

Other long-term assets — 9,624 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Reserve fund	9,624	17,300
Emission coupons		129,234
Total	**9,624**	**146,534**

Other long-term assets include payments made by the Company as the floor owner of apartments, which will be used to cover the future costs of maintenance under the Housing Act. No emission coupons are held in stock at the year-end of 2018.



NOTE 6

Assets held for sale 201,723 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Other long-term assets	201,723	201,723
Total	**201,723**	**201,723**

Assets held for sale include a part of the "Crikvenica" holiday complex. The sale of more than half of the complex to a Croatian buyer was completed in 2006. Due to unresolved ownership relations, the remaining part of the complex has not yet been sold.

NOTE 7

Inventories 20,932,282 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Material for maintenance works	2,470,977	2,400,776
Spare parts	12,536,112	8,343,405
Safety stock of coal	4,735,500	4,735,500
Other material	1,189,693	1,052,798
Total	**20,932,282**	**16,532,479**

Inventories are mostly comprised of inventories of spare parts, a safety stock of coal, and inventories of maintenance materials. Inventories of spare parts and maintenance materials are needed for immediate elimination of defects in production equipment and, consequently, reliable operation.

Inventories are not pledged as collateral for liabilities.

The carrying amount of inventories does not exceed their net realisable value. An inventory count of materials and spare parts did not reveal any surpluses or deficits.

NOTE 8

Short-term investments and loans 12,877,971 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Short-term deposits to others	12,887,971	13,227,905
Total	**12,887,971**	**13,227,905**

A short-term, earmarked call deposit in the amount of EUR 13,227,905 was made in March 2018 for the repayment of loan liabilities to EBRD. At the end of 2018, a short-term, earmarked deposit in the amount of EUR 12,887,971 was tied in the form of a provision for the repayment of loan liabilities to EBRD in March 2019 and is not to be used for balancing current liquidity.

Movement of short-term investments and loans

in EUR

	2018	2017
Balance at 1 Jan	**13,227,905**	**2,512,514**
Increases	12,887,971	13,227,905
Repayments	(13,227,905)	(2,512,514)
Balance at 31 Dec	**12,887,971**	**13,227,905**

NOTE 9

Short-term trade receivables 7,761,868 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Short-term operating receivables due from Group companies	5,620,125	21,290,516
Short-term trade receivables	2,141,743	3,493,745
Total	**7,761,868**	**24,784,261**

At the reporting date, the fair value of operating receivables was equal to their carrying amount.

Short-term operating receivables due from Group companies have declined over the previous year based on early payments received from HSE.

Short-term operating receivables due from Group companies

in EUR

Slovenia	31 Dec 2018	31 Dec 2017
HSE	5,593,109	21,275,637
DEM	19,616	0
PV	5,120	78
HTZ I.P.	271	62
RGP	552	13,200
HSE Invest	1,457	1,539
Total	**5,620,125**	**21,290,516**

Operating receivables due from Group companies mainly comprise receivables from HSE for electricity sold in December.

Most of the other trade receivables include receivables from Komunalno podjetje Velenje (Velenje Public Utility Company) for thermal energy sold in November and December 2018 in the amount of EUR 2,012,952.

Receivables from the sale of thermal energy in the amount of EUR 2,012,952 are secured by a blank bill of exchange. Security for other receivables was not necessary due to their specific nature.

Receivables by due date are presented in section 2.10.1.

NOTE 10

Contract assets **26,238,324 EUR**

in EUR

	31 Dec 2018	31 Dec 2017
Contract assets	26,238,324	0
Total	**26,238,324**	**0**

Contract assets include income not yet charged but taken into account in the operating result. In compliance with IFRS 15, these assets are disclosed as contract assets in the income statement and include the right to compensation in return for goods or services, which is transferred to the buyer.

Accrued revenue in 2018 refers to accounted revenue for leased power in 2018 for the settlement of costs of CO_2 emission coupons purchased for the needs of electricity production in 2018.

NOTE 11

Other current assets **1,777,906 EUR**

in EUR

	31 Dec 2018	31 Dec 2017
Short- term advances	946,308	2,254,403
Short-term operating receivables to state and other institutions	588,564	1,189,902
Short-term operating receivables due from others	83,376	3,676
Accrued income	0	26,252,271
Short-term deferred costs and expenses	159,658	112,388
Total	**1,777,906**	**29,812,640**

Short-term advances largely refer to the purchase of appliances and equipment, and short-term granted guarantees to the General Customs Directorate for accounting of excise duties.

Short-term advances largely refer to the purchase of appliances and equipment, and short-term granted guarantees to the General Customs Directorate for accounting of excise duties.

Short-term operating receivables due from state and other institutions mostly comprise the input VAT under the invoices received.

NOTE 12

Cash and cash equivalents **541,941 EUR**

in EUR

	31 Dec 2018	31 Dec 2017
Bank balances	541,941	196,512
Total	**541,941**	**196,512**

Cash and cash equivalents include bank balances on the Company's accounts.

NOTE 13

Equity

352,624,004 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Called-up capital	578,579,850	578,579,850
Capital surplus	47,259,354	47,259,354
Fair value reserve	(317,182)	(331,716)
Retained earnings	(272,898,018)	(214,385,823)
Total	**352,624,004**	**411,121,665**

The Company's total equity consists of share capital, capital surplus, revenue reserves, fair value reserves, retained earnings from the previous period, and temporarily unappropriated net profit for the financial year.

The Company's share capital, as recorded in the accounting records, is defined in the Company’s Articles of Association and has been duly registered with the court in the amount of EUR 578,579,850.

A major part of the fair value reserve consists of a revaluation adjustment in connection with an actuarial loss.

In the period from January to December 2018, the Company generated a loss in the amount of EUR 58,529,301. The uncovered loss brought forward from previous periods amounts to EUR 214,368,716.

In the period from January to December 2018, the Company generated a loss in the amount of EUR 58,529,301. The uncovered loss brought forward from previous periods amounts to EUR 214,368,716.

Movement of the fair value reserve

in EUR

	Actuarial gains/losses on termination benefits upon retirement	Other	Total
Balance at 1/1/2018	**(343,281)**	**11,565**	**(331,716)**
Formation, increase	(2,900)		(2,900)
Decrease	34,540		34,540
Transfer to transfered profit or loss	(17,106)		(17,106)
Balance at 31/12/2018	**(328,747)**	**11,565**	**(317,182)**

in EUR

	Actuarial gains/losses on termination benefits upon retirement	Other	Total
Balance at 1/1/2017	**(215,924)**	**11,565**	**(204,359)**
Formation, increase	(143,168)		(143,168)
Decrease	39,256		39,256
Transfer to transfered profit or loss	(23,445)		(23,445)
Balance at 31/12/2017	**(343,281)**	**11,565**	**(331,716)**

In 2018, the fair value reserve decreased by the actuarial loss on termination benefits upon retirement in the amount of EUR 14,534.

Based on the actuarial calculation, retained earnings or losses brought forward increased by EUR 17,106 due to the reversal of termination benefits upon retirement.

NOTE 14

Provisions for jubilee premiums and retirement benefits 3,274,044 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Provisions for termination benefits upon retirement	2,235,323	1,665,251
Provisions for jubilee premiums	1,038,721	905,083
Total	**3,274,044**	**2,570,334**

Long-term provisions comprise provisions for jubilee premiums and termination benefits upon retirement as determined in the actuarial calculation as at 31 December 2018.

The actuarial calculation was based on the following assumptions:

- the average wage growth rates in the Republic of Slovenia for 2019 and 2020, taken from the Autumn Forecast of Economic Development for 2018 (UMAR). From 2021 onwards, the average wages in Slovenia are expected to increase by a 2% inflation rate and an actual growth rate of 1%. It is assumed that the amounts as set in the Decree will not increase until 2020, but thereafter they are expected to increase in line with inflation;
- a discount rate of 1.2% per year on the basis of the published yields of Slovenia's government bonds as at 28 December 2018;
- the number of employees in the Company as at 31 October 2018 (gender, age, total and pensionable years of service, gross salary for the month of October 2018);
- employee fluctuations according to age classes.

In 2018, the Company paid EUR 77,144 in jubilee premiums.

Movement of provisions for jubilee premiums and retirement benefits

in EUR

	Provisions for termination benefits	Provisions for jubilee premiums	Total
Balance at 1/1/2018	**1,665,251**	**905,083**	**2,570,334**
Interest costs	21,180	2,268	23,448
Current service costs	93,162	55,582	148,744
Past service costs	487,370	162,651	650,021
Actuarial gains and losses - change in current item	2,900	6,235	9,135
Actuarial gains - expedition	(34,540)	(15,954)	(50,494)
Payment of benefits in 2018		(77,144)	(77,144)
Balance at 31/12/2018	**2,235,323**	**1,038,721**	**3,274,044**
Balance at 1/1/2017	**1,551,452**	**963,495**	**2,514,947**
Investment costs	17,187	10,211	27,398
Current service costs	71,203	48,139	119,342
Past service costs	(60,110)	(13,824)	(73,934)
Actuarial gains and losses - change in current item	142,025	(17,003)	125,022
Actuarial gains - expedition	(39,256)	(19,094)	(58,350)
Actuarial losses - creation and utilisation	1,143	1,974	3,117
Payment of benefits in 2017	(18,393)	(68,815)	(87,208)
Balance at 31/12/2017	**1,665,251**	**905,083**	**2,570,334**

Sensitivity analysis of provisions for termination benefits and jubilee premiums

in EUR

	2018			
	Discount rate		Growth of wages	
	Decrease by 0.5 %	Increase by 0.5 %	Decrease by 0.5 %	Increase by 0.5 %
Provisions for termination benefits upon retirement	114,166	(105,479)	(107,772)	112,178
Provision for jubilee premiums	42,627	(39,740)	(42,227)	44,418
Total	**156,793**	**(145,219)**	**(149,999)**	**156,596**

in EUR

	2017			
	Discount rate		Growth of wages	
	Decrease by 0.5 %	Increase by 0.5 %	Decrease by 0.5 %	Increase by 0.5 %
Provisions for termination benefits upon retirement	90,056	(83,067)	(86,606)	90,924
Provision for jubilee premiums	36,883	(34,358)	(36,379)	38,394
Total	**126,939**	**(117,425)**	**(122,985)**	**129,318**

NOTE 15

Other provisions 11,544,152 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Provisions for lawsuits	750,000	3,183,077
Provisions for decommissioning	10,729,722	11,375,992
Other provisions	74,430	1,139,704
Total	**11,554,152**	**15,698,773**

In June 2015 the Company created, on the basis of an Energy permit and an estimation of the costs of decommissioning, provisions for decommissioning costs for the removal of Unit 6 after the end of its useful life in the amount of EUR 9,113,400. According to a technical detailed report, the estimated costs of decommissioning amount to EUR 16,200,000. The present value of estimated decommissioning costs, taking into account the two-year average discount rate of 30-year German bonds, amounted as at 31 December 2018 to EUR 10,729,722. The increase in provisions for the decommissioning of Unit 6 also includes finance costs in the amount of EUR 109,210 (discounting due to lapse of time), while the decline in the amount of EUR 755,481 relates to the effects of the amended discount rate.

The decline in provisions in the amount of EUR 2,433,077 arising under legal actions, refers to the reversal of provisions formed for damages paid to the Municipalities of Šoštanj and Šmartno ob Paki in the amount of EUR 2,280,000, and to the reversal of the legal action filed by a former employee in the amount of 153.077 EUR.

Company's other provisions include an unpaid Christmas bonuses and the difference of the vacation bonus up to the amount specified in the Entrepreneurial Collective Agreement for previous years (up to 2016), which were largely paid in 2017 and 2018.

Movement of other provisions

in EUR

	For lawsuits	For decommissioning	Other provisions	Total
Balance at 1/1/2018	**3,183,077**	**11,375,992**	**1,139,704**	**15,698,773**
Decrease - drawing		(646,271)	(586,643)	(1,232,914)
Decrease - reversal	(2,433,077)		(478,631)	(2,911,708)
Balance at 31/12/2018	**750,000**	**10,729,721**	**74,430**	**11,554,151**
Balance at 1/1/2017	**3,183,077**	**11,141,325**	**2,831,416**	**17,155,818**
Formation, increase		234,667		234,667
Decrease - drawing			(1,191,716)	(1,191,716)
Decrease - reversal			(500,000)	(500,000)
Balance at 31/12/2017	**3,183,077**	**11,375,992**	**1,139,700**	**15,698,769**

NOTE 16

Other long-term liabilities 116,899 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Emission coupons	70,009	115,344
Government grants received	46,890	52,768
Total	**116,899**	**168,112**

Accruals and deferrals arising from exemptions from the payment of contributions were created in accordance with the Vocational Rehabilitation and Employment of Persons with Disabilities Act.

The Company records under accruals and deferrals the emission coupons received free of charge from the state for the period from 2016 to 2020. The amount of emission coupons in 2018 decreased by the amount of anticipated coupons taken into account by the Company in fulfilling its obligations to hand over the coupons for production emissions generated in 2018.

Accruals and deferrals arising from exemptions from the payment of contributions were created in accordance with the Vocational Rehabilitation and Employment of Persons with Disabilities Act. These are used to cover the costs defined in the previously mentioned Act.

Movement of other long-term liabilities

in EUR

	Emission coupons	Government grants received	Total
Balance at 1/1/2018	**115,343**	**52,769**	**168,112**
Disposals	(45,335)	(5,878)	(51,213)
Balance at 31/12/2018	**70,008**	**46,891**	**116,899**
Balance at 1/1/2017	**173,446**	**58,646**	**232,092**
Disposals	(58,103)	(5,877)	(63,980)
Balance at 31/12/2017	**115,343**	**52,769**	**168,112**

As at the end of 2018, the Company met all the covenants defined within the financial contracts.

NOTE 17

Long-term financial liabilities 567,569,173 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Long-term financial liabilities to Group companies excluding interest	81,432,956	16,641,499
Long-term financial liabilities to Group companies for interest	5,245,851	3,392,068
Long-term financial liabilities to banks	480,890,366	523,069,768
Total	**567,569,173**	**543,103,335**

Long-term loans are denominated in EUR. The nominal interest rates for borrowings ranged from the lowest 1.727% (1-month Euribor (-0.273%) + 2.0% margin) to the highest of 5.46 % (fixed).

Additional clarifications are provided in Note 17.

As at the end of 2018, the Company met all the covenants defined within the financial contracts.

Movement of long-term financial liabilities

in EUR

	Long-term financial liabilities to Group companies excluding interest	Long-term financial liabilities to Group companies for interest	Long-term financial liabilities to banks	Total
Balance at 1/1/2018	**16,641,499**	**3,392,068**	**523,069,768**	**543,103,335**
Acquisition	64,791,457	1,853,783		66,645,240
Transfers to short term liabilities			(42,179,402)	(42,179,402)
Balance at 31/12/2018	**81,432,956**	**5,245,851**	**480,890,366**	**567,569,173**
Balance at 1/1/2017	**16,641,499**	**1,765,809**	**565,249,170**	**583,656,478**
Acquisition	27,259,354	1,626,259		28,885,613
Transfer from short-term liabilities	20,000,000			20,000,000
Transfers to short term liabilities			(42,179,402)	(42,179,402)
Repayments	(47,259,354)			(47,259,354)
Balance at 31/12/2017	**16,641,499**	**3,392,068**	**523,069,768**	**543,103,335**

As at 31 December 2018, the Company disclosed liabilities under the long-term portion of long-term borrowings in the amount of EUR 567,569,173 as follows:

- EUR 378,604,651 to EIB, maturing on 15 March 2038
- EUR 102,285,715 to EBRD, maturing on 31 March 2025
- EUR 13,432,956 to HSE, maturing on 2 January 2026
- EUR 68,000,000 to HSE, maturing 31 December 2029
- and EUR 5,245,851 of accrued interest on long-term borrowings from HSE.

The repayments of principal amounts and interest were in 2018 made according to maturity dates and in accordance with existing amortisation schedules.

A portion of long-term financial liabilities in the amount of EUR 42,179,402, which falls due for payment within 12 months after the balance sheet date, was recorded under short-term financial liabilities

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Collateralisation of long-term financial liabilities (including the short-term portion)

in EUR

	31 Dec 2018	31 Dec 2017
Governmet guarantees	399,069,768	419,534,884
HSE guarantee	124,000,000	145,714,286
Uncollateralised	81,432,956	16,641,499
Total	**604,502,724**	**581,890,669**

As at 31 December 2018, TEŠ had 66.0% of its financial liabilities collateralised through a government guarantee and 20.5% through an HSE guarantee, while 13.5% of its financial liabilities were uncollateralised.

TEŠ pledged bank accounts and cash as collateral to secure the existing and future, actual and contingent liabilities of the pledger under the EBRD loan contract, or in accordance therewith, by pledging each of the secured accounts and cash amounts, including all pertaining interest thereon.

To secure the liabilities under the loan agreement – TEŠ Power Plant Šoštanj/B Finance Contract, FI No. 25.541 SI, concluded with the European Investment Bank for the purpose of financing Unit 6 (22 April 2010) in the amount of EUR 440 million, the Republic of Slovenia and the European Investment Bank concluded on 6 December 2012 a guarantee agreement in the amount of EUR 440 million.

As additional collateral:
- TEŠ pledged bank accounts and cash as collateral to secure the existing and future, actual and contingent liabilities of the pledger under the EBRD loan contract, or in accordance therewith, by pledging each of the secured accounts and cash amounts, including all pertaining interest thereon. The agreement was concluded on 3 February 2011 and is effective for the duration of the loan contract; and
- TEŠ assigned receivables as collateral for the entire repayment of all secured liabilities in the maximum principal amount of EUR 124,000,000 (balance of the principal amount as at 31 December 2018) plus interest, including default interest. A relevant agreement thereon was signed with EBRD. The agreement on the assignment of receivables was concluded on 3 February 2011 and is effective for the duration of the loan contract.

NOTE 18

Short-term financial liabilities — 43,052,681 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Short-term financial liabilities to group companies excluding interest	869,094	994,507
Short-term financial liabilities to banks excluding interest	42,179,402	42,179,402
Short-term financial liabilities to banks for interest	4,185	
Other short-term financial liabilities		25,000
Total	**43,052,681**	**43,198,909**

Movement of short-term financial liabilities

in EUR

	Short-term financial liabilities to group companies excluding interest	Short-term financial liabilities to banks excluding interest	Short-term financial liabilities to banks for interest	Other short-term financial liabilities	Total
Balance at 1/1/2018	**994,507**	**42,179,402**	**0**	**25,000**	**43,198,909**
Acquisition	869,094	10,516,155	17,988,561		29,373,810
Transfers from long-term liabilities		42,179,402			42,179,402
Short-term repayment	(994,507)	(10,516,155)	(17,984,376)	(25,000)	(29,520,038)
Long-term repayment		(42,179,402)			(42,179,402)
Balance at 31/12/2018	**869,094**	**42,179,402**	**4,185**	**0**	**43,052,681**
Balance at 1/1/2017	**1,026,417**	**30,169,561**	**881**	**0**	**31,196,859**
Acquisition	20,994,507	7,500,000	19,086,974	25,000	47,606,481
Transfers from long-term liabilities		42,179,402			42,179,402
Transfer to long-term liabilities	(20,000,000)				(20,000,000)
Short-term repayment	(1,026,417)	(10,910,000)	(19,087,855)		(31,024,272)
Long-term repayment		(26,759,561)			(26,759,561)
Balance at 31/12/2017	**994,507**	**42,179,402**	**0**	**25,000**	**43,198,909**

Short-term financial liabilities as at 31 December 2018 refer to the principal amounts of loan contracts concluded with EIB and EBRD in the amount of EUR 42,179,402, which fall due for payment in the next 12 months, to liabilities arising from interest on a short-term loan in the amount of EUR 4,185 (BKS bank), and to liabilities to HSE under guarantees in the amount of EUR 869,094.

In 2018, interest rates under contracts concluded for short-term borrowings ranged from 4.15% p.a. (sum of the 3-month EURIBOR and the fixed interest rate margin of 4.15% but in total not less than 4.15% at the UniCredit bank) and up to 1.85% p.a. (sum of the 6-month EURIBOR and the interest rate margin of 1.85% but in total never less than 1.850% at the BKS bank).

”

Payables to Group companies include payables to Premogovnik Velenje d.d. for supplied quantities of coal for electricity and thermal energy ...

“

NOTE 19

Short-term operating liabilities

12,580,939 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Short-term operating liabilities to Ggroup companies	7,518,360	17,119,831
Short-term operating liabilities to suppliers	5,062,579	7,425,273
Total	**12,580,939**	**24,545,104**

Short-term operating liabilities to Group companies

in EUR

Slovenia	31 Dec 2018	31 Dec 2017
HSE	94,889	118,411
DEM	57,538	
PV	6,835,900	16,610,821
HTZ I.P.	236,961	60,843
RGP	198,139	236,377
HSE Invest	94,933	56,155
Total	**7,518,360**	**17,082,607**

Payables to Group companies include payables to Premogovnik Velenje d.d. for supplied quantities of coal for electricity and thermal energy production in the period from 1 November 2018 to 31 December 2018 in the amount of EUR 1,573,200, payables for the purchase of a safety stock of coal in the amount of EUR 4,735,500, and payables to other services rendered in the amount of EUR 527,200. Payables for coal supplied are low due to early payments. Payables to Group companies for property, plant and equipment are recorded in the amount of EUR 505,425, and other payables to suppliers in the Group in the amount of EUR 177,035.

As at 31 December 2018, the Company disclosed EUR 174,395 of due and outstanding trade payables (maturity up to 3 months). Payables by maturity are presented in section 2.10.2. All liabilities are generally settled by the Company within agreed deadlines.

NOTE 20

Other short-term liabilities

36,471,069 EUR

in EUR

	31 Dec 2018	31 Dec 2017
Short-term operating liabilities to employees	1,565,248	1,388,627
Short-term operating liabilities to state and other institutions	4,878,693	5,250,986
Short-term operating liabilities to others	228,861	153,039
Short-term accrued costs and expenses	29,798,267	29,093,159
Total	**36,471,069**	**35,885,811**

Other short-term operating liabilities include salaries and other employment-related emoluments payable to employees for the month of December 2017 in the amount of EUR 936,289, which were paid on 15 January 2018, and accrued costs of unused annual leaves at the end of 2018, which amount to EUR 628,959.

Payables to state and other institutions amount to EUR 4,878,693. The environmental tax for CO_2 emissions accounts for the major portion of liabilities. The anticipated liabilities for 2017 amount to EUR 3,929,900 (1 coupon/1 ton of CO_2). The purchase of emission coupons was carried out in March 2019.

Short-term accrued costs are presented by the Company in the amount of EUR 22,705,647 at the price set in the Contract for the purchase of CO_2 emission coupons, less the portion recorded under payables to the state.
The accrued costs also comprise costs of interest in the amount of EUR 4,809,274, and costs in the amount of EUR 1,686,925 based on accrued costs of suppliers and other costs, and accounted employee benefits expense arising under job performance in the amount EUR 596,421.

As at 31 December 2018, the Company recorded EUR 174,395 of past due and outstanding payables to suppliers. All past due liabilities were settled by 31 January 2019. Liabilities by maturity are presented in section 4.11.2.

The Company generally settles all its liabilities within the agreed deadlines.

The Company generally settles all its liabilities within the agreed deadlines.

Contingent assets **4,881,779 EUR**

in EUR

	31 Dec 2018	31 Dec 2017
Received bank guarantees for regular business	545,346	1,529,446
Received bank guarantees for investments	4,336,433	3,060,688
Total	**4,881,779**	**4,590,134**

Recorded under contingent assets are received bank performance bonds, guarantees for repairs in the warranty period, and guarantees for advance payments. The decrease in received bank guarantees for regular business operations relative to the previous year, refers to the expired guarantees under completed deals.
The bank guarantees for investments have increased over the previous year due to received new guarantees for repairs in the warranty period.

2.9.2 NOTES TO THE INCOME STATEMENT

NOTE 1

Revenue **196,812,775 EUR**

in EUR

	2018	2017
Generated in domestic market	**196,738,895**	**204,835,325**
Electricity	190,102,975	199,053,765
Thermal energy	5,985,749	5,066,830
Other products	85,192	37,196
Other merchandise and material	138,348	101,185
Other services	426,631	576,349
Generated in foreign markets	**73,880**	**116,350**
Other merchandise and material	73,880	116,350
Total	**196,812,775**	**204,951,675**

Revenue from sales was recorded at invoiced amounts and show a decline by nearly 4% relative to the previous year. The major portion of revenue (99.7%) was generated through the sale of electricity and thermal energy. Revenue generated through the sale of electricity decreased if compared to 2017, which is attributable to the lower volume of electricity sold. Higher revenue from thermal energy reflect the higher price of this type of energy.

Revenue from sales in terms of the moment of recognition:

in EUR

	2018	2017	Recognition
Generated in domestic market	**196,738,895**	**204,835,325**	
Electricity	190,102,975	199,053,765	upon supply
Thermal energy	5,985,749	5,066,830	upon supply
Other products	85,192	37,196	upon supply
Other merchandise and material	138,348	101,185	upon supply
Other services	426,631	576,349	when rendering the service
Generated in foreign markets	**73,880**	**116,350**	
Other merchandise and material	73,880	116,350	upon supply
Total	**196,812,775**	**204,951,675**	

in EUR

Contract assets/liabilities relating to IFRS 15 adoption	31 Dec 2018	1 Jan 2018
Long-term operating receivables	56.879	68.895
Short-term operating receivables	9.380.115	28.232.241
Contract assets	26.238.324	26.016.297
Contract liabilities	0	0

NOTE 2

Other operating income 3,702,631 EUR

in EUR

	2018	2017
Income on reversal of provisions	2,917,585	505,878
Utilisation of deferred income	45,335	58,102
Reversal of impaired receivables	82	14,523
Revenue from damages and contractual penalties	663,237	931,023
Interest on late payments	735	
Profit on sale of fixed assets	46,690	431,873
Other	28,967	33,307
Total	**3,702,631**	**1,974,706**

The highest share within the structure of other operating income refers to the income from reversal of provisions for damages paid to the municipalities Šoštanj and Šmartno ob Paki, which were formed in 2016. Income from damages recorded in 2018 comprise also income on damages arising on unrepaired errors in the warranty period relating to Unit 6 and damages received in connection with the favourable procedure outcome held at the Financial Administration of the Republic of Slovenia (FURS).

NOTE 3

Costs of goods, materials and services 129,360,505 EUR

in EUR

	2018	2017
Costs of material	118,216,840	121,055,511
Costs of services	11,143,665	9,872,925
Total	**129,360,505**	**130,928,436**

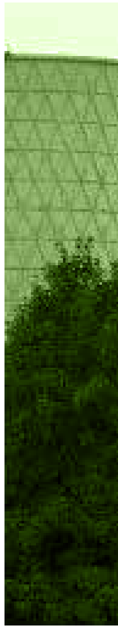
	2018	2017
Costs of material	113,855,933	119,457,528
Costs of auxiliary material	1,277,230	376,221
Energy costs	129,494	174,891
Costs of spare parts	2,788,624	894,421
Small tools	127,254	106,576
Office supplies and specialized literature	27,249	28,286
Other	11,056	17,588
Total costs of material	**118,216,840**	**121,055,511**
Costs of services in creating products	1,341	7,653
Costs of transportation	44,451	36,176
Maintenance	4,301,928	4,143,287
Rentals	705,340	928,924
Refund of work-related costs to employees	15,679	11,692
Insurance costs and bank services	1,447,416	1,389,349
Costs of professional and intellectual services	1,179,873	1,609,185
Costs of fairs, advertising and entertainment	4,885	2,324
Costs of services rendered by individuals	13,195	3,299
Sewage and disposal services	507,671	277,086
Costs of arranging the waste desposal sites	2,119,262	1,194,349
Other	802,624	269,601
Total costs of services	**11,143,665**	**9,872,925**
Total	**129,360,505**	**130,928,436**

The major portion of costs of material include coal consumption in the amount of EUR 103,881,950 as an energy generating product in the production of electricity and thermal energy. In addition to coal, the Company also used gas to produce electricity.

Costs of auxiliary material and costs of spare parts relate to the use of this material for maintenance works performed in appliances and equipment. Costs of materials and spare parts increase over the 2017 balance, primarily due to material used for the overhaul of Units 5 and 6, which was transferred via capitalisation to the production equipment's value.

During an inventory count of materials, no surpluses or deficits were established.

Costs of services involving the maintenance of plants and equipment comprise costs of regular maintenance in the amount of EUR 4,301,928.



Costs of auditors

in EUR

	2018	2017
Audit of the annual report	22,000	21,995
Other non-audit costs	1,500	1,500
Total	**23,500**	**23,495**

The contract value of the audit performed by KPMG Slovenija is recorded at EUR 22,000 and EUR 1,500 for the review of the Report on relations with affiliated companies.

NOTE 4

Employee benefits expense **13,538,495 EUR**

in EUR

	2018	2017
Wages and salaries	9,258,406	8,227,894
Pension insurance costs	1,255,315	1,214,238
Other insurance costs	661,395	614,756
Other labour costs	2,363,379	1,467,426
Total	**13,538,495**	**11,524,314**

	At 1 Jan 2018	At 31 Dec 2018	Average number of employees in 2018
1	4	2	3
2	15	13	14
3	12	12	12
4	81	81	81
5	114	121	118
6/1	50	50	50
6/2	13	14	14
7	15	13	14
8/1	6	6	6
Total	**310**	**312**	**311**

Employee benefits expense is based on the collective agreement and individual employment contracts.

Employee benefits expense is based on the collective agreement and individual employment contracts. Salaries are comprised of the basic pay, allowances (for less favourable working hours, environmental impacts, etc.), and the incentive bonus.

Continued pay of employees includes compensations for sick leave, annual leave, training, and other. Employees are entitled to compensation either on the basis of the Employment Relations Act, the Entrepreneurial Collective Agreement, or individual employment contracts.

Costs of supplementary pension insurance relate to the co-funding of the pension scheme by the employer under the Contract on the creation of a supplementary pension insurance scheme, concluded between Termoelektrarna Šoštanj d.o.o. and the TPP Šoštanj trade union. The pension scheme, labelled PN1, is managed by the insurance company Modra zavarovalnica d.d., Ljubljana.

Other employee earnings, benefits and refunds include vacation bonuses, termination pay upon termination of employment contracts, and other. The costs of meal allowance are also recorded under this item.

NOTE 5

Write-downs in value 55,237,805 EUR

in EUR

	2018	2017
Amortisation of intangible assets	58,448	59,684
Depreciation of property, plant and equipment	36,534,409	36,064,384
Imapirment/Allowances for or write-off of receivables		4,876
Imapirment/Allowances for or write-off of inventories	106,718	
Impairment of property, plant and equipment and intangible assets	18,489,038	
Write-offs of property, plant and equipment	34,830	
Sale of property, plant and equipment and investment property	14,362	12,004
Total	**55,237,805**	**36,140,948**

The depreciation/amortisation expense in the 2018 financial year totalled EUR 36,738,781 and is accounted for at depreciation/amortisation rates determined on the basis of valuation or impairment in previous years, or in line with the expected useful life of assets. Impairments carried out in connection with property, plant and equipment are outlined in Note 2. Most of write-offs of inventories includes spare parts for the Unit 4, that can no longer be used due to the latter's shut-down.

Most of write-offs of inventories includes spare parts for the Unit 4, that can no longer be used due to the latter's shut-down.

NOTE 6

Capitalised own products and services 2,486,881 EUR

in EUR

	2018	2017
Capitalised own products and own services	2,486,881	156,179
Total	**2,486,881**	**156,179**

Capitalised own products and services comprise material in the amount of EUR 2,054,320 and own services in the amount of EUR 432,561 rendered during the overhaul of the Units 6 and 5.

NOTE 7

Other operating expenses 37,891,491 EUR

in EUR

	2018	2017
Fee for building site use	8,063,778	6,290,365
Environmental charges	27,349,788	27,616,153
Donations	1,756,693	6,055
Other operating expenses	721,232	410,543
Total	**37,891,491**	**34,323,116**

Most of other operating expenses include environmental protection expenditure, which represent the value of emission coupons in the amount of EUR 26,511,423. The Company produced 3,929,900 tons of CO_2 in the financial year. According to the Environmental Protection Act, the Company is required to hand over emission coupons to the state by 30 April 2019.

Compared to the previous year, the relevant expenses are higher by the costs of using the building land (Municipality of Velenje) and donations that were made to the municipalities of Šoštanj and Šmartno ob Paki.

NOTE 8

Finance income 53,448 EUR

in EUR

	2018	2017
Dividends and other profit shares		104,000
Finance income on loans granted and deposits	751	107
Finance income on sale of investments	52,697	258,071
Total	**53,448**	**362,178**

NOTE 9

Finance costs 25,556,741 EUR

in EUR

	2018	2017
Interest expenses	19,398,443	20,527,780
Other finance costs	6,158,298	6,594,306
Total	**25,556,741**	**27,122,086**

Costs for financial liabilities comprise interest expenses for long-term and short-term borrowings from banks in the total amount of EUR 17,544,660, and costs arising from loans raised with Group companies in the amount of EUR 1,853,783.

Other finance costs primarily include expenses for government guarantees for the investment in Unit 6 in the amount of EUR 5,115,578, for HSE guarantees in the amount of EUR 869,094, and other costs arising from long-term borrowings with foreign banks.

NOTE 10

Taxes

in EUR

	2018	2017
Profit or loss before tax	(58,529,301)	(32,594,162)
Tax calculated at applicable tax rate	(11,120,567)	(6,192,891)
Tax on income reducing tax base	(14,693)	(158,400)
Tax on expenses reducing tax base	(30,913)	(43,153)
Tax on non-deductible expenses	586,141	138,127
Tax effect of non-deductible deferred receivables for tax losses	10,580,032	6,256,317
Current tax	**0**	**0**
Deferred tax expense	**0**	**0**
Total tax	**0**	**0**
Effective tax rate	**0.00%**	**0.00%**

In line with the Corporate Income Tax Act, the Company prepared a corporate income tax return for the period from 1 January 2018 to 31 December 2018 and established that due to the loss recorded in the period, the Company is not required to record tax liabilities.

As at 31 December 2018, the tax loss brought forward amounts to EUR 683,478,511, whereof EUR 90,219,624 is from 2014, EUR 457,971,336 is the tax loss for the 2015 financial year, EUR 46,799,377 is the tax loss from 2016, EUR 32,820,932 refers to the tax loss from 2017, and EUR 55,667,242 to the tax loss from 2018.

The future taxable profits being uncertain, the Company did not create deferred tax assets.

NOTE 11

Profit or loss for the period **(58,529,301) EUR**

in EUR

	2018	2017
Gross operating yield	200,515,405	206,926,381
Operating profit or loss	(33,026,009)	(5,834,254)
Financial result	(25,503,292)	(26,759,908)
Profit or loss before tax	(58,529,301)	(32,594,162)
Loss for the period	**(58,529,301)**	**(32,594,162)**

Gross profit from operating activities comprises revenue from sales and other operating income.

2.9.3 NOTES TO THE STATEMENT OF OTHER COMPREHENSIVE INCOME

In the statement of other comprehensive income, the Company discloses actuarial gains from termination benefits upon retirement based on an actuarial calculation of liabilities from provisions for jubilee benefits and termination benefits upon retirement and their reversal to the debit of retained profit or loss for the period.

2.9.4 NOTES TO THE STATEMENT OF CASH FLOWS

The Company managed liquidity risk by the careful planning of cash flows, time coordination of receivables and liabilities, and the sound management of free cash.

The cash flow statement for 2018 is prepared using the indirect method and comprises all cash receipts and cash payments in the period from 1 January 2018 to 31 December 2018.

Breakdown of cashflows:

in EUR

	2018	2017
Cash flows from operating activities	21,802,596	22,873,202
Cash flows from investing activities	(20,352,695)	(14,308,233)
Cash flows from financing activities	(1,104,472)	(8,413,825)
Cash flow for the period	**345,429**	**151,145**

As disclosed in the statement of cash flows using the indirect method, net cash from operating activities in 2018 amounted to EUR 21,802,596, of which EUR 20,352,695 were used for investing activities and EUR 1,104,472 were used for financing activities.

For the purpose of managing liquidity, the Company had to implement the following measures:
- careful planning and analysis of cash flows,
- measures for streamlining regular business operations.

The Company managed liquidity risk by the careful planning of cash flows, time coordination of receivables and liabilities, and the sound management of free cash. The Company provided for short-term solvency in the above-mentioned period by the efficient and careful management of cash, as well as the systematic planning and monitoring of cash flows. Within the scope of regular operations in 2018, the Company's liquidity was managed by regular and early payments of invoices for supplied electricity, utilisation of advance payments for lease of power, and utilisation of short-term and long-term loans.

2.9.5 STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity shows the changes in equity components in the reporting period. The Company prepares the statement of changes in equity in the form of a composite spreadsheet.

Accumulated profit or loss

in EUR

	2018	2017
Profit or loss for the period	(58,529,301)	(32,594,162)
Retained earnings or losses	(214,368,716)	(181,791,661)
Accumulated profit or loss	**(272,898,017)**	**(214,385,823)**

OTHER DISCLOSURES

2.9.6 RELATED PARTIES

in EUR

	Sales	Purchases	Loans received with interests
HSE	190,235,576	29,652,618	87,547,901
DEM	24,118	47,162	
HSE- ED Trbovlje		177,375	
PV	14,682	105,362,851	
HTZ I.P.	433	1,190,186	
RGP	3,338	1,103,586	
HSE Invest	7,166	327,595	
SIPOTEH		2,129	
Total 2018	**190,285,313**	**137,863,502**	**87,547,901**

Related parties include subsidiaries, associated companies and jointly controlled entities, which the Company controls directly or indirectly through its subsidiaries.

Related parties include subsidiaries, associated companies and jointly controlled entities, which the Company controls directly or indirectly through its subsidiaries. Related parties comprise also companies, where the government owns the majority equity interest and with which the Company recorded no transactions in 2018.

The sales and purchase columns show all transactions (excl. VAT), including interest on borrowings and costs of guarantees, between TEŠ and related companies in 2018.

Borrowings are presented as at 31 December 2018 (principal + interest).

The balance of outstanding trade receivables due from related parties is disclosed under 2.10.1, and the balance of outstanding trade payables under 2.10.2.

Sales prices and purchase prices for services are defined in line with the applicable internal pricelist of HSE Group companies, while rents and sales prices of electricity are defined using the cost-plus method. The purchase price of coal is defined using the cost-plus method.

2.9.7 REMUNERATION

Information regarding the Management Board and staff employed under individual employment contracts that are not subject to the tariff part of the collective agreement is presented below.

Remuneration of management Board members

in EUR

	Gross salary	Other earnings	Bonuses	Refund of costs	Total
Members of the Management Board	128,290	4,594	7,659	934	141,477
Employees who are not subject to the tariff part of the collective agreement	151,668	22,721	357	3,816	178,562
Total 2018	**279,958**	**27,315**	**8,016**	**4,750**	**320,039**
Members of the Management Board	107,002	4,179	6,814	1,700	119,695
Employees who are not subject to the tariff part of the collective agreement	150,633	13,534	279	5,025	169,471
Total 2017	**257,635**	**17,713**	**7,092**	**6,726**	**289,166**

Remunerations of Management Board members and other employees who are not subject to the tariff part of the collective agreement comprise:
- gross earnings according to the pay-out principle,
- other earnings,
- premiums paid for voluntary supplementary pension insurance, and
- refunds.

Earnings of Management Board members

in EUR

	Gross salary	Other earnings	Bonuses	Refund of costs	Total
Arman Koritnik	128,290	4,594	7,659	934	141,477
Total	**128,290**	**4,594**	**7,659**	**934**	**141,477**

2.9.8 OPERATING LEASE

The Company records computer hardware and software, land, and other items under operating lease.
The table below shows the liabilities arising from operating lease under notice of termination, which provides for the smallest lease payments.

in EUR

	31 Dec 2018	31 Dec 2017
Less than one year	339,245	459,075
Total	**339,245**	**459,075**

The costs of operating lease amounted to EUR 705,340 in 2018.

2.10 FINANCIAL INSTRUMENTS AND RISKS

This section is linked to section 2.3.11 of the accounting report and also to section 1.12 of the management report on financial risks.

2.10.1 CREDIT RISK

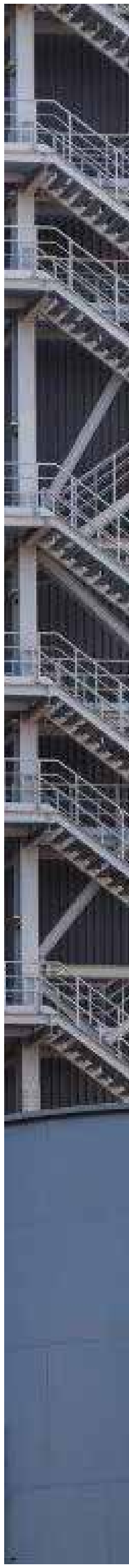
Credit risk is the risk of failure of the counterparty to settle its liabilities. In addition to failure to pay, we also risk failure to settle other non-financial liabilities. The consequence of risk is the lack of liquid assets. The consequences could be the non-payment of liabilities to suppliers and the cessation of works, as well as the costs of default interest.

With regard to business credit risk, the Company assesses that the probability of risk is low, while the impact on the Company's operations is medium high. The risk management instruments comprise verification of credit ratings of business partners, conclusion of long-term contracts and, on the basis thereof, annual contracts with elements of securing receivables, such as blank bills of exchange.

Receivables from the sale of thermal energy are secured with a blank bill of exchange. Advances receivables in the amount of EUR 269,208 are secured with a bank guarantee.

All the overdue advances-related receivables refer to advances receivable from Primorje d.d. (in bankruptcy) in the amount of Eur 206,731, for which allowances were created in the past.

Other overdue and outstanding trade receivables include rents receivable from apartment leases, receivables from RCE Velenje for a cashed bank guarantee in the amount of EUR 108,012, which were registered against the bankruptcy assets, and receivables from Habit Velenje for unpaid rents receivable from apartment leases in the amount of EUR 45,430.53, and other.



Long-term receivables by maturity

in EUR

	Due date			
	Up to 2 years after the date of the statement of financial position	3 to 5 years after the date of the statement of financial position	Over 5 years after the date of the statement of financial position	Total
Long term advances	10,147	28,440	18,292	56,879
Total 31/12/2018	**10,147**	**28,440**	**18,292**	**56,879**

	Due date			
	Up to 2 years after the date of the statement of financial position	3 to 5 years after the date of the statement of financial position	Over 5 years after the date of the statement of financial position	Total
Long term advances	10.146	29.440	27.439	67.025
Other long-term receivables	1.869			1.869
Total 31/12/2017	**12.015**	**29.440**	**27.439**	**68.894**

Short-term operating and financial receivables by maturity

in EUR

		Due date			
	Not yet due	Overdue up to 3 months (90 days)	Overdue 6 to 9 months (181 to 270 days)	Overdue more than one year (more than 361 days)	Total
Short term deposits to others	12,887,971				12,887,971
Short-term operating receivables due from Group companies	5,620,125				5,620,125
Short-term trade receivables	1,986,517	155,226		151,118	2,292,861
Short term advances	946,308			206,731	1,153,039
Short-term operating receivables to state and other institutions	588,564				588,564
Short-term operating receivables due from others	83,376			509,040	592,416
Total 31/12/2018	**22,112,861**	**155,226**	**0**	**866,889**	**23,134,976**

		Due date			
	Not yet due	Overdue up to 3 months (90 days)	Overdue 6 to 9 months (181 to 270 days)	Overdue more than one year (more than 361 days)	Total
Short term deposits to others	13,227,905				13,227,905
Short-term operating receivables due from Group companies	21,277,316	13,200			21,290,516
Short-term trade receivables	3,452,388	40,994	363	151,116	3,644,861
Short term advances	2,254,403			206,731	2,461,134
Short-term operating receivables to state and other institutions	1,189,902				1,189,902
Short-term operating receivables due from others	2,106			509,042	512,716
Total 31/12/2017	**41,404,020**	**54,194**	**363**	**866,889**	**42,327,034**

Other receivables do not require collateralisation due to their specificity.

Receivables for advances given in the amount of EUR 530,022 refer to the production parts of Unit 6. Other receivables for advances given refer to receivables due from Primorje d.d. (in bankruptcy) in the amount of EUR 206,731, receivables due from advances given for securing excise-related liabilities in the amount of EUR 132,265, and receivables due from other advances in the amount of EUR 341,666. Receivables for advances given to Primorje d.d. (in bankruptcy) in the amount of EUR 206,731 are registered against the bankruptcy estate and have been, on the basis of a court settlement, classified in the bankruptcy assets under ordinary receivables. The mentioned receivables were impaired by the Company in 2013.

As at 31 December 2018, the Company recorded past due trade receivables in a total amount of EUR 176,102. Past due and outstanding trade receivables refer to receivables arising from a cashed guarantee due from RCE d.o.o. Velenje in the amount of EUR 108,012, receivables due from Habit Velenje for apartment rents in the amount of EUR 45,430, receivables due from RGP Velenje in the amount of 29,700, and other trade receivables in the amount of EUR 22,660.

Receivables due from RCE d.o.o. were in September 2015 registered against the bankruptcy estate.

The Company assesses the credit risk is manageable as its conducts business operations with known buyers that regularly settle their liabilities.

Movement of allowances for short-term operating receivables

in EUR

	2018	2017
Balance at 1/1	**866,889**	**876,339**
Collected written-off receivables		(1,710)
Formation of allowances for receivables		1,065
Final write-down of recevables		(8,805)
Balance at 31/12	**866,889**	**866,889**

The Company establishes that the current internal policy of forming allowances and impairing operating receivables is appropriate and that the application of the disclosure-related guidelines under IFRS 9 in view of the expected credit loss (ECL) on trade receivables has no significant impact on the fair presentation of the Company's assets and indicates that it allowances formed for short-term operating receivables were appropriately disclosed and formed already in the past. Pursuant to the aforesaid and the internal rules of forming allowances, the Company formed no new doubtful receivables in 2018.

The Company assesses the credit risk is manageable as its conducts business operations with known buyers that regularly settle their liabilities. The largest buyer is the controlling company HSE d.o.o., which purchases the total produced electricity.

2.10.2 LIQUIDITY RISK

Liquidity is a condition for the Company's solvency and at the same time its ability for the timely settlement of overdue liabilities. By providing an optimal financial structure of operations in the framework of financial leverage, we ensure safe operations alongside the lowest costs of the financial structure. A deficit of liquidity assets results in unpaid, overdue liabilities. The probability that the Company would face liquidity problems is medium high, while the impact on the Company's liquidity is high. The liquidity risk management instrument is the careful planning of cash flows on a daily, monthly and annual basis. The appropriate time co-ordination of receivables and liabilities and, in particular, ensuring adequate sources of financing investments are of key importance. As regards current liquidity, the Company has established appropriate credit lines for short-term liquidity management. The Company had a short-term loan raised with UniCredit bank, a bullet loan in the amount of EUR 7.5 million and a short-term revolving loan in the amount of EUR 5 million with the BKS bank, both of which were repaid by the end of the year. To manage current liquidity, the raising of a short-term loan with a business bank in a total amount of EUR 5.0 million is foreseen in 2019.

As at 31 December 2018, the Company recorded EUR 174,395 in overdue and outstanding liabilities to suppliers. All overdue liabilities were settled by 31 January 2019.

Long-term operating and financial liabilities by maturity

in EUR

	Due date			
	Up to 2 years after the statement of financial position date	3 to 5 years after the statement of financial position date	Over 5 years after the statement of financial position date	Total
Long-term financial liabilities to due from Group companies			81,432,956	81,432,956
Long-term financial liabilities for interest to due from Group companies			5,245,851	5,245,851
Long-term financial liabilities to banks	42,179,402	117,966,777	320,744,187	480,890,366
Total 31/12/2018	**42,179,402**	**117,966,777**	**407,422,994**	**567,569,173**

	Due date			
	Up to 2 years after the statement of financial position date	3 to 5 years after the statement of financial position date	Over 5 years after the statement of financial position date	Total
Long-term financial liabilities to due from Group companies			16,641,499	16,641,499
Long-term financial liabilities to associates			3,392,068	3,392,068
Long-term financial liabilities to banks	42,179,402	123,681,064	357,209,302	523,069,768
Total 31/12/2017	**42,179,402**	**123,681,064**	**377,242,869**	**543,103,335**

Short-term operating and financial liabilities by maturity

in EUR

		Due date					
	Not yet due	Overdue up to 3 months (90 days)	Overdue 3 to 6 months (91 to 180 days)	Overdue 6 to 9 months (181 to 270 days)	Overdue 9 to 12 months (271 to 360 days)	Overdue more than one year (more than 361 days)	
Short-term financial liabilities to due from Group companies	869,094						869,094
Short-term financial liabilities to banks	42,183,587						42,183,587
Short-term operating liabilities to due from Group companies	7,518,360						7,518,360
Short-term trade liabilities	4,888,184	174,395					5,062,579
Short-term operating liabilities to employees	1,565,248						1,565,248
Short-term operating liabilities to state and other institutions	4,878,693						4,878,693
Other short-term operating liabilities	825,281						825,281
Total 31/12/2018	**62,728,447**	**174,395**	**0**	**0**	**0**	**0**	**62,902,842**

in EUR

		Due date					
	Not yet due	Overdue up to 3 months (90 days)	Overdue 3 to 6 months (91 to 180 days)	Overdue 6 to 9 months (181 to 270 days)	Overdue 9 to 12 months (271 to 360 days)	Overdue more than one year (more than 361 days)	Total
Short-term financial liabilities to due from Group companies	994,507						994,507
Short-term financial liabilities to banks	42,179,402						42,179,402
Other short-term financial liabilities	25,000						25,000
Short-term operating liabilities to due from Group companies	17,119,831						17,119,831
Short-term trade liabilities	7,389,066	36,207					7,425,273
Short-term operating liabilities to employees	1,388,627						1,388,627
Short-term operating liabilities to state and other institutions	5,250,986						5,250,986
Other short-term operating liabilities	153,039						153,039
Total 31/12/2017	**74,500,458**	**36,207**	**0**	**0**	**0**	**0**	**74,536,665**

The risk of delayed capital increase was managed by the conclusion of a short-term and a long-term borrowing with HSE, as well as by optimising liquidity and business operations. This risk was assessed as having been adequately managed in 2018.

2.10.3 INTEREST RATE RISK

Interest rate risk is the risk that changes in the interest rate will be unfavourable for the Company. It occurs mainly in borrowing, as the price of money depends on the level of market interest rates. The growth of interest rate results in the risk of failure to settle annuities due to inadequate liquidity reserves. The risk is assessed as very low and manageable, since the Company has established a policy of hedging against interest rate risks. Possible interest rate hedging instruments include a fixed interest rate with the lender, which the Company is already partly applying in connection with financial borrowings.

Possible interest rate hedging instruments include a fixed interest rate with the lender, which the Company is already partly applying in connection with financial borrowings.

The Company was exposed to the following interest rate risks (only instruments that affect profit or loss are taken into account):

Financial instruments – balances

in EUR

Financial instruments with variable interest rate	2018	2017
Financial liabilities	72,850,000	85,607,143
Total	**72,850,000**	**85,607,143**

Sensitivity analysis of cash flow in instruments with a variable interest rate

in EUR

Financial instrument	Profit or loss for 2018		Profit or loss for 2017	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial instruments with variable interest rate	(431,657)	418,121	(458,344)	445,341
Financial liabilities	(431,657)	418,121	(458,344)	445,341

A change in variable interest rate by 50 base points (bp) at the reporting date would increase (decrease) the net profit or loss by the values indicated below.
For loans concluded at the Euribor interest rate, we observed the mark-up +/-0.50 bp over the currently determined Euribor market interest rate for individual interest periods in 2018.

2.10.4 CAPITAL MANAGEMENT

The main purpose of capital management is to ensure the best possible credit rating and capital adequacy for the purposes of financing operations and investments. An adequate volume of capital guarantees the Company the trust of creditors and market, as well as maintains the future development of activities.

The Company monitors changes in equity using the financial leverage ratio, which is calculated by dividing total net liabilities by total equity. Company's net liabilities include loans received and other financial liabilities less cash.

in EUR

	31 Dec 2018	31 Dec 2017
Long term financial liabilities	567,569,173	543,103,335
Short-term financial liabilities	43,052,681	43,198,909
Total financial liabilities	610,621,854	586,302,244
Capital	352,624,004	411,121,663
Financial liabilities/capital	**1,73**	**1,43**
Cash and cash equivalents	541,941	198,082
Net financial liability	610,079,913	586,104,162
Net debt/equity	**1,73**	**1,43**

The ratio worsened due to the negative operating result for the period.

2.10.5 FAIR VALUES

The Company assesses that the carrying amount of financial instruments is a sufficiently precise approximation of their fair value, which is why the fair values were not defined separately.

in EUR

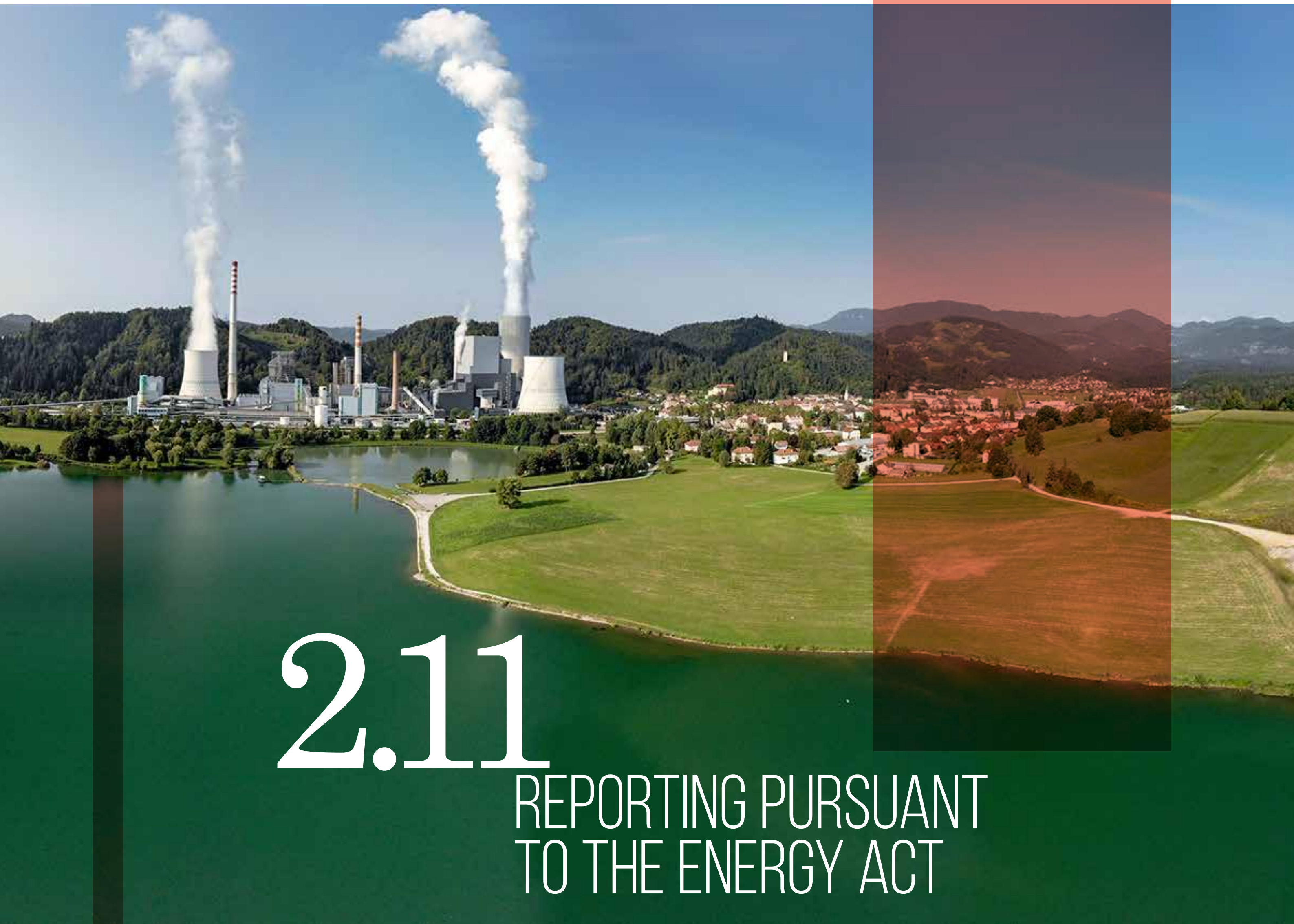
	31 Dec 2018		31 Dec 2017	
	Carriyng amount	**Fair value**	**Carriyng amount**	**Fair value**
Non-derivative financial assets at fair value	**107,860**	**107,860**	**500**	**500**
Financial assets at fair value through other comprehensive income	107,860	107,860	500	500
Non-derivative financial assets at amortised cost	**22,866,907**	**0**	**41,723,983**	**0**
Financial receivables	12,887,971	0	13,227,905	0
Operating receivables	9,436,995	0	28,299,566	0
Cash	541,941	0	196,512	0
Total	**22,974,767**	**107,860**	**41,724,483**	**500**
Derivative financial liabilities at fair value	**0**	**0**	**0**	**0**
Non-derivative financial liabilities at amortised cost	**630,588,915**	**0**	**617,808,112**	**0**
Bank loans	609,752,760	0	585,282,737	0
Other financial liabilities	869,094	0	1,019,507	0
Operating liabilities and other liabilities	19,967,061	0	31,505,868	0
Total	**630,588,915**	**0**	**617,808,112**	**0**

Financial assets at fair value by hierarchy

in EUR

	31 Dec 2018	31 Dec 2017
Financial assets at third-level fair value	500	500
Total	**500**	**500**

Short-term receivables and liabilities are recorded at carrying amount, which is considered as amortised cost.



2.11 REPORTING PURSUANT TO THE ENERGY ACT

2.11.1 ADDITIONAL DISCLOSURES BASED ON THE ENERGY ACT

According to the provisions of Article 109 of the Energy Act (EZ-1) and the Act on the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities (ZPFOLERD-1), the Company is required to keep separate financial statements for energy activities and for other activities.
The Company has specified in its Accounting Rules that it prepares separate financial statements for the following activities:
- electricity production,
- steam and hot water supply,
- canteen, and
- social standard,

which are market-oriented organisational parts of the Company that generate profit or loss through their operations.

The Šoštanj Thermal Power Plant records revenue and expenses of the Company in orders, cost centres (CC), and profit centres (PC). The Company's assets and liabilities are generally recorded by activity, while intangible assets, property, plant and equipment are also recorded in CCs. The majority of CCs and PCs belong directly to individual activities, while a portion of CCs is general, or indirect. In the classification of revenue and costs arising in the operations of the Company as a whole, or in the performance of two or more activities that cannot be directly classified, the Company makes use of allocation criteria/formulas. Allocation criteria/formulas are verified and corrected annually with respect to new facts.

The method of cost allocation by CC and determination of profit or loss by activity is based on methods of indirect cost allocation, which are a simple indirect cost distribution formula and cost allocation arising from empirical analyses, experience-based cognition, and the goals of the Company.

General costs and expenses as well as general revenue are allocated by activity on the basis of allocation criteria/agreed allocation formulas.

The Company has two types of general cost centres in place:
- general production cost centres,
- general cost centres of professional services.

Criteria for cost allocation to general production cost centres:

i. Costs that are collected at general production cost centres (coal transport, water preparation, ash and gypsum transport, production fleet, and laboratory) are allocated by TEŠ first to the business segment of steam and hot water supply, which consists of three profit centres. Costs relating to the functioning of the profit centre Thermal Station 1 and Thermal Station 2 (hereinafter: »TP 1« and »TP 2«) are, as of 1 January 2016, allocated pursuant to the allocation formula that observes the method of actually used primary energy and is recorded at 2.43 %, taking into account the share of thermal energy produced. The costs of the profit centre Thermal Station 3 (hereinafter: »TP 3«) are allocated pursuant to the allocation formula that observes the deferral of variable costs according to the method of equitable allocation of congregation effect of thermal energy production and is recorded at 2.61 %, taking into account the share of energy produced.

The residual costs are allocated to the business segment of electricity production and, within this segment, to profit centres based on the share of utilised coal.

ii. Costs that are collected at general production cost centres (technical department, mechanical maintenance, electrical maintenance, building Maintenance) are allocated by TEŠ first to the business segment of steam and hot water supply. Costs related to the operation of profit centres TP 1 and TP2 are since 1 January 2016 allocated according to the allocation formula that observes the method of actually used primary energy and is recorded at 2.43 %, taking into account the share of thermal energy produced. The costs of profit centre TP 3 are allocated pursuant to the allocation formula that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of thermal energy production and is recorded at 2.61 %, taking into account the share of electricity produced.

The residual costs are allocated to the business segment of electricity production and, within this segment, to profit centres based on the share of electricity produced.

iii. Costs collected at the general cost centres of professional departments are allocated to all four business segments by following three steps: (1) firstly, costs are allocated to the business segment Social standard (criterium – one average monthly salary of a bookkeeper in the commercial sector); (2) then, the residual costs are allocated to the business segment of steam and hot water supply by applying the allocation formulas presented in the first paragraph of item (b) actual findings; and (3) finally, the remaining costs are allocated to the business segment of electricity production and, within this profit centre, to the profit centres by taking into account the share of electricity produced.

As heat production with the gas unit at TEŠ is replacing heat production from TP 3 and thereby enabling TEŠ to provide a continuous supply of thermal energy, 39.6 % of the fixed costs of such a unit are allocated to the activity of steam and hot water supply (according to the methodology of dividing primary energy between thermal energy and electricity production).

The revenue of the Company is generally direct revenue and is broken down into operating and finance income. Operating revenue is direct revenue. Revenue generated through the performance of minor registered activities was recorded under the activity of electricity production due to the negligible revenue generated by these activities. Finance income is allocated to an activity directly. If direct allocation is not possible, it is allocated to the activities of electricity production and steam and hot water supply. Within the activity of steam and hot water supply, finance income was allocated:

- to TS 1-2 using the allocation formula that takes into account the method of actually utilised primary energy and the share of thermal energy produced;
- finance income was then allocated to the activity of electricity production and to individual PCs based on the electricity produced by individual PCs.

The Company's costs and expenses are broken down into operating and financial costs and expenses. Costs are divided by type, cost centre, and carrier. By natural type, the following costs are distinguished: costs of material, costs of services, costs of depreciation, employee benefits expense, other operating expenses, and finance costs.

Costs of material – energy products and other costs related to fuel consumption, were allocated to CCs and activities directly on the basis of actually consumed quantities. Costs of chemicals were mostly allocated directly to PCs on the basis of coal consumption. Chemicals whose consumption is recorded in general production CCs or in general CCs of professional services were allocated using the allocation formulas described in paragraph six of this section.

Maintenance costs (of material and services) are allocated directly to CCs and PCs. Maintenance costs whose consumption was recorded in general production CCs were allocated using the allocation formulas described in paragraph six of this section.

Other costs of material, services and other expenses are allocated directly to CCs and PCs. Other costs, such as expenditures for emission coupons, are allocated to activities directly (Report on quantities of CO_2 emissions from combustion and processing activities at TEŠ). The costs recorded in production CCs or in the general cost centres of professional services are allocated using the allocation formulas described in paragraph six of this section.

Depreciation costs are allocated to CCs, PCs and activities directly on the basis of records from the register of fixed assets. The depreciation costs of Unit 6 are recorded in general production CCs, which means that they are allocated to TP 3 using the allocation formula that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of thermal energy production (2.61 %), taking into account the share of electricity produced. The depreciation costs recorded in indirect CCs are allocated using relevant allocation formulas for indirect CCs.

Employee benefits expense is allocated directly to CCs as defined by the human resources department. A specific method is used to allocate employee benefits expense to the activity of steam and hot water supply, where the employee benefits expense of a locksmith at Unit 4 or 5 or of one worker (locksmith) is allocated to TP 3, and two average annual salaries of on-duty locksmiths are allocated to TP 3 (Unit 6, RDP of Unit 6, etc.). Employee benefits expenses recorded under indirect CCs are allocated using the relevant allocation formulas for indirect CCs.

Finance costs are allocated to CCs, PCs, and activities directly. The finance costs recorded in indirect CCs are allocated using the relevant allocation formulas for indirect CCs. Financial expenses for loans raised with foreign banks for financing the construction of Unit 6, which are allocated to the activity of steam and hot water supply using the allocation formula that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of thermal energy production (2.61 %), taking into account the share of electricity produced.

Intangible long-term assets are allocated to activities on the basis of their definition in the register of fixed assets. They are generally recorded under direct CCs.

Property, plant and equipment are allocated on the basis of data in the register of fixed assets.
Property, plant and equipment that are recorded in the fixed assets register under the CC of Unit 6 are allocated to the activity of steam and hot water supply using the allocation formula that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of thermal energy production (2.61 %), taking into account the share of electricity produced.

Inventory of equipment that is not subject to depreciation is recorded within the activity of electricity production.
Property, plant and equipment being acquired are allocated to activities in accordance with the investment programme.

Investments, receivables, and loans are allocated to activities on the basis of the document from which the investment, receivable, or loan is derived. An activity that cannot be precisely defined is allocated to the activity of electricity production.

Trade receivables are allocated on the basis of an open accounts balance directly to the activity to which they relate. Other receivables and assets held for sale are allocated directly to the activity. If this is not possible, the activity of electricity production is determined as the carrier of receivables.

Inventories of energy products are allocated to the activity of electricity production, and the safety stock of coal is allocated to the activity of electricity and thermal energy using the relevant allocation formula. Inventories of material of the canteen activity are allocated to other activities. Other inventories of material, including inventories of spare parts, are allocated to the activities of electricity production and steam and warm water supply based on the share of material consumed in the regular maintenance of devices.

Other assets are allocated directly to the activity. If this is not possible, the activity of electricity production is determined as the carrier of assets.

Cash is allocated directly to the activity. If this is not possible, the activity of electricity production is determined as the carrier of assets.

Equity is allocated to activities on the basis of established differences between assets and liabilities as at 31 December 2000 (preparation of SFP – opening balance sheet by activity). A portion of the share capital and pertaining capital surplus (equity revaluation adjustment) is allocated to the activity. The equity of an activity is reduced by the established loss for the current year and the uncovered loss of previous years or increased by the established profit and capital increase.

Long-term provisions and long-term deferred revenue are, according to the balance at the reporting date, allocated to activities based on the purpose of the creation of provisions.

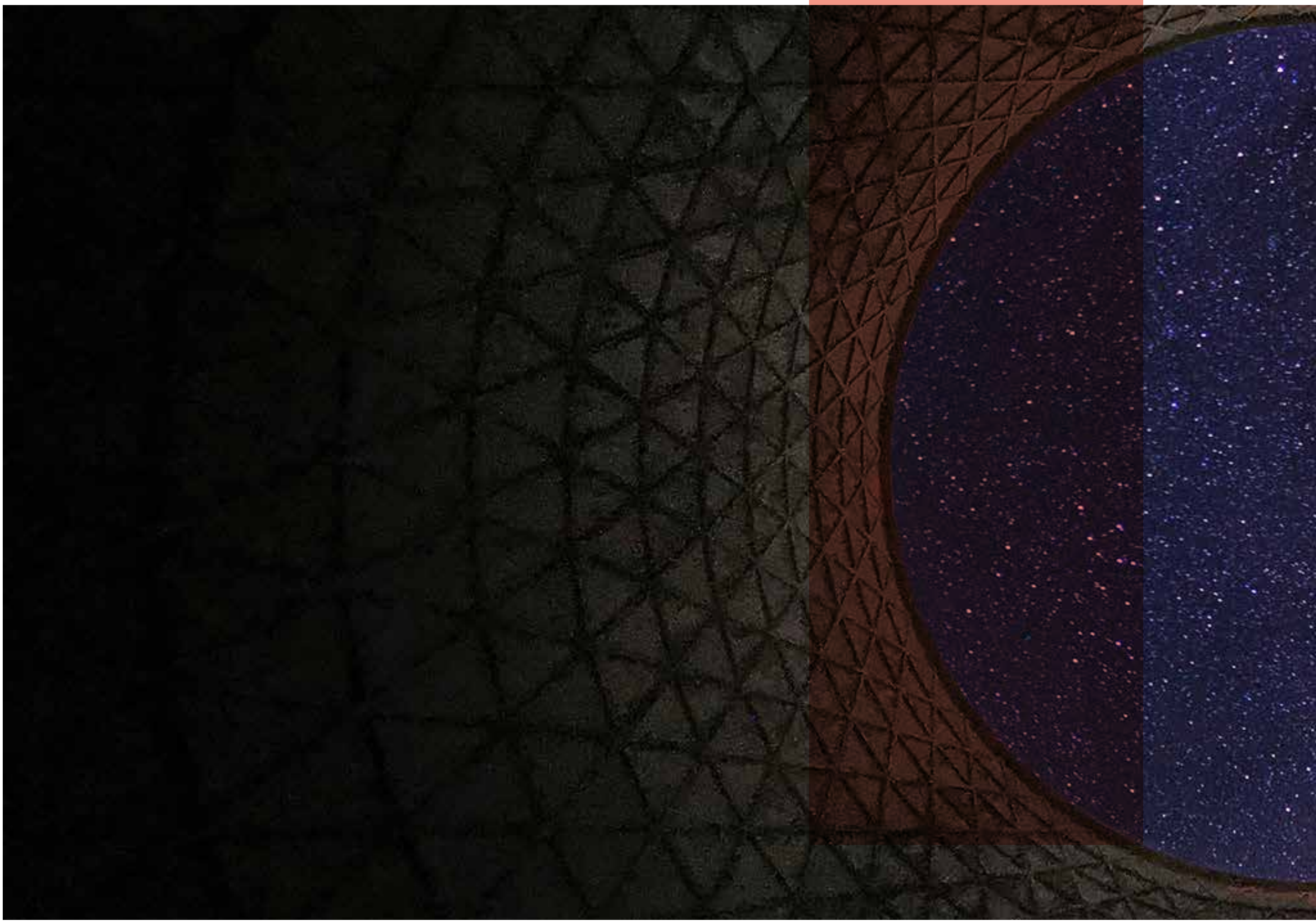
Short-term and long-term financial liabilities under loans raised for financing the construction of Unit 6 are allocated to the activity of steam and hot water supply using the allocation formula that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of thermal energy production (2.61 %), taking into account the share of electricity produced.

Trade and other payables are allocated by activity as a direct liability by source of the accrual. Liabilities that cannot be directly defined are recorded under the activity of electricity production.

2.11.2 STATEMENT OF FINANCIAL POSITION BY ACTIVITY

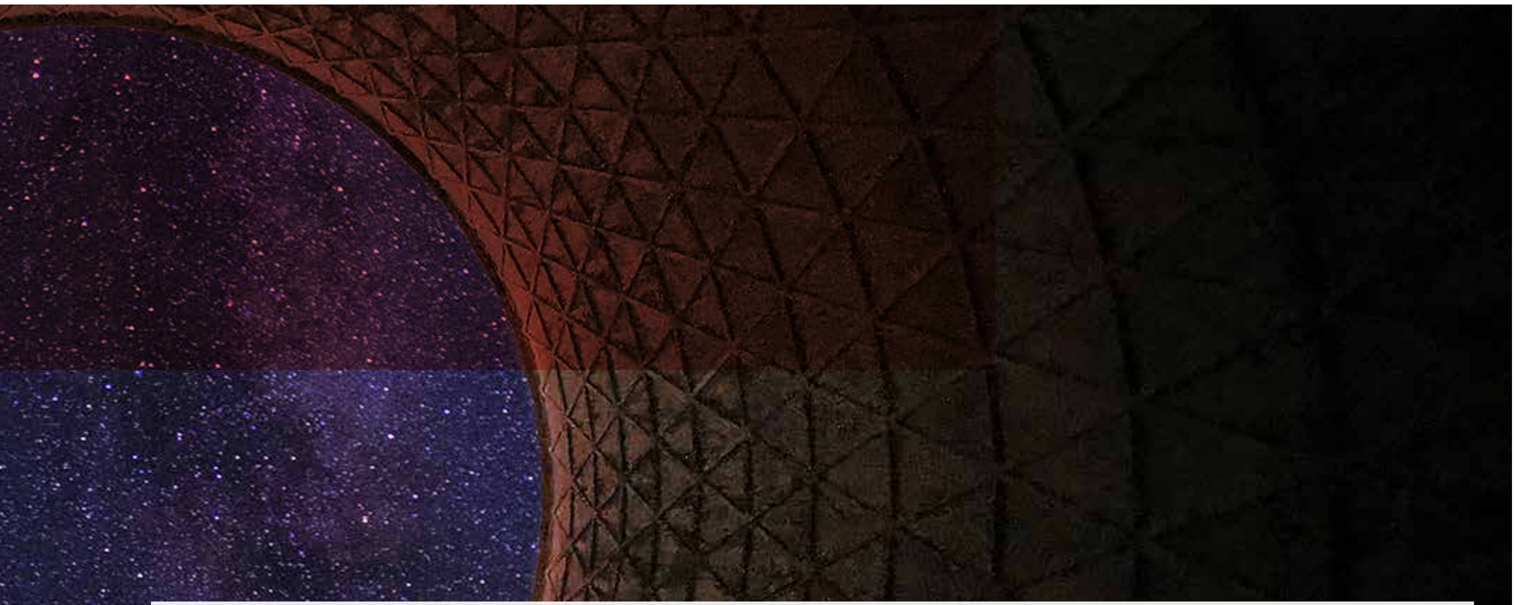
in EUR

ASSETS	31 Dec 2018	Electricity production	Steam and thermal water supply	Other business segments
A. LONG-TERM ASSETS	**956,900,946**	**929,878,999**	**26,849,572**	**172,375**
I. Intangible assets	193,981	96,419	93,768	3,794
II. Property, plant and equipment	956,532,602	929,617,841	26,755,804	158,957
V. Other long-term financial assets and loans	107,860	107,860	0	0
VI. Long-term operating receivables	56,879	56,879	0	0
VII. Other long-term assets	9,624	0	0	9,624
B. CURRENT ASSETS	**70,342,015**	**65,234,411**	**2,862,891**	**2,244,713**
I. Assets held for sale	201,723	0	0	201,723
II. Inventories	20,932,282	20,581,933	350,349	0
III. Short-term investments	12,887,971	12,638,817	249,154	0
IV. Short-term operating receivables	7,761,868	5,731,397	2,012,952	17,519
V. Contract assets	26,238,324	26,238,324	0	0
VI. Other short-term assets	1,777,906	1,652,294	94,929	30,683
VII. Cash and cash equivalents	541,941	(1,608,354)	155,507	1,994,788
TOTAL ASSETS	**1,027,242,961**	**995,113,410**	**29,712,463**	**2,417,088**



in EUR

EQUITY AND LIABILITIES	31 Dec 2018	Electricity production	Steam and thermal water supply	Other business segments
A. EQUITY	**352,624,004**	**335,168,209**	**15,211,600**	**2,244,195**
I. Called-up capital	578,579,850	566,751,495	11,017,605	810,750
II. Capital surplus	47,259,354	46,307,369	951,985	0
IV. Fair value reserve	(317,182)	(317,182)	0	0
V. Retained earnings	(272,898,018)	(277,573,473)	3,242,010	1,433,445
B. LONG-TERM LIABILITIES	**582,514,268**	**570,699,043**	**11,815,225**	**0**
I. Provisions for termination and jubilee benefits	3,274,044	3,274,044	0	0
II. Other provisions	11,554,152	11,327,497	226,655	0
III. Other long-term liabilities	116,899	46,890	70,009	0
IV. Long-term financial liabilities	567,569,173	556,050,612	11,518,561	0
C. SHORT-TERM LIABILITIES	**92,104,689**	**89,246,158**	**2,685,638**	**172,893**
II. Short-term financial liabilities	43,052,681	42,221,595	831,086	0
III. Short-term operating liabilities	12,580,939	11,561,305	986,338	33,296
V. Other short-term liabilities	36,471,069	35,463,258	868,214	139,597
TOTAL EQUITY AND LIABILITIES	**1,027,242,961**	**995,113,410**	**29,712,463**	**2,417,088**



2.11.3 INCOME STATEMENT BY ACTIVITY

in EUR

ITEM	Total of 2018	Electricity production	Steam and thermal water supply	Other business segments
OPERATING INCOME	**200,515,405**	**194,285,791**	**6,161,930**	**67,683**
1. Revenue from sales	196,812,774	190,686,940	6,058,151	67,683
a) domestic market	196,738,840	190,613,006	6,058,151	67,683
b) foreign markets	73,934	73,934	0	0
2. Other operating revenue	3,702,631	3,598,853	103,779	0
GROSS OPERATIG YIELD	**200,515,405**	**194,285,791**	**6,161,930**	**67,683**
OPERATING COSTS	**233,541,414**	**227,015,124**	**6,483,863**	**42,427**
3. Costs of material and services	129,360,505	125,761,522	3,595,222	3,761
b) Costs of materials	118,216,840	114,869,735	3,346,955	150
c) Costs of services	11,143,665	10,891,787	248,267	3,611
4. Employee benefits expense	13,538,494	13,149,963	385,788	2,744
5. Write-downs in value	55,237,805	53,668,671	1,546,253	22,882
a) Depreciation and amortisation expense	36,592,857	35,382,290	1,187,686	22,882
b) Impairment/write-offs/sale of intangible assets and investments, real property and equipment	18,538,230	18,179,663	358,567	0
c) Impairmen/write-off of receivables and inventories	106,718	106,718	0	0
7. Capitalised own products and own services	(2,486,881)	(2,450,784)	(36,097)	
8. Other operating costs	37,891,491	36,885,753	992,697	13,040
OPERATING PROFIT OR LOSS	**(33,026,009)**	**(32,729,333)**	**(321,933)**	**25,256**
9. FINANCE INCOME	53,448	52,108	1,340	0
10. FINANCE COSTS	25,556,740	25,086,414	470,327	0
FINANCIAL PROFIT OR LOSS	**(25,503,292)**	**(25,034,306)**	**(468,987)**	**0**
PROFIT OR LOSS BEFORE TAX	**(58,529,301)**	**(57,763,639)**	**(790,919)**	**25,256**
PROFIT OR LOSS FOR THE PERIOD	**(58,529,301)**	**(57,763,639)**	**(790,919)**	**25,256**

2.11.4 STATEMENT OF CASH FLOWS BY ACTIVITY

in EUR

Item	Total of 2018	Electricity production	Steam and thermal water supply	Other business segments
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit or loss for the period	(58,529,301)	(57,763,639)	(790,919)	25,257
Adjustments for:				
Amortisation / Depreciation	36,592,858	35,382,290	1,187,686	22,882
Impairment of property, plant and equipment	18,489,037	18,131,233	357,804	0
Write-off of inventories	106,718	106,718	0	0
Write-off of property, plant and equipment	34,830	34,067	763	0
Reversal of write-off of operating receivables	(82)	(82)	0	0
Loss on sale of property, plant and equipment	14,362	14,362	0	0
Finance income	(53,448)	(52,108)	(1,340)	0
Finance costs	25,556,741	25,086,415	470,326	0
Gain on sale of property, plant and equipment	(46,690)	(46,690)	0	0
Cash generated from operating activities before change in net current assets and taxes	**22,165,025**	**20,892,566**	**1,224,320**	**48,139**
Change in net current assets and provisions Change in:				
Inventories	(4,506,521)	(4,325,385)	(181,136)	0
Trade and other receivables and deferred costs and accrued revenues	19,116,140	19,185,199	(41,916)	(27,143)
Trade and other payables and accrued costs and deferred revenue	(11,430,121)	(11,658,501)	120,327	108,053
Provisions	(3,541,927)	(3,403,144)	(138,783)	0
Net cash from operating activities	**21,802,596**	**20,690,735**	**982,812**	**129,049**
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	751	734	17	0
Proceeds from sale of property, plant and equipment	153,021	153,021	0	0
Proceeds from sale of associates	52,697	52,697	0	0
Proceeds from decrease in other short-term investments	13,227,905	13,227,905	0	0
Acquisition of property, plant and equipment	(20,757,142)	(20,225,759)	(531,383)	0
Acquisition of intangible assets	(34,596)	(34,596)	0	0
Costs for purchasing other investments	(107,360)	(107,360)	0	0
Costs related to increase in short-term loans	(12,887,971)	(12,887,971)	0	0
Net cash used in investing activities	**(20,352,695)**	**(19,821,329)**	**(531,366)**	**0**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term borrowings	64,791,457	63,132,796	1,658,661	0
Proceeds from short-term borrowings	10,516,155	10,246,941	269,214	0
Payment of interest on borrowings and other financial liabilities	(23,716,527)	(23,109,384)	(607,143)	0
Repayment of long-term borrowings	(42,179,402)	(41,099,609)	(1,079,793)	0
Repayment of short-term borrowings	(10,516,155)	(10,246,941)	(269,214)	0
Net cash from financing activities	(1,104,472)	(1,076,198)	(28,274)	0
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	**196,512**	**(1,401,562)**	**(267,665)**	**1,865,739**
Financial result	345,429	(206,792)	423,172	129,049
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**541,941**	**(1,608,354)**	**155,507**	**1,994,788**

ABBREVIATIONS

ARSO	Slovenian Environment Agency
BDP	Gross domestic product
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EZ	Energy Act
HSE	Holding Slovenske elektrarne d.o.o.
MSRP	International Financial Reporting Standards
MZIP	Ministry of Infrastructure and Spatial Planning, Government of the Republic of Slovenia
NS	Supervisory Board
PAC	Provisional Acceptance Certificate
PV	Premogovnik Velenje d.d. (Velenje Coal Mine)
RDP	Desulphurisation flue gases
RLV	Rudnik lignita Velenje (Velenje Lignite Mine)
SD	Workers' Council
SDE	Trade Union of Energy Sector Workers of Slovenia
SDH	Slovenian Sovereign Holding
SRO	Environmental Management System (regulated by ISO 14001)
STS	Slovenian Technical Permit
TEŠ	Termoelektrarna Šoštanj d.o.o. (Šoštanj Thermal Power Plant LLC)
TGP	Greenhouse gas emissions
VZD	Occupational health and safety
ZDDPO	Corporate Income Tax Act
ZFPPIPP	Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
ZGD	Companies Act
ZJN	Public Procurement Act
ZVO	Environmental Protection Act

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