ANNUAL REPORT OF THE COMPANY HSE AND THE HSE GROUP 2015

Holding Slovenske elektrarne d.o.o.

Contents

1 INTRODUCTION

1.1 FOREWORD BY THE MANAGEMENT

2015: Demanding yet successfull

Dear readers, owner representatives, business partners and local communities, colleagues, journalists, decision-makers. Dear stakeholders involved in the HSE Group, in its everyday life full of challenges. Challenges that make us all stronger. Fraught with issues to be resolved and challenges that we turn into opportunities. With experience that enriches us.

The year 2015 was in many aspects a turning point for the HSE Group. As several years before, it was significantly marked by the largest current energy investment project in Slovenia. After the successfully completed technical inspection, TEŠ started a one-year trial operation of the newly built Unit 6, which provides approximately one third of all electricity in Slovenia. In addition, the Strategy (original document is titled "Razvojni načrt") of HSE and the HSE Group was endorsed and approved by our owner. Adopted Strategy sets guidelines for the period 2016–2020. It is mainly focused on both financial and operational restructuring of the HSE Group, while maintaining its position of the biggest electricity producer and trader in Slovenia, and promoting the utilization and use of renewable energy sources. Key success factor for implementing the Strategy will be active involvement and teamwork of all Group companies and its employees.

The figures presented in the Annual Report for 2015 were significantly influenced by the fact that the Slovenian like all European energy sector has been in an unenviable position for several years. Facing low and lowering electricity prices and increased regulatory burden incurring increase in production costs. However, electricity sales have remained satisfactory despite the tightened conditions. In the past year, 24/7 trading was introduced and other trading activities intensified. This resulted in higher quantities of electricity sold enabling us to keep revenues at the year before levels. We countiued exploring and expanding to new markets and energy exchanges. We were the first energy company in South-East Europe to become a full-fledged member of the Intercontinental Exchange one of the largest global exchanges. We are constantly improving our model of own production sales to achieve higher margins.

In previous years we had to focus on finalising the largest investment project in the independent Slovenia Unit 6 in TEŠ while our peers were adapting to new and changing landscape of energy sector. Now with investment complete we have to adopt faster and catch up our competitors. We use frightening words as restructuring, optimisation, deleveraging that employees and some other stakeholders do not like to hear. But these are actions we have to take to regain competitive edge and survive in new market conditions.

The operation of the HSE Group in 2015 was under scrutiny of several institutions. Foremost, the Court of Audit of the Republic of Slovenia, that audited the control over cash flows and liquidity management of the HSE Group connected with investment in TEŠ Unit 6. Resulting in implementation of several corrective actions.

We shall not forget the exceptional care in communications with banks and the preparation of alternative financing scenarios in order to minimize the threat of the state guarantee being called. Signifcant threat to both HSE Group and Republic of Slovenia budget we are facing due to incomplete and inadequate financing structure of the Unit 6 investment. We signed amendments to Loan Agreemets with the EIB and the EBRD enabling us to avoid breaches of contractual covenants in the future. We refinanced a part of the EIB loan that was secured with commercial bank guaranties, which matured in January, and other short-term loans, used to finance Unit 6 investment. Finally, we prepared the foundation to secure adequate and sustainable financial structure for the future.

The HSE Group remains the focal Slovene electricity producer and trader. It remains the first pillar of the

Slovene energy sector, a respected business partner and an internationally recognised group of companies working towards same goal. We'll maintain this focus for the future with common desire to improve in every way. With this in mind of every of us we shall have desire, will and know-how to contribute to the improvements we will ba able to disclose in next annual report . The year will soon be over – and the improvements achieved will show the strength of desire.

Stojan Nikolić,

CFO of HSE d.o.o.

Gorazd Skubin,

COO of HSE d.o.o.

Blaž Košorok,

CEO of HSE d.o.o.

Ljubljana, 31 May 2016

1.2 REPORT OF THE SUPERVISORY BOARD

Pursuant to the provisions of Article 282 of the Company Act (ZGD-1) and the provisions of Article 14 of the Act of Establishment of the limited liability company Holding Slovenske elektrarne d.o.o., the Supervisory Board of the company Holding Slovenske elektrarne d.o.o. (HSE SB) with this report informs the founder of the following:

- manner and extent of verification of management and operations of the HSE company in the 2015 financial year,
- opinion on the Management's work in 2015,
- opinion on the company's operations in 2015,
- verification and adoption of the Annual Report of the HSE company and the HSE Group for 2015 and the position of the Supervisory Board on the auditor's reports,
- verification of the Management's proposal for covering the loss, and
- disclosure of the operating costs of the supervisory body.

In the financial year 2015, Miloš Pantoš, PhD (Chairman of the SB), Boštjan Markoli, PhD (Deputy -Chairman of the SB), Drago Štefe, MSc and Črt Slokan were sitting on the HSE SB as the representatives of the capital. Boštjan Jančar and Jernej Otič were employee representatives in line with the provisions of the Worker Participation in Management Act.

1.2.1 Manner and extent of verification of the management and operations of the HSE company in the financial year 2015

In 2015, the HSE SB held a total of twelve sessions, of which seven were regular, five extraordinary and eight by correspondence.

In accordance with the Rules of Procedure for the Supervisory Board of Holding Slovenske elektrarne d.o.o., the Supervisory Board was in this period regularly informed about the operating results of the company and the HSE Group and about the implementation of the decision taken by the SB. It discussed the legal transactions, that, in accordance with the Act of Establishment of the limited liability company Holding Slovenske elektrarne d.o.o., require prior consent of the SB, and other important business and strategic issues that significantly affect the mid- and long-term interests of the company, investment projects of the HSE Group, and the socially responsible increase of the company's economic efficiency. The SB gave prior consent to the Management for taking out the long-term loans in form of debt securities – bonds and was currently informed about the procedure.

The HSE Management regularly informed the HSE SB about the progress of the investment in the 600 MW replacement Unit 6 at TEŠ, about the problems of the companies PV and TEŠ, the liquidation of TET d.o.o., about the reports on the implementation of the measures for the optimisation and streamlining of operations. The HSE SB was currently informed about the operations of the HSE company and the HSE Group, liquidity, borrowings, receivables, commitments of HSE and/or other companies of the HSE Group under the contracts on financing the construction of the Unit 6 TEŠ and a table of commitment violations in 2014 and implementation of the decisions taken by the sole shareholder - SDH, d.d. In order to prevent the economic damage the SB gave consent to the payment of liabilities of the TEŠ company to suppliers/creditors for the project of construction of the 600 MW replacement Unit 6 under the debt assumption agreement. In scope of the supervisory function the HSE SB obtained answers to the questions posed in addition to the material of the SB sessions. The SB was informed about the amended investment programme, Rev. 6, issued in December 2014 (ver.5, 30.1.2015) – NIP 6.

In this period the HSE SB gave several consents to the borrowings of the HSE company and in line with its competencies took decisions concerning relevant business fields. Thus, the Supervisory Board adopted the Business plan for the year 2015 with the additional plan for the years 2016 and 2017. In its 10th regular session the SB discussed and approved the Annual Report of the company and the HSE Group for 2014, and agreed with the proposal of the Management to the founder that after the correction of the fundamental error the accumulated profit and the remaining profit for the period shall be in their total amounts allocated to other revenue reserves. In its 11th extraordinary session the HSE SB gave consent to the Development plan of the company and the HSE Group for the period 2016-2020. It adopted the Plan of work of the Internal Audit Department for the year 2015, was informed about the audits conducted by the internal Audit and the Report on the work of the Internal Audit Department, including key activities of the management for 2015 and the action plan for the implementation of the measures.

In 2015, the HSE SB started the procedure for appointing a member of the Management – the technical director; in accordance with good corporate governance practices a HR-Nomination Committee was appointed and it prepared the background documents for the decision-making of the SB.

In 2015, the HSE SB intensively directed its activities in supervising the liquidity position of the Company and the HSE Group, monitoring with special attention to the situation in the companies of the PV Group and of the TEŠ company. The HSE SB estimates to have acted to the benefit of the Company on the basis of the information and reports presented to it by the Management and within its powers and competencies, as defined by the law and Act of Establishment. The SB agreed with the increase in capital in TEŠ d.o.o. and in Premogovnik Velenje, d.d. that was adopted by the founder.

At the end of 2015 the SB carried out a self-assessment. The members of the Supervisory Board shall always be excluded from voting when a conflict of interest exists in deciding about a specific issue.

Work of the audit committee (SB AC):

The Audit Committee of the HSE SB consisting of Boštjan Markoli, PhD, Chairman (education level VIII), Boštjan Jančar (member of the SB, employee representative, education level VII), Darinka Virant (external member, education level VII), Damir Rakela (external member, education level VII) was appointed in March 2014 and, in the period considered, it had at seven regular meetings, two extraordinary meetings and one by correspondence. All the members of the AC were present in the meetings. The AC discussed the issues in compliance with the Companies Act (ZGD-1), Recommendations for the work of audit committees, Plan of work for the AC in 2015 and Rules of Procedure for the work of the Audit Committee of the HSE SB.

At its meetings, the SB AC took note of the implementation of the decision adopted by the Audit Committee of the HSE SB, business reports of the Company, and the HSE Group, monitored the current operations of HSE and the HSE Group, their liquidity, borrowings and receivables. Furthermore, it monitored the implementation of measures to optimize and streamline the operations of the HSE Group, took note of the reports on the replacement Unit 6 at TEŠ and on the risk management in the company and the HSE Group, the work of Internal Audit Department, the position of separate companies in the HSE Group, participated in the selection of the external auditor of the company and the HSE Group, verified its independence and in accordance with its competencies discussed the Annual report of the company and the HSE Group for 2014 with the auditor's report.

In its 15th regular meeting on 10 December 2015 the Audit Committee carried out a self-assessment in line with the Self-assessment questionnaire for the AC work (Slovenian Directors' Association, January 2015).

Work of the HR-nomination committee:

In accordance with Article 279 of the Companies Act (ZGD-1), the Supervisory Board appointed the HR-Nomination Committee in 2015. During the period, the Committee held one regular meeting in order to assist the Supervisory Board of the HSE in managing the procedure for the selection and appointment of a member of the Company's Management-technical director.

The members of the HR-Nomination Committee were Miloš Pantoš, PhD, Chairman, Črt Slokan, member, representative of the founder in the SB, and Jernej Otič, employee representative in the SB.

1.2.2 Opinion on the Managements's work in 2015

In accordance with the legislation and good practice, the HSE SB comprehensively supervised the management and operations of the company and the HSE Group in 2015.

The Managing Director of the HSE company, Blaž Košorok (hereinafter: the Managing Director of HSE), and the Financial Director of the HSE company Stojan Nikolić attended the HSE SB meetings. They reported in detail on every item of the agenda and together with other heads of general services of the HSE answered the questions posed by the members of the Supervisory Board. Regular communication between the Management and the Chairman of the Supervisory Board took place also outside the meetings themselves.

General services of the HSE organized the meetings, implemented current technical improvements and provided administrative and organizational support to the SB work.

The HSE SB regularly monitored and evaluated the Management's work, when discussing interim business results, comparing the performance of the company and the HSE Group to the previous periods, and the objectives planned and was informed about the reports of outside experts on individual companies of the HSE Group.

1.2.3 Opinion on the Company's operations in 2015

In 2015, the HSE company generated loss in the amount of EUR 323.1 million, which is a result of the impairment of long-term investments in subsidiaries in the amount of EUR 377.9 million. Without the impairment the company would have earned profit in the amount of EUR 54.9 million, which is less than in the previous year. Extremely favourable hydrology, higher average wholesale price of electricity, significantly higher pay out of shares in profit of subsidiaries, profit on the sale of a 35.6% share in HESS, lower borrowings and consequently lower finance costs had a positive impact on the amount of the profit or loss in the year 2014 over the year 2015.

Due to increased trading activities in the Slovene and foreign markets and the beginning of trading within the day the quantitative sales were higher by 5% when compared to 2014; in spite of that the revenue was by 1% lower due to lower average wholesale prices of electricity in 2015 over the year 2014.

At the end of 2015 the HSE company managed to provide a bridging financing in the amount of EUR 215 million until obtaining a long-term source.

In 2015, the HSE company participated in financing of the replacement Unit 6 at TEŠ. As the test of a private investor was successful, the problem of state aid was solved and an increase in capital of TEŠ was made by a conversion of short-term financial receivables of HSE relating to the debt assumption agreements to a long-term investment in TEŠ in the amount of EUR 248.5 million.

On the basis of the successful test of the private investor the HSE company increased also the capital of the PV company in the total amount of EUR 71.6 million in 2015.

The SB monitored the procedure of providing a long-term source of financing, whose provision is necessary for long-term financial sustainability of the company and the HSE Group.

1.2.4 Review and approval of the Annual Report of the company and the HSE Group for 2015, auditor's letter to the management and position on the auditors' report

In accordance with Article 272(3) of the Companies Act (ZGD-1), the Management presented the Annual Report of the HSE company and the HSE Group, together with the auditor's reports, for the year 2015 to HSE Supervisory Board and the HSE SB discussed it at its 22nd regular session of 16 June 2015.

The Annual Report of the HSE company and the HSE Group for the year 2015 was audited by KPMG Slovenija, d.o.o. The auditors issued an unqualified opinion on the non-consolidated financial statements of HSE d.o.o. and on the consolidated financial statements of the HSE Group.

The Audit Committee of the HSE SB discussed the audited Annual Report of the company and the HSE Group for 2015 at its 18th regular session held on 8 June 2015 and established that the annual report was prepared timely, in a clear and transparent manner and in line with the provisions of the Companies Act (ZGD-1), the applicable International Financial Reporting Standards (IFRS), as adopted by the EUR (IFRS), the provisions of the Energy Act (EZ-1) and other relevant legislation. The AC had no comments on the Annual report of the company and the HSE Group for 2015 and proposed to the HSE Supervisory Board to take a decision on the adoption of the Annual report of the company and the HSE Group for the year 2015 pursuant to Article 282 of the Companies Act (ZGD-1).

Based on the audit opinion, position of the AC of the SB, data and disclosures in the Annual report of the company and the HSE Group for the year 2015 the SB estimates that the auditor performed its work professionally, in compliance with the applicable legislation and business practice, that, in all relevant aspects, the annual report was prepared in compliance with the requirements of the Companies Act and that the financial statements in all material aspects give a true and fair view of the financial position of the company and the HSE Group as at 31 December 2015 and their profit or loss and cash flows for the year then ended in accordance with IFRS, as adopted by the EU. The SB had no comments on the auditor's report. There were no comments on the Annual report of the company and the HSE Group for the year 2015 that would keep back the SB from taking a decision on the approval of the Annual report. Pursuant to Article 282(3) of the Companies Act the SB approved the Annual report of the company and the HSE Group for the year 2015. The report mentioned was adopted in the open period, i.e. before the expiry of one month from the date when the Management of the company submitted the Annual report for 2015 to the Supervisory Board.

1.2.5 Verification of the Management's proposal for covering the loss

The HSE company ended the financial year 2015 with a loss in the amount of EUR 323.1 million.

In its 22nd regular session the HSE SB agreed with the proposal of the Management to suggest the founder that other revenue reserves in the amount of EUR 323,117,650.23 were used for covering the loss of the year 2015 in the amount of EUR 323,117,650.23 consisting of the loss for the current period in the amount of EUR 323,117,369.88 and retained actuarial loss on the proportionate share of the utilisation of provisions for termination benefits in the amount of EUR 280.35, which is in compliance with Article 282(1) of the Companies Act.

The HSE SB prepared the report in line with Article 282 of the Companies Act. The report of the HSE SB shall be submitted to the founder and sole shareholder of HSE.

1.2.6 Disclosure of costs of the Supervisory Board

The emoluments of the Supervisory Board members and the committees of the SB are disclosed in the second part of the Annual report under Section 4.5.7.5.

Ljubljana, 16 June 2016

Milan Perović,

Chairman of the HSE Supervisory Board

1.3 Electricity production and trading in the HSE Group in 2015

SALES IN FOREIGN MARKETS

Electricity sale:	18,711 GWh
Share of sales in FM:	*64%*

SALES IN DOMESTIC MARKET

Electricity sale:	10,420 GWh
Share of sales in DM:	*36%*

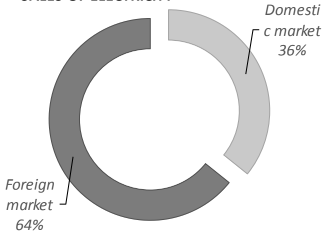
HSE Company *(100% RS)*

Employees:	142
Purchase of electricity:	29,131 GWh

OTHER SOURCES

Purchase of electricity:	22,367 GWh
Share of other sources:	*77%*

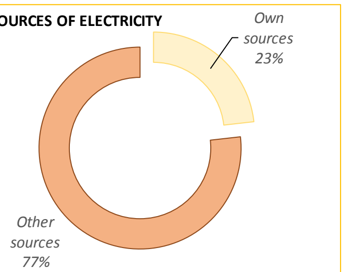
SALES OF ELECTRICITY



OWN PRODUCTION SOURCES

Employees:	2,073
Production:	6,763 GWh
Share of own sources:	*23%*
Capacity:	2,164 MW

SOURCES OF ELECTRICITY



47% OF SOURCES

HIDRO

Employees:	388
Production:	3,206 GWh
Capacity:	930 MW
Number of units:	67 turbines

DEM *(100% HSE)*

Employees:	266
Production:	2,544 GWh
Capacity:	592 MW
Number of units:	28 turbines

SENG *(100% HSE)*

Employees:	122
Production:	662 GWh
Capacity:	338 MW
Number of units:	39 turbines

53% OF SOURCES

TERMO

Employees:	431
Production:	3,557 GWh
Capacity:	1,234 MW
Number of units:	3 blocks and 4 gas turbines

TEŠ *(100% HSE)*

Employees:	385
Production:	3,557 GWh
Capacity:	1,176 MW
Number of units:	3 blocks and 2 gas turbines

TET in liquidation *(100% HSE)*

Employees:	46
Production:	0 GWh
Capacity:	58 MW
Number of units:	2 gas turbines

PRIMARY SOURCES

Employees:	1,254
Production:	36,336 TJ

PV *(99,18 % HSE)*

Employees:	1,254
Production:	36,336 TJ

Note: Data present the sales quantities of the HSE company and not the consolidated sales quantities of the HSE Group.

1.4 OPERATING HIGLHLIGHTS OF THE HSE COMPANY AND OF THE HSE GROUP

1.4.1 Operating highlights of the HSE company

In 2015, again, the situation in financial and energy markets had a significant impact on the operation of the HSE company, which for the first time in history incurred a loss in the amount of EUR 323.1 million. The loss resulted from the impairment of long-term investments in subsidiaries. Without that impairment, the company would generate net profit in the amount of EUR 54.8 million, which is still less than in the previous year, when the net profit amounted to EUR 140.8 million. It shall be taken into consideration, however, that the amount of net profit in 2014 was achieved under the impact of exceptionally favourable hydrology, higher average wholesale price of electricity than in 2015, significantly higher pay out of shares in the profit of subsidiaries, gains from the sale of the 35.6% share in HESS, and lower financial expenses due to lower indebtedness of the company. For all these reasons, the operating profit and EBITDA are lower than in the previous year.

Because of lower average wholesale electricity prices, net sales revenue is 1% down compared to the previous year despite a 5% higher volume of sales of electricity.

In 2015, the test of a private investor resolved the issue of the state aid used for the recapitalisation of TEŠ Power Plant and PV Coalmine. On this basis, the HSE company recapitalised the TEŠ company in the amount of EUR 248.6 million by conversion of financial receivables based on the contracts regarding debt assumption for the payment of equipment suppliers for replacement Unit 6 at TEŠ, and increased the capital in the PV Coalmine in the amount of EUR 71.6 million by exclusion of equipment and conversion of claims from loan agreements in total amount of EUR 37.6 million, and a cash contribution in the amount of EUR 34.0 million. In addition to the recapitalisation of TEŠ and PV, the HSE company provided additional liquidity funds in the form of long-term loans to cover investment (completion of the replacement Unit 6 at TEŠ) and financial expenses, in the amounts of EUR 116.8 million to TEŠ and EUR 6.1 million to PV. The granted loans ensure sustainable liquidity situation in companies TEŠ and PV.

Indebtedness of the company is higher by 181% compared to the year-end 2014. At the end of 2015, the company drew down a short-term bride loan granted by a consortium of international commercial banks in the amount of EUR 105 million till obtaining the long-term source, and EUR 15 million of long-term loan with a foreign commercial bank. In addition, the company provided for its liquidity requirements within the »cash management« of the HSE Group in the amount of EUR 30 million.

Due to the impairment of long-term investments, which mainly resulted from the expected higher costs related to the purchase of CO_2 allowances (expected lower price differences between CO_2 and electricity), the company's assets at year-end 2015 were by 13% lower compared to the year-end 2014, and equity was down by 28%. Consequently, the return on assets (ROA) and the return on equity (ROE) are lower, too.

THE COMPANY HSE d.o.o.	2015	2014
Net sales revenue in EUR	1,303,117,500	1,312,697,148
Net profit of loss in EUR	(323,117,370)	140,823,164
Revenue in EUR	1,324,773,187	1,378,197,581
EBIT = Operating profit or loss in EUR	50,252,318	98,222,096
EBITDA (EBIT + Write-downs in value)	53,420,522	99,634,086
Assets in EUR	1,206,606,876	1,394,651,222
Equity in EUR	829,661,563	1,152,425,385
Total financial liabilities in EUR	214,568,280	76,372,457
Number of employees as at 31 December	142	134
Electricity sold in GWh	29,131	27,649
Return on equity (ROE)	(0.326)	0.130
Return on assets (ROA)	(0.248)	0.104
Added value in EUR	60,847,762	108,069,683

1.4.2 Operating highlights of the HSE Group

The supply of electricity in Slovenia was also thanks to the HSE Group safe and reliable. In June 2015, TEŠ took over from the main technology equipment supplier the operation and management of the main operating facility for Unit 6. The HSE Group carried out numerous measured of optimisation and rationalisation of operations, which reflect in lower employee benefits expense, material and services, and gradually divested unnecessary assets. Despite lower average wholesale electricity prices, net revenue from the electricity sale remained at the level of the previous year. Trading activities in both Slovene and foreign markets intensified and intra-day trading started. Sales volume was 6% up in relation to the previous year and amounted to 27.194 GWh in spite of extremely unfavourable hydrology and, consequently, lower production by 18%.

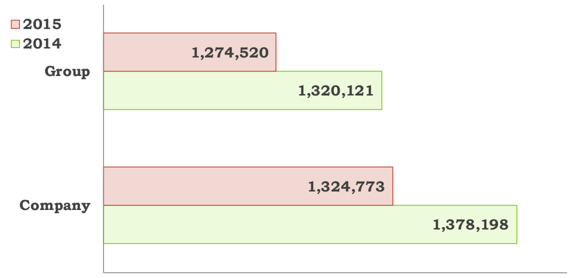
Electricity producers have found themselves in an extremely challenging period due to falling prices in the wholesale electricity markets. Given the changed conditions in the market, the HSE Group had to impair and write down assets, receivables and stocks in the amount of EUR 484.0 million, which is the reason why the Group incurred a net operating loss in the amount of EUR 480.1 million. Without the impairment, the HSE Group would generate EBIT of EUR 40.4 million, which, however, is less than in the previous year. The fall of average wholesale electricity prices, extremely low hydrology and lower revenue from the sale of services had a negative impact on the operating result and EBIT and, consequently a lower EBITDA. Since the replacement Unit 6 at TEŠ was activated in 2015, interest expense is recognised in financial expenses, which is, in addition to additional borrowing, the reason for higher financial expenses, which also had a negative impact net profit of the Group. Due to the impairment, the assets of the HSE Group as at 31 December 2015 are lower by 18% in relation to the balance at the end of the previous year, equity is down by 33%, indicators of return on equity and assets are negative.

Net sales revenue for 2015 is 3% down compared to the previous year, mainly due to lower revenue from the sale of services.

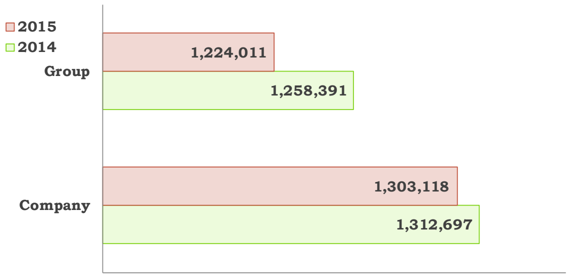
At the end of 2015, the HSE company drew down a long-term loan in the amount of EUR 15 million to provide permanent working capital for the HSE company and the HSE Group, and a EUR 105 million short-term bridge loan till obtaining a long-term financial resources, which are the reasons for higher indebtedness of the HSE Group as at 31 December 2015 in relation to year-end 2014. The majority of funds was intended to complete the replacement Unit 6 at TEŠ. The first principal of the long-term loan taken by the company TEŠ with the EBRD for financing the construction of the replacement Unit 6 was due in 2015.

HSE Group	2015	2014
Net sales revenue in EUR	1,224,011,025	1,258,391,110
Net profit or loss in EUR	(480,102,728)	(35,690,435)
Revenue in EUR	1,274,519,975	1,320,120,696
EBIT = Operating profit or loss in EUR	(443,561,179)	(8,113,035)
EBITDA (EBIT + Write-downs in value)	121,559,817	157,312,830
Assets in EUR	2,233,923,431	2,728,888,082
Equity in EUR	991,749,078	1,471,547,419
Total financial liabilities in EUR	1,015,105,207	936,396,818
Number of employees as at 31 December	3,390	3,671
Electricity produced in GWh	6,763	8,294
Electricity sold in GWh	27,194	25,566
Added value in EUR	251,684,865	301,369,689
Number of Group companies as at 31 December	34	37

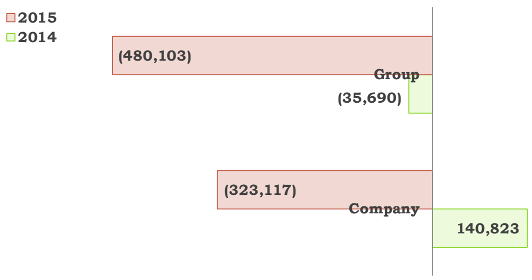
Total revenue in EUR thousand



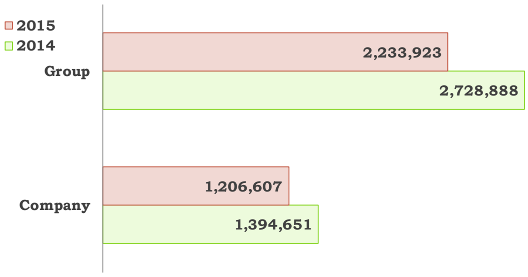
Net sales revenue in EUR thousand



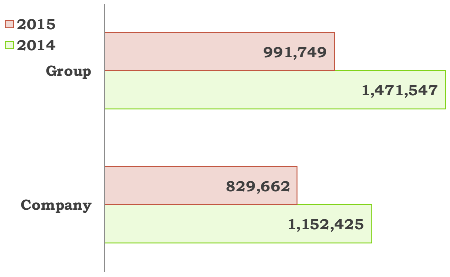
Net profit or loss in EUR thousand



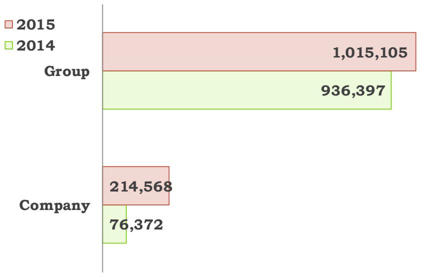
Assets in EUR thousand



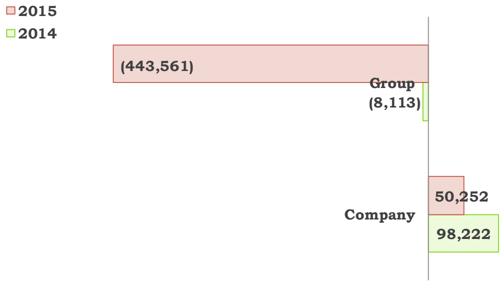
Equity in EUR thousand



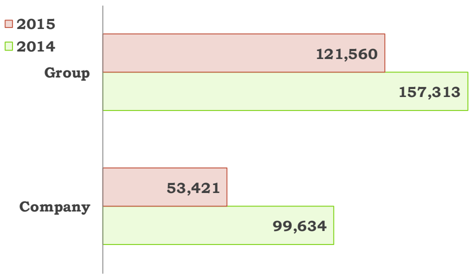
Total financial liabilities in EUR thousand



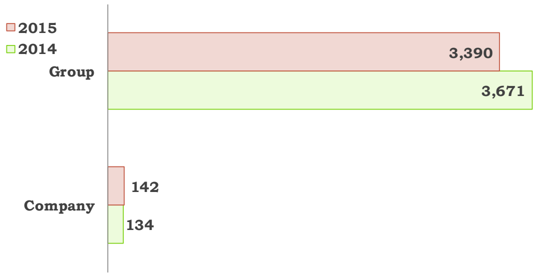
EBIT in EUR thousand



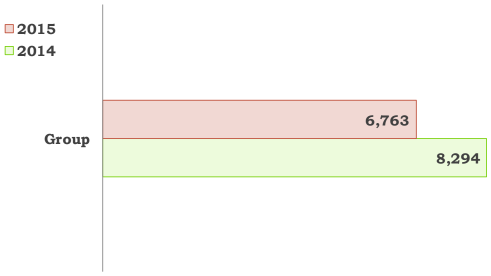
EBITDA = EBIT + Write-downs in value in EUR thousand



Employess



Production of Group companies in GWh



2 Business Report

2.1 Significant events in the HSE Group in 2015

1 January

- On 1 January, the new Managing Director Marjan Pintar took over the management of SENG for a 4-year term of office.
- On 5 January, the Pumped Storage Hydropower Plant Avče (SENG) received the operating license.
- On 5 January, a maintenance cycle started in DEM, comprising 13 audits, six overhauls of generation units and two renewals (it continued until 3 April).
- On 8 January, the regular liquidation procedure of the HSE company Ro Energy was formally completed with the deletion of the company from the business register of companies.
- On 13 January, the HSE SB at its 7th regular session adopted the business plan of the HSE company and the HSE Group for 2015 with an additional plan for 2016 and 2017, as well as the Business projections of the HSE Group for the period 2015–2030.
- On 15 January, the Social Agreement for the year 2015 was signed between the PV Management Board and the social partners. By the agreement, which was signed in the PV Group companies, the social partners have committed themselves to implement measures such as a reduction of gross basic salary for all workers employed under the terms of the collective agreement for the coal industry, while fixed gross salary may not be lower than stipulated by the Employment Relationships Act. The reduction in the employee benefits expense is one of the cost rationalization measures of the PV.
- In the middle of January, the liquidator of TET–in liquidation prepared the dismissal program for redundant workers. At the end of January, the first part of the employees received notices of termination of employment with one month's notice.
- In January, all liabilities for work carried out in 2014 were settled in relation to the main equipment supplier of replacement Unit 6 at TEŠ, as it had been agreed to postpone the payments into 2015.
- In January, the HSE company redeemed the entire minority stake in TET–in liquidation (18.7%) for EUR 1.00.
- TEŠ prepared an amended investment programme NIP 6, edition December 2014. HSE took note of this document on 30 January. The HSE Management estimated that the document showed the final value of the investment, all costs related to the investment of replacement Unit 6, a workable time schedule and business projections of TEŠ in the period 2015–2030 harmonized with HSE. The review of NIP 6, edition December 2014, made by an independent institution and a private investor test for the purpose of TEŠ recapitalization showed a positive result.
- TET - in liquidation started to implement the contract on tertiary reserve supply, which represents the majority of the Company’s income to cover a part of the liquidation costs.
- The HSE company took a short-term loan of EUR 80 million in January, and again a loan of EUR 70 million in May to close the financial construction for the replacement Unit 6 at TEŠ.

2 February

- On 25 February, TET - in liquidation was withdrawn the authorisation of an exempt user of excise products and excise licence.
- SENG obtained building permit for the construction of the 110 kV distribution transformer substation RTP Plave.
- TET - in liquidation carried out the first stage of the company liquidation programme.
- In February 2015, the HSE Management adopted the Rules on Evaluation and Monitoring of Investment Projects in the HSE Group, according to which an Expert Committee at the Group level was to be established in March 2015 with the mandate to monitor investment projects and review the prepared investment documents in accordance with the Rules.

3 March

- On 3 March, TET– in liquidation obtained a loan within the HSE Group and settled its overdue liabilities to the State and employees, and made severance payments.
- On 16 March, the PV Management Board, on the basis of unaudited financial statements for the year 2014, established capital inadequacy of the PV as at 31 December 2014, which is according to the criterion stated under Item 2 of Article 14(3) of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP) one of the formal legal grounds for a declaration of insolvency; it means that the loss of the current year, together with the losses carried over from previous periods, reached one half of the share capital of the company.
- On 18 March, SENG signed with ELES a contract on connecting the PSP Avče onto the transmission network; the contract regulated mutual relations between the companies regarding the connection, payment of network fee and purchase of 110 kV equipment.
- At the end of March, the production at excavation site -65/D in PV was temporarily stopped due to deformation of the removing track.
- In the first quarter, the following documents were submitted to the competent institutions and banks: NIP 6, edition December 2014; long-term business projections of TEŠ and the HSE Group for the period 2015–2030. Based on the submitted documentation, the HSE company submitted to the banks (EIB, EBRD and GFA) an application for a waiver of its commitments under financial contracts as at 31 December 2014.
- On 31 March, the Management of the Golte company on the basis of unaudited financial statements established capital inadequacy of the company as at 31 December 2014, which is according to the criterion stated under Item 2 of Article 14(3) of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP) one of the formal legal grounds for a declaration of insolvency; it means that the loss of the current year, together with the losses carried over from previous periods, reached one half of the share capital of the company.

4 April

- On 2 April, the PV SB held its 10th regular session. The PV Management Board informed the PV SB about the status of insolvency and the measures to address it, together with expectations of operating performance in the coming years and an assessment of operational risks arising from the complexity of excavation areas, focusing on the year 2015. Based on that information, the PV SB estimated that sound economic, financial, operational and social reasons existed for recapitalization, which has also been foreseen in the business plan of PV for the year 2015.
- On 3 April, the District Court in Celje issued the decision on a simplified decrease in share capital of the Gost company. The purpose of decrease in share capital is to cover the retained and net losses of 2014.
- On 22 April, the PV SB held and extraordinary session at which it took note of the Report on

the measures of financial restructuring pursuant to the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP) and of the report about the special audit of legal transactions.

- In April, HSE implemented a new business model and organizational structure by restructuring the organization and job classification in terms of the envisaged optimization and rationalization of operations in HSE with the ultimate aim of unification and integration of business shared service centers at the level of the HSE Group. In accordance with the amendments to the Rules on Internal Organisation and Job Classification of 16 April 2015, all employees received new employment contracts.
- A study on the value of facilities existing in the TET – in liquidation was prepared, the market and liquidation values of the company were assessed, and a contract for the unloading of cement in the area of TET – in liquidation was signed.
- The PV Group published a public call for bids and thus started the procedure of divestment and disposal of non-operating assets in the form of properties. In the first stage public call for bids was published for Barbara hotel in Fiesa, Oleander hotel in Strunjan, Široko villa in Šoštanj and the retirement centre Zimzelen in Topolšica.

5 May

- On 3 May, Matjaz Eberlinc, PhD, was appointed as the Managing Director of TEŠ for a period not exceeding six months.
- On 5 May, the President of the National Council of the Republic of Slovenia, Mitja Bervar, with a delegation visited the PV.
- On 21 May, at the session of the PV SB, Deputy Chairman Klemen Potisek, MSc, made a statement of resignation on the grounds of incompatibility of his new office as a state secretary with the duties of a SB member.
- On 26 May, the President of the National Council of the Republic of Slovenia, Mitja Bervar, with a delegation visited HPP Vuzenica (DEM).
- On 27 May, after successful completion of the technical inspection of the replacement Unit 6 with the associated facilities TEŠ received the Ministry of Space (MOP) decision ordering a one-year trial operation of the newly built replacement Unit 6. The contractual trial run of the main technological facility (GTO) of the replacement Unit 6 began on 28 May, and the trial operation ordered on the basis of the above decision started on 11 June.
- On 29 May, the Slovenian Sovereign Holding (SDH), on proposal of the HSE Management of 15 May and in line with the prior consent of the HSE SB of 19 May, gave its consent to the raising of in-kind contributions in the total amount of up to EUR 37.6 million, and cash contributions of up to EUR 34 million, for the purpose of capital increase in the PV, and in this context agreed to the conclusion of contracts and other legal transactions needed for the recapitalization of PV.
- TEŠ prepared the Business and Financial Restructuring Plan (BFRP) for TEŠ for the period from 2015 to 2017 with projections up to 2030, in which it identified measures for cost optimization and rationalization of TEŠ operations.
- SENG obtained the final building permit for the small HPP Kneža.
- SENG carried out professional technical examination of the HME reconstruction on the Podselo dam – basic release prior to the commencement of wet tests.

6 June

- On 3 June, the companies TEŠ and HSE received from EBRD a letter regarding the waiver of commitments. The waiver of commitments refers to the higher price of coal for a period of one year and the breach of a financial indicator at the level of the HSE Group for the year 2014. In the letter, the Bank (EBRD) demanded the realization of the planned recapitalization of TEŠ by HSE till 30 June 2015, which was also realized.

- On 3 June, the District Court in Celje issued the decision to initiate the bankruptcy procedure for the RCE.
- On 11 June, the companies TEŠ and HSE received from the agent of the GFA banks a letter regarding the waiver of commitments under financial agreements as at 31 December 2014 with regard to higher coal prices and the breach of a financial indicator at the level of the HSE Group. The consent was conditioned upon the payment of compensation and a letter from the EIB regarding the waiver of commitments. On 23 June, TEŠ paid the compensation.
- On 11 June, the companies TEŠ and HSE concluded two long-term loans agreements, for the amounts of EUR 83 million and EUR 33.8 million, of which the creditor banks were notified. The deadline for the repayment of both loans is set at 2 January 2026.
- On 19 June, after successful completion of startup tests and contractual trial operation, TEŠ took over from the main supplier the management of the main operating facility for the replacement Unit 6. This means that the production capacity of the replacement Unit 6 is fully available to TEŠ and its owner, HSE, which allows a maximum utilization and optimization of production capacities of the replacement Unit 6 in terms of achieving the best possible financial effects.
- On 22 June, the HSE SB at its 16th regular session approved the Development Plan of the HSE company and the HSE Group for the period 2015-2019 (DP).
- Given the changes with regard to subsidies for electricity production from RES in Italy in 2015, imports of electricity to Italy within the 100 GWh quota no longer provide financial effects or other business opportunities; for this reason, it was decided to initiate the procedure of voluntary liquidation of the company HSE Italia, and on 22 July the company was erased from the court register, 29 June was the termination.
- On 30 June, HSE increased the capital of TEŠ in the amount of EUR 248.6 million in accordance with the Business Plan (BP) of the HSE company and the HSE Group for 2015 (the HSE company converted the receivables under the contracts on debt assumption into a long-term investment).
- TEŠ has achieved the highest monthly production in its history.
- Based on the final decree under the summary proceedings the TEŠ associated companies, Tešing and Enraz, were delited from the court register in June.

7 July

- On 3 July, PV organized the 55th jump over the skin at the city stadium in Velenje; 57 novices were accepted into the mining profession.
- On 8 July, the HSE company received from the Ministry of Finance (MF) its consent to initiate a procedure for long-term indebtedness.
- The Celje District Court, by decision dated 8 July 2015, began with a simplified procedure of compulsory settlement over the GOLTE company.
- On 9 July, at the General Meeting of PV, HSE as majority owner first voted for the reduction of the PV share capital from EUR 113.8 million down to EUR 2.7 million, and then for capital increase by in-kind contributions in the amount of EUR 37.6 million and cash contributions in the amount of EUR 34 million. After the completed capital increase, HSE holds a 99.18% equity interest in PV.
- At the 24th session of the PV General Meeting, the Chairman of the PV SB, Jože Kaligaro, MSc, submitted his statement of resignation. Stojan Nikolić (CFO of HSE) and Boštjan Markoli, PhD, (Vice-Chairman of the HSE SB and Chairman of the Audit Committee of the HSE SB) were appointed as new SB members of the company for a 4-year term of office.
- TET - in liquidation adopted new Rules on job classification, adjusted to the new needs of the company; the employees received new employment contracts.

- On 28 July, TEŠ and HSE received from the EIB a draft letter regarding the waiver of commitments under certain conditions that have not yet been met. The validity of waiver is conditioned upon confirmation by the MF, by agent of the GFA banks, and by the HSE company and company TEŠ. A further condition that must be fulfilled is the submission of the opinion of the state attorney regarding the validity of the state guarantee for a loan of EUR 440 million. Upon fulfilment of these conditions, the EIB agrees with the amended financial plan of the project and the final date for the completion of the project. All EIB requirements were fulfilled in September 2015.
- On 29 July, capital increase of the PV was successfully completed.
- On 30 July, HSE as the first energy company in South-East Europe became a full-fledged member of one of the largest global exchanges, i.e. of the Intercontinental Exchange (ICE).
- The SENG company started procedures for optimisation of employee benefits expense and reform of business processes, which also resulted in job cuts and downsizing or reducing the number of employees in some positions. Thus, the number of employees in SENG decreased by 8.

8 August

- On 12 August, the company Golte briefed the PV SB about procedures of its business restructuring.
- On 24 August, the HSE SB approved the Annual Report for 2014 and agreed to the Management's proposal that the Company's accumulated profit for 2014, consisting of the retained net profit of 2013 and net profit for 2014, in total amount of EUR 78.4 million shall be allocated to revenue reserves.
- On 27 August, by resolution of the General Meeting, HSE as the founder and sole member of the DEM company adopted the audited Annual Report of DEM for 2014, and decided that the accumulated profit for the year 2014 in the amount of EUR 8.5 million paid out in total to the sole member.
- On 27 August, by resolution of the General Meeting, HSE as the founder and sole member of the SENG company adopted the audited Annual Report of SENG for 2014, and decided that the accumulated profit for the year 2014 in the amount of EUR 7.4 million is paid out in total to the sole member.
- On 31 August, the founder of HSE (SDH) took note of the Annual Report of the company and of the HSE Group for 2014 and agreed to the allocation of the accumulated profit in the amount of EUR 78.5 million to revenue reserves; granted discharge to the Management of the company for 2014, granted discharge to the HSE Supervisory Board in the composition: Miloš Pantoš, PhD, Boštjan Markoli, PhD, Drago Štefe, MSc, Črt Slokan, Boštjan Jančar and Jernej Otič.

9 September

- On 1 September, TEŠ achieved its new absolute record in daily production of electricity: 18,210,709 kWh.
- On 15 September, the Court of Audit of the RS published the audit report on The cash flows management of the HSE Group because of investing into the replacement Unit 6 at TEŠ.
- On 21 September, TEŠ received a lawsuit from Komunalno podjetje Velenje to establish illegality withdrawal from the contract on the sale and purchase of thermal energy for 2008, and decree on an interim decision ordering TEŠ further supply of thermal energy.
- On 30 September, public debate was initiated regarding the Decree on emission limit values discharged into the air from large combustion plants. The Decree regulates the transposition of Article 33 of the IED directive into Slovenian legal order, on the basis of which Unit 4 would be allowed to operate with existing emissions also after 1 January 2016 (17.500 hours up to and including 31 December 2023).
- Due to the expiry of the guarantee contract for the loan between HSE and the EIB for financing

the construction of HPP Blanca and HPP Krško (HESS) in November, a loan contract with SID Banka in the amount of EUR 58.3 million was signed on 30 September, on the basis of which SID Banka took over the debt under the loan between HSE and the EIB.

- At the request of ELES, TET– in liquidation successfully performed the start test of gas units in the regime without an external source of energy at inactive network.

10 October

- On 20 October, the HSE Group reached the record daily production of electricity after 2010, amounting to 34,667 MWh.
- On 23 October, the HSE company adopted the decision to give the Managing Director of TEŠ its consent to early repayment of the EIB loan in the amount of EUR 110 million, plus interest and possibly other charges, due to the expiry of the guarantee contracts for the loan. The banks guarantors were namely not prepared to extend the guarantees for further five years, as required by the EIB, and the new banks guarantors did not meet the credit rating requirements of the EIB. The funds for voluntary early prepayment of the EIB loan were provided to TEŠ by the controlling company in the form of a loan / recapitalisation.
- HSE Invest has acquired its first major contract for consulting engineering abroad; the Company's engineers participated in the commissioning and putting into operation of equipment of the pumped storage power plant Ingula in the South African Republic.
- TET - in liquidation received from the Slovenian Environment Agency (ARSO) the rejection of its application under the Decree on the prevention of major accidents and mitigation of their consequences for plants of minor or major risk.

11 November

- At its 11th extraordinary session of 16 November, the HSE SB gave its consent to the Development Plan of the Company and of the HSE Group for the period 2016-2020, which also includes the financial, business, human resource and organisation restructuring. Two days later, the Slovenian Sovereign Holding (SDH) also approved the Development Plan.
- On 18 November, the PV SB appointed Mojca Letnik, MSc, as a new member of the Management Board of the PV company for a 4-year term of office.
- On 25 November, HSE appointed Arman Koritnik, MSc, as the new Managing Director of the TEŠ company for a 4-year term of office.
- The HSE SB gave its consent to the Action Plan of the Company and of the HSE Group for optimisation and rationalisation of operations of the HSE Group, defining the activities, operators, deadlines and envisaged financial effects in accordance with funder's Resolution No. 4 of 14 September2015.

12 December

- On 29 December, the PV signed the sales contract for Barbara hotel in Fiesa; the purchase money was received on 12 February 2016.
- HSE Invest was successfully placed on a list of approved suppliers for a range of activities comprising the design and engineering services in areas that are important for nuclear safety.
- HSE Invest started to introduce and implement new services, such as energy audits, hydraulic calculations, laser scanning, 3D modelling, etc.
- SENG signed a contract with ELES on transfer against payment of the 110 kV transmission network of the PSP Avče; handover to ELES was realized.

2.2 Important events after the end of the reporting period

- On 7 January, the Court of Audit of the Republic of Slovenia published the After-audit report: Corrective measures in the audit of cash flow management of the HSE Group for investments into replacement Unit 6 at TEŠ. All presented corrective measures were assessed as satisfactory.
- On 5 January, the Ministry of Finance gave the HSE company its final consent to a long-term borrowing in the form of issued debt securities - bonds.
- On 15 January, negotiations on the sale of the retirement centre Zimzelen were successfully concluded. The PV company signed the contract on 16 February.
- In January 2016, the guarantees of commercial banks given to TEŠ as security for the EIB loan in the amount of EUR 110 million expired. The banks that had issued guarantees for 5 years were either not willing to extend their validity or did not meet the credit rating criteria set by the EIB. At the end of January, TEŠ therefore early repaid the EIB long-term loan in the amount of EUR 110 million and the proportional share of the EBRD long-term loan in the amount of EUR 37.8 million. The funds for the prepayment of the long-term loans were provided by the controlling company, which at the end of 2015 succeeded to obtain from commercial banks short-term bridge financing in a total amount of EUR 215 million (of which EUR 105 million was drawn in December 2015 and EUR 110 million in January 2016) and from the HSE Group in total amount of EUR 48 million (EUR 40 million from DEM (of which EUR 30 million were drawn already in 2015) and EUR 8 million from SENG). Along with the prepayment of the EIB loan by TEŠ in the amount of EUR 110 million, the guarantee of the controlling company for that loan in the amount of EUR 88 million was also discharged.
- On 26 January, the District Court in Celje issued the decision on a simplified decrease in capital for the Golte company, whereby the insolvency of the company under the criterion of Item 2 of Article 14(3) of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP) was lifted.
- On 9 February, the HSE SB appointed Gorazd Skubin as a member of the Management - Chief Operating Officer (COO), who took up his duties on 1 April.
- On 10 February, DEM signed a contract for the sale of a 50% equity stake of DEM in the ELDOM company. Payment of the purchase price was received on 15 February.
- On 11 February, the closing-down subsidiary of PV, the Škale Pit, was erased from the register of companies. The subsidiary was established for closing down the Škale Pit and was in standstill.
- On 12 February, the HTZ company recognised to be insolvent in accordance with Article 14 of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP) as at 31 December 2015. On 5 April, the District Court in Celje issued the decision on a simplified decrease in the share capital of the HTZ company.
- All companies carry out divestment activities to dispose of all non-operating assets and eliminate all unnecessary activities that are not related to the core business or are not consistent with the strategy of the HSE Group (divestment of real estate, movable property and business entities).
- On 22 February, an Annex to the loan contract between TEŠ and HSE was signed, by which the approved amount of loan was reduced from EUR 83 million to EUR 73 million. The reason for reduction was the fact that the realized value of investments into the replacement Unit 6 at TEŠ was lower than planned.
- On 29 February, the environmental permit became final, which allows the operation of Unit 4 at TEŠ until 31 January 2023 in the total amount of 17,500 operating hours.
- At the beginning of March, the HSE company was assigned a credit rating of "Ba2 stable" (rating agency Moody's) and "BB positive" (rating agency Standard & Poor's). The ratings,

which are a criterion of credibility and financial stability of the HSE company and the HSE Group, are associated with the procedure of obtaining long-term financial resources.

- On 15 March, the general Meeting of Shareholders of the Golte company, adopted the resolution on an open recapitalisation of the company with in-kind contributions and in cash. Potential investors may register in the 90-day period. The condition for the validity of the recapitalization is the payment of new contributions in an amount of at least EUR 200 thousand. The outcome or success of the recapitalisation will be known after this 90-day period has lapsed.
- On 16 March, the decision on a simplified composition with creditors for the Golte company, whose majority owner is the PV Invest company, became final.
- On 18 March, ended the gathering of binding interest of investors to buy HSE bonds. Total demand was sufficient for the liquidity needs of the HSE Group, but the achieved interest rate was above the HSE expectations. The Company continues the procedures for obtaining a long-term source of financing for the repayment of the bridge loan maturing at the end of 2016.
- On 30 March, the Slovenian Sovereign Holding (SDH) adopted the new Act establishing the HSE limited liability company and appointed four new members of the HSE Supervisory Board; the company will be supervised by 8 equity representatives and 4 employee representatives. The new members of the HSE SB are Viktor Vračar, PhD, Matjaž Marovt, Barbara Gorjup, MSc, and Milan Perovič as equity representatives, and Vanja Živanić Jovanović and Damjan Lipušček employee representatives. The new Act was entered into the Court Register on 5 April.
- On 30 March, the company Gost recognised insolvency and together with its owner started to implement the report on business and financial restructuring of the company.
- On 31 March, the managers of Slovenian energy companies met at a press conference (organized by ELES) in relation to the strike announced by the Trade Union of Energy Sector Workers in Slovenia. They were unanimous that a strike was unnecessary. Their uniform opinion was presented by the managers of the companies ELES, SODO, HSE, Gen energija, Energetika Ljubljana and Borzen.
- In March, TEŠ prepared the Operational and Financial Restructuring Plan (NFPP) for the period from 2016 to 2018, identifying the measures of financial and business restructuring.
- On 4 April, a general strike in the electricity sector of Slovenia began. It was expected to continue until 21 April.
- On 4 April, an agreement for 2016 was signed between the social partners and the PV Management, which represents a continuation of measures from the previous year and a search for common solutions for a successful stabilisation of the entire PV Group. The agreement applies to all employees in PV Group, subject to the terms of the collective agreement for the coal industry in Slovenia. The agreement was signed with a view to a successful financial and business restructuring of companies in the PV Group, focused on a socially balanced approach. The agreement was made for the period from 1 April to 31 December 2016.
- The Gost company started to implement the divestment of non-operating assets, transfer of business activities and employees on a strategic partner and merger of the remaining part of the company to PV.
- On 20 April, the Trade Union of Energy Sector Workers of Slovenia ended the strike. They reached agreement with the state representatives on further activities with a view to resolve the current problems in the energy sector. Thus, the strike activities stopped.
- At the end of May 2016, the loans of the controlling company to the TEŠ company as at 31 March 2016 in the amount of EUR 228 million (including interest) were transferred to the capital surplus of the company.

2.3 CONTROLLING COMPANY

2.3.1 Profile of the controlling company

Company profile of Holding Slovenske elektrarne d.o.o. as at 31 December 2015

Company profile of Holding Slovenske elektrarne d.o.o. as at 31 December 2015	
Full company name	Holding Slovenske elektrarne d.o.o.
Abbreviated name	HSE d.o.o.
Legal form	Limited liability company
Address	Koprska ulica 92, 1000 Ljubljana, Slovenia
Telephone	+ 386 1 470 41 00
Fax	+ 386 1 470 41 01
Entry No.	1/3506/00, registred with the Ljubljana District Court
Share capital in EUR	29,558,789
Size	Large company
Ownership structure	100% Republic of Slovenia
Year of establishment	2001
Tax number	99666189
VAI ID No.	SI99666189
Company registration number	1662970000
Main activity of the company	Electricity trading
Website	www.hse.si
E-mail	hse@hse.si; info@hse.si
Member of Management - Managin Director	Blaž Košorok
Member of Management - Finance Director	Stojan Nikolić
Chairman of the Supervisory Board	Miloš Pantoš, PhD

The Government of the Republic of Slovenia established the holding company in 2001 with the purpose of uniform appearance of companies composing the holding on electricity market, improved competitiveness of Slovenian production companies, and the execution of the hydropower plants project on the lower Sava River.

2.3.2 Organisational structure of the controlling company

In 2015, the company underwent reorganisation and optimisation of business processes, within which the new Rules on Internal Organisation and Job Classification started to apply on 16 April. The Company is organised in four 4 sectors: finance and informatics, trading, production and general administration. The Corporate Communication Department, the Internal Audit Department, the Energy Policy, New Technologies and Investment Department and the Management Representative for Quality and Environment are organised as separate departments. Business processes within the holding organisational units were reorganised as a foundation for future organisational changes towards unification of shared service centers in the HSE Group companies.

The company's organisational chart as at 31 December 2015

MEMBER OF THE MANAGEMENT - FINANCIAL DIRECTOR

FINANCES AND INFORMATICS

- *IT Department*
- *Controlling Department*
- *Financial Department*
- *Accounting Department*
- *Credit Risk Department*

MANAGING DIRECTOR

- *Corporate Communnications of HSE Group Department*
- *Secretariat*
- *Management Representative for Quality*
- *Internal Audit Department*
- *Energy Policies, New Technologies and Investments Department*

MARKETING

- *Calculation Department*
- *Trading Department*
- *Market Analysis Department*

ADMINISTRATION

- *Commerce Department*
- *Legal Office*
- *Human Resources*

MEMEBER OF THE MANAGAMENT - TECHNICAL DIRECTOR

PRODUCTION

- *Operational Department*
- *Maintenance Department*

HSE is the controlling company of the HSE Group. It is based in Ljubljana and has business establishments in Maribor, Velenje and Nova Gorica. Business functions are divided between the units considering the possibility of exploiting synergies within the HSE Group.

2.3.3 Management of the controlling company

The Republic of Slovenia as the sole owner manages the Company through the manager of state assets, the Slovenian Sovereign Holding (SDH), in the role of the founder and sole member. In addition, the governing bodies of the company are the HSE Supervisory Board and the HSE Management.

Governance and management bodies of the HSE controlling company as at 31 December 2015

THE FOUNDER

Company members

RS - 100% ownership stake

SUPERVISORY BOARD

Owner's representatives

Miloš Pantoš, PhD - Chairman

Boštjan Markoli, PhD - Deputy Chairman

Črt Slokan

Drago Štefe, MSc

Employee representatives

Boštjan Jančar

Jernej Otič

MANAGEMENT

Managing Director

Blaž Košorok

Finance Director

Stojan Nikolić

AUDIT COMMITTEE

Boštjan Markoli, PhD - Chairman

Boštjan Jančar

Darinka Virant

Damir Rakela

In 2015, attendance at sessions of the Supervisory Board and of the HSE Audit Committee was almost 100%.

In accordance with SDH Recommendation No. 6.8, the Company discloses the membership of its members of management and supervisory boards in the management or supervisory boards of related and unrelated companies for the year 2015, as follows:

- Blaž Košorok, Managing Director of HSE: member of the supervisory board in companies HESS d.o.o. and SRESA d.o.o.;
- Stojan Nikolić, Financial Director of HSE: member of the supervisory board in PV d.d.;
- Miloš Pantoš, PhD, Chairman of the HSE SB: member of the management board in the company Infinitas, d.o.o.;
- Boštjan Markoli, PhD, Deputy Chairman of the HSE SB: member of the supervisory board in PV d.d.;
- Drago Štefe, MSc, member of the HSE SB: member of the supervisory board in the company Vodno gospodarsko podjetje - Kranj d.d.;
- Črt Slokan, member of the HSE SB: member of the management board in the company SALNAL d.o.o. (until 31 May 2015) and member of the supervisory board in companies Goriške opekarne d.d. (until 31 May 2015), Izletnik Celje d.d. and ZIF "PROF PLUS"d.d., Sarajevo (until May 2015);
- Boštjan Jančar, member of the HSE SB: /;
- Jernej Otič, member of the HSE SB: /.

2.3.4 Corporate governance statement

Holding Slovenske elektrarne d.o.o., Koprska ulica 92, 1000 Ljubljana (HSE), in accordance with Article 70(5) Of the Companies Act (ZGD-1), with regard to the period from 1 January 2015 to 31 December 2015 declares as follows.

The Management and the Supervisory Board of the HSE company hereby declare that in 2015 the governance of the Company was in line with laws and other regulations, the applicable Articles of Association of the Limited Liability of the HSE company of 21 January 2014 (Act of Establishment of the HSE), and recommendations stated in the Corporate Governance Code for Companies with Capital Assets of the State.

The Management and the Supervisory Board of the HSE company, in accordance with Article 60.a of the ZGD-1, hereby declare that the Annual Report and all its integral parts, including the corporate governance statement, have been prepared and are published in accordance with the Companies Act and the International Financial Reporting Standards (IFRS).

The corporate governance statement is an integral part of the Annual Report and available at the Company's website htpp://www.hse.si.

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

In accordance with Item 3.4.1 of the Corporate Governance Code for Companies with Capital Assets of the State issued by the Slovenian Sovereign Holding (the Code), which was in March 2016 replaced by the Code of the same name, the HSE company has voluntarily decided to use the Code. The Code is publicly available at the SDH website.

The Company observed the spirit of the Code to a considerable extent, taking into account the business activity and other specific characteristics of the Company. In 2015, the company did not fulfil the following recommendations:

- Recommendation 3.2: Recommendation has not yet been followed, implementation is under preparation.
- Recommendation No. 6.8.8: Within the D&O collective insurance of the HSE Group the SB members of HSE d.o.o. are entitled to be covered by this insurance. In accordance with tax rules, they are accounted for the tax bonus. HSE did not implement this recommendation.
- Recommendation No. 6.12.2: The number of meetings of the Audit Committee was exceeded to a lesser extent due to the economic situation to which the company was exposed.
- Recommendation No. 7.3.10: The recommendation was not implemented; realisation is planned for 2016.
- Recommendations No. 9.2 and 9.2.1: The recommendations were not fully realised. Based in the revised HSE organisation implemented on 16 April 2015, a risk management department was set up and its staff was completed in 2016. The establishment of a comprehensive risk management concept at the Group level, comprising the organisation of risk management, the development of appropriate risk management policy and a revision of the risk register, is envisaged no later than within six months from the creation of appropriate conditions for the implementation of the risk management function.
- Recommendation 9.2.7: The recommendation has not been followed consistently. The recommendations of the internal auditors were not fully implemented within the set time limits (due to objective and subjective reasons - opposition to trade unions, some employees left,…).
- Recommendation 10.2: The recommendation was not implemented; realisation is under preparation.

1.1. Recommendation on implementing the SDH Recommendations

In 2015, the Company observed the spirit of the SDH recommendations in its operations to a considerable extent, taking into account the business activity and other specifics of the Company. The SDH Recommendations (of December 2014) were substituted by new Recommendations with the same name in February 2016. In 2015, the Company did not fulfil the following SDH Recommendations of the December 2014 version:

- Recommendations 4.2.2 – 4.4: The recommendations were not realised.
- Recommendations under No. 5: The recommendations were not realised. In the future, the Company will consider the implementation of the EFQM, taking into account all the other standards already observed by HSE.
- Recommendation 6.9 has been observed, with the exception of income from employment relationship of employee representatives in supervisory boards; they are paid in accordance with the employment contract.

2. Governing bodies of the company

In 2015, pursuant to the HSE Articles of Association, the Company was governed by SDH as the Company's founder and sole member. The governance and management bodies of the Company are the Managing Director and the Financial Director (the Management) and the Supervisory Board (SB).

2.1. Founder and sole owner

The founder and sole owner decides independently on the following:

- amendments to the Articles of Association,
- adoption of the fundamentals of business policy and the development plan of the HSE company and the HSE Group for a period of five years, including financial, personnel, business and organizational restructuring, on the proposal of the Management and upon Supervisory Board consent,
- adoption of the annual report if the Supervisory Board has not approved it and if the Managing Director and the Supervisory Board leave the decision on the adoption of the annual report to the founder,
- the allocation of distributable profit,
- discharge to the Management and the Supervisory Board,
- return of subsequent payments,
- allocation and termination of interests,
- encumbrance of interests/shares in subsidiaries on a proposal from the Management and upon consent of the Supervisory Board,
- entering into contracts and other legal transactions in which the Company undertakes to transfer against payment or gratuitously to another person in a single legal transaction or several related legal transactions together at least 3% of the Company's assets, if this is not a transfer under the provisions of the Companies Act-1-UPB3 regulating the status changes,
- determines the remuneration policy for the members of the Management upon proposal of the SB,
- changes in the Company's share capital,
- status changes and dissolution of the Company,
- appointment and dismissal of members of the Supervisory Board of the company, except those elected by the works council,
- appointment of the Company's auditor on the proposal of the Supervisory Board,
- appointment of the Company's authorised representative, granting and revocation of full powers of attorney, and appointment of an authorised business representative,
- remuneration for the work of the members of the Supervisory Board,
- other matters in accordance with its responsibilities as set out in the applicable

legislation and the Articles of Association of HSE.

In accordance with Article 526 of the ZGD-1, the founder shall enter its decisions in the register of decisions.

2.2. Management

In accordance with provisions of the Articles of Association of HSE and the resolution of the Supervisory Board. The Company is managed and represented by the Management, which was in 2015 composed of the Managing Director and the Financial Director of the Company on their own responsibility. The Managing Director and the Financial Director shall be appointed and recalled by the Supervisory Board. After the expiry, their term of office a director can be reappointed.

2.3. Supervisory Board

The Companies Act (ZGD-1), the Articles of Association of HSE and the Rules of Procedure for the HSE Supervisory Board regulate the competencies and decision-making procedures of the Supervisory Board, the organization of work and other issues important for its operation.

The Articles of Association of HSE define the structure, term of office and powers of the Supervisory Board. The HSE SB consists of six members, of which four members represent the interests of the owner (they are appointed and dismissed by the owner); while two members represent the interests of employees, (they are appointed and dismissed in accordance with the Worker Participation in Management Act). The Supervisory Board members are appointed for a term of four years and can be re-appointed when their term of office expires.

In accordance with the Articles of Association, the HSE SB within its powers:

- supervises the management of the Company,
- may examine and verify the books and records of the Company, its cash on hand, securities and inventories of goods, and other things,
- verifies and approves the annual report and consider the proposal for allocation of accumulated profit,
- draws up a written report to the founder on the results of the review of the annual report and the proposal for allocation of accumulated profit,
- gives its consent to the proposal for the fundamentals of business policy and of the Development Plan of the Company and of the HSE Group,
- verifies the implementation of adopted fundamentals of business policy and of the Development Plan of the Company and of the HSE Group, and suggests possible corrections,
- gives consent to the business plan of the Company and of the HSE Group,
- appoints the audit committee and other committees,
- appoints and dismisses the members of the Management,
- concludes contracts of employment or management contracts with the members of the Management,
- gives consent to the Management of the Company to take decisions at General Meetings of subsidiaries in the event of changes in the status or equity structure,
- gives the Management its consent to the transfer of certain business functions from the subsidiaries that are wholly owned by the Company, to the Company (implementing the tasks of an operational holding),
- adopts the Rules of Procedure for the Supervisory Board,
- gives consent to individual transaction of the Management in accordance with the Articles of Association,
- gives consent to the Rules of Procedure for the Management,
- may request reports also on other issues,
- gives the HSE Management prior consent to enter into transactions regarding the acquisition or disposal or encumbrance of shares or interests in subsidiaries and other companies, to establish or dissolve other companies, branch offices and plants, to buy,

sell, exchange or encumber real estate owned by the company, and to enter into any legal transaction (including investments, credit transactions, etc.), whose value exceeds 10% of the Company's share capital or EUR 2,955,000.00, excluding transactions with electricity, emission allowances and their equivalents, natural gas, liquefied petroleum gas and related transactions, transactions related to short-term cash management in the HSE Group and transactions for short-term investing of cash in the form of deposits with commercial banks, giving sureties, warranties or guarantees for liabilities of other persons.

2.4. Audit Committee

The Audit Committee (AC) was established in accordance with the Companies Act-1 and provides professional support to the SB. Tasks and competencies of the Audit Committee are defined by the Companies Act-1, the Rules of Procedure for the Audit Committee of the HSE Supervisory Board and the decisions of the SB.

The composition and functioning of the Supervisory Board and the Audit Committee are presented in the report of the Supervisory Board.

3. Internal controles and risk management in the company

With a view to ensuring greater transparency, efficiency and responsible operations, the company has established a functioning system of internal controls and risk management through the organizational structure of the Company, the quality management standard ISO 9001, OHSAS 18001 standard, information security management as required by ISO/IEC 27001, and the Company's internal acts with precisely established system of reporting by individual organizational units. The system of internal controls is supported by the IT control system that, among other things, provides for appropriate limitations and control over the network as well as for precise, updated and complete data processing.

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

With a view to establishing a comprehensive risk management system in order to provide to the Company's Management and the Supervisory Board quality information and a solid basis for the management and supervision of the Company, the Company has established the Risk Management Committee. The organization, composition, method of work and the tasks of the Committee are specified in the Rules of Procedure for the HSE Risk Management Committee.

The Internal Audit Department as an independent organisational unit is responsible for constant and comprehensive verification of regulatory and legal compliance, and of economic efficiency and organisational structure of all operations. It performs independent and objective audit and consulting activities with a view to enhance benefits and reduce business risks of the companies within the HSE Group.

The Management is responsible for the establishment, operation, control and continuous improvement of the system of internal controls and for the accuracy and completeness of data, while the Audit Committee of the HSE SB monitors and evaluates the role and effectiveness of the internal audit function in connection with the Company's overall risk managements system.

4. Internal auditing

Internal Audit carries out its mission in accordance with the adopted Rules on Internal Audit of HSE Group.

In accordance with the plan of the Internal Audit Department for 2015, and the decisions of the HSE Management and the HSE Supervisory Board, internal audits of individual transactions and various (multiple) areas of operations of subsidiaries of the HSE Group were carried out. In addition, Internal Audit performed consulting activities and other tasks in accordance with the adopted plan and the decisions of the HSE Management and the HSE Supervisory Board.

In 2015, Internal Audit Department carried out activities for amending the Internal Audit Charter regulating the audit function in the companies of the HSE Group with the fundamental aim that the HSE controlling company carries out audit, consulting and other activities in all HSE Group companies that are 100% owned, i.e. directly and indirectly majority-owned by the HSE company d.o.o. In 2015, the governance and management bodies adopted the new Rules on Internal Audit of the HSE Group for all companies in the HSE Group.

In 2015, the Internal Audit Department also replenished its staff.

Internal Audit regularly reported on all its activities during the year and on an annual basis to the HSE Management, as well as to the HSE Supervisory Board and its Audit Committee.

Ljubljana, 31 May 2016

Stojan Nikolić,
CFO of HSE d.o.o.

Gorazd Skubin,
COO of HSE d.o.o.

Blaž Košorok,
CEO of HSE d.o.o.

Milan Perović,
Chairman of the HSE SB

2.4 Profile of the HSE Group

The HSE Group is the largest Slovenian organization in the area of power generation and the largest producer and trader of electricity on the wholesale market in Slovenia. Uniform market appearance of companies comprising the HSE Group ensures greater competitiveness on the market, optimum use of production capacities given the current market conditions, lower negative financial effects of production downtime, a more comprehensive supply of electricity products, lower risk in concluding long-term contracts and better opportunities in foreign markets.

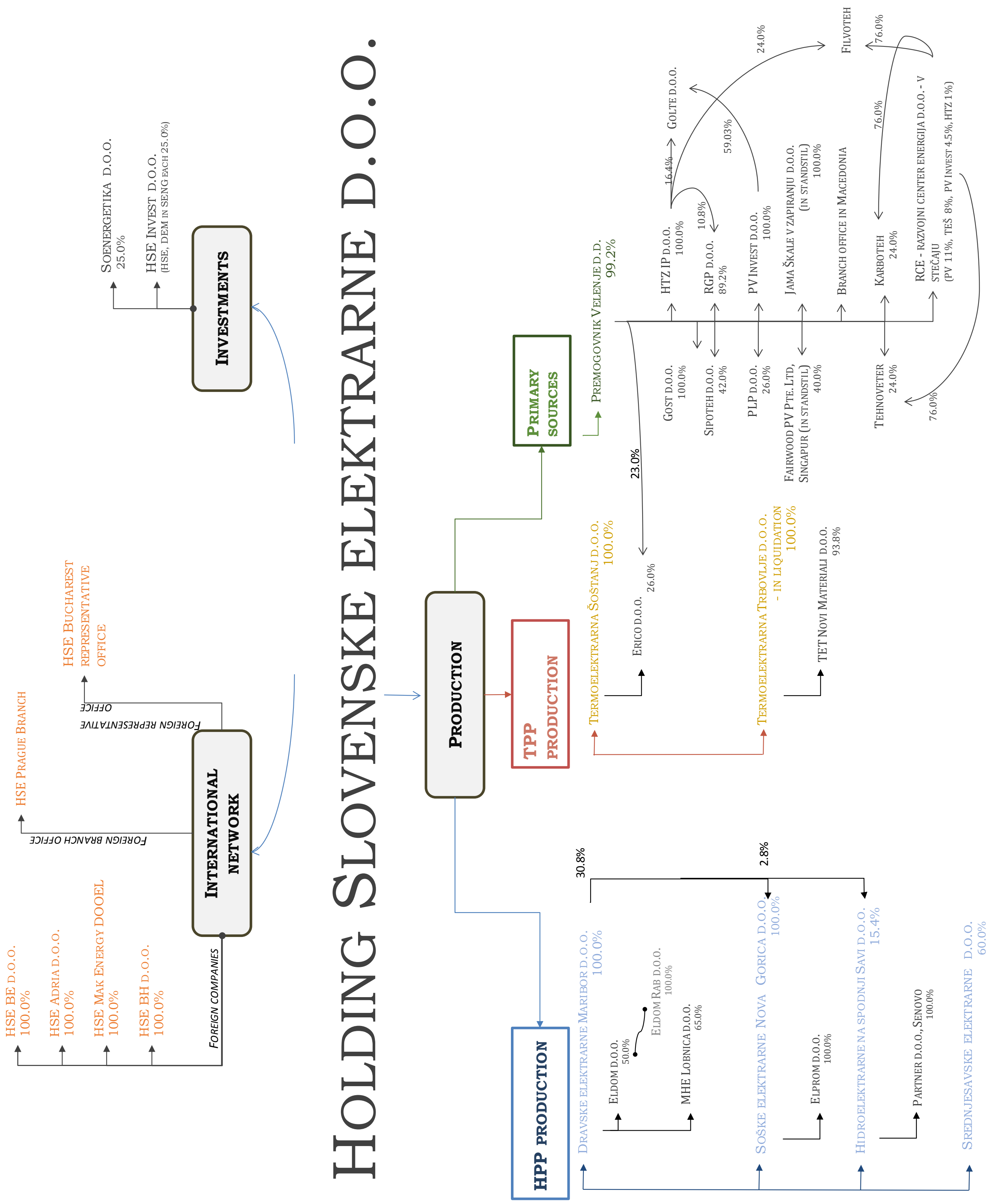
Activities of the HSE Group comprise the area of energy and environment management as well as controlling the associated processes and risks. A wide array of activities comprises the following main groups:

- production of electrical and thermal energy,
- extraction of lignite,
- sale and trade with electrical and thermal energy, forward contracts for electrical energy, CO_2 emission allowances, gas, etc.,
- production optimisation of the HSE Group,
- provision of ancillary services, necessary for the functioning of the power generation system in Slovenia,
- management and implementation of energy and environmental projects.

The main activities of the HSE Group are electricity production and trading, which is why the HSE Group seeks to take advantage of synergies associated with the wide spectrum of production capacities in order to maximise its operating efficiency. Because different production units have different operational and cost characteristics, a more cost-effective electricity supply can be achieved through appropriate combination of production units. And because market prices of electricity vary over time, planning and optimisation of production units, while observing technical criteria and conditions in electricity market, are becoming increasingly important.

The HSE Group in western, central and south eastern European markets

Related companies of the HSE Group as at 31 December 2015



HPP production

Dravske elektrarne Maribor d.o.o.(DEM)

MANAGING DIRECTOR: Viljem Pozeb, MSc

MAIN ACTIVITY: Electricity production in HPP

With eight HPPs on the Drava River (HE Dravograd, HPP Vuzenica, HPP Vuhred, HPP Ožbalt, HPP Fala, HPP Mariborski otok, HPP Zlatoličje, HPP Formin), three small HPPs (SHPP Melje, SHPP Markovci and SHPP Ceršak) and four SPPs (SPP Zlatoličje, SPP Formin, SPP Dravograd and SPP OCV 3) DEM produces almost one quarter of all Slovenian electricity. The average annual production of the company DEM amounts to 2,660 GWh and represents 80% of Slovene electricity production, which meets the criteria of renewable sources and standards of the internationally accepted RECS certificate (Renewable Energy Certificates System). The total net output of DEM power plants amounts to 592 MW.

The operations of the company, which performs most of its activities on the Drava River, are based on effective processes that are performed, with minimum impact on resources and environment. Significant operating principles are reliability of partner cooperation in all areas and adaptability to the challenges of employees, owners and external environment. In the area of hydropower activity, the Company fully controls and markets all processes, while the care for environment is always criterion of assessing working and economic success at existing capabilities and those that it still intends to establish. Efficiency, reliability, adaptability, completeness and environmental responsibility represent the basic values of the DEM company.

MHE LOBNICA D.O.O. is a DEM subsidiary, established in May 2011 for electricity production.

ELDOM D.O.O. is an associated company of DEM. The company's main activity is property management, organisation of meals in restaurants and management of holiday facilities for Slovenia's electricity sector. In February 2016, the entire stake in this company (50%) was sold.

ELDOM RAB D.O.O. is a subsidiary of the ELDOM company. The company performs the following activities: real estate management, legal and property transactions and contracting, management of accounting and administrative service, categorisation of tourist facilities, smaller and larger investment projects, maintenance of facilities and surroundings, cleaning and preparation facilities for winter, reception services and accommodation facilities marketing.

Soške elektrarne Nova Gorica d.o.o. (SENG)

MANAGING DIRECTOR: Marjan Pintar

MAIN ACTIVITY: Electricity production in HPP

Soča and its tributaries drive five large (HPP Solkan, HPP Doblar 1 and 2, and HPP Plave 1 and 2) and 21 small HPP with total power of 157 MW, and the pumped storage hydropower plant Avče with 180 MW installed capacity. The average annual production in HPPs amounts to 826 GWh, while overall installed/net capacity of the SENG power plants amounts to 337 MW.

Generation of blue energy is economical, while respecting the rights of employees and community and subject to environment-protection considerations and international standards. With its activities and good examples, the Company contributes to the development of the wider community. Multi-purpose use of hydro energy facilities has been in the forefront for decades, as the HPPs offer the area and its people along the Soča river development opportunities.

ELPROM D.O.O. is a subsidiary of SENG. It was established for the purposes of electricity production from renewable source.

Hidroelektrarne na spodnji Savi d.o.o. (HESS)

MANAGING DIRECTOR: Bogdan Barbič

MAIN ACTIVITY: Electricity production in HPP

SB COMPOSITION AS AT 31 DECEMBER 2015:

- Janez Keržan, MSc, Chairman
- Andrej Kovač
- Vladimir Gabrijelčič
- Blaž Košorok
- Nikola Galeša
- Roman Modic

The HESS company was established in 2008 with the purpose of rational construction of hydro power plants on the lower Sava River providing reliable, competitive and environmentally friendly electricity production. The project of HPP contstruction on the lower Sava River currently ranks the company HESS among the biggest RES investors in the Republic of Slovenia and in the wider geographical area. In addition, the project provides a significant share of electricity produced from renewable energy sources in the RS.

With the sale of the 35.6% HSE share in the HESS company, the construction project of a chain of HPPs on the lower Sava River, led by the HESS company, came under the majority ownership of the company GEN energija. Due to this fact, the HESS company no longer included in the consolidated financial statements of the HSE Group, but still being a 49% owner, HSE continues to actively monitor and participate in the construction of hydro power plants on the lower Sava River through the HESS Supervisory Board and Shareholders Meetings. In 2015, the construction of HPP Brežice continued according to the envisaged plan with slight delays, so that 80% of all works were already realised in 2015. The national spatial plan has been adopted for the last HPP in the chain, i.e. the HPP Mokrice, which in now in the stage of environmental impact assessment. Due to the lengthy procedures related to the siting of facilities and difficulties in obtaining consents, the construction commencement and finalisation the remaining two HPPs, i.e. HPP Brežice and HPP Mokrice, will take place until 2020. The delay in HPP Brežice, which is almost finished, and HPP Mokrice is the consequence of delays in the infrastructure part.

PARTNER D.O.O. SENOVO is a subsidiary of the HESS company. The main activity company are building completion and finishing work.

Srednjesavske elektrarne d.o.o. (SRESA)

MANAGING DIRECTOR: Matjaž Eberlinc, PhD

MAIN ACTIVITY: Electricity production in HPP

SB COMPOSITION AS AT 31 DECEMBER 2015:

- Blaž Košorok, Chairman
- Drago Polak
- Jana Pogačnik, MSc
- Karl Vukovič
- Primož Stropnik
- Mitja Dušak

The SRESA company was established in August 2011 with the purpose of constructing HPP chain and exploitation of water energy potential for electricity production on the part of the Sava water body from Ježica to Suhadol (the so-called middle Sava River).

The HPPS on the middle Sava River will considerably contribute to the fulfilment of the requirements under the EU directive on RES, and will enable a more flexible operation of the Slovenian electricity system.

TPP

Termoelektrarna Šoštanj d.o.o. (TEŠ)

Managing Director as at 1 January 2015: Matjaž Eberlinc, PhD

Managing Director as at 31 December 2015: Arman Koritnik, MSc

Main activity: Electricity production in TPP

TEŠ is the largest thermal energy production facility in the HSE Group. Its core activity is the electricity and thermal energy production for district heating.

TEŠ is bound to the use of Velenje lignite as its primary energy source for electricity production. Its average annual electricity production ranges between 3,500 GWh and 4,000 GWh, and its average annual production of thermal energy for district heating of the Šaleška valley between 310 GWh and 410 GWh. The total net output power of the company is 1,176 MW.

Since TEŠ is strategically important for reliable, safe and competitive electricity production based on domestic fuel, the construction of the 600 MW Unit 6 was completed in 2015 to replace the production and services of the existing coal-fired units in TEŠ, whereby one third less coal will be consumed for 1 produced kWh of electricity than in the existing (old) unit. Consequently, CO_2 emissions will be reduced by 35%, and all other environmental burdens will also be lower. The construction of the replacement Unit 6 was in accordance with the schedule. The provisional acceptance (PAC) of the main operating facility from the supplier Alstom took place on 19 June, so that the production capacities of Unit 6 are now entirely at the disposal of TEŠ and HSE as its owner, which enables maximum utilisation and optimisation of Unit 6 production capacities.

ERICO D.O.O. is an associated company of TEŠ. The main activity the ERICO Institute is performance of environmental management services required by law. ERICO is an environmental service company, which has successfully provided environmental solutions to its clients for more than 15 years. The institute operates in line with international quality standards. The majority owner with a 51% stake is the Gorenje company, while the other two owners are TEŠ (26%) and PV (23%).

Termoelektrarna Trbovlje d.o.o. – in liquidation (TET – in liquidation)

Liquidator: Luka Podjed

Main activity: electricity production in TPP

Until the end of 2014, TET was the largest energy facility in the Zasavje region. Together with the coalmines in the region the company in the past laid the foundation for the development of many factories, industrial and small-trade establishments, transport and social activities in the Zasavje region and throughout Slovenia.

The need for renewal of the boiler for the 125 MW unit, the market conditions and the high cost price of the electricity produced were the facts on the basis of which the owners at the General Meeting of TET held on 17 November 2014 adopted the resolution to initiate the regular liquidation procedure of the TET company.

TET NOVI MATERIALI D.O.O. is a subsidiary of TET–in liquidation. Its main activity is wholesale of wood, construction materials and sanitary equipment. The company is dormant.

Primary sources

Premogovnik Velenje d.d. (PV)

MANAGEMENT BOARD AS AT 1 JANUARY 2015:

Ludvik Golob, MSc, President

Boris Štefančič

MANAGEMENT BOARD AS AT 31 DECEMBER 2015:

Ludvik Golob, MSc, President

Mojca Letnik, MSc

MAIN ACTIVITY: *Extraction of lignite*

SB COMPOSITION AS AT 1 JANUARY 2015:

- Jože Kaligaro, MSc
- Klemen Potisek , MSc
- Bojan Brcar

SB COMPOSITION AS AT 31 DECEMBER 2015:

- Stojan Nikolić
- Boštjan Markoli, PhD
- Bojan Brcar

PV has been operating for more than 140 years in the field of extraction of natural resources in the largest Slovenian location of coal and on one of the thickest coal layers known in the world.

PV is a technologically advanced coalmine that ranks among the top in Europe from the point of view of equipment and safety. Its speciality is the world renowned "Velenje Longwall Method". This method is most suitable for extracting thicker layers due to its method of productivity. It also enables filling and fortifying the space after extraction.

The amount of extracted coal in PV depends on the plans by the Slovenian power industry. Annually it amounts in average to 3.5 million tons of lignite, which is entirely intended for the needs of TEŠ. In addition extracting coal, PV attends to numerous geotechnological activities, such as designing of underground facilities and surface mines and geo-mechanical research. Modern equipment and high technical expertise ensure employee safety and high productivity.

With its long-term-oriented operation and modern production process, while ensuring safety and humanity at work, the PV company will, together with TEŠ, care for reasonable utilization of the only strategic Slovenian energy source – the coal from the Šalška valley.

HTZ I.P. D.O.O. is a sheltered company and the largest subsidiary of the PV. State of the art, expertise and many years of experience, and high technological development provide flexibility and innovation to the company, development, providing flexibility and innovativeness that directs its activities to the values of humanity and social responsibility. The activities of the company are servicing and maintenance of rescue equipment, protection of facilities and property, mechanical and electrical services, design, service and production of machinery, construction, utilities and carpentry maintenance, photocopying, graphic design and electronic archiving, production of personal protective equipment and other leather and textile products, laundry, etc. The HTZ company is of key importance for the operation of PV, both because of the services they perform for the PV and are indispensable for the functioning of the core activities of the coalmine and due to its status of a sheltered company and privileges arising from that status.

PV INVEST D.O.O. is a subsidiary of PV; it is registered for the following activities: trading in real estate, environmental rehabilitation, geophysical measurements and mapping, etc. The company also carries out activities of residential care for the elderly and people with disabilities and other social protection activities with accommodation; it has also registered ancillary activities. In the business plan for 2016, the company has foreseen to divest the retirement centre Zimzelen and to transfer on the PV all those activities that are essential for the core activity of coal extraction. The sales contract for the retirement centre Zimzelen was executed in February 2016.

RGP D.O.O. is a subsidiary of PV and HTZ. Its activities are divided into three main organisational units: mining and construction services, production of stone aggregates and production concrete products. Mining construction services comprise the rich expertise of the PV in the construction of all types of underground structures in complex geotechnical conditions and in great depths. The core activity of stone aggregate production is based on the extraction and processing of rock into sand for construction. Its highly trained design and operational staff, good technical equipment and complete understanding of the profession guarantee high quality and price competitive services that provide complete solutions and long-term reliability.

GOST D.O.O. is a subsidiary of PV and is registered for carrying out the following activities: accommodation and food service, tourism and event organisation. The company organises events in the area of the tourist-recreational centre Jezero, entertainment for various occasions, banquets, and is successfully developing its catering activity.

Based on the analyses and market research, the Company concludes that the habits of consumers are changing. Therefore, the Company has in recent years renovated most of its facilities, thus providing for faster market-oriented development, greater operating efficiency and the use of modern technological equipment, which at the same time meets the high requirements of the HACCAP system.

JAMA ŠKALE V ZAPIRANJU D.O.O. was a subsidiary of PV established for the purposes of closing down the Škale pit. The company was dormant, and was on 11 February 2016 deleted from the business register.

GOLTE D.O.O. is a subsidiary of PV Invest and owns the summer and winter tourist centre whose main activity is the management of skiing centres. The company is comprised of four sections: the technical division that is responsible for the operation and maintenance of cableway installations, hotel and accommodation facility, catering and travel agency. The Golte company is owned by PV Invest with a 59% ownership stake and HTZ with a 16.4% ownership stake.

In 2015, the Company was intensively researching the market and the products that would provide a higher added value and the development of summer tourism.

SIPOTEH D.O.O is an associated company of PV, engaged in the production of metal structures and their components.

PLP D.O.O. is an associated company of PV and supplies the coalmine with timber products. The principal activity of the company sawing, planning and impregnation of wood, which is indispensable material in coal mine pits. They are selling their products to PV and other customers in Slovenia and abroad.

FAIRWOOD PV is an associated company of PV, established for selling the knowledge and experise of the PV in foreign markets. The company is dormant.

RCE – RAZVOJNI CENTER ENERGIJA D.O.O. – UNDER BANKRUPTCY is an associated company of the HSE Group with the following interests: PV 11%, TEŠ 8%, PV Invest 4.5% and HTZ 1%. The main activity of RCE is development of samples, prototypes, production lines and technological procedures in the areas of efficient energy use (EEU) and renewably energy sources (RES), design of modern energy systems, technologies for reduction of environmental impact, processing and beneficial use of waste materials, better use of existing technologies, automation and supervision of processes using advanced energy technologies, and intellectual property protection. The company has been in the bankruptcy proceedings since June 2015.

The founders of the companies KARBOTEH D.O.O. and TEHNOVETER D.O.O. are RCE (76%) and PV (24%). Both companies have been established with the purpose to provide engineering activities and technical consulting.

The founders of the company FILVOTEH D.O.O. are RCE – under bankruptcy (76%) and HTZ (24%). The company was established with the purpose to provide engineering activities and technical consulting and for preparing investments projects for obtaining EU funds.

THE BRANCH OFFICE IN THE REPUBLIC OF MACEDONIA, SKOPJE was established in late 2011. In 2015, the PV in 2014 operated through it only in the minimum scope.

International network

Since its very beginning, the HSE company had to establish various forms of organization (company, branch, representative office) in various countries across Europe in order to participate in various markets of electricity and to perform trading activities in various forms in accordance with the local legislation. Due to changes in individual local legislation that now allows the local energy activity also to be performed by companies established in the EU, or because of business decisions, some of them have already ceased to operate.

HSE BE d.o.o.

MANAGING DIRECTORS: Irena Stare, Drago Skornšek

MAIN ACTIVITY: Electricity trading

The HSE company BE based in Belgrade was established in January 2006 as the result of the expansion of the HSE operation in the SE Europe. Serbia plays an important geographical and energy role in its region. It also has a developed electricity system and important resources such as water, coal and geothermal energy. The Company is trading with electricity and provides support to the HSE Group in expanding its operations in the SE Europe.

HSE Adria d.o.o.

MANAGING DIRECTORS: Tomaž Štokelj, PhD, Irena Stare

MAIN ACTIVITY: Electricity trading

The Zagreb-based company was founded in October 2006 with the purpose to establish connections with the Central and Eastern European markets.

The company engages in cross-border electricity trading, makes contracts on the sale and purchase of electricity and provides technical consulting.

HSE Mak Energy DOOEL

MANAGING DIRECTORS: Tomaž Štokelj, PhD, Drago Skornšek

MAIN ACTIVITY: Electricity trading

In May 2009, the HSE company MAK Energy was established in Macedonia for the purposes of entering the Macedonian electricity market and increasing trading opportunities in the area from the Balkans to Greece.

HSE BH d.o.o.

MANAGING DIRECTOR: Zlatko Sahadžić

PROCURATORS: Drago Skornšek, Oton Korenč

MAIN ACTIVITY: ELECTRICITY TRADING

In June 2010, HSE BH was established in Sarajevo, Bosnia and Herzegovina, with the purpose of electricity trading in the country, since the Bosnian legislation requires a legal entity to be registered in Bosnia and Herzegovina in order to obtain licences for electricity trading and cross border activities.

HSE Prague Branch Office

MANAGER: Tomaž Štokelj, PhD

MAIN ACTIVITY: Electiricty trading

The main reason for establishment of a branch in the Czech Republic was the acquisition of a license for trading with electricity, which enables trade in the Czech Republic and membership to the OTE and PXE Exchanges. Due to amendments in the legislation in 2010, trading of electricity was taken over by HSE. However, branch must be formally still active.

HSE Bucharest Representative Office

MANAGER: DRAGO SKORNŠEK

MAIN ACTIVITY: ELECTRICITY TRADING

After Bulgaria joined the EU and two reactors at NPP Kozloduy were shut down, Romania became the main electricity exporter in the region. Romania has also the largest power exchange in SE Europe and a liberalised market. For these reasons, HSE decided in 2007 to open a representative office in Bucharest and obtain an electricity trading licence.

Investments

HSE Invest

MANAGING DIRECTOR: SANDI RITLOP

MAIN ACTIVITY: Other project engineering and technical consulting

SB COMPOSITION AS AT 31 DECEMBER 2015:

- Irena Šlemic
- Alida Rejec
- Andrej Tumpej
- Drago Polak
- Katja Rejec
- Gregor Cenc

HSE Invest is a company for engineering and construction of power plants, providing consulting and engineering services. The major activities of the company include management of development projects in the pre-investment stage, as well as of projects regarding construction of new plants and reconstruction of existing plants. The company is carrying out projects in the areas of energy, infrastructure and environmental protection in Slovenia with a vision of expanding its operations to other countries. HSE Group companies own a 75% stake in HSE Invest (HSE, DEM and SENG, each with 25%).

Soenergetika d.o.o.

MANAGING DIRECTOR: Aleš Ažman

MAIN ACTIVITY: production of electricity and thermal energy

The vision of the company is efficient realisation of projects in the energy sector, with the purpose to generate significant added value for the owners at acceptable risk levels. The main mission of the company is complete realisation of projects for the production of heat and electricity as well as the subsequent management of realized projects. HSE owns a 25% stake in the company.

2.4.1 Management of the HSE Group

The HSE Group is currently in a period of new challenges, among which the main ones are associated with optimisation, rationalisation and reorganisation of the HSE Group. Given the fact that the conditions in energy and financial markets have significantly changed, the Group is forced to search for an optimal structure that will allow the company to survive and to maintain the leading role in the Slovenian energy market in the future. The HSE Group is faced with a difficult period of changed electricity market situation, while at the same time it needs to further adjust its operations to the policies and requirements of the adopted European and national climate and energy legislation and to proceed with the implementation of the planned investment projects which demonstrate economic viability and are given realistic opportunities. The state has significant impact on investments in the energy sector, since its legislative framework, climate, energy and environment policies set the horizon and significantly influence the development and operation of the whole HSE Group.

On 18 November 2015, the owner adopted the new core strategic development document of the HSE Group – the Development Plan of the Company and of the HSE Group 2016–2020, taking into account the directions of the HSE SB as the representative of the HSE founder (SDH), as well as all other strategic orientations of the state regarding the energy, financial and other relevant fields.

The HSE Group must build on the trust and recognized visibility. Raising the reputation of HSE is a key challenge for the future. The new development plan of the Company and of the HSE Group redefined the corporate management of the HSE Group, which is of vital importance for the Group. The business system of the HSE Group must be able to adapt to the new market situation as soon as possible to secure its existence, progress and development. The right way in this direction is good management and sound decision-making that leads to:

- raising the level of operating efficiency,
- maximizing the synergy effects,
- successful risk management,
- creating the necessary conditions for the implementation of investment projects,
- achieving even better operating results,
- ensuring constant progress, innovativeness and development.

In line with the preparation of strategic and operational planning documents of companies comprising the HSE Group, action plans of individual HSE Group companies for optimisation and rationalisation of the Group's operation were also prepared in 2015, defining the activities, operators, deadlines and estimated financial effects.

Further implementation of corporate governance of the HSE Group and unification of certain professional functions is expected in the period ahead, with a view to achieving more efficient coordination between the HSE as controlling company and its subsidiaries, with the aim to maximize the available potentials of the Group and benefit from mutual synergy effects. These activities will be implemented through clear and well-defined policies and better coordination of business functions as well as through even more concerted practices in areas within the Group, such as development, finance, marketing, maintenance, information technology, human resources, public relations and visual identity, accounting, controlling, internal audit and quality.

The amendments to the Act establishing the companies DEM, SENG and TEŠ in 2014 brought about, inter alia, the abolition of supervisory boards in those companies. Transactions that until then required the consent of the Supervisory Board of the relevant company have become subject to the decision-making of the founder. These are transactions or decisions specified in the provisions of the relevant Acts of incorporation, which the managing directors may not conclude without the prior written consent of the company owner and/or the founder. Operational management of DEM, SENG and TEŠ is implemented through the administrator of investments who was appointed by a special decision in August 2014.

HSE as the sole member and founder enters all its decisions into the book of decisions of the relevant company.

With regard to monitoring and coordination of investment projects, HSE completed and adopted a uniform methodology for the assessment of investment projects in the HSE Group in 2015 – the Rules on evaluation and monitoring of investment projects in the HSE Group (the Rules). In accordance with the Rules, an Expert Committee at the Group level was set up in March 2015, with the mandate to closely monitor the investment projects and to review the prepared investment documents in accordance with the Rules. The Committee is composed of representatives of the companies HSE, DEM, SENG, PV and TEŠ.

Management bodies

The HSE subsidiaries in Slovenia are run by a single-member management, while companies abroad normally have a two-member management. The exception is the PV, led by two members of the Management Board. PV has a three-member Supervisory Board and HSE Invest a six-member Supervisory Board.

TEŠ Unit 6 Supervisory Board

TEŠ Unit 6 Supervisory Board (U6 SB) was established in November 2009 in order to monitor investments in the replacement Unit 6 at TEŠ and to prevent increases in capital investments and maintenance costs of the existing systems at TEŠ. The committee consists of four members, three appointed by HSE and one by TEŠ. In 2015, the activities of U6 SB ensured better mutual exchange of information, contributed to better transparency and of the investment project, which remained within the scope of the amended investment programme (NIP 6). In addition, U6 SB contributed to better coordination between the relevant departments of TEŠ and HSE at the stage of commissioning and start-up tests. U6 SB regularly reported on its conclusions to the HSE Management. Likewise, the HSE Supervisory Board discussed the progress report on the project at every regular meeting in 2015.

Worker participation in management

The HSE Group employees exercise their rights through trade unions, workers' councils and representatives in supervisory boards.

Regular cooperation with trade unions and workers' councils of the HSE Group is a practice that was introduced along with the establishment of the HSE Group. Such method of cooperation ensures a balance of various interests and, consequently, a broad consensus regarding both the Group's development plans as well as provision of social security for those employed in the HSE Group.

Trade union activities in the companies

Trade union activities in DEM, SENG, TET–in liquidation and TEŠ are coordinated by the Trade Union of Energy Sector Workers in Slovenia (SDE), one of the most influential and strongest trade unions within the Association of Free Trade Unions of Slovenia (ZSSS).

Operating within the HSE Group are also the trade unions Independence and the Union of Coal Miners of Slovenia (SPESS), and Trade Union of Mining and Energy Sector Workers of Slovenia (SDRES-PV), operating within the PV business system.

The SDE's Electrical Energy Sector Conference encompasses the Coordination of union activities of the HSE Group, which is comprised of trade union representatives of DEM, SENG, TET–in liquidation and TEŠ. The Coordination communicates directly with the HSE's management as well as with the managing directors of individual companies, thus ensuring that issues are addressed in a timely manner. Such cooperation also extends to the Joint Workers' Council of the HSE Group.

Workers' Councils and Joint Workers' Council of the HSE Group

The HSE Group employees exercise their right to participate in management through workers' councils of individual companies. On the basis of the Agreement on the establishment of a Joint Workers' Council for related companies, the workers' councils of the HSE Group established the Joint Workers' Council of the HSE Group (JWC).

The JWC is responsible for addressing issues concerning employees in all related companies, which include: the annual report of HSE and HSE Group, development strategy and business policy, changes in activities and status changes within the HSE Group, sale of individual companies and significant changes in ownership, common platforms for resolving individual issues, and status and rights of workers, such as: a common methodological approach for classification and evaluation of work, use of common resources of the workers' standard, education policy and occupational safety and health.

In addition, the JWC's task is to supervise implementation of the Worker Participation in Management Act (ZSDU). The JWC thus acts as a facilitator between all employees of the HSE Group, cooperates with management in a manner laid down by the law and the Participation agreement and, together with the trade unions, represents the interests of employees. An important contribution of the JWC to the successful business policy of the HSE Group is the unanimous support of common projects defined in the development plans of the HSE Group.

Economic and social Council (ESC)

was founded with the goal of intensifying cooperation between the managements or management boards, workers' councils and representative trade unions in the HSE Group companies.

2.5 Business policy of the HSE Group

THE MISSION OF THE HSE GROUP is to become the leading provider of comprehensive energy solutions in the region while respecting the principles of sustainable development, adapting to market conditions and exploiting the synergies of the Group.

THE VISION OF THE HSE GROUP is to consolidate the HSE Group through innovation, competence and social responsibility of all employees in order to increase the competitive advantage of the HSE Group in the energy markets.

THE VALUES OF THE HSE GROUP reflect in relations to customers, social environment, employees, business partners and owners. The focus is on:

- professionalism, innovation, responsibility, honesty and cooperation,
- cconcern for the satisfaction of customers and users of services provided by the HSE Group,
- development of responsible long-term relationships with business partners and other stakeholders,
- sustainable development, while protecting the environment through the implementation of EEU (Efficient energy use) activities and the introduction of RES (Renewable energy sources),
- continuous training and motivational working environment for employees,

- optimizing the secure and stable jobs having regard to the demanding business environment,
- efficient operations and generating income to the owners and adapting operations to external market conditions,
- continuous improvement of the management system.

2.6 Strategic policies of the HSE Group

The HSE Group is currently in a period of new challenges and plans, among which the key ones are associated with optimisation, rationalisation and reorganisation of the HSE Group. Low electricity prices and, consequently, lower revenue, and at the same time given the fact that in recent years HSE has entered into an intense investment cycle, put the HSE Group in a position, where it has to carry out extensive measures of streamlining its operations, increasing added value and, in particular, improving its liquidity situation in order to provide smooth operation, maintain financial stability and attain the set goals. The HSE Group, like the rest of the energy sector, is still in a difficult period of changed electricity market situation, while at the same time it needs to further adjust its operations to the policies and requirements of the adopted European and national climate and energy legislation, while implementation of planned investments at the given possibilities. The role of the state with its legislative framework, and with the adopted climate and energy and environmental policy, is an important factor for investments in the energy sector and has a significant impact on the development and operations of the entire HSE Group.

This challenge requires, in view of achieving energy and environmental goals of the EU until 2020 (2030, 2050), us to be active in all priority areas of sustainable resource use, such as the exploitation of renewable energy sources, the reduction of CO_2 emissions and the provision of efficient and reliable energy supply. In this context, we have also placed our long-term investments in new production facilities that are, in addition to the economic viability, always assessed in terms of their contribution to the achievement of the long-term commitment to the country's climate and environmental goals. The HSE Group contributes significantly to meeting the commitments of European and hence national energy policy by ensuring secure, competitive and sustainable energy supply.

In the electricity market, we are witnessing unfavourable price signals and the current price of electricity does not provide economically viable construction of power plants, except those that are the subject of support schemes. The consequences of low electricity prices first and foremost affect producers of electricity from conventional sources. The EU member states therefore already seriously consider the reorganization of the electricity market; some countries have already introduced mechanisms to ensure sufficient production capacity, whereby they secure the necessary stability of the electricity system, which for the time being can only be properly provided by conventional power plants. Due to rising production costs and falling prices of electricity on the market, the majority of European energy companies have already started to reorganize operations and to reduce costs, which is also a challenge for the HSE Group.

In the period from 2016 to 2018, the HSE Group intends to go further in cost cutting and saving in view of the urgent adjustment to the changing conditions on the electricity market. The energy sector needs to adapt to the consequences of ambiguous policy of promoting renewable energy sources (RES) in EU Member States. The policy of promoting renewable energy sources is not based on market principles, and introducing the mechanism of subsidies without assuming the obligation for reliable electricity supply to the transmission network operator (ancillary services, deviations ...) only brings disorder on the electricity market. Lack of a unified policy for achieving the climate goals after 2020 at the EU level and disparity between the market signals and the necessary investments into production capacities have impact on the necessary investments into production facilities that are not the subject of support schemes. Such investments, however, are of vital importance for transmission network operators and provision of reliable supply, since to a great extent only such facilities provide reliable electricity supply. The majority of power plants receiving the RES support, however do not participate (are not obliged to participate) in providing ancillary services which are of vital importance for transmission network operators and provision of reliable supply.

In the coming period, the HSE Group will change its approach to processes and with additional engagement of all employees and in close cooperation between all companies, the Group will succeed to make a breakthrough in reducing the crucial types of costs. The greatest emphasis will be placed on reducing the material and service costs, which will be achieved by »resetting« the concept of executing the key elements within the processes of electricity production and coal extraction, while concentrating on the primary activities and omitting the activities that do not contribute to sustainable competitiveness of the HSE Group. Great emphasis is given on the achievement of positive synergy effects in the field of maintenance. The focus is primarily on reducing external services that can be performed within the HSE Group, thus closing the cash flow inside the Group. The effects in this area are also the fastest achievable, while exploiting the potentials in the medium to long-term perspective is expected from the introduction of a common technical base of production infrastructure and from unified and optimized maintenance strategies and concepts.

Special attention will be devoted to the labor costs, in order to maintain high motivation of employees despite lower cumulative costs. With regard to other expenses, the HSE Group will exert maximum effort within the applicable legal framework to achieve that charges and duties related to the electricity production from both fossil and renewable sources will remain within reasonable limits and, in particular, will not exceed those paid by companies of comparable size, with which the HSE Group competes on financial and electricity markets.

In addition to streamlining the costs and expenses, great attention will also be given to the income side. In order to exploit market opportunities and the flexibility of the HSE Group production facilities, 24/7 intra-day trading was introduced in 2015, which shall be intensified in the future. We are preparing to enter the retail market, which we intend to perform in cooperation with the existing electricity suppliers on the Slovene market, and later expand the activity abroad. The trading itself will be adjusted to the changes in the market, above all by intensifying short-term trading and enhanced trading in the Balkans.

The HSE Group is aware that any changes within the HSE Group can only be made by people, so the ultimate success of the envisaged activities will primarily depend on appropriate communication and motivation of all employees without exception.

2.7 MANAGEMENT SYSTEM POLICY

2.7.1 Certificates obtained by the HSE Group companies

	HSE	DEM	SENG	TEŠ	PV	HSE Invest
ISO 9001	✓	✓	✓	✓	✓	✓
ISO 14001	✓	✓	✓	✓	✓	
OHSAS 18001	✓	✓	✓	✓	✓	✓
ISO 27001	✓	✓		✓		✓
ISO/IEC 17025				✓		
EE TÜV	✓	✓	✓			
EE+ TÜV	✓	✓	✓			
EEnew TÜV	✓					
PoI	✓	✓	✓			
DPP	✓	✓				
HACCP				✓		
DOP				✓		

NOTE: TET - in liquidation has no certificates because it is in liquidation.

ISO 9001: Quality management system
ISO 14001: Environment management system
OHSAS 18001: Occupational health and safety system
ISO 27001: Information security management systems
ISO/IEC 17025: General requirements for the competence of testing and calibration laboratories
electricity TÜV: Certification for electricity production from renewable sources (Electricity production)
electricity+ TÜV: Electricity production by providing guarantee of operations and efficiency
electricitynew TÜV: Electricity production in line with the requirements for new HPPs
PoI: Guarantee of origin
DPP: Family-friendly company
HACCP: Hazard Analysis Critical Control Point (food safety in preparation process)
DOP: Corporate Social Responsibility certificate

Certificates are an indicator of credibility of the company. The loss of any of these certificates would mean a higher risk in the company's business, which refers to the loss of independent audits and independent verification of the company's business.

2.7.2 Achieving objectives in the area of quality

Improving and maintaining the system of quality, environmental protection, health and safety at work, and information security has been confirmed through the successful execution of internal and external assessments.

The Rules of the management system of the HSE Group were prepared and approved in all HSE Group companies; they define the common approach to the maintenance and development of the management system in the HSE Group.

TÜV SÜD Sava assessed electricity production from renewable sources and confirmed compliance with the requirements of the certified areas. A case of self-assessment was carried out in the DEM company.

2.7.3 Achieving environemental management objectives

The HSE Group is an environmentally conscious group of companies, which provide their employees with a pleasant and healthy working environment and foster good relations with their neighbours. Companies implement the principle of sustainable development on a local and national level, and their goal is to continuously improve working and living conditions of employees and people living in their vicinity. The companies' environmental policy is in line with the requirements of ISO 14001:2004 standard.

In 2015, internal and external quality control assessment of ISO 14001 for environmental protection were carried out and successfully completed. The key objective of the HSE Group's environmental policy is to establish a permanent balance, which is achieved by implementing preventive measures, avoiding any environmental contamination, sharing responsibility and including environmental management in individual operating processes.

2.7.4 Achieving occupational health and safety objectives

Compliance with the relevant HSE legislation constitutes the minimum, which takes account of and builds on the requirements of OHSAS 18001. After the renewed internal and external assessment was successfully implemented and completed, the assessors found that the area of safety and health at work is governed in accordance with the standard.

2.7.5 Achieving information security objectives

Within the adopted Rules of the management, the policy for the protection of data and information for all companies in the HSE Group is also defined. A risk assessment audit was carried out for information assets. Both the internal and the external assessment were successfully conducted. An audit of information systems was also carried out in the framework of the financial statements audit.

2.7.6 Family-friendly company

At the end of July 2015 Ekvilib Institute gave a positive opinion in the interim report regarding the implementation of the DPP measures for the period from 10 May 2014 to 10 May 2015. At the end of 2015 and the beginning of 2016, the measure of educating managers of individual HSE business units was carried out.

The HSE company has introduced two new measures, as follows:

- »Planning of annual leave«, which will allow the employees easier use of annual leave during school holidays.
- »The organisation operation/business code«, applied in the context of the HSE Code of Ethics; it comprises, among other things, the principles and values of a family-friendly company, and mechanisms for implementing those principles and values in practice.

2.8 Market position

2.8.1 Features of the Slovenian economic environment[1]

Recovery of economic activities continued in 2015. As in the previous year, exports remained a key driver of economic growth. Recovery of private consumption was stronger, and private investments in equipment and machinery grew. Despite the decline in construction projects (also in relation to the changes in government investments), total investments remained at the achieved level. In 2015, GDP was up by 2.9%.

Indicators for the last quarter of 2015 show further improvement in lending conditions for enterprises of all sizes and loan maturities and for housing and consumer loans to households. In addition to greater competition between banks, access to alternative sources of finance is an important factor for this improvement. The structure of demand for loans is changing, as companies demand more funds for current operations, investments and corporate restructuring.

Decrease in oil and non-energy commodity prices continues. After the decrease by about half in 2015, the dollar price of Brent crude oil fell further in January 2016 to around USD 30 a barrel. Lower oil prices had indirect and direct positive impact on economic developments in Slovenia, which is reflected in higher growth of foreign demand and, consequently, of exports. The direct effects are related to the impact on real disposable income of households and corporate profits.

At the end of the year, Slovenia recorded deflation (-0.6%), while prices in the entire euro area slightly increased (0.2%). The deflation was mainly due to lower energy product prices.

2.8.2 Market environment of the electricity industry

Despite information on positive economic trends, which continued in Europe in 2015, higher growth is still hampered by weak investment environment and relatively high rate of unemployment. Uncertainty has also increased because of new risks related to geopolitical tensions and repeated volatility of financial markets. In spite of encouraging news on economic growth, the price movements in the electricity market continue to be unfavourable for electricity producers.

The market of energy products was marked by high price volatility in the previous year, with crude oil still playing a major role in that market. In the previous year, oil lost much of its value and fell to price levels last seen in 2009, in the period of the most severe financial and economic crisis. Similar to oil prices was the fluctuation in prices of coal and gas, which are important energy sources for electricity production. Given the fact that the majority of energy products are quoted in US dollars, the US Dollar to Euro exchange rate is also important for European companies. In the previous year, euro lost a tenth of its value against dollar, which made energy products slightly more expensive in Europe, but did not prevent the drop in electricity prices in virtually all markets across Europe.

As in previous years, the trend of increasing the installed capacity in power plants producing electricity from RES continued. Wind power plants led the way in this respect, while the growth trend in solar power plants is somewhat slowing down. Due to large amounts of energy produced from RES and low electricity prices in the market, the trend of closing down and/or conservation of both gas and coal-fired power plants continued.

A large number of new production units exploiting renewable energy sources, and closing down of older conventional sources, also shows consequences in the network. In a period of high production from RES, large fluctuations in the network are more and more difficult to manage. Thus, increased production from RES may lead to reduced reliability in the operation of electricity systems and, for this reason, activities are underway in an increasing number of European markets to introduce CRM or similar mechanisms, which would, in addition to energy market, introduce the power market, and would thus allow

[1] Source: SORS, IMAD.

additional revenue for producers from conventional sources.

At the end of September 2015, preparations were completed for data reporting under EU Regulation No. 1227/2011 on the integrity and transparency of the wholesale energy market (REMIT). Reporting on wholesale energy market transactions to the Agency for the Cooperation of Energy Regulators started on 7 October 2015. Since that date, the Agency has been collecting data for assessing and monitoring the energy wholesale markets in order to detect and prevent trading based on insider information and market manipulations.

2.8.3 Conditions in the electricity markets

Slovenia

The Slovenian electricity market has shared the fate of other major regional markets in SE Europe.

Taking into account the Slovenian part of the Krško nuclear power plant production, Slovenia was a net electricity importer in 2015, as the electricity consumption of 13.0 TWh was by 2.8 TWh above its production. The decrease in production which amounted to 10.3 TWh and was by 1.8 TWh below the record year 2014, was mainly resulting from low hydrology and, consequently, lower production from hydropower plants. The HPPs produced by 2.1 TWh or 36% less electricity than in 2014. The production in all HPP chains was lower than in 2014, as follows: in DEM by 1.4 TWh, in SENG by 0.3 TWh, in SEL by 0.2 TWh and in HESS by 0.2 TWh.

The Slovenian part of the Krško nuclear power plant production of electricity amounted to 2.7 TWh in 2015, and to 3 TWh in 2014; thus, it was by 0.3 TWh less than in the year before, mainly due to the regular overhaul in April and May (which was not the case in 2014). At the annual level, the thermal power plants generated 3.8 TWh, which is by 17% more than in 2014, when TPP production was below planned due to some problems in the supply of coal, and testing of the replacement Unit 6 at TEŠ.

Annual average hourly prices in Hungary, which represents a reference for our region, was EUR 40.61 /MWh (EUR 36.07/MWh in the first half of the year and EUR 45.07/MWh in the second half of the year) and was, thus, by EUR 8.98/MWh higher than in Germany (in the first half of the year the average difference between the markets at the hourly level was EUR 5.85 /MWh, while in the second half of the year it increased to EUR 12.05/MWh). The annual average hourly price level in Hungary was by EUR 0.10/MWh higher, and in Germany by EUR 1.13/MWh lower, in comparison to 2014. Such price conditions generated electricity flows, which for the most of time ran from the NW towards the SE part of Europe. Thus, energy from Germany and Austria flows through Slovenia and Hungary in the area of SE Europe. This is especially the case in periods of lower hydro production in the Balkans.

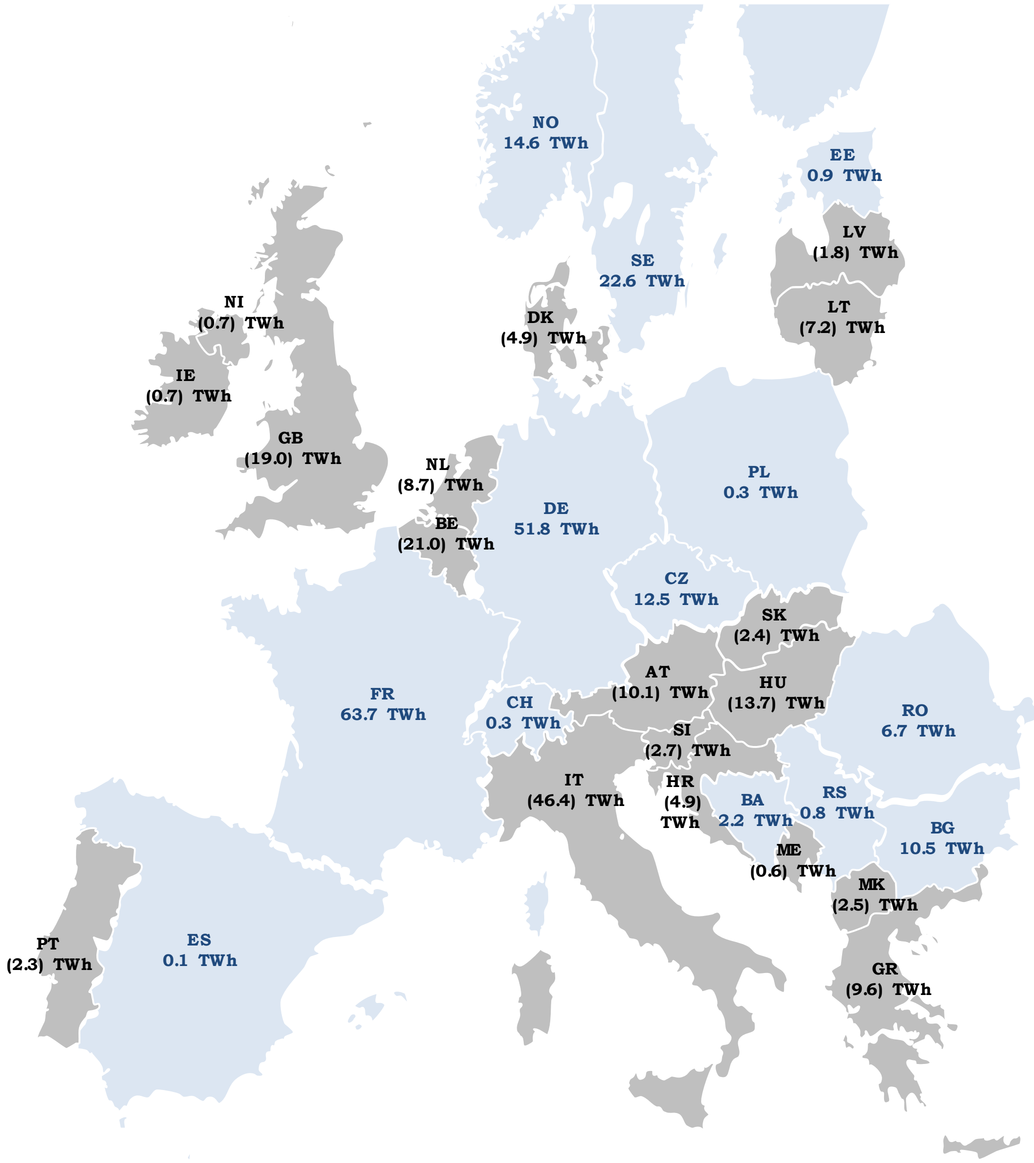
At monthly level, the average hourly price difference in the two markets ranged between EUR 3.85/MWh in June and EUR 17.35 /MWh in July. The highest monthly average in hourly prices in Hungary was reached in dry and hot July (EUR 52.35/MWh, and the lowest in water-rich May (EUR 29.65/MWh). Hydrology, i.e. electricity production from HPPs, remains the main price driver in the region. The region is self-sufficient. In aqueous periods and/or even exports energy to the German market, which means that the prices go down to the German price level. In dry periods, however, when limitation in hydro production are witnessed, the region becomes electricity importer, whereby the prices can go up even to Italian price levels.

Hourly rates of transmission capacities between Austria and Slovenia averaged on an annual level of EUR 8.77/MWh and followed the difference between German and Hungarian electricity prices. Hourly electricity prices in Slovenia are mainly in line with Hungarian prices, but they are also much influenced by Italian prices in the 'Nord' zone due to the coupling of the Slovenian market and the Italian 'Nord' zone on the daily market. The annual average of hourly prices in Slovenia was at EUR 41.41/MWh, which is on the annual level by EUR 0.98/MWh higher than in 2014.

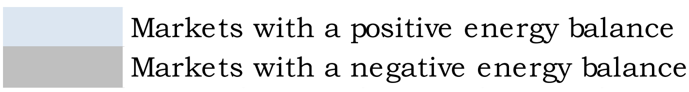
Various production facilities in the HSE Group production park allow us a relatively high flexibility and responsiveness to market conditions. By pursuing optimum operation in each power plant, HSE strives to achieve the best possible operating results. Of great benefit is the possibility of intra-day trading, 24 hours a day, every day of the year.

In line with current production sources availability, technical limitations of individual units and respective variable costs, HSE endeavoured to place on the market as much electricity as only possible during more expensive hours.

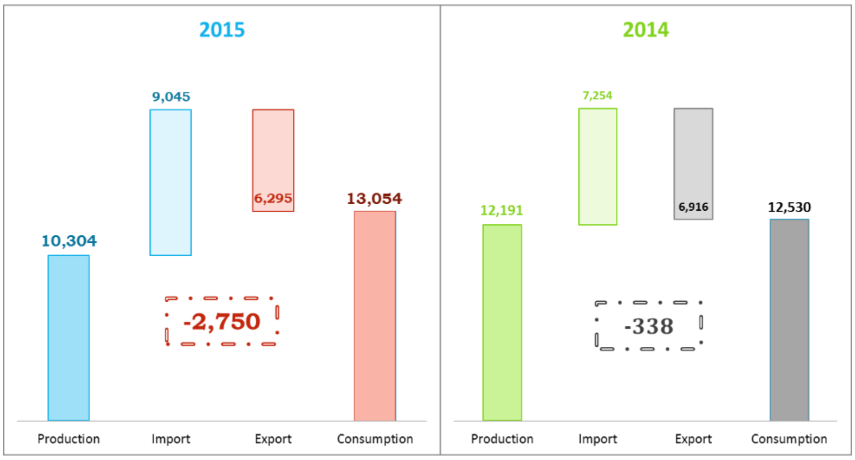
Balance of European electricity markets in 2015 (in TWh)



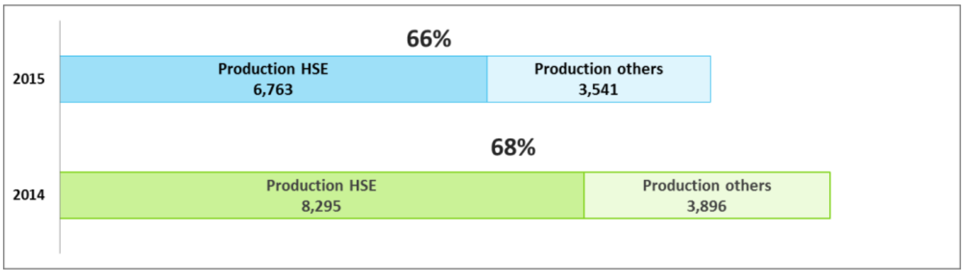
Source: ENTSOe



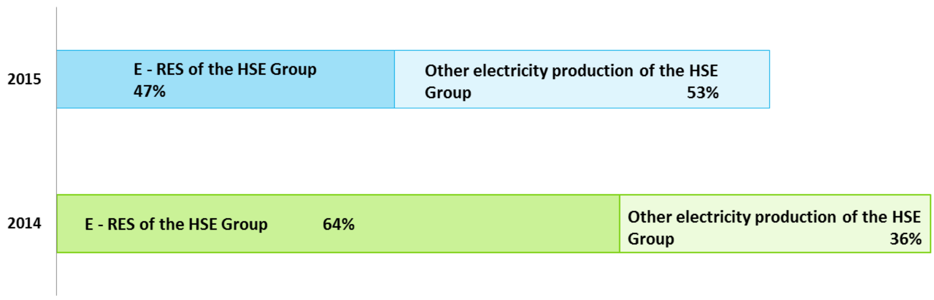
Slovenian electricity market in 2015 and 2014 (in GWh)



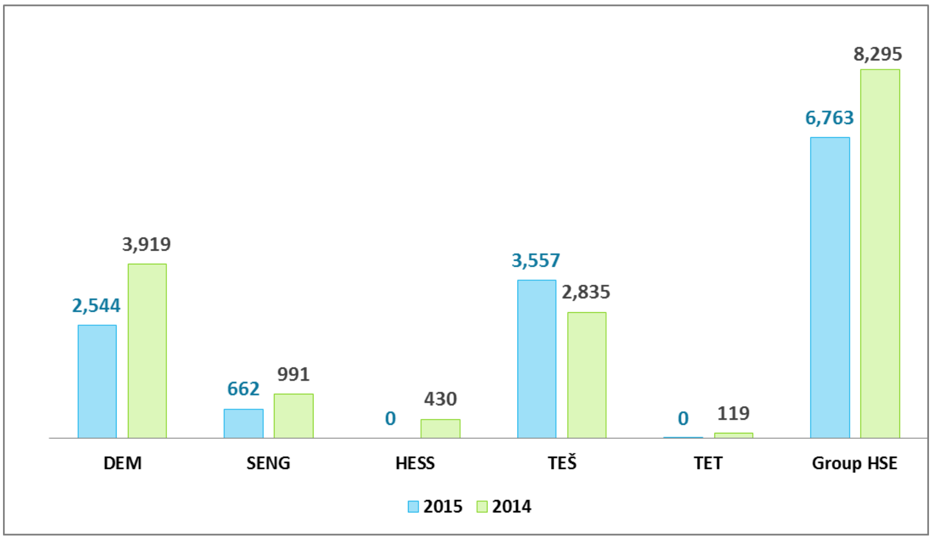
Share of the HSE Group production in total electricity production in Slovenia in 2015 and 2014 (in GWh)



Share of electricity produced from RES in the production of the HSE Group



Net electricity production of the HSE Group in 2015 and 2014 (in GWh[2]



Continental Europe

ELECTRICITY: In 2015, German solar power plants with total installed capacity of 39 GW produced about 38 TWh of electricity, while wind power plants with total installed capacity of 43 GW, generated 65 TWh of electricity. Production capacities of both types of power plants increased as a result of newly constructed facilities to such extent that total production by the end of the third quarter already exceeded the total annual production of 2014. Such impact caused a strong bear pressure on the electricity market, which along with the fall in energy product prices led to record low futures prices for delivery in the coming years.

The Flow-Based Market Coupling (FBMC) was first implemented on 21 May 2015, which had an impact on the calculation of flows in the entire area of Central and Western Europe, including Germany, France, the Netherlands and Belgium. The algorithm is based on improved utilisation of available cross-border transmission capacities, which in general leads to higher price convergence between these countries. As a consequence, the flow from Germany to the Netherlands was significantly increased.

Worth mentioning as an important event on the German market is the end of operation of the German nuclear power plant Grafenrheinfeld (1,275 MW) from 28 June 2015.

Rapid expansion of production from RES resulted in the fact that today the marginal price is set by the power plants with significantly lower marginal costs than in the past. In 2015, the marginal technology on the German market was represented by coal-fired thermal power plants. In 2015, average price of base load power in Germany thus amounted to EUR 31.63/MWh, which is by EUR 1.13/MWh lower than in 2014, while the price for peak load power amounted to EUR 39.06/MWh, which is by EUR 1.92/MWh less compared to 2014.

The Italian market was still heavily dependent on import in 2015 and, therefore, electricity prices were high above the German ones throughout the year. In contrast to the German market, the marginal technology on this market is still represented by gas power plants. One of important milestones in the Italian electricity market was the coupling of markets with the neighbouring countries. Such coupling with the Slovenian market was effected years ago. On 24 February 2015, an important step forward towards an integrated

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[2] Production of HESS is presented as at 31 October 2014. After that date HESS is no longer a subsidiary of the HSE Group and is included into the HSE Group under the equity method.

electricity market in Europe was made with further coupling. In February 2015, the Italian Borders Market Coupling Project came into life, and was included in the multi-regional market-coupling project (MRC). This is a process of coupling the markets for day-ahead trading across Europe and by entering it, Italy, too, became part of a broader European story.

EMISSION ALLOWANCES: In the emission allowance market, the price of the EUA Dec15 futures contract maintained a positive trend through the year. Thus, the price of the contract just before expiry, that is on 14 December as the last trading day, amounted to EUR 8.07/t, which is by EUR 0.98/t above the market price achieved in the first days of trading in January 2015. The reasons for growth in the emission allowance market were primarily resulting from the belief that the adopted regulatory measures will be able to keep the allowance price or even to raise it to higher levels, and thereby to justify investments into cleaner technologies. One of such measures certainly was a temporary withdrawal or “backloading” of 900 Mt allowances, of which 400 Mt in 2014, 300 Mt in 2015 and 200 Mt and 2016. They should again be released and/or transferred into reserves at the end of the period (300 Mt in 2019 and 600 Mt in 2020, in accordance with the implementation of the Market Stability Reserve (MSR) mechanism. The MSR was adopted by the European Parliament at the beginning of July 2015 with the aim of greater flexibility in the supply side, especially in case of reduced demand for emission allowances.

Developments in the market were also affected by expectations of an agreement at the UN climate conference, which was held in Paris from 30 November to 12 December 2015. The conference on climate changes (COP21) resulted in the climate agreement that includes a global action plan to prevent dangerous climate changes by limiting global warming to below 2 degrees Celsius. The Paris Agreement, however, not only intervenes in the area of climate changes and sustainable development, but in its complex communication and commitment also sums up fundamental development and constitutional principles, including with human rights.

SE EUROPE

According to ENTSO-e data, electricity consumption in SE Europe (Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Hungary and Romania) in 2015 increased by 4,958 GWh or 3% compared to 2014. The largest absolute increase in the consumption of electricity contributed Romania, Hungary and Serbia. On the production side, the greatest impact on the price was due to electricity production from HPPs. The first half of the year 2015 was marked by rich hydrology, while the second half was extremely dry. Production of electricity from HPPs shrunk dramatically in the second half of the year, in total by 7,925 GWh or 15% compared with 2014. In the second half of 2015, electricity prices on the Slovenian BSP and Hungarian HUPX exchanges were up by 25% compared to the first half of 2015, as electricity deficit had to be replaced from more expensive electricity sources, including imports from Italy, which resulted in price increase in certain hours even up to the level of Italian prices.

The price on the Hungarian market is increasingly influenced by the price on the Italian market and the price on the Romanian market, while less by German market prices. Due to the large share of electricity produced from gas power plants, the price in Italy is higher than in Hungary; it actually represents the upper level of price increase in the region in cases of insufficient hydrology. Romania with extremely high installed production from renewable sources can in cases of favourable hydrology and much wind affect price decrease Hungary and, in the opposite, low electricity production from renewable sources has impact on electricity price increase. The price in Germany only affects the price in Hungary in periods of extremely favourable hydrology in the region, when due to the surplus in the region electricity from Slovenia and Hungary is exported to Austria and Germany.

The main factors on the side of major new production units in the region in 2015 were the commencement of operation of the 600 MW replacement Unit 6 at TEŠ and the construction of TTP Stanari with the power of 300 MW in Bosnia and Herzegovina. The replacement unit 6 at TEŠ was planned to substitute the existing production from units 4 and 5, and thus has no substantial effect on increased power, but its impact is important because of higher efficiency per unit of electricity produced in Slovenia. The electricity produced by TPP Stanari will contribute to electricity produced in Bosnia and Herzegovina from 2016 onwards.

In 2015, no new cross-border transmission capacities were constructed in the region, which could have impact on the price of electricity. The new planned cross-border transmission capacities that could have important impact on the price of electricity in the region, however, are the connection between Montenegro and Italy, bringing the prices from the Italian and Hungarian electricity market even closer, and connection between Serbia and Romania, which will better connect the Romanian and Hungarian electricity markets. The construction of these two cross-border transmission capacities is planned for 2017.

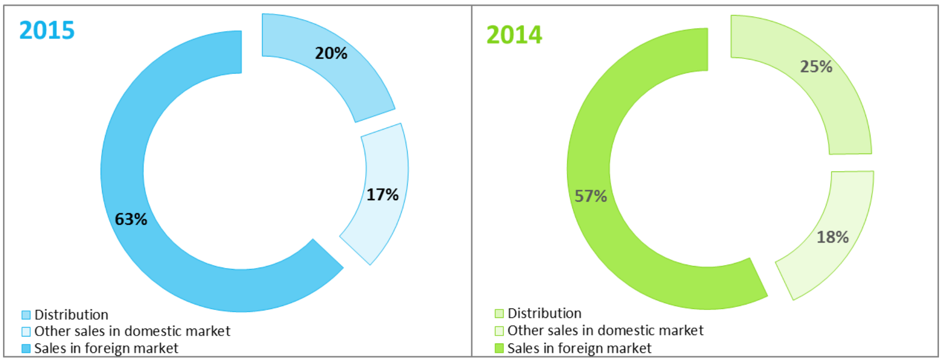
An innovation in the electricity markets in the region was the coupling of the Romanian and the Hungarian market, and the coupling of markets of the Czech Republic and Slovakia in the fourth quarter of 2014. Due to these market couplings, the utilization of cross-border transmission capacities on the Hungarian and Romanian borders increased in 2015, and often led to equal prices on both markets. Another new achievement was the establishment of the Selectricity CAO auction house in Podgorica. Selectricity CAO carried out the allocation of annual cross-border transmission capacities on borders between Bosnia and Herzegovina and Montenegro, and between Bosnia and Herzegovina and Croatia for 2015. In 2015, Selectricity CAO expanded the allocation of cross-border transmission capacities to two additional borders: between Albania and Montenegro, and between Greece and Turkey. An important innovation in the allocation of cross-border transmission capacities via Selectricity CAO was the introduced system of use or sale of capacities. In 2015, the auction house CAO merged with the auction house CASC into a universal auction house JAO, which further simplified the procedure of allocation of cross-border transmission capacities.

2.9 Sales and Customers

Sales volume and structure: In 2015, the HSE Group sold close to 1.6 TWh more electricity than in the previous year. A more active presence of the HSE Group in the market was possible with the introduction of seven day in a week intraday trading. By expanding its activities, the Group has become more responsive to the current market situation, which allowed for additional optimisation of the production and trading portfolio of the HSE Group even in harsh market conditions, and thus improved the trading result.

The HSE Group sold 27,194 GWh of electricity in 2015. An amount of 10,070 GWh or 37% was sold on the domestic market, while 17,124 GWh of electricity or 63% was sold on foreign markets. Sales structure on the domestic market was as follows: the HSE Group sold 53% of electricity to distribution companies for further supply, 10% to large customers and 37% to other customers. The most important foreign sales markets were the Italian, the Hungarian and the German market.

Structure of the HSE Group electricity sales in 2015 and 2014



LONG-TERM CONTRACTS AND DAY-AHEAD MARKETS: The Company generated most of its electricity sales through long-term contracts. The trading in day-ahead markets was carried out to match contractual obligations with the production capacities of the HSE Group companies and to optimise the company's portfolio and take advantage of market opportunities. In addition, electricity surpluses generated at the time of high water levels and additional electricity produced during periods of high market prices were sold in intraday markets.

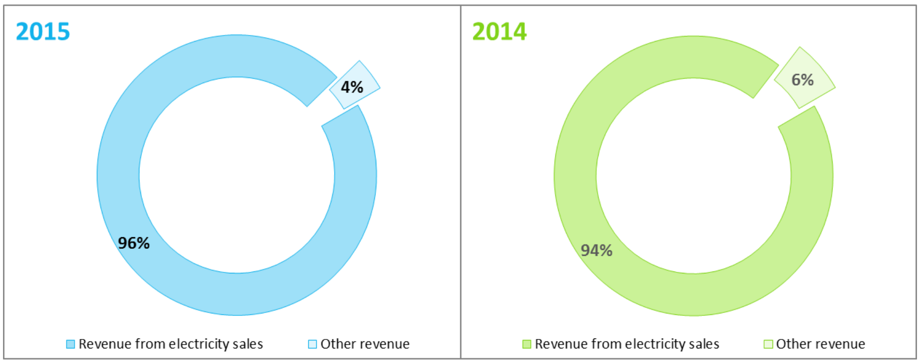
ANCILLARY SERVICES: In addition to electricity, the following contractually required ancillary services were provided in 2015:

- secondary frequency control in the regulatory range of ± 57 MW,
- tertiary frequency control in the amount of 94 MW,
- black start capability,
- voltage control and reactive power support,
- control energy of secondary and tertiary control (energy produced upon activation of secondary or tertiary frequency control).

2.9.1 Other activities

NET SALES REVENUE STRUCTURE: In 2015, the HSE Group generated EUR 1.2 billion in net sales revenue. Accounting for 96%, electricity sales were by far the most important in the structure of the HSE Group's net sales revenue, with other revenue amounting to 4%.

Structure of the HSE Group net sales revenue in 2015 and 2014



OTHER REVENUE: The HSE Group generated other revenue from services related to electricity, with the sale of CO_2 emission allowances, repurchase of gas, sale of heat, fly ash and gypsum, system water and waste materials, with rents, catering and hotel services, with activities of institutional care for elderly people, with revenue from the sale of construction and maintenance works, and with revenue in the mining construction services.

HEAT: In 2015, 329 GWh of heat was produced and sold, which is by 23 GWh more than in 2014.

2.10 Purchasing and suppliers

2.10.1 Electricity

The essential mission of HSE since its establishment is to purchase from the manufacturing companies of the HSE Group all the electricity produced and to sell it on the electricity market in a way that maximizes the difference between revenue and expenditure. In this, HSE seeks to take advantage of the synergies of production units within the HSE Group. The operational and cost characteristics of individual production units differ considerably, so it is possible with the appropriate combination of schedules of power plants to achieve a more cost-effective production of electricity. Since production capacities of production units as well as the electricity market prices change over time, a regular and efficient optimisation of production units, while observing technical characteristics of power plants and market conditions, is all the more important.

In the domestic market, HSE bought a large part of electricity from the production companies of the HSE Group. Within daily optimisation, however, most energy was bought on the Slovenian electricity exchange (BSP). In foreign markets, the main suppliers to the electricity exchange were major trading companies with which the HSE Group has signed the EFET agreements.

Electricity production units in the HSE Group in 2015

DEM	No. of gen. units	Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	sHPP's	SPP	Total
		3	3	3	3	3	3	2	2	6		
Net output	MW	26.2	55.6	72.3	73.2	58.0	60.0	126.0	116.0	3.7	1.0	**591.9**
Rated generator capacity	MVA	36.0	78.0	90.0	90.0	74.0	78.0	170.0	148.0	5.5	1.0	**770.5**
Gross head	m	8.9	13.7	17.4	17.4	14.6	14.2	33.0	29.0			**148.3**
Rated flow Qi	$m^3/_s$	405.0	550.0	550.0	550.0	525.0	550.0	530.0	500.0			

SENG	No. of gen. units	Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	PSP Avče	Zadlaščica	Shpp	Total
		3	1	2	1	3	1	2	26	
Net output	MW	30.0	40.0	15.0	20.0	33.0	180.0	8.0	11.7	**337.7**
Rated generator capacity	MVA	48.0	50.0	22.0	23.0	39.0	195.0	10.0	15.6	**402.6**
Gross head	m	47.2	48.5	27.5	27.5	23.0	521.0	440.0		**1,134.7**
Rated flow Qi	$m^3/_s$	90.0	105.0	75.0	105.0	180.0	40.0	2.2		

TEŠ		PT 51	PT 52	Unit 4	Unit 5	Unit 6	Total
Net output	MW	42.0	42.0	248.0	305.0	539.0	**1,176.0**
Rated generator capacity	MVA	56.3	56.3	324.0	377.0	727.0	**1,540.5**

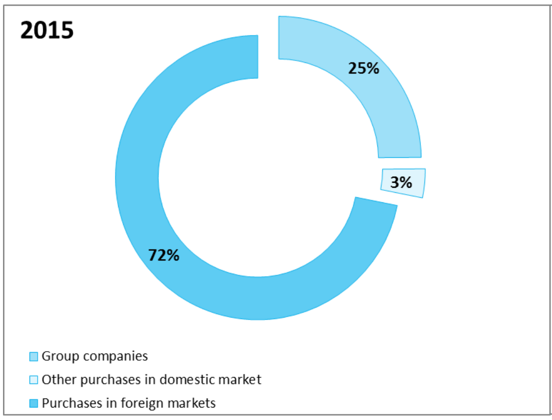
TET		PB I.	PB II.	Total
Net output	MW	29.0	29.0	**58.0**
Rated generator capacity	MVA	39.7	39.7	**156.0**

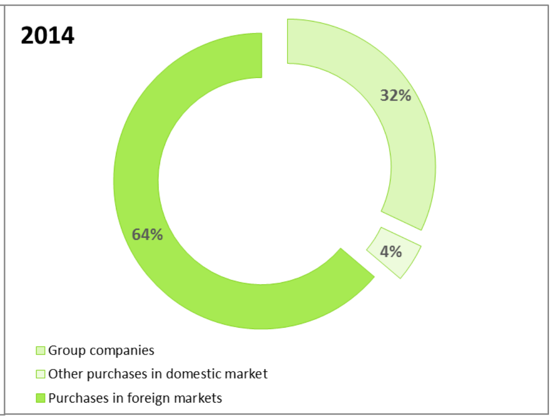
HPP production

TPP production

STRUCTURE OF SOURCES: The electricity that HSE supplied to its customers in 2015 was purchased in the domestic market from the HSE Group companies (25%) and other electricity suppliers in Slovenia (3%). The HSE Group purchased the remaining energy (72%) in foreign markets.

Structure of the HSE Group electricity purchases in 2015 and 2014

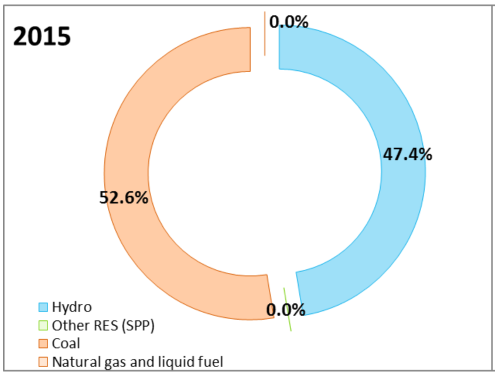


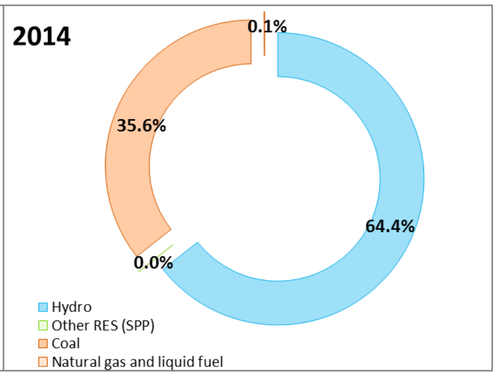


OPTIMISING PURCHASES: HSE purchased electricity in the day-ahead electricity market to offset shortfalls arising from supply interruptions at power plants or unfavourable hydrology, as well as to optimise production and trading.

PRIMARY RAW MATERIALS: In 2015, primary raw materials used in the production of electricity included coal with 52.6% and water potential with 47.4%, while natural gas and extra light heating oil accounted only for 0.01%. The electricity produced by solar power plants accounted for 0.002% of the total energy produced by the HSE Group.

Primary materials used in electricity production in 2015 and 2014





PURCHASE PRICE: In 2015, the purchase price of electricity was mostly affected by the following factors:

- electricity production from HPPs and the PSP, was by 12.7% lower than planned,
- electricity production v TEŠ was by 8.8% lower than planned,
- price conditions in the electricity market,
- start-up tests of replacement Unit 6 at TEŠ,
- sporadic problems with coal excavation in PV.

COAL: 35,460 TJ of coal was used for electricity production at TEŠ.

COAL STOCKS: As at 31 December 2015, the coal stocks at PV amounted to 3,001 TJ.

2.11 Investments

In accordance with the decision of the Supervisory Board (SB) of HSE, individual investments of companies in the HSE Group are implemented only upon prior favourable opinion of the HSE Group Expert Commission and consent given by the HSE Management who informs the HSE SB of all issued consents. In addition to trial operation of the replacement Unit 6 at TEŠ and the construction of small HPP Kneža as investments into new facilities, the renovation of some existing hydroelectric power facilities (e.g. reconstruction of HPP Plave, Stage II) is also continued, as well as some investments into production reliability (e.g. renovation of spillways on the Drava river, renovation of the control system for HPP Fala, reconstruction of Markovci dam, etc.). Only necessary investment projects, which are essential for ensuring the safety of operation are carried out, (e.g. to provide production reliability in power plants and safety at coal production). Activities for obtaining the project, environmental and other relevant documentation were continued in order to keep lengthy procedures for the implementation of HPPs on the rivers Sava, Drava, Soča, Mura and other watercourses ongoing.

Below there are presented projects of the HSE Group in 2015.

2.11.1 Replacement Unit 6 at TEŠ

The main reason for the new replacement Unit 6 was the fact that the majority of existing production units (blocks) at TEŠ was worn out, and operating with obsolete technology, which in a few years will no longer meet the environmental requirements. Of crucial importance for assessing the investment viability was also the nearby energy source site with available coal and all necessary energy infrastructure for electricity supply.

The environmental impact will be significantly reduced with the construction of the new replacement unit with the best available techniques (BAT). Due to essentially higher efficiency, the specific CO_2 emissions per unit of electricity produced will be significantly lower.

The construction of the replacement Unit 6 was completed in June 2015. All stages of the project were carried out in line with the planned project timeline and without any major problems. On 24 September 2014, the first synchronization of the replacement Unit 6 at TEŠ to the transmission system was carried out and the first kilowatt-hours of electricity were delivered to the network. On 27 May, after successful completion of the technical inspection of the replacement Unit 6 with the associated facilities, TEŠ received from the government authority the decision, ordering a one-year trial operation of the newly built replacement unit 6. The technical inspection was thereby also formally completed. During this period, technical inspection members, appointed by the management body, carried out several partial inspections of the facility and found that it was well built, in accordance with the building permits, and had no deficiencies that would prevent the commencement of trial operation.

The start-up tests were completed and by the 7th June the contractually agreed 10-day trial operation was also concluded. From the supplier ALSTOM provisional acceptance certificate (PAC) of the main operational facility was obtained on 19 June, and the production capacity of the replacement Unit 6 was fully available to TEŠ and HSE as its owner.

A period of one year trial run operation continues, along with measurements foreseen in the warranty period and assessment of impact on the environment. Obtaining of the operating permit depends on the length of trial run operation ordered by the administrative authority after the successfully completed technical inspection. TEŠ will strive to obtain the operating permit as soon as possible.

Investor of the project is TEŠ.

2.11.2 HPPs on the middle Sava River

With the concession for the use of water for electricity production on the part of the water body of the Sava River from Ježica to Suhadol, and with the Decision on the selection of the concessionaire of the middle Sava area between Medvode and Suhadol of 22 December 2005, the HSE company was granted the concession for the electricity production on the middle Sava River. On 5 March 2014, the Government adopted the Decision on the siting of HPPs on the middle Sava River, providing that the HPPs in the entire area of the middle Sava River would be sited with two national spatial plans.

In 2015, parallel activities and thereto-related investments for the signing of the concession contract, as well as activities for the preparation of pre-investment and investment documentation, and procedures for the siting of HPPs, were carried out. The project activities continue only in a limited scope, in order not to stop the lengthy procedures of siting facilities. The owners of the SRESA company discussions are going on about consolidation of ownership and transfer of the concession to SRESA. One of the reasons why the concession contract has not been signed yet lies in the expansion of NATURA 2000 sites, which may affect the possibility for the construction of some HPPs on the middle Sava River.

HSE and the other two owners of SRESA (GEN-Energija, SEL) hold the position that it is not reasonable to continue with intense investments into the project activities for the construction of hydropower plants on the middle Sava River without having a coherent concession contract with all the key elements, that would clearly define the sharing of burden between the owners of the energy and other infrastructure, and a cumulative limitation of duties and charges. Optimisation of alternatives of the HPP chain on the middle Sava River continue with the preparation of technical, investment and project documentation for HPP Renke, HPP Trbovlje and HPP Suhadol. These HPPs represent facilities with the highest energy production and at the same time show the highest profitability.

Currently, the project of construction of hydropower plants on the middle Sava River is funded by HSE.

2.11.3 Construction of the Small HPP Kneža

SHPP Kneža will utilize the remaining available hydro potential of the Kneža River on the section between the engine room of the small HPP Knežke Ravne II and the reservoir of HPP Knežca. The power plant will operate on the principle of run-of-river type. The derivation is provided in the entire length with pressure pipeline. One generator with the installed capacity of 850 kW is foreseen in the engine room with the estimated annual production of 3.3 GWh. Building permit was obtained on 7 October 2014. The construction of the small HPP continues in accordance with the time schedule.

SENG is investor of the project.

2.11.4 Other production facilities on RES

The HSE Group places emphasis on the construction of production facilities, which can to the highest extent achieve the goals of the energy and climate package and at the same time maximize the economic effect and minimize environmental impact. The HSE Group is aware of the strategic importance of hydro energy as a clean and renewable source. Other sources shall not be neglected in the context of renewable energy, but given the natural conditions and taking into account all other technical, economic and environmental factors, the water power is the renewable source in Slovenia that will to the highest extent contribute to the achievement of the 25% share of RES in the final energy consumption. Important issues to be resolved remain the siting of production facilities and their conection with transmission system of Slovenia, obtaining new concessions and other necessary permits and consents, as well as appropriate cooperation with local communities, which can greatly affect the course of installing a new production facility.

In 2015, procedures were underway for the preparation and obtaining of the project, investment and other required documentation for the construction of small HPPs in the river basins of Drava, Soča, Mura and other watercourses (small HPP Josipdolski potok, small HPP Rogoznica, small HPP Meža, small HPP Mislinja, small HPP Dobrije, small HPP Ravne, small HPP Pesnica, etc.). Water permits have already been obtained for many of these projects.

2.11.5 Investments into reliability of production

The PV company execute only investment projects that are necessary to ensure the operating reliability and safety in the process of the coal production. An important investment project is the optimisation of the coal mine ventilation system, which is of vital importance for operational reliability and the achievement of long-term plan of coal production. The status of the NOP II shaft will be defined in this context.

The most important investments to keep production reliability are: renovation of spillways in the oldest power plants Dravograd, Vuzenica and Mariborski Otok and the replacement of the control system at the HPP Fala.

In SENG, the following most important projecst of 2015 in context of reliability of production were: a new connection terminal of the small HPP Bača to the 20kV network and the reconstruction of the 20kV connection terminal and the 20/0.4kV transformer on the Podselo dam. Reconstruction works were carried out at hydromechanical equipment of the Podselo dam, finishing works at the reconstruction of Phase II at HPP Doblar I, preparation of tender documents for reconstruction of Phase II at HPP Plave I, a tender procedure is prepared for reconstruction of RTP Plave, etc.

2.12 IT

The year 2015 was marked by the introduction of support for new business processes and a series of improvements of the already introduced solutions. The aim is to ensure competitive advantage to the Company and the HSE Group with quality IT support, and to offer new development opportunities.

The transfer of best practices and business models to all the companies of the HSE Group continued.

Of great help will be the uniform information business system that will allow for the implementation of uniform business processes in all companies of the HSE Group. In 2015, after the implementation in the HSE company is completed, the project of implementation of SAP ERP will start in companies DEM, SENG and TEŠ. This project, which is complex in terms of substance and organisation, will be completed at the end of 2016.

In 2015, information support will be provided for the process »360 Degree-View of Business Partner«. This central application of the customer relationship management (CRM), which provides access to data on business partners, was integrated with the document management system, SAP ERP system and the ENDUR system for trading support.

Within the document management system ODOS, digitalization of paper documents continued. By the end of 2015, the programme was completely prepared for e-invoicing.

The basis for IT support is a uniform and high quality technology infrastructure that is cost efficient. In 2015, increased memory capacity and data transmission speed were provided. The supervisory environment was upgraded to monitor the system environment operation in real time, which allows for better overview and more possibilities for timely action.

A comprehensive renovation of the ORACLE environment started, comprising the replacement of both hardware and software environment as a transition into the new model of licensing, which will allow for a state-of-the-art and highly available data environment in 2016.

2.13 Business performance analysis[3]

2.13.1 Business performance analysis of the HSE company

In 2015, the HSE company generated a loss in the amount of EUR 323.1 million (NET PROFIT OR LOSS FOR THE PERIOD). The entire loss resulted from the impairment of long-term investments in subsidiaries (EUR 377.9 million). Without that impairment, the company would generate net profit in the amount of EUR 54.9 million, which is still less than in the previous year, when the net profit amounted to EUR 140.8 million. It shall be taken into consideration, however, that the amount of net profit in 2014 was achieved under the impact of exceptionally favourable hydrology, higher average wholesale price of electricity than in 2015, significantly higher payout of shares in the profit of subsidiaries, gains from the sale of the 35.6% share in HESS, and lower financial expenses due to lower indebtedness of the company. For all these reasons, EBIT, EBITDA are lower, and indicators of return on equity and assets are negative.

Due to lower average wholesale electricity prices, NET SALES REVENUE in the amount of EUR 1,303.1 million is by 1% down compared to the previous year. Net sales revenue on the domestic market is higher by 3% due to higher sales quantities, while net sales revenue on the foreign market despite higher sales quantities is lower by 3% due to lower average sales prices. 44% of net sales revenue was realized on the domestic market, and 56% abroad. SALES VOLUME in the amount of 29,131 GWh is by 5% higher due to intensified trading activities on the Slovenian and foreign market and the introduced intra-day trading.

TOTAL INDEBTEDNESS of the Company as at 31 December 2015 amounted to EUR 214.6 million, which is substantially higher compared to the year-end 2014. At the end of 2015, the Company drew down a long-term loan in the amount of EUR 15 million to provide permanent working capital, and a short- term bridge loan of 105 million until the provision of long-term financial resources.

The Company continued to finance the TEŠ replacement Unit 6 in 2015. The successfully completed private investor test resolved the issue of state aid and, therefore, the Company could recapitalise the TEŠ company by conversion of its short-term financial receivables arising from the contracts on debt assumption into a long-term investment in TEŠ in the amount of EUR 248.5 million (EUR 82.4 million from 2015, EUR 155.9 million from 2014, and EUR 10.2 million from 2013). In addition to this recapitalisation, the Company succeeded to provide to TEŠ additional long-term loans of EUR 78.7 million in 2015 for the completion of the investment project of replacement Unit 6 and to settle its obligations arising from the existing loans taken out for financing the above mentioned project.

Since the private investor test was successful, the HSE company recapitalised also the PV company in total amount of EUR 71.6 million in 2015; it was realised by a in-kind contribution in the amount of EUR 37.6 million (equipment in the amount of EUR 21.6 million and granted short-term loan in the amount of EUR 16.0 million) and a cash contribution in the amount of EUR 34.0 million. In addition to recapitalisation, the PV company was granted a long-term loan in the amount of EUR 6.1 million.

In 2015, the HSE company also succeeded to secure additional liquidity within the HSE Group from the free funds available in the DEM company in the amount of EUR 30 million.

EQUITY at the end of 2015 is lower by 28% in relation to year-end 2014 due to the impairment. As at 31 December 2015, the loss exceeded half of the share capital, but it can be offset against revenue reserves. The Company has adequate capital.

In the structure of funding sources, the share of short-term sources increased as a result of short-term bridge loans.

3 This Chapter needs to be read in connection with the Financial Report of the HSE company

ASSETS of the Company at year-end 2015 are by 13% lower compared to year-end 2014 due to impairment of long-term investments in subsidiaries. In the structure of assets, long-term assets increased due to long-term loans given to TEŠ and PV.

2.13.2 Business performance analysis of the HSE Group

In order to adapt as much as possible to the tightened conditions on the electricity market, the Group implemented gradual and well-considered measures of optimisation and rationalisation in 2015, in order to reduce the impact of harsh economic conditions on the operation of the HSE Group and to maintain financially sustainable operation. Despite the implemented measures of optimisation and rationalisation of operations, which are reflected in lower employee benefits expense, material and services, the HSE Group incurred loss in the amount of EUR 480.1 million (NET PROFIT OR LOSS FOR THE PERIOD). The reasons for that lie in impairment and write-downs of assets, receivables and stocks (mainly of the TEŠ company and of the PV Group), which amounted to EUR 484.0 million. Without the impairment made, the HSE Group would record net operating profit in the amount of EUR 40.4 million, which, however, is less that in the previous year. In 2015, the situation on the electricity market was still extremely challenging. The fall of average wholesale electricity prices and extremely low hydrology had a negative impact on the operating result – EBIT; and, likewise lower revenue from the sale of services, which also resulted in a lower EBITDA, which, however, is positive and amounts to EUR 121.6 million. As the replacement Unit 6 at TEŠ was put into operation in 2015, the interest expense is recognised under financial expenses, which is, in addition to additional borrowing, the reason for higher financial expenses, which had a negative impact on the net profit of the Group.

NET SALES REVENUE in 2015 in the amount of EUR 1,224.0 million was by 3% down compared to the previous year, especially due to lower revenue from the sale of services. Despite lower average wholesale prices of electricity, net revenue from the electricity sale remained at the level of the previous year due to intensified trading activities on the Slovenian and foreign markets and the introduced intra-day trading. Consequently, the SALES VOLUME was by 6% higher in relation to the previous year and amounted to 27,194 GWh.

In 2015, hydrology was below the long-term average, which was yet another reason for lower PRODUCTION. In 2015, the HSE Group companies produced 6,763 GWh of electricity or 18% less than in the previous year. The HPPs produced by 2,142 GWh less, while the pumped storage hydropower plant produced by 8.6 GWh more, and the TPPs by 603 GWh more than in the previous year.

Due to the impairment made, the balance of ASSETS of the HSE Group as at 31 December 2015 was by 18% lower in relation to the balance at the end of the previous year, EQUITY is down by 33%, and the indicators of return of equity and assets are negative.

At the end of 2015, the HSE company drew on a long-term loan in the amount of EUR 15 million to provide permanent working capital for the HSE Group and a short-term bridge loan of EUR 105 million until the provision of long-term funding resources; these are the two reasons for higher INDEBTEDNESS of the HSE Group as at 31 December 2015 in relation to the year-end 2014. In the structure of indebtedness, the share of long-term financial liabilities was down due to the transfer of the long-term loan of TEŠ to the EIB in the amount of EUR 110.0 million and the proportional share of the long-term loan of TEŠ to EBRD in the amount of EUR 37.8 million to the short-term portion of financial liabilities, both of which TEŠ prepaid in January 2016.

As at 31 December 2015, the HSE Group had 3,390 EMPLOYEES, which is by 281 if compared to the year-end 2014. The Group is in the stage of financial and business restructuring.

The structure of financial position shows that at the cut-off date of 31 December 2015, the HSE Group was financing long-term assets with short-term funding sources. At the end of 2015, the HSE company drew a short-term bridge loan in the amount of EUR 105 million until the provision of long-term sources. The structure of the HSE Group financial position will improve with by providing long term funds.

Tightened conditions in which the HSE Group operates require that the Managements of individual companies monitor and ensure for capital adequacy. The PV Group companies and TEŠ have prepared their operational and financial restructuring plans (NFPP) with focus on measures which require cost rationalisation, business and financial restructuring and divestment of non-operational assets.

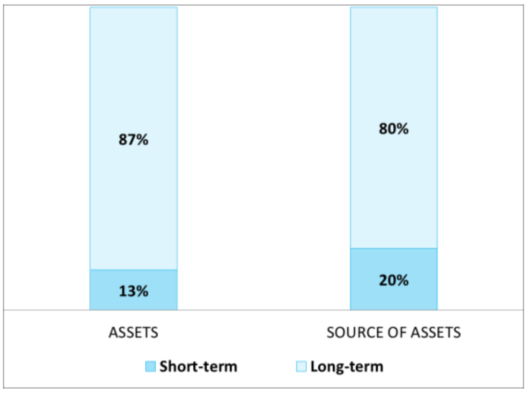
Having recorded the impairment of assets, the TEŠ company prepared a solvency analysis and proof of solvency, because under the provisions of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP) a presumption of the Company's long-term insolvency was raised, since the estimated amount of uncovered loss as at 31 December 2015, primarily arising from the impairment of assets, reached half of the Company's share capital. The analysis has shown that the budgeted cash flow for the period 2016–2030, composed of approved long-term projections, proves that the Company is solvent, subject to some borrowings from the controlling company. The corrective measure applied is the financial restructuring of the debt to HSE into capital surplus.

According to the unaudited financial statements of 31 December 2015, the companies HTZ, Gost and Golte lack adequate capital and are thus insolvent. In order to remedy the insolvency, the companies initiated appropriate measures and procedures in accordance with the Act (ZFPPIPP) already in 2015, so that insolvency of the companies will be resolved in 2016. On 5 April 2016, the District Court in Celje issued the decision on a simplified decrease in share capital of the HTZ company. The PV company plans restructuring for the Gost company. On 16 March 2016, the decision on a simplified compulsory composition of the Golte company became final.

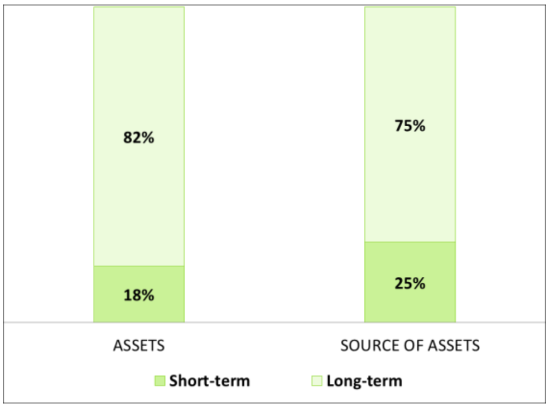
Capital inadequacy was found also for the TET company – in liquidation. On 17 November, the TET General Meeting adopted resolutions on a simplified capital reduction and on the initiation of regular liquidation of the company.

Structure of the Statement of financial position of the HSE Group and of the HSE company as at 31 December 2015

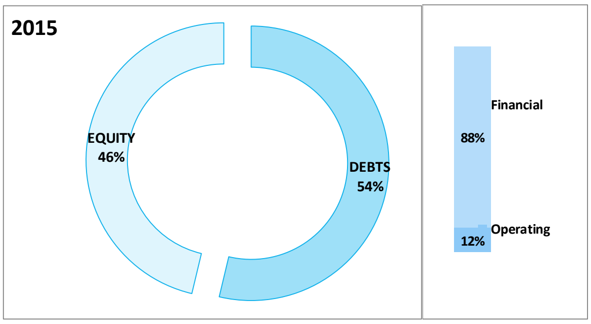
THE HSE GROUP

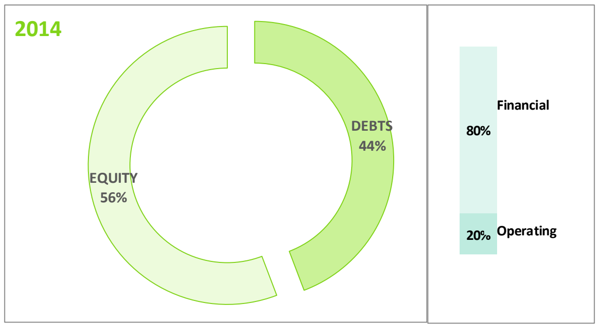


THE HSE COMPANY

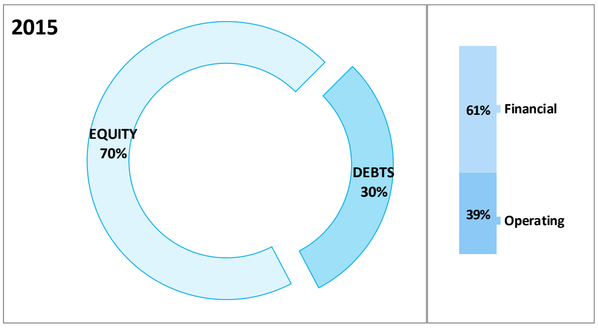


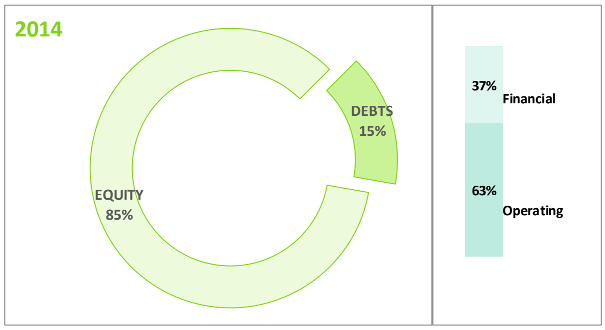
HSE Group's (financial and operating) equity-to-debt ratio as at 31 December 2015 and 31 December 2014





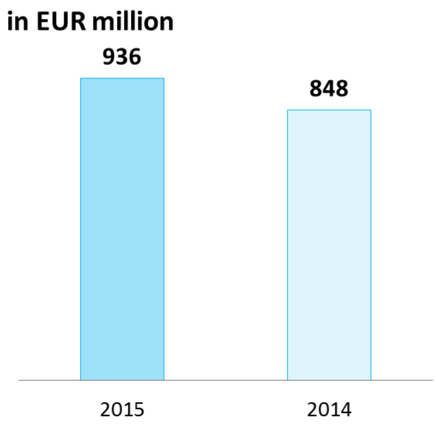
The controlling company's (financia and operating) equity-to-debt ratio as at 31 December 2015 and 31 December 2014



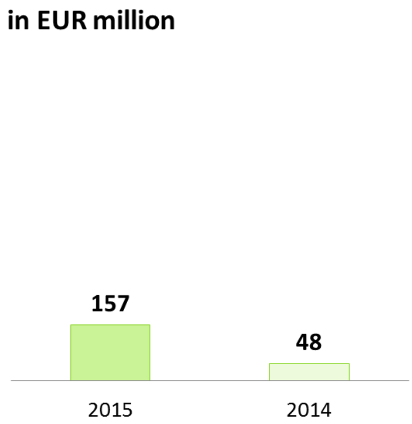


Net financial debt of the HSE Group and HSE company as at 31 December 2015 and 31 December 2014

The HSE Group



The HSE company



The value of assets and total equity as at 31 December 2015 and operating results of the HSE Group companies in 2015

HOLDING SLOVENSKE ELEKTRARNE d.o.o.	
Total assets in EUR	1,206,606,876
Total equity in EUR	829,661,563
Net profit of loss in EUR	(323,117,370)

DRAVSKE ELEKTRARNE MARIBOR d.o.o.	
HSE's stake	100.0%
Total assets in EUR	523,229,721
Total equity in EUR	510,769,294
Net profit of loss in EUR	8,671,945

TERMOELEKTRARNA ŠOŠTANJ d.o.o.	
HSE's stake	100.0%
Total assets in EUR	1,119,823,870
Total equity in EUR	215,820,023
Net profit of loss in EUR	(459,045,867)

HSE INVEST d.o.o.	
Direct HSE's stake	25.0%
Indirect HSE's stake	75.0%
Total assets in EUR	2,982,012
Total equity in EUR	1,731,435
Net profit of loss in EUR	428,872

SOŠKE ELEKTRARNE NOVA GORICA d.o.o.	
HSE's stake	100.0%
Total assets in EUR	254,005,101
Total equity in EUR	205,889,057
Net profit of loss in EUR	6,172,466

TERMOELEKTRARNA TRBOVLJE d.o.o. - in liquidation	
HSE's stake	100.0%
Total assets in EUR	7,826,079
Total equity in EUR	(3,098,191)
Net profit of loss in EUR	(623,102)

SOENERGETIKA d.o.o	
HSE's stake	25.0%
Total assets in EUR	4,563,827
Total equity in EUR	1,853,135
Net profit of loss in EUR	646,289

SRESA d.o.o.	
HSE's stake	60.0%
Total assets in EUR	76,435
Total equity in EUR	76,424
Net profit of loss in EUR	(600)

* SRESA is established for purpose of construction of construction of HPP on the Sava River. The holder of the concession rights is still HSE d.o.o.

PREMOGOVNIK VELENJE d.d.	
HSE's stake	99.2%
Total assets in EUR	123,624,126
Total equity in EUR	40,228,450
Net profit of loss in EUR	(69,934,023)

HSE ADRIA d.o.o.	
HSE's stake	100.0%
Total assets in EUR	9,959,085
Total equity in EUR	980,106
Net profit of loss in EUR	290,465

HSE BE d.o.o.	
HSE's stake	100.0%
Total assets in EUR	1,803,904
Total equity in EUR	710,319
Net profit of loss in EUR	2,125

HSE MAK ENERGY DOOEL	
HSE's stake	100.0%
Total assets in EUR	75,551
Total equity in EUR	70,075
Net profit of loss in EUR	(25,129)

* Due to the market situation, HSE MAK ENERGY DOOEL in 2015 did not carry out the business of trading.

HSE BH d.o.o.	
HSE's stake	100.0%
Total assets in EUR	3,298,367
Total equity in EUR	567,489
Net profit of loss in EUR	26,497

2.13.3 Controlling company's ratios[4]

EQUITY FINANCING RATE	31 Dec 2015	31 Dec 2014
1. Equity in liabilities	1,206,606,876	1,394,651,222
2. Equity	829,661,563	1,152,425,385
Equity financing rate = 2 / 1	**68.76**	**82.63**

At the end of 2015, the company's equity constituted 69% of its total liabilities. In relation to year-end 2014, the equity-financing rate was lower especially because of lower equity due to impairment of long-term investments.

LONG-TERM FINANCING RATE	31 Dec 2015	31 Dec 2014
1. Equity	829,661,563	1,152,425,385
2. Long-term liabilities	71,321,476	69,071,477
3. Total (1 + 2)	900,983,039	1,221,496,862
4. Equity in liabilities	1,206,606,876	1,394,651,222
Long-term financing rate = 3 / 4	**74.67**	**87.58**

The Company financed 75% of its assets with long-term resources, while other 25% were financed through short-term resources. Compared with the end of 2014, the long-term financing rate was lower due to lower equity as a result of impairment of long-term investments.

OPERATING FIXED ASSETS RATIO	31 Dec 2015	31 Dec 2014
1. Property, plant and equipment	11,820,636	34,947,327
2. Intangible assets	21,237,138	24,444,729
3. Total fixed assets at carrying amount	33,057,774	59,392,056
4. Assets	1,206,606,876	1,394,651,222
Operating fixed assets rate = 3 / 4	**2.74**	**4.26**

The share of fixed assets accounts for 2.74% of the company's assets. In comparison to year-end 2014, it is lower due to the recapitalisation of PV with in-kind contribution.

LONG-TERM INVESTMENT RATE	31 Dec 2015	31 Dec 2014
1. Property, plant and equipment	11,820,636	34,947,327
2. Intangible assets	21,237,138	24,444,729
3. Long-term investments in subsidiaries	826,253,551	884,084,518
5. Other long-term investments and loans	126,994,860	40,880,442
6. Long-term operating receivables	535,689	530,936
8. Total (1 + 2 + 3 + 4 + 5 + 6 + 7)	986,841,874	984,887,952
9. Assets	1,206,606,876	1,394,651,222
Long-term invetment rate = 8 / 9	**81.79**	**70.62**

The company's long-term assets account for 82% of its total assets. The ratio increased compared with the end of 2014, mainly due to lower assets.

EQUITY TO OPERATING FIXED ASSETS	31 Dec 2015	31 Dec 2014
1. Equity	829,661,563	1,152,425,385
2. Property, plant and equipment	11,820,636	34,947,327
3. Intangible assets	21,237,138	24,444,729
4. Total fixed assets at carrying amount (2 + 3)	33,057,774	59,392,056
Equity to operating fixed assets = 1 / 4	**25.10**	**19.40**

At the end of December 2015, the equity to fixed assets ratio stood at 25.10, which means that the most liquid assets were fully funded by equity. The ratio increased in relation to year-end 2014, primarily due to the recapitalisation of PV with in-kind contribution.

IMMEDIATE SOLVENCY RATIO	31 Dec 2015	31 Dec 2014
1. Cash and cash equivalents	57,156,932	28,360,621
2. Short-term investments	7,779,330	193,014,788
3. Total liquid assets (1 + 2)	64,936,261	221,375,409
4. Short-term liabilities	305,623,837	173,154,359
Immediate solvency ratio = 3 / 4	**0.21**	**1.28**

The acid test ratio presents the relationship between liquid assets and short-term liabilities. At the end of 2015, it stood at 0.21, which is less than at year-end 2014. Short-term financial liabilities include the bridge loan in the amount of EUR 105 million until the provision of a long-term financial resource, and the short-term loan from subsidiaries in the amount of EUR 30 million. Short-term investments decreased

[4] All amounts are in EUR.

on the account of the conversion of short-term financial receivables from TEŠ into long-term investments into TEŠ, and due to the conversion of the short-term loan to the PV into long-term investments into the PV.

QUICK RATIO	31 Dec 2015	31 Dec 2014
1. Cash and cash equivalents	57,156,932	28,360,621
2. Short-term investments	7,779,330	193,014,788
3. Short-term operating receivables	142,223,711	178,782,176
4. Total (1 + 2 + 3)	207,159,972	400,157,585
5. Short-term liabilities	305,623,837	173,154,359
Quick ratio = 4 / 5	**0.68**	**2.31**

The quick ratio at the end of 2015 was 0.68. In comparison to the year-end 2014 is lower due to the above mentioned short-term loans and recapitalisation of TEŠ and PV.

CURRENT RATIO	31 Dec 2015	31 Dec 2014
1. Short-term assets	215,181,325	405,130,221
2. Short-term liabilities	305,623,837	173,154,359
Current ratio = 1 / 2	**0.70**	**2.34**

The current ratio at the cut-off date of 31 December 2015 stood at 0.7. Compared to the year-end 2014, the ratio is lower due to the above-mentioned short-term loans and recapitalisation of TEŠ and PV.

OPERATING EFFICIENCY RATIO	2015	2014
1. Operating revenue	1,303,650,513	1,313,019,784
2. Operating expenses	1,253,398,195	1,214,797,688
Operating efficiency ratio = 1 / 2	**1.04**	**1.08**

In 2015, Company's operating revenue exceeded its operating expenses by 4%. In relation to 2014, the ratio is a little lower, due to lower average wholesale electricity prices in 2015 and essentially better hydrology in 2014 (higher production from HPPs).

NET RETURN ON EQUITY RATIO (ROE)	2015	2014
1. Profit or loss for the period	(323,117,370)	140,823,164
2. Average equity	991,043,474	1,080,676,541
ROE = 1 / 2	**(0.326)**	**0.130**

The ROE ratio for 2015 is negative due to impairment of long-term investments. Had the investment not been impaired, the ROE ratio would be positive, yet lower compared to 2014, due to substantially higher revenue from shares in the profit of companies realised in 2014, weaker hydrology in 2015 compared to 2014, and drop of prices on the electricity market.

RETURN ON ASSETS	2015	2014
1. Profit or loss for the period	(323,117,370)	140,823,164
2. Average assets	1,300,629,049	1,354,251,585
ROA = 1 / 2	**(0.248)**	**0.104**

The return on assets (ROA) for 2015 was negative. Without considering the impairment, the ROA ratio would be positive, yet down compared to the previous year, due to substantially higher revenue from shares in the profit of companies realised in 2014, weaker hydrology in 2015 compared to 2014, and drop of prices on the electricity market.

ADDED VALUE	2015	2014
1. Operating revenue	1,303,650,513	1,313,019,784
2. Costs of goods, materials and services	1,242,235,876	1,204,197,544
3. Other operating expenses	566,874	752,557
Added value = 1 - 2 - 3	**60,847,762**	**108,069,683**

The added value of the year 2015 amounted to EUR 60,847,762. It is lower in comparison to the previous year, mainly due to weaker hydrology and drop of electricity prices.

VALUE ADDED PER EMPLOYEE	2015	2014
1. Added value	60,847,762	108,069,683
2. Average no. of employee *	138	132
Value added per employee = 1 / 2	**440,926**	**821,823**

NOTE: Average number of employees is calculated on the basis of average balance of employees as at 31 December

In 2015, the added value per employee amounted to EUR 440,926 and was lower in relation to the previous year due to lower added value and slightly higher average number of employees.

DEBT / EQUITY RATIO	31 Dec 2015	31 Dec 2014
1. Short-term financial liabilities	147,028,450	11,588,915
2. Long-term financial liabilities	67,539,830	64,783,541
3. Total financial liabilities (1 + 2)	214,568,280	76,372,457
4. Equity	829,661,563	1,152,425,385
Debt / Equity ratio = 3 / 4	**0.26**	**0.07**

The ratio of total financial liabilities to equity was lower compared to that of 31 December 2014 due to additional borrowings and lower equity.

TOTAL FINANCIAL DEBT / EBITDA	2015	2014
1. Short-term financial liabilities	147,028,450	11,588,915
2. Long-term financial liabilities	67,539,830	64,783,541
3. Total financial liabilities (1 + 2)	214,568,280	76,372,457
4. EBIT	50,252,318	98,222,096
5. Write-downs in value	3,168,205	1,411,989
6. EBITDA (4 + 5)	53,420,522	99,634,086
Total financial debt / EBITDA = 3 / 6	**4.02**	**0.77**

The ratio showing the relationship between the indebtedness of the company and EBITDA was higher in comparison to year-end 2014, due to additional borrowings and lower EBITDA as a consequence of weaker hydrology and drop of average wholesale electricity prices.

EBITDA / FINANCIAL EXPENSES FOR BORROWINGS	2015	2014
1. EBIT	50,252,318	98,222,096
2. Write-downs in value	3,168,205	1,411,989
3. EBITDA (1 + 2)	53,420,522	99,634,086
4. Financial expenses for borrowings	5,533,045	3,965,944
EBITDA / Financial expenses for borrowings = 3 / 4	**9.65**	**25.12**

The ratio showing the relationship between EBITDA and interest expense is lower in comparison to the previous year, due to lower EBITDA and higher financial expenses.

TOTAL FINANCIAL LIABILITIES / ASSETS	31 Dec 2015	31 Dec 2014
1. Long-term financial liabilities	67,539,830	64,783,541
2. Short-term financial liabilities	147,028,450	11,588,915
3. Total financial liabilities (1 + 2)	214,568,280	76,372,457
4. Assets	1,206,606,876	1,394,651,222
Total financial liabilities / Assets = 3 / 4	**0.18**	**0.05**

The total financial liabilities to assets ratio was 0.18 at the end of December 2015. Compared to the previous year, the ratio is higher due additional borrowings and impairment of long-term investments.

Dividend to equity ratio

In 2015, the HSE company did not pay the accumulated profit to the owner. Based on the proposal of the Management and the HSE

Supervisory Board, the owner adopted the resolution that the accumulated profit in the amount of EUR 78.5 million shall be allocated to revenue reserves, due to high envisaged investments of the HSE Group.

2.13.4 The HSE Group ratios[5]

EQUITY FINANCING RATE	31 Dec 2015	31 Dec 2014
1. Equity in liabilities	2,233,923,431	2,728,888,082
2. Equity	991,749,078	1,471,547,419
Equity financing rate = 2 / 1	**44.39**	**53.92**

At the end of 2015, the Group's equity accounted for 44% of its total liabilities. Relative to 2014, the equity-financing rate decreased due to lower equity resulting from impairment of assets.

LONG-TERM FINANCING RATE	31 Dec 2015	31 Dec 2014
1. Equity	991,749,078	1,471,547,419
2. Long-term liabilities	786,957,878	937,281,163
3. Total (1 + 2)	1,778,706,956	2,408,828,582
4. Equity in liabilities	2,233,923,431	2,728,888,082
Long-term financing rate = 3 / 4	**79.62**	**88.27**

The Group financed 80% of its assets with long-term resources, while the remaining 20% were financed from short-term sources. The long-term financing rate is lower in comparison to year-end 2014 due to lower equity and lower long-term indebtedness.

OPERATING FIXED ASSETS RATIO	31 Dec 2015	31 Dec 2014
1. Property, plant and equipment	1,769,006,910	2,241,267,011
2. Intangible assets	20,180,784	22,567,489
3. Total fixed assets at carrying amount	1,789,187,694	2,263,834,500
4. Assets	2,233,923,431	2,728,888,082
Operating fixed assets rate = 3 / 4	**80.09**	**82.96**

At the end of 2015, accounted for 80% of the Group's total assets. Compared with the end of 2014, the operating fixed assets rate was lower due to impairment of assets.

LONG-TERM INVESTMENT RATE	31 Dec 2015	31 Dec 2014
1. Property, plant and equipment	1,769,006,910	2,241,267,011
2. Intangible assets	20,180,784	22,567,489
3. Investment property	6,703,254	0
5. Other long-term investments and loans	136,550,516	135,548,014
6. Long-term operating receivables	1,102,917	819,330
7. Other long-term assets	566,301	600,857
8. Total (1 + 2 + 3 + 4 + 5 + 6 + 7)	1,934,110,682	2,400,802,701
9. Assets	2,233,923,431	2,728,888,082
Long-term invetment rate = 8 / 9	**86.58**	**87.98**

The Group's total long-term assets account for 87% of its total assets. Compared with the end of 2014, the long-term financing rate was lower due to impairment of assets.

[5] All amounts are in EUR.

EQUITY TO OPERATING FIXED ASSETS	31 Dec 2015	31 Dec 2014
1. Equity	991,749,078	1,471,547,419
2. Property, plant and equipment	1,769,006,910	2,241,267,011
3. Intangible assets	20,180,784	22,567,489
4. Total fixed assets at carrying amount (2 + 3)	1,789,187,694	2,263,834,500
Equity to operating fixed assets = 1 / 4	**0.55**	**0.65**

The equity to fixed assets ratio stood at 0.55 at the end of 2014, meaning that more than half of illiquid assets were financed from equity. Compared to the situation at the end of 2014, the ratio was down due to lower equity.

IMMEDIATE SOLVENCY RATIO	31 Dec 2015	31 Dec 2014
1. Cash and cash equivalents	78,880,281	88,298,173
2. Short-term investments	19,819,239	6,024,008
3. Total liquid assets (1 + 2)	98,699,520	94,322,181
4. Short-term liabilities	455,216,475	320,059,500
Immediate solvency ratio = 3 / 4	**0.22**	**0.29**

The acid test ratio shows the relationship between liquid assets and short-term liabilities. At the end of 2014, it amounted to 0.22, which means that the Group covered 22% of its current liabilities with its liquid assets. Compared to year-end 2014, the ratio was lower due to higher short-term liabilities (short-term bridge financing).

QUICK RATIO	31 Dec 2015	31 Dec 2014
1. Cash and cash equivalents	78,880,281	88,298,173
2. Short-term investments	19,819,239	6,024,008
3. Short-term operating receivables	156,427,573	186,022,917
4. Total (1 + 2 + 3)	255,127,093	280,345,098
5. Short-term liabilities	455,216,475	320,059,500
Quick ratio = 4 / 5	**0.56**	**0.88**

The quick ratio stood at 0.56 at the end of 2015. In comparison to year-end 2014, the ratio was lower due to higher short-term liabilities.

CURRENT RATIO	31 Dec 2015	31 Dec 2014
1. Short-term assets	294,806,652	322,914,246
2. Short-term liabilities	455,216,475	320,059,500
Current ratio = 1 / 2	**0.65**	**1.01**

At the cut-off date of 31 December 2015, the current ratio amounted to 0.65. Compared to the year-end 2014, the ratio is lower, due to the drawing on the short-term bridge loan.

OPERATING EFFICIENCY RATIO	2015	2014
1. Operating revenue	1,272,822,916	1,313,364,578
2. Operating expenses	1,715,747,600	1,324,343,838
Operating efficiency ratio = 1 / 2	**0.74**	**0.99**

In 2015, the Group’s operating revenue was by 26% below its operating expenses due to impairment of assets. The indicator is worse than it was in the year 2014, due to impairment of assets, poorer hydrology, decrease in average wholesale electricity prices and lower revenue from the sale of services.

NET RETURN ON EQUITY RATIO (ROE)	2015	2014
1. Profit or loss for the period	(480,102,728)	(35,690,435)
2. Average equity	1,231,648,249	1,509,167,246
ROE = 1 / 2	**(0.390)**	**(0.024)**

The net return on equity ratio (ROE) for 2015 is negative due to the performed impairment. Without the impairment, the ratio would be positive, but down compared to the previous year due to the reasons described above.

RETURN ON ASSETS (ROA)	2015	2014
1. Profit or loss for the period	(480,102,728)	(35,690,435)
2. Average assets	2,481,405,757	2,779,704,790
ROA = 1 / 2	**(0.193)**	**(0.013)**

The net return on assets ratio (ROA) for 2015 is negative due to the performed impairments. Without the impairments, the ratio would be positive, but down compared to the previous year due to the reasons described above.

ADDED VALUE	2015	2014
1. Operating revenue	1,272,822,916	1,313,364,578
2. Costs of goods, materials and services	960,389,143	935,403,100
3. Other operating expenses	60,748,908	76,591,789
Added value = 1 - 2 - 3	**251,684,865**	**301,369,689**

The value added in 2015 amounted to EUR 251,684,865. It was lower in comparison to the previous year, mainly due to extremely poor hydrology, fall in average wholesale electricity prices and lower revenue from the sale of services.

VALUE ADDED PER EMPLOYEE	2015	2014
1. Added value	251,684,865	301,369,689
2. Average no. of employee	3,531	3,770
Value added per employee = 1 / 2	**71,289**	**79,939**

NOTE: Average number of employees is calculated on the basis of average balance of employees as at 31 December

In 2015, the added value per employee amounted to EUR 71,289. In relation to the previous year, it was lower due to lower added value.

DEBT / EQUITY RATIO	31 Dec 2015	31 Dec 2014
1. Short-term financial liabilities	298,441,112	58,774,687
2. Long-term financial liabilities	716,664,095	877,622,131
3. Total financial liabilities (1 + 2)	1,015,105,207	936,396,818
4. Equity	991,749,078	1,471,547,419
Debt / Equity ratio = 3 / 4	**1.02**	**0.64**

The ratio shows the relationship between the Group’s indebtedness and equity. As at 31 December 2015, the ratio is higher in relation to year-end 2014, due to higher indebtedness and lower equity.

TOTAL FINANCIAL DEBT / EBITDA	2015	2014
1. Short-term financial liabilities	298,441,112	58,774,687
2. Long-term financial liabilities	716,664,095	877,622,131
3. Total financial liabilities (1 + 2)	1,015,105,207	936,396,818
4. EBIT	(443,561,179)	(8,113,035)
5. Write-downs in value	565,120,996	165,425,865
6. EBITDA (4 + 5)	121,559,817	157,312,830
Total financial debt / EBITDA = 3 / 6	**8.35**	**5.95**

The ratio shows the relationship between the Group’s indebtedness and EBITDA; in relation to year-end 2014, the ratio is higher due to additional borrowings and lower EBITDA.

EBITDA / FINANCIAL EXPENSES FOR BORROWINGS	2015	2014
1. EBIT	(443,561,179)	(8,113,035)
2. Write-downs in value	565,120,996	165,425,865
3. EBITDA (1 + 2)	121,559,817	157,312,830
4. Financial expenses for borrowings	20,078,344	7,076,417
EBITDA / Financial expenses for borrowings = 3 / 4	**6.05**	**22.23**

The ratio showing the relationship between the Group’s EBITDA and financial expenses arising from loans is lower in comparison to the previous year, due to lower EBITDA and higher financial expenses. Financial expenses were higher due to activation of the replacement Unit 6 at TEŠ (interest expense is recorded in financial expenses) and due to higher indebtedness.

TOTAL FINANCIAL LIABILITIES / ASSETS	31 Dec 2015	31 Dec 2014
1. Long-term financial liabilities	716,664,095	877,622,131
2. Short-term financial liabilities	298,441,112	58,774,687
3. Total financial liabilities (1 + 2)	1,015,105,207	936,396,818
4. Assets	2,233,923,431	2,728,888,082
Total financial liabilities / Assets = 3 / 4	**0.45**	**0.34**

At the end of 2015, the share of total financial liabilities in relation to assets stood at 0.45. Compared to the previous year, the ratio is higher due to additional borrowings and impairment of assets.

REDUCTION OF COSTS OF MATERIAL, SERVICES AND EMPLOYEE BENEFITS EXPENSE IN VIEW OF 2014 (in %)	31 Dec 2015	31 Dec 2014
1. Costs of materials	32,143,427	59,241,738
2. Costs of services	39,598,675	69,026,684
3. Labour costs	129,488,553	146,923,084
4. Total costs of materials, services and labour (1 + 2 + 3)	201,230,655	275,191,506
Reduction of costs in 2015 over the previous year (in %)	**(27)**	

In comparison to 2014, costs of material, services and labour costs decreased by 27%, as the result of the initiated optimisation and rationalisation of operations in the HSE Group, capitalisation of testing costs for the replacement Unit 6 at TEŠ (costs and revenue arising from the production in the replacement Unit 6 at TEŠ are recorded in the net amount as an integral part of investments) and cost of the TET company, which is in liquidation and has virtually not been operating since December 2014. In addition labour costs in 2014 also comprises labour costs of TET– in liquidation and HESS in a total amount of EUR 7.3 million. As at 31 December 2015, labour costs, in addition, comprises the value of unpaid salaries for the years 2012 and 2013 in the amount of EUR 5.4 million, which, according to the signed social agreement of 4 April 2016, will be paid out in 2017 and 2018, respectively.

NET FINANCIAL DEBT / EBIDTA	31 Dec 2015	31 Dec 2014
1. Long-term financial liabilities	716,664,095	877,622,131
2. Short-term financial liabilities	298,441,112	58,774,687
3. Total financial liabilities (1 + 2)	1,015,105,207	936,396,818
4. Cash and cash equivalents	78,880,281	88,298,173
5. Net financial liabilities (3 - 4)	936,224,926	848,098,645
6. EBIT	(443,561,179)	(8,113,035)
7. Write-downs in value	565,120,996	165,425,865
8. EBITDA (6 + 7)	121,559,817	157,312,830
Net financial debt / EBIDTA	**7.70**	**5.39**

The ratio showing the relationship between the net indebtedness and EBITDA is higher in comparison to the year-end 2014 due to additional borrowings and lower EBITDA.

2.14 Risk management

Risk management is an integral part of the operation and decision-making process in the HSE Group. The main activities are focused on timely identification, assessment and control of key risks to which the HSE Group is exposed in all areas of operation, especially in the production and trading of electricity. The HSE Group devotes utmost attention to the following key risks:

- market risks,
- quantity/production risks,
- financial risks,
- strategic risks,
- operational risks,
- security risks.

Risk management includes identification, evaluation, monitoring and control of risks to which a company or the Group is or could be exposed. The objectives that the Group continuously pursues are in particular early recognition of events or actions and related risks that threaten the achievement of business strategy of individual companies and of the HSE Group, monitoring of such risks and taking prompt actions, in order to minimize deviations from expected results.

An important role in the risk reporting and management process is played by risk management committees operating in all the Group companies in Slovenia, while further control is provided by the internal audit department operating in accordance with the Rules on Internal Audit of HSE Group.

Regardless of numerous challenges to which the HSE Group has been exposed, and taking into account the given limitations, we believe that the risks of the Company and of the HSE Group were properly identified and effectively managed.

2.14.1 Report on the work of the Risk Management Committee of HSE for the year 2015

The Risk Management Committee of HSE (hereinafter referred to as the Committee) acts as a consultative and advisory body of the company's Management. It was set up with the fundamental task to ensure the establishment of a comprehensive risk management system in the Company with the aim that the Management and the owner of the company are provided with high-quality management and governance bases for the achievement of the planned goals. The Committee operates in accordance with the Rules of Procedure for the Risk Management Committee of HSE.

Membership in the Committee

The Committee is composed of members who are by function responsible for risk management in their business lines, while professionals and experts are also involved in the work of the Committee. The Committee members are appointed by a decision of the Management.

Occasionally, meetings of the Committee were attended by employees of the Company invited as those who prepared the material or rapporteurs to individual items on the agenda of the Committee meeting.

Committee meetings

In the previous year, the Committee had four meetings and adopted 44 decisions, which have mainly been realised; implementation is underway in cases where decisions are of permanent nature or require longer implementation. Internal audit department monitors the implementation of decisions and at Committee meetings regularly reports on the state of unrealised decisions, including the reasons, and proposes possible changes or amendments to such decisions.

Overview of the Committee's work

The Committee on the basis of the work programme adopted for 2015, and within its powers actively monitored and proposed decisions and recommendations to the Management and department leaders in all major risk areas identified in the Company's operation.

In the context of its permanent tasks, the Committee continuously monitored the financial position of HSE with a focus on ensuring the liquidity of the HSE Group through cash management and cash pooling, took note of the report on key performance indicators of the Company and of the HSE Group under the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP), was briefed on realistic and current estimates of operations, monitored the state of trading limits, balances of incoming and outgoing hedging instruments and actions for the recovery of overdue outstanding receivables as an instrument of risk management in the liquidity situation, monitored key risk management in the PV group and the companies TEŠ and TET-in liquidation, including risk management with regard to sufficient quantities of coal, and risk of liquidation proceedings at TET, took note of long-term projections of management and provision of equity and debt resources at the corporate level for all the HSE Group companies.

In 2015, in addition to the permanent tasks presented in the preceding paragraph, the Committee discussed the following major topics and:

1. took note of the draft unaudited annual report of the Company and of the HSE Group for 2014 and proposed its amendments;
2. took note of and gave expert comments to the draft business plan of the Company and of the HSE Group for 2016 with additional plan for the years 2017 and 2018;
3. took note of the position regarding the Protocol on implementation of the HSE Group's obligations under the EMIR and REMIT Regulations;
4. took note of the report on transfer pricing documentation for the year 2014;
5. considered the proposed policy of credit risks management and debt recovery in the HSE Group companies;
6. took note of and proposed the Management to adopt Addendum No. 1 to the Onboarding Policy in the company HSE (Version 2) of 19 December 2014;
7. took note, on several occasions, of information regarding the implementation of internal audit recommendations by individual departments and preformed audits;
8. took note of proposed to the Management for adoption the final version of the Group management system policy and its implementation in the HSE Group;
9. took note of preparation state of regulatory documents and monitoring of development documentation of the Company and of the HSE Group for the medium and long-term period;
10. took note of the findings of the report on the RCE issues from the viewpoint of the HSE Group;
11. took note of the report on the issue of receivables due from the company Energetska proizvodnja d.o.o. and of the recommendations for further resolving of the issue;
12. proposed to speed up the implementation of the already adopted policies and rules in the HSE Group;
13. instructed the legal office to carry out the procedures for the implementation of all policies, rules and internal acts, and for the custody of the archives of these documents;
14. took note of and approved the work programme of the Risk Managament Committee for 2015 and the report on the work of Risk Management Committee for 2015;
15. proposed to the Management to adopt a decision on the abolishment of the subcommittee for credit risk management (abolished on 3 June 2015).

The Report was prepared in accordance with Item 8 of the Rules of Procedure for the Risk Management Committee of HSE.

2.14.2 Business risks

MARKET RISKS

Similar to previous years, the trend of increasing the share of electricity production from RES continues. The fall in prices of electricity and other energy products brings many business challenges also in the area of market risk management. The HSE Group considers the systematic recording, evaluation and control of risks to be a key element of professional risk management, which must at the same time enable the exploitation of new market opportunities. The market risk management policy is based on rules, strategies, decisions and adopted registers, and has been designed to ensure an increase in the value of HSE by assuming the risks that fall within the acceptable limits. The process of market risk management is integrated into the daily operations of HSE.

The key process of the market risk management policy in the HSE company refers to monitoring the exposure of individual trading groups as well as the total exposure of all trading groups. In this way, the HSE company monitors the exposure in individual years as well as in the entire trading period.

From the analytical perspective, HSE company continues to develop tools for monitoring the factors influencing the market exposures in trading. This predominantly involves monitoring of price dynamics, volatility and correlations in individual markets and products in specified periods, as well as the sensitivity of the Company's open positions to price movements. Parallel to that, improvements are being made to the existing tools, while new ones are introduced in relation to optimisation and projections of future operation of power plants owned by the HSE Group, as well as tools for the measurement of price sensitivity of various products on the electricity market. In addition, great emphasis is given to the development of mechanisms for gathering information from a variety of sources with the aim of providing a high degree of insight into the current situation and future developments on individual markets and in the energy sector as a whole.

PRICE RISK

HSE monitors and manages price risks with a combination of the Value-at-Risk (VaR) method and the stop-loss mechanism. Price risks arise from fluctuations in market prices of electricity and other energy products (coal, gas, CO_2 emission allowances, oil, etc.) that have a direct impact on electricity prices or HSE's operations. The Company is also exposed to fluctuations in the price of CO_2 emission allowances that need to be provided for the operation of TPPs in the Group. The exposure of the HSE company to electricity prices depends on the open position of the company in the given moment. In case the position is closed, meaning that purchase and sales transactions coincide with regard to quantity and delivery period, the company is not exposed to changes in market prices of electricity. In case of the open position transactions do not coincide with regard to quantity and delivery period. In this case the company is exposed to price risks dependent on the size of open or net position. Due to the fact that the HSE company operates in various countries and markets, it is also necessary to take into consideration the net positions and correlations for various countries or regional markets. The impact of price risk on the company's operations can be quantified on the basis of the following key variables: the market position of HSE in individual markets at a specific moment of supply, volatility of prices in individual markets at a specific moment of supply and correlation of prices between individual markets at specific points of supply. These variables are included in the calculation of Value-at-Risk (VaR) parameter, which is the key indicator of company's direct exposure to price fluctuations and indirect exposure to quantity risks (through market position). The HSE company monitors 5-day VaR with a 95% confidence interval. The parameter represents the amount of potential loss of the HSE trading portfolio in five days, which in 95% of normal market changes will not be exceeded in terms of market price, correlation and volatility given the HSE quantity position.

HSE manages and controls the price risks with daily monitoring of the market position on group-level and on the level of HSE company by countries and groups of transactions that have a similar purpose and/or meaning. In the event that in a certain moment the position exceeds the values permitted by the rules, it is corrected accordingly (by conclusion of a sale or purchase transaction). Risks are mitigated by conclusion of counter-transactions involving the same quantity in the same market, or purchase of derivatives involving financial settlement (futures), depending on the type of the trading transaction. Daily monitoring and analyses of prices of energy products and projections regarding the expected changes in prices of energy products in various markets, as well as regular monitoring investment decisions in the energy sector within the EU and economic growth in major EU countries are part of the risk management activities. In relation to the exposure to the fluctuation of CO_2 emission allowances, activities on the CO_2 emission allowance market are daily monitored.

The data basis for the analysis of trends in value added is provided by the a daily calculation of the Value-at-Risk (VaR) and Mark-to-Market (MtM) parameters by individual groups of HSE transactions having a similar purpose, taking into account the limits or levels of VaR value set out in the policies.

Along with the daily, weekly and periodic reporting on the situation, prices and events on the electricity market, a high level of situational awareness in the company is guaranteed.

Due to the specifics of risks in the sale of own production, the strategy of own production sales has been established, primarily with the aim of dispersing the price risks over a longer trading period. The sales period in the future is subject to market liquidity. The procedures related to the implementation of the strategy of own production sales are constantly monitored and evaluated at least every two weeks at the meetings of the Committee for own production sales.

Market risk associated with illiquidity and risk associated with non-transparency of the market

From the perspective of HSE operation and risk management, non-transparent wholesale electricity markets are identical to illiquid markets. Risks associated with illiquidity occur on the markets with lower trading quantities on the supply or demand side. Such exposure can also arise due to low market participation of traders or non-conclusion of EFET agreements. The result is inability, or inappropriate timing, to close a position or closing of a position at unfavourable prices. From the viewpoint of operations and risk management of HSE, the illiquid wholesale electricity markets are those markets and/or countries that have no liquid trading platforms or electricity exchanges.

In 2015, the HSE company managed the risks of market illiquidity with the segmentation and prioritisation of markets and partners and with creating a margin policy depending on the market liquidity and market conditions. Conclusion of EFET agreements is of key importance.

The scope of activities comprises a daily analysis of the Company's position, trading quantities and product prices in illiquid markets, and of the margins used for price fluctuations for the concluded transactions.

Nevertheless, an important instrument for the management of such risks is, among others, the limitation of trading and/or of open positions of the HSE company on illiquid markets.

Risks associated with non-transparency market arise from the markets that can be characterised by conclusion of transactions at unfavourable prices, incorrect valuation in the basis of price curves and, consequently, incorrect valuation of the HSE's portfolio.

In 2015, the HSE company managed the risks associated with non-transparency of the market with analysing the fundamental factors on individual markets, weekly examination of events taking place in non-transparent markets that could lead to changes in market conditions in the electricity market, and daily analysis of the HSE position. In addition, gathering of quality and up-to-date information from local sources is of special importance.

Quantity risk associated with changes in NTC values (cross-border transmission capacities)

The risk arises from changes in permeability of major individual transport routes (e.g. reduction of daily cross-border transfer capacities due to wild currents or maintenance of transmission network both for the day ahead and within the day). As a consequence, situations can arise where obligations from long-term contracts are not fulfilled, leading to a need to purchase more expensive energy as replacement from other sources (countries) and to a possibility of deviations in balances.

The HSE company manages the risks associated with changes in net transfer capacity with monthly monitoring of investment projects and development plans of system operators by countries, periodic analysis of market conditions in relation to the past probability of events, and consequently, in relation to the findings and limitation of trading quantities between markets.

Daily monitoring of the market position takes place at the level of both the HSE Group and the HSE company by countries and by individual groups of transactions having similar purpose or importance, in addition to monitoring of the annual, monthly and daily amounts of cross-border transmission capacity auctions at individual borders. In 2015, no important events associated with this risk were recorded, but rather varied developments are expected in the future.

It is assessed that, within the given constraints, market risks were properly managed.

Quantity / production risks

Quantity risks are risks arising from production uncertainty, consumption uncertainty and energy supply uncertainty.

- The risk of production uncertainty is reflected in :
  - Decreased production from HPPs due to longer dry periods and small stocks of snow in the mountains, while river flows are below long-term averages,
  - occurrence of catastrophic waters, HPPs can no longer produce electricity and guarantee safe through flows due to large increase in river flows in stronger or longer rainy periods,
  - machinery breakdowns in production plants – expiry of useful life, fatigue of materials, overloading and high dynamics of operation can result in unplanned and major machinery breakdowns in the production infrastructure with longer outages of production,
  - downtime in the production of the coal mine due to trench collapses, accidents and other disruptions in the extraction of coal,
  - exceeding of ecology parameters – lower quality of energy source for thermal production and problems in the operation of wastewater treatment plants may lead to higher concentrations of harmful substances in flue gases and, consequently, to lower production,
  - natural disasters and phenomena with catastrophic consequences for wider surroundings, large earthquakes, large uncontrolled fires spreading over la larger area,
  - fire outbreaks in buildings and, consequently, damaged production facilities.
- Consumption uncertainty arises from the impact of weather and, consequently, temperature fluctuation, load flexibility and seasonal cycles.
- Uncertainty of energy supply arises from random failures of power lines and other equipment or from interventions by the transmission system operator due to transmission line overload.

Risk associated with electricity supply from the HSE Group

Electricity production is exposed to the following risks of deviation from the planned supply:

- risk of (absence of) supply of electricity from hydropower plants due to hydrological and meteorological conditions, and failures and technological limitations to production,
- risk of (absence of) supply of electricity from thermal power plants due to outages or technological and ecological limitations of production,

- risk of (absence of) supply of coal from the Velenje coal mine due to production hold-ups caused by outages, failures of technological systems, accidents or other disturbances.

In 2015, the HPPs of the HSE Group, including the small HPPs, but without the PSP Avče, generated 400.4 GWh electricity less than planned. TEŠ generated 340.7 GWh less electricity than planned, which in total means by 807 GWh lower production of electricity of the HSE Group in relation to plan, due to poorer hydrology and short supply of coal. Production was down due to weaker hydrology and problems in the production of coal, delay in the planned activation of excavation sites and, consequently, low coal stocks.

The deviations of actual daily flows of water from daily forecasts are also reflected in deviations of hydropower production from the forecast schedules. To the extent possible, the deviations were balanced out by adjusting production at TPPs and increasing sales and purchases on the market.

In TPPs, a 2% to 4% unexpected production shortfall has to be considered in addition to the planned shutdowns due to overhauls. This percentage corresponds to ten to twenty daily production shortfalls, which can be offset by starting up gas-fired power plants, but only for shorter periods. Alternatively, to the extent possible, shortfalls can be offset by reallocating the use of HPP accumulation and purchasing electricity on the market. In 2015, unexpected production shortfall in TEŠ totalled 12%. The unexpected production shortfall also includes the replacement unit 6, which operated under start-up tests until 27 May 2015, and will be in test operation until the end of the year.

Risk of interrupted coal supply from PV

Coal supply may be interrupted due to breakdowns of technological systems and accidents or other disturbances affecting the extraction of coal. According to an assessment of the coalmine's technical management, the majority of potential shortfalls could be addressed without significant interruptions to production, and only exceptionally could some breakdowns cause 14-20 day interruption in supply. There is a relatively low probability of a major breakdown that would require a six-month shutdown.

In 2015, problems were caused by challenging local geomechanical conditions, which by squeezing and sealing of transportation tracks brought about interruptions in coal supply. The largest outage in production was in August and September, when the activation of two extraction areas was delayed due to the above-mentioned problems. The consequence of this delay were temporary very low stocks of coal at the disposal site in October. At the end of September and in the first half of October, the Sales and trading division was limiting the daily production of electricity in relation to the daily production and stocks of coal. The situation improved by the end of the year and the targeted stock of coal was achieved. Underground coal mining is an activity that takes place over several hundred meters underground and specific risks are always present. The company tries to do its best to counter these risks and keep them to a minimum with technical, technological and organizational measures. Based on estimates of the potential failures in coal supply by the PV, and of the storage options for the coal and the associated costs, the optimal coal stocks have been determined: at the beginning of each calendar year, the stocks shall amount to 3,000 TJ.

Production management

The HSE Group's electricity production is managed from the Control Centre in Maribor. The main objectives of production management are as follows:

- provision of operative production planning that allows achieving of optimum technical and positive economic effects, with ensuring safe and reliable production, and enable optimum trading of the HSE Group's production sources;
- management of the HSE Group production so that deviations from the planned amounts will be below ± 10 MW;
- optimal distribution of power among individual power plants by taking into account optimal exploitation of energy resources;
- provision of ancillary services with economic distribution of demand for power among production units;

- periodical coordination of the HSE balancing group production with the analysis of current operation and planning of production units shutdown, with the aim of improving operational availability and utilisation of production facilities.

The quality of management of the HSE balancing group is reflected in the minimisation of deviation costs thanks to the deviations of balance group members being reduced through adjustment of their production. In 2015, the members of HSE balance group were production units of the HSE Group, including small HPPs, PV, larger consumers connected to transmission network, balane subgroup of four distribution companies, one balance subgroup SODO and some smaller consumers. The balane group's deviations include all production and consumption deviations from forecast schedules. HSE assesses that the management of the HSE balance group in 2015 was successful, since deviations arose in the framework of set goals. The capacity was allocated optimally with regard to daily conditions, while all reserve capabilities were timely activated in case of emergencies. Major deviations only occurred due to testing of replacement Unit 6 at TEŠ.

It is eassessed that, within the given constraints, quantity risks were properly managed.

Financial risks

Within the financial risks, the HSE Group is exposed to interest rate risks, currency risk, liquidity risk, risks associated with breaching the covenants in loan contracts, and credit risk.

Interest risk

The HSE Group manages interest rate risks in accordance with the Rules on the managing of the interest rate risk of the HSE Group, which defines and sets the policy of interest rate risk management in the HSE Group companies. The Group has its loan portfolio proportionally divided between loans taken out with a fixed interest rate, and loans tied to a variable interest rate. As at 31 December 2015, the HSE Group has 58% of its own loan portfolio taken out with a fixed interest rate, of which 10% have variable interest rate, but are hedged with interest rate swap and are, thus classified as fixed interest rate loans. In 2015, interest rate risk was adequately managed.

Currency risk

The HSE Group manages currency risk in accordance with the Rules on the managing of the currency risk of the HSE Group. The HSE Group is exposed to the currency risk to a lesser extent. Exposed is in particular the HSE company due to its electricity trading in foreign currencies. The risk is adequately controlled by fixing exchange rates through currency futures, thus ensuring a stable cash flow.

Liquidity risk

In 2015, the HSE Group intensively managed liquidity risk, acting in accordance with the provisions of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP). Liquidity risk was managed by implementing the policy of regular management of liquidity and solvency of the HSE Group and monitored the liquidity situation of the HSE Group as a whole and of individual companies both on a daily as well as on monthly and annual levels.

Liquidity risk management requires the management of liquidity risk by individual categories of the Group's business operations, as follows:

- the management of liquidity risk arising from operations, which is closely linked to credit risk,
- the management of liquidity risk arising from investing, which is closely linked to investment risk,
- the management of liquidity risk arising from financing, which is a risk associated with the provision of sufficient financial resources for the purpose of financing the operations and investments of the Group.

Timely monitoring of cash flows, implementation of cash management policy of the HSE Group, active approach to financial markets as well as the availability and provision of appropriate credit lines, made it possible that, in 2015, the liquidity of the HSE Group was controlled and guaranteed and, thus, liquidity risk properly managed.

Risk associated with breaching the covenants in loan Contracts

The contracts regulating long-term borrowings of the Group contain restrictive covenants, which inter alia refer to restricting free disposal of assets (e.g. pledge) and maintaining certain financial indicators. The lenders may require repayment of the loans if the covenants are breached. The Group regularly monitors and calculates financial indicators on the basis of accounting data. The management measure applied is, in particular, updated financial reporting and timely information of the Management (of the Group).

In 2015, agreements with banks were reached and provisions of contracts regulated in such a way that, within the scope of the Group's operations, the covenant will not be breached. The following was agreed:

- the EIB agreed to waive the covenant associated with the increased investment costs of the replacement Unit 6 at TEŠ; the Bank further agreed to the changed financial plan and extended completion deadline of the investment project Unit 6 at TEŠ;
- the EBRD agreed to a modification of the commitments related to the price of coal, financial indicators and balance of funds on the DSRA account.

Credit risk

Due to the nature and environment of business operations, credit risk as the risk of non-fulfilment of contractual obligations by contractual partners and within that scope, the risk of non-payment of overdue liabilities, presents an important risk segment for the Company and the HSE Group. The controlling company, which purchases the largest amount of the production from the HSE Group companies and settles its liabilities on time, is the entity most exposed to credit risk, since it enters into agreements with third parties. Credit risks are managed by detailed examination and prudent selection of business partners prior to their approval, the subsequent regular monitoring of their operations and conservative approach in setting limits to the scope of operations. In addition to careful credit analysis of each business partner, different legal frameworks are taken into consideration when assessing credit risks, especially in terms of possible execution and non contestability of offsets in case of early termination due to insolvency, and in terms of the entitlement to received and given collaterals with regard to their enforceability. All these factors are considered in determining the conditions of business cooperation and designing the contractual framework. Good cooperation between all participating business functions, especially in commercial, legal and financial areas, is urgently needed for efficient credit risks management. HSE company regularly monitors the exposure of its business partners under the concluded contracts. The concentration of credit risks, i.e. the exposure based on an internal credit rating scale, and concentration by countries is also regularly monitored. Given the changing structure of the partners' portfolio, credit risks is estimated at 1.0% to 1.5% of aggregate exposure under the concluded contracts. As at 31 December 2015, the potential maximum loss of the HSE company associated with trading of electricity was estimated at 1.2% of the total exposure. The HSE Group is aware that the unstable business environment in which the Group is operating requires additional attention in the management of the credit portfolio in terms of greater diversification and higher security of contractual relations with adequate collaterals. The Risk Managament Committee of HSE was regularly informed about the balance of the counterparties limits and the balance of collaterals received or issued, as well as about the exposure of the Company.

In the context of credit risk management to banks and financial institutions, the HSE Group regularly monitors the performance data of the banks with which it cooperates. The risk is additionally controlled by diversified funds deposits with several banks, short-term investments of funds needed for current operations, and making hedging transactions based on standard ISDA contracts for managing currency and interest rate risks.

In 2015, credit risks were appropriately controlled, as the Company has not recorded any credit event. All activities were carried out in accordance with the Credit Risk Management Policy adopted in the HSE Group. Permanent attention was devoted to the preparation of master agreements and contracts, monitoring of collaterals and regular annual evaluation of business partners on the basis of their currently published financial statements and annual reports and other publicly available information.

Strategic risks

Strategic risks were adequately controlled through regular consultative meetings of Managements and Management Boards of the companies of the HSE Group (attended either by equity representatives in the supervisory boards of subsidiaries or directly by Management Boards of companies), who regularly report to the HSE Management on business activities and investment projects in subsidiaries, as well as through regular consultative development meetings of the HSE Group, meetings with the Joint Workers' Council of the HSE Group and Workers' Council of HSE, meetings of the Committee for Supervision of Investments, meetings of the Economic and Social Council, etc.

Reputation risk – rating

In February 2016, the HSE company was assigned the ratings »Ba2 stable« (by Moody's) and »BB positive« (by Standard & Poor's), which are a measure of credibility and financial stability of the Group. These ratings reflect the opinion of the two credit rating agencies regarding the financial strength of the Group, the Group's performance and ability to regularly fulfil financial obligations of the Group. In order to assign ratings, the agencies have closely monitored the Group and especially its liquidity and some key indicators (e.g. gross leverage ratio). Even the Group's ability to access capital markets and other forms of financing (or refinancing), and costs associated with these activities, partly depend on the given ratings. The Group is currently operating with sufficient liquidity to maintain their current ratings, but it depends on many factors, some of which may be beyond the Group's control. In case that the agencies downgrade the credit or debt ratings, the Group will not be in the position to obtain the necessary funding sources on terms comparable to the current borrowings. A lower credit rating would limit the Group's ability to access credit and bond markets or other forms of financing (or refinancing). All that could have substantial adverse impact on its business, operating results and financial position. In order to manage these risks, the Group continuously monitors performance indicators, controls the expense and revenue, and controls its liquidity within the management of liquidity risks in accordance with the adopted business plans.

Market position risk

The market position risk shall primarily be understood in terms of benefits and opportunities that the Group has in comparison with the competition. The Group is the largest energy company in the country, holding the leading position in electricity production and wholesale trading. It also holds good strategic position in the region. Yet another advantage of the Group is the fact that electricity is produced from various and complementary sources (hydro, thermal, storage power plant…), so that the Group can easier adapt to market demands. In addition, the Group plays an important role in the provision of ancillary services.

A lot of attention is paid to the factors that might endanger the Group's strategic position, primarily to the decrease in wholesale electricity prices on the one hand, and increase in the price of emission allowances and own primary energy sources on the other, or to the charges having impact on higher costs of operation and production. In view of the market conditions, intense activities are directed into the implementation of mechanisms for the support of conventional production energy, as a counterweight to the not balanced and not market oriented support to renewable energy sources.

Business restructuring in terms of pooling of support processes, which began in 2015, represents an additional opportunity to improve competitive advantages of the Group. The current good business position of the Group provides conditions for a timely adaptation to the situation on the market, good position and conditions for trading (high trading limits) and better negotiating position in obtaining financial resources. Of strategic importance is also liaising with retailers in order to control the market and offer new services in the area of renewable energy sources (prosumers) and efficient energy use (compulsory savings of suppliers), to avoid shrinking of ancillary services on the market (smart grids,…) and to support »direct« sales of own products (shortening the distribution chain). In addition to streamlining the costs and expenses, great attention will also be given to the income side. In order to exploit market opportunities and the flexibility of the HSE Group production facilities, 24/7 intra-day trading was introduced in 2015, only to be intensified in the future.

Risk of new technologies

The risk of new technologies like »smart grids«, arises from potentially lower income associated with the provision of ancillary services, since in case of implementation of new technologies less ancillary services would be required. The risk is managed with greater activity of the Group in the field of new technologies, as well as in active cooperation with possible providers of ancillary services after implementation of »smart grids« (larger final consumers, suppliers to final consumers, distribution companies, operator of distribution network,…).

Risk of imbalance of subsidies

The energy sector is faced with the consequences of ambiguous policy of promoting renewable energy sources (RES) in EU Member States. The policy of promoting renewable energy sources is not based on market principles, and introducing the mechanism of subsidies without assuming the obligation for reliable electricity supply to the transmission network operator (ancillary services, deviations ...) only brings disorder on the electricity market. Lack of a uniform policy for achieving the climate goals after 2020 at the EU level and disparity between the market signals and the necessary investments into production capacities have impact on the necessary investments into production facilities that are not the subject of support schemes. Such investments, however, are of vital importance for transmission network operators and provision of reliable supply, since to a great extent only such facilities provide reliable electricity supply. The majority of power plants receiving the RES support, however do not participate (are not obliged to participate) in providing ancillary services.

In 2015, the Group in cooperation with all relevant stakeholders actively strove to introduce in the national energy market as soon as possible a measure in the form of a market mechanism supporting the conventional power plants, which would temporarily represent a countermeasure to excessive incentives for renewable energy sources. Such a measure would allow our power plants operation conditions equal to similar power plants in other EU countries that have already introduced such measures.

Regulatory risk

Regulatory risks arise from changes in market rules or legislation in the Slovene and foreign electricity and CO_2 emission allowance markets and affect the business results of the company. Regulatory risks reflect in the changes in legislation (regulating environment, energy, taxes …), concession fees, taxes or employee benefits expense, or have an impact on the acceleration of economic or technological obsolescence or inadequacy or lack of competitiveness of production units, which dictates their early closure, although they have no, or not yet established provisions for closing works or ecological improvement (TET – in liquidation, Generation units 1 to 5 at TEŠ, closure of PV), or imposes restrictions on the functioning (B4 at TEŠ) and/or need for additional investments (B5 at TEŠ), thereby reducing the competitiveness of existing production units on the market.

The HSE Group manages and/or controls regulatory risks by regular and timely monitoring the development of Slovenian and foreign markets of electricity, other energy products and CO_2 emission allowances, and the accompanying regulations. The Group responds to changes by adjusting production and trading strategies, timely reporting and providing information about legislative changes to the domestic and local markets, as well as by daily monitoring of investment decisions in the energy sector in the EU, and in the economic policy, and by adapting to market measures. The risk is assessed with long-term and medium-term scenario analyses for anticipated regulatory changes, »stress tests« and strategic planning.

Based on Regulation 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR Regulation) and Regulation 1227/2011 on the integrity and transparency of the wholesale energy market (REMIT Regulation), the HSE Group started to introduce all the necessary activities for the implementation of the required changes. Since 12 February 2014, the HSE company, pursuant to the EMIR Regulation, is obliged to report on all transactions concluded with all derivatives and to use risk mitigation techniques for contracts on derivatives. For risk management purposes in accordance with the requirements of the EMIR and REMIT regulations, the HSE Group has prepared the Protocol for the implementation of the HSE Group obligations in accordance with the EMIR Regulation, which entered into force on 9 December 2014. In 2015, a working group regularly monitored the implementation of both regulations, internal training of appointed coordinators responsibility holders was organized, regular monthly and quarterly internal reporting and other activities associated with the reporting obligation are carried out – staring to acquire the status of reporting mechanism.

The HSE Group regularly monitors the changes in all other areas that are linked to the possible risks associated with regulatory changes and promptly responds to the proposals for new legislation that could affect the operation of the Group.

Thus, in 2015, the Group among other things required speedy solution to the: Decree on delimitation of 110 kV network into the distribution and transmission part (non-optimal valuation of network for charged transmission), Rules on methods for calculating energy savings (disregarding of primary energy savings) and Act on methodology for the definition of the regulatory framework and methodology for calculating network charges (disregard of special status of the PSPs in payment of network charges), SONPO (additional costs for electricity producers), the proposed Biosphere area Mura (adverse approach to siting of HPPs on the Mura River), guidelines for the preparation of the Energy Concept of Slovenia (adverse approach to utilization of coal, inappropriate supporting environment) and the Regulation on limit values for emissions into the air from large combustion plants.

Investment risk

Investment risk is understood as the risk of not achieving the planned return on invested assets due to untimely, uneconomic or technically inadequate execution of investment projects. The risk is reflected in higher costs of investment projects, loss of revenue, cost of penalties and sanctions, incompetitiveness, loss of market share, etc. It is managed with preliminary assessment of project risks, sensitivity analysis, monitoring of investment projects in progress and by providing independent and unbiased evaluation of investments, efficient supervision and protection against adverse impacts on the return (e.g. project financing and similar). The implementation of investments and other development projects is monitored at the development consultative meetings, by the Committee for active supervision and by the Risk Managament Comittee.

Given the tightened operation conditions of the Group, which strongly influence its investment policy, all planned investment projects were revaluated, since current electricity prices do not allow the construction of energy facilities, except those, which are subject to support schemes. Investment projects were actively coordinated in the preparation of all necessary strategic documents of individual companies, with agreements made at the development consultative meetings of the Group, at internal meetings of the relevant area, as well as with guidelines / restrictions / instructions in the preparation of strategic documents of companies for the next period.

In February 2015, the Rules on evaluation and monitoring of investment projects were adopted at the HSE Group level. In accordance with the Rules, the HSE Management appointed an Expert Committee for monitoring of investment projects at the HSE Group level in March 2015. When preparing development and business plans, the companies of the HSE Group have to agree on investment projects with the HSE controlling company and act in accord with the guidelines of the Expert Committee. An investment project is included in the business plan of the company only if it was preliminary considered and approved by the Expert Committee (approved INP – project implementation plan). The company as investor may start with the execution /continuation of the investment project only after it has been included in the business plan of the company, which is, in accordance with the Act of Establishment or the Articles of Association also approved by the supervisory board or founder.

All companies are actively putting all efforts into active divesting of all non-operating assets and exclusion of all unnecessary activities not associated with the core activity or in compliance with the strategy of the HSE Group.

Failure to classify the HSE Group development projects on the list of national priorities

The key strategic energy documents at the national level have not yet been updated. The Energy Concept of Slovenia (EKS), the fundamental development document representing the national energy programme is expected only in 2017. The National Energy Development Plan (DREN), which will constitute the master plan for investments in energy infrastructure to achieve the energy goals, is likewise expected in the period to 2020. Within the framework of preparing the EKS and DREN, of crucial importance for the HSE Group will primarily be to ensure the inclusion of all planned investment projects of the HSE Group into the National Energy Development Plan, because in this way the investments of the HSE Group will be recognised as investments in the general economic interest of the country.

At the General Meeting of 18 November 2015, the Slovenian Sovereign Holding (SDH) adopted two resolutions with which it adopted the Development Plan of the Company and the Group for the period 2016-2020, which also includes financial, business, HR and organisational restructuring, and the Action Plan (AP) of the Company and of the HSE Group for optimisation and rationalisation of the Group operations. The adopted Development Plan constitutes a legitimate basis to the Group that HSE with its proactive approach achieves the inclusion of the policies adopted in the Development Plan in the strategic documents of the Republic of Slovenia in the energy sector (EKS, DREN, AP-RES, AP-EEU,…).

The HSE Group actively cooperates with the departmental ministries, representatives of the owner and other stakeholders in the electricity and energy area (relevant ministries, system operators, the Energy Agency, etc.). The goals of the HSE Group development projects are coordinated with the sector goals of the Republic of Slovenia in the area energy and climate policy. For this purpose, we proactively monitor the sector policy and cooperate with the line ministries.

Operational risks

Information system risks

The information system of the Group is roughly divided into two pillars:

1. Control centres – substantive domain of the production sector, IT maintains infrastructure – server equipment and communication equipment.
2. Business informatics.

In business informatics, the following are the most frequent risks:

Risk of availability

This category includes failure of business information systems moduls (ERP, ENDUR, Information systems to support maintenance, production, document management systems ...), due to power supply interruption, intrusion of viruses, operation of the Internet.

Instruments for managing the availability risk: to ensure reliability, the infrastructure of business information systems is distributed in multiple locations, which prevents the possibility of downtime. Software for the detection and elimination of viruses and other malicious software is regularly updated.

Integrity risk

Non-integrity and/or unreliability of data due to disc array failure. Instruments for integrity risk management: in 2015 disc arrays were partly renovated at two locations (Velenje and Maribor), which reduced the possibility of loss of data and improved security and availability of data.

Project risk

Roll-out implementation in the companies of the HSE Group requires adjustment of the SAP ERP system and the risk is that system settings are not optimal or that the processes are going to be too adapted to the SAP ERP solution.

Instruments of project risks management: Given the importance of implementation of a unified business information system to companies DEM, SENG and TEŠ, which started in 2015, a project team of all these companies, including HSE, was set up, that made an inventory of business processes in each of the said companies, carried out a benchmarking of processes and prepared a proposal for unification of business processes. The activities carried out in this part of the project ensure quality implementation rollout and reduce the project risk in terms of time and quality.

The contractor selected by a public tender carried out the implementation of SAP ERP and the project start-up in 2015; a detailed time schedule for the stages of the project was prepared according to the SAP ASAP methodology; potential risks were defined and measures envisaged for the elimination of risks on the project.

TK Risk (communication equipment and telephony)

Failure of communications infrastructure. Instruments for telecommunications risk management: The Group uses highly reliable infrastructure (cluster of switches, routers, firewalls), the routing of communications links is duplicated. Two providers of connection to internet are used in two locations (Velenje, Maribor). Renovation of this area is planned for 2016, in order to insure even greater security of operation.

Risk of infrastructure

Failure of server infrastructure. Instruments for infrastructure risks management: in 2015 the environment of server infrastructure was renovated for the needs of ORACLE environment and implementation of virtualized servers, which allow flexible operation and faster restoration after possible failures.

The infrastructure of business information systems is distributed in multiple locations, which prevents the possibility of downtime. Software for the detection and elimination of viruses and other malicious software is regularly updated.

Information system security risks

Joint management of IT services (HSE, TEŠ and PV), insufficiently qualified professional staff, insufficient supervision over the information system of the HSE company and of the HSE Group, insufficient supervision over external contractors, non-compliance with ISO 27001 regulations.

Instruments for information system security risks management: The redesign of the Support Center has started. A draft of a new catalogue of services was prepared, proposed changes in administration, training for administrators, who were delegated the responsibilities of administration. From the risk management point of view, the catalogue of serviced urgently needed renovation, since IT assets owned by the HSE company are used for joint services together with companies TEŠ and PV. The catalogue contains descriptions of all joint services and administrations, and substitution with stated tasks and responsibilities. In order to reduce risks and control the quality of services, the catalogue of joint IT services needs to be regularly updated also in the future.

In accordance with the security policy, internal audit recommendations, ISO 9001 and ISO 27001, and recommendations of the 2014 audit, all identified risks were defined, all necessary management measures were carried out, and additional measures were defined which would further reduce the risks in the future. Audit recommendations have been entirely realised by upgrading software tools like SCCM and Dell Intrust Change Auditor, used to control the IT processes (interventions in information system, monitoring the work of administrators, the area of user control …), all in compliance with the provisions of ISO 27001 and the Rules for the information security management system (SUVI). All ISO documentation was updated, and training (by e-learning) of administrators was carried out and will continue in the future. In order to further reduce the risks, reporting on compliance of user accounts was introduced, together with the balance if external users of the Group companies. The settings were reviewed for all active users, and adequate corrections made. A software solution of the Share Point Portal was also introduced. Additional activities for further mitigation or risks are regularly planned, and regular reports are sent to the Internal Audit Department and the Subcommittee on credit risk management.

Risks resulting from heterogeneous IT environment in the HSE Group

Heterogeneity of information systems in the Group is found in all areas; physical assets (servers, disc arrays, personal computer equipment, mobile devices, video supervision,…), virtual environment, system software, application software, TC network and telephony,…

Instruments for the management of risks related to heterogeneity of the IT environment in the Group: All IT projects started in 2015 are directed into unification of the IT environment. Such project is the implementation of SAP ERP into the Group, along with unification of business processes. The consequence of this project is also the unification of the document management system in the Group. In the area of infrastructure, a careful inspection of the entire IT environment of the Group started with the aim to further define, on the basis of the existing environment analysis, the unified development strategy for the IT environment in the Group.

The risks in information system technology are estimated with a low probability of occurrence and medium-sized consequences. In 2015, they were properly managed.

HR risks

Effective management of the human resources function is one of the key areas to ensure a stable and long-term business operation that contributes to the implementation of activities for achieving the sector-specific, business and strategic objectives of the Company and the HSE Group. Human resources risks in the Company and the HSE Group include the following risks:

- lack of professionally qualified staff,
- lack of an incentive wage system and, in particular, the inefficient model of job performance management and lack of promotion opportunity in career and personal development,
- inappropriate model of HR development, in particular the inadequate management of talents, lack of transfer of information, knowledge and experience among employees,
- inadequate organisational structures and streamlining the number of employees in business processes,
- with the consequence of lower loyalty, motivation and productivity of employees,
- increased absenteeism for reasons related to the health of employees,
- loss of intellectual capital, especially due to increased fluctuation of key staff and personnel with the highest potential leaving the organisation.

Working conditions for staff development are created at full speed and new methods and means for development and motivation of employees are introduced. Key personnel is still primarily selected from within the HSE Group. The HSE company has upgraded its wage system by setting up a model of job performance management and promotion system on the basis of predetermined criteria and criteria used to measure the efficiency and quality of work performed. Rules on education and training were adopted, introducing career profiles, the portal of knowledge and structured annual interviews. The implementation of the new wage system, the model of job performance management and the remuneration system are carefully monitored. Education and development of employees are carefully planned, conditions for teamwork are created, transfer of knowledge between employees is actively promoted and endeavours are made to cope with stress and burnout of employees through different activities. The Company is adhering to the rules of safety and health at work. We are aware that motivation and productivity grow with organizational climate.

Total management of HR risks at the level of the HSE Group is only possible along with total and uniform strategy in the field of human resources management; therefore, basic activities of HR management are directed into the adoption and implementation of such strategy at the level of the HSE Group, which is our main goal in 2016.

In 2015, HR risks were properly identified and managed with the activities presented above.

Risks of frauds and compliance

The risk of fraud and compliance results from non-compliance with the legislation, internal regulations and other applicable regulations of the Company in all business processes, and can through loss of revenue, higher costs, fines and penalties affect the achievement of the planned cash flow.

With the aim of limiting the risk, Code of Ethics was adopted at the Company level in 2015; it provides guidance on ethically acceptable conduct and behaviour in the HSE Group. The Code is binding on the authorities and employees of the HSE Group and on all other persons cooperating with the HSE Group. In 2015, the HSE Group prepared draft Rules on whistleblowing for detection of frauds, which is now aligned in the sense of content and is in the process of approval.

Risks in communications

Negative media reporting

The risk is managed through proactive and reactive communication with media and other stakeholders on relevant projects and events of the HSE Group.

Negativ climate between employees and the HSE Group

The risk is managed through proactive and reactive communication with internal public, and partly also with the introduction of an intranet portal of the HSE Group, which publishes information on current events and plans of the Group.

Incoherent sponsorship and donation policy

The risk was managed with the establishment of the Centre for Corporate Social Responsibility of the HSE Group, which receives deposits from all the HSE Group companies and cares for uniform, reasonably dispersed sponsorship and donation policy.

Security risks

Information security

The Company and the HSE Group follow the requirements of ISO 27001. All risks are stated in the register of risks for each individual year.

In the field of personal data protection catalogues have been prepared in all the HSE Group companies according to the law for reporting to the Information Commissioner of the Republic of Slovenia.

Health and safety at work

The Company and the HSE Group regularly carry out risk assessments and control workplace ergonomics, provide support to employees with preventive measures which eliminate the causes of illness in the workplace (recreation and active rest), and offer periodic health checks. The main objective is to reduce the possibility injuries and illness of employees to the minimum or equal to zero.

Security risks and disasters

Due to the difficult conditions of work in the PV (trench collapses, exhaust, gas, fire, explosion of methane and coal dust, coalface explosions) the situation for the safety of employees was demanding. The safety of workers in the pit was managed and controlled with measures for health and safety at work, supported with the safety and technical information system that allows continuous monitoring and control of certain technical and safety parameters, provides information about the operation of certain machinery and equipment, and enables monitoring of a network of seismic sensors at a distance.

All risks in the field of security risks have been successfully controlled.

2.15 External communication

In terms of communication, the HSE Group Company began the year with reporting on the signing of the social agreement for 2015, which was concluded between the PV Management Board and social partners with a view to successful financial and operational restructuring of the PV group companies. The issues of restructuring, rationalization and optimization remained the main topic in communications of the Group throughout the year.

The middle of the year was marked by successfully completed technical inspection of the replacement Unit 6 at TEŠ and related facilities, due to which TEŠ received the decision of the relevant administrative authority, ordering a one-year trial operation of the newly constructed block. In summer, the public was informed of the talks between TEŠ and the public utility company on ensuring reliable supply of thermal energy to industrial and household consumers in the Šalek valley.

Throughout the year, the Group communicated to all stakeholders the next steps of the project concerning the exploitation of the Mura River, and supported with communication also other DEM and SENG projects. For the needs of public relations, the corporate brochure of the HSE Group was updated, while the HSE Invest company prepared a presentation brochure for its business partners.

Before the end of the year, a press conference of the HSE was organized, at which the HSE Supervisory Board and the SDH presented the adopted development plan of the Company and the HSE Group, which contains fundamental medium-term and development policies of the Group for the nest five-year period.

To inform the internal and external public about developments in the HSE Group companies, four issues of the journal Energy were published, and intranet of the HSE Group was prepared and launched, where current and relevant news from the HSE Group companies are regularly published. With the view to introducing additional activities in the field of internal communication a research of organisational climate and employee satisfaction was carried out. In cooperation with social partners, the Code of Ethics of the HSE Group was prepared and signed.

To raise the awareness about the importance of environment protection among the little ones, a creative contest for kindergartens »World Day of the Sun« and the competition »Autumn Drawing« were organized. For efficient communication with children, their parents and teachers website www.modri-jan.si and FB site Modri Jan were upgraded; on both, interesting and informative news and creative-contest are publish daily.

At the beginning of the school year 2014/2015, we prepared for kindergartens and elementary schools of the Pomurje region, in cooperation with the DEM and the Pomurje Development Institutes in Murska Sobota, the prize eco Pomurje project, whose main objective was to raise awareness of young people about the importance of renewable energy, focusing on energy derived from the water source. The project ended at the World Water Day on 22 March 2015.

Along with the above mentioned projects, we also issued four volumes of the "Modri Jan", a free environmental magazine for children, which is day by day gaining new subscribers, while commendable and encouraging letters are dropped into the "mailbox".

In efforts regarding the young people's attitude towards the environment the website www.modrageneracija.si and FB site Modra Generacija ("Blue Generation", where in Slovenian, "blue" also means "smart") were upgraded. They bring world news that are of interest and attract young people. Their knowledge of environmental issues are rewarded through prize games, which has proved to be an appropriate tool to communicate to the target group.

2.16 Research and development

Development plan of the company and of the HSE Group for the period 2016-2020

The key goal for the HSE Group in 2015 was the adoption of the Development Plan of the company and the HSE Group for the period from 2016 to 2020, which includes financial, business, personnel and organizational restructuring and the adoption of the Action Plan of the company and the HSE Group to optimize and streamline operations of the HSE Group, with specified activities, responsible persons, deadlines and the estimated financial effects. The five-year development plan is, thus above all a plan of adjustment and response of the HSE Group to the harsh conditions, both in the markets of electricity and natural gas and in the financial markets, in the sense of restructuring, deleveraging and optimizing business operations.

In addition to the already initiated rationalization and optimization of business operations, greater attention will be paid to finding additional synergies within the Group and to the consolidating business processes at the level of the HSE Group. Restructuring will be implemented in all the key areas (financial, business, human resource and organizational) and will, thus, bring about financial consolidation, business efficiency, optimal staffing and organizational flexibility. Better business efficiency will be realized in line with constant care for efficient management of all types of risks, maximum utilization of internal resources and the development of new and marketable products. With all that, the group HSE will act responsibly and ensure social security for employees in accordance with the business results achieved.

Unification of planning and valuation of investments in the HSE Group

A priority in 2015 was also the implementation of unified planning and valuation of investments in accordance with the adopted policies of the Company and of the HSE Group, and finalization of the process unification of internal procedures and adoption of common rules in the field of investment management in the HSE Group. Coordination of investments and other development projects of the HSE Group takes place within the Development college of the HSE Group and of the Expert Commission for valuation and monitoring of investments at the level of the HSE Group, which was set up in February 2015 on the basis of the adopted Rules on evaluation and monitoring of investment projects in the HSE Group. In accordance with the resolution of the HSE Supervisory Board, individual investments of the HSE Group companies are carried out only upon prior favourable opinion of the Expert Commission and consent given by the HSE Management who informs the HSE SB of all issued consents. Only urgent investment projects are carried out, which are essential for ensuring the safety of operation. Activities for the obtaining of the project, environmental and other relevant documentation have continued not to halt the lengthy procedures for the siting of HPPs on the rivers Sava, Drava, Soča, Mura and other watercourses.

Technology and innovations

In accordance with the adopted measures of rationalization and optimization of operations of the HSE Group, even greater emphasis has been given on the exploitation of internal resources of knowledge and the transfer of experience inside of the HSE Group. Cooperation with national and foreign centres of knowledge in the form of procurement of studies, surveys, reviews and other services is based on strategic guidelines of the HSE Group. One of the form of cooperation in the field of applied research between companies and knowledge centres are technology platforms and centres of excellence. HSE is included in the operation of the Centre of Excellence for Low-Carbon Technologies (CO NOT, Ljubljana).

In accordance with its strategic guidelines, the HSE Group pursues the objective of investing in distributed production technologies that require minimum operational support and are already during the depreciation period, but certainly after 2020, able to supply electricity under market conditions. Within its regular operation, the Group monitors the functioning and business operations of the first implemented investment in the cogeneration of heat and electricity project (CHP) in the Soenergetika company. Based on the acquired experience, activities in this field will continue in the future planning period. The HSE Group is actively involved in the implementation of e-mobility in Slovenia, because as the largest producer and retailer of electricity HSE wants to participate in the development and subsequent supply of charging stations.

One of the form of achieving savings in accordance with the Decree on energy savings at final customers is also the provision of comprehensive energy services and energy contracting (ESEP). This is the introduction of a new activity in the HSE Group, by which HSE could capitalize on knowledge and experience in the energy sector and implement it on the market. In 2015, a draft business plan ESEP HSE was prepared, combining the required EEU measures and energy audits.

In accordance with its strategic policies, the HSE Group applies the studies as supporting documents for the rationalization and optimization of operations of the HSE Group. The results of studies are looked upon as investments in understanding and following the latest energy and environmental technologies, achievement of objectives of the energy and environmental policies, and changes in the business environment. All the envisaged requirements for studies within the HSE Group are coordinated and optimized in terms of subject and costs at the level of the HSE Group.

Energy policy and regulatory environment

The HSE Group monitors the preparation of all relevant regulatory and other strategic documents at both national and EU level in order to ensure the highest possible level of consideration of the HSE Group interests in the context of new legislative and strategic documents. This activity is one of the most important measures applied in the risk management related to compliance with legislative obligations and implementation of the strategic guidelines of the HSE Group with the objectives of the national and EU energy and environmental policy. Through active involvement in the activities of the Eurelectric association, the HSE Group and its views are also present at the European level.

Slovenia

In June 2015, draft guidelines were discussed for the preparation of Energy Concept of Slovenia (EKS). This is one of most crucial key documents for the HSE Group, since it will outline the directions of the national energy policy for the next 40 years. The state intends to shift great responsibility for the achievement of the proposed goals on companies, leaving the role of the state not sufficiently defined. This applies to the creating of a supportive environment on the one hand and to the issues of financing on the other hand. Both these areas are namely not sufficiently clearly defined, although they are of key importance. In addition, the document completely inappropriately defines the utilization of coal, and even the utilization of hydro energy remains vague. The HSE Group expects that the Energy Concept of Slovenia will, taking into account realistic assumptions and all available technologies/resources, provide appropriate measures and instruments to respond to energy challenges of the future 20–40 years. Setting a very clear strategy, it will in particular have to offer a foreseeable, realistic and reliable framework for the operation of energy companies. Along with it, it is of key importance that the EKS provides appropriate supportive environment, since the achievement of the set goals will require a rather extensive investment challenge for the participants in the energy market. In 2016, additional coordination with the key players will continue and the first draft EKS is expected to be prepared in mid-year 2017.

Equally crucial for the operation of the HSE Group is the Decree on emission limit values discharged into the air from large combustion plants, which in December 2015 with great delay transposed the key provisions of the Industrial Emissions Directive, regulating, in particular possible derogation from emission limit values of SO_2, NOx and CO for a limited duration, on the basis of which Unit 4 at TEŠ will be allowed to continue in operation. Possible derogation means that the existing equipment may use limit values as set out in the environmental permit, if the device will cease operation not later than by 31 December 2023, and will in the period between 1 January 2016 and 31 December 2023 not operate more than 17,500 operating hours in total.

In addition, the following new legislative and strategic documents that affect the operation of the HSE Group were discussed at the national level in 2015:

- Programme of management of Natura 2000 sites for the period 2015-2020,
- Act on the methodology for calculating network charges for electricity operators,
- Rules on the methods for calculating energy savings,
- Decree amending the Decree on designation criteria and mode of monitoring and reporting of ecologically acceptable flow, SONPO (System operation guidelines for electricity transmission system),
- Proposal of Mura Biosphere areas for inclusion in the list of biosphere areas in the UNESCO program Man and Biosphere,
- Water management plan for the Danube basin and the Adriatic Sea for the period 2015-2021 (NUV II).

EU and the global framework

Pursuant to the EMIR Regulation, the HSE company is obliged to report on all transactions concluded with all derivatives and to use risk mitigation techniques for contracts on derivatives. For risk management purposes in accordance with the requirements of the EMIR Regulation, the HSE Group adopted the Protocol for the implementation of the HSE Group obligations. In 2015, the Working

Group regularly monitored the implementation of its provisions.

The HSE Group is also liable for implementing the obligations of REMIT Regulation, which imposes an obligation of registration of participants in the national registers of market participants, and the obligation to report all transactions in the wholesale market to ACER.

In 2015 we witnessed at the European level the first major structural change in the EU Emissions Trading Scheme (EU ETS) with a view to reducing the consequences of the excess allowances on the market, which provides for the establishment of a so-called reserve for market stability, which will start operating on 1 January 2019. It is a mechanism by which the quantities to be auctioned adjust "automatically" in accordance with predetermined conditions. An important document on EU level, which will be the basis for a number of new legislative initiatives towards the end of 2016, is also a Framework Strategy for Energy Union from February 2015, which outlined the key dimensions of the further development of a single energy market. At the global level, however, the most important event in 2015 was the adoption of the climate deal in Paris. The countries agreed on the long-term goal to limit the rise of average world temperatures below two degrees Celsius compared with pre-industrial levels, while efforts will go in the direction of the limits of temperature rise up to 1.5 degrees. Net zero GHG emissions shall be achieved in the second half of the century. The new global climate agreement will come in effect in 2020, when the Kyoto Protocol expires, but it must be ratified by 55 countries, which together are responsible for 55% of GHG emissions.

Other relevant new European legislative and strategic documents from 2015, affecting the operation of the HSE Group are mainly the following: Network Code on requirements for connecting producers to the grid, Proposal for a new design of the electricity market in the EU, and the Network Code for forward capacity allocation.

2.17 Plans for the future

The challenging situation, in which the HSE Group has found itself, is the result of harsh conditions in the electricity market and the intensive investment cycle of the Group, in which the majority of financial challenges represents the investment in the replacement Unit 6 at TEŠ, which was from May 2015 until June 2016 in the trial stage of operation. To maintain liquidity in the coming period, it will therefore be of vital importance to cover current financial liabilities on time while, of course, creating profit from electricity trading, and to optimize own production. Given a simulation of future operations of the HSE Group, provision of liquidity in the coming period will require further implementation of certain measures, which will ensure smooth operation of the HSE Group.

To this end, the HSE Group will have to:

- focus on restructuring and deleveraging in order to increase added values through the entire chain, which comprises:
  - electricity trading,
  - sustainable electricity production and extraction of primary resources,
  - planning overhauls, maintenance and construction of environmentally acceptable energy facilities and
  - development of comprehensive energy services for the needs of the energy market;
- plan only the most urgent investments in the amount of free cash flow with appropriate return on equity; when planning investments, the established Rules on evaluation and monitoring of investment projects will have to be observed, which define the necessary documentation in planning and implementing investments of the HSE Group; when preparing development and annual business plans, in relation to investments each company will unconditionally coordinate its plans with the HSE as controlling company, and act in compliance with the guidelines of the Expert Commission for monitoring investments at the level of the HSE Group;
- strengthen the corporate functioning of the HSE Group with ownership and modern

corporate management to improve competitiveness;

- with continuing training and transfer of knowledge between employees encourage and create capable, innovative, satisfied and motivated employees;
- strengthen the responsible attitude of all employees to corporate management and its implementation;
- continue with siting new production capacities in an environmentally friendly, socially acceptable and sustainable and competitive manner, while keeping in mind of all employees that the HSE Group is a pillar of reference corporate social responsibility in Slovenia;
- strengthen stable, long-term business relationships and create new strategic partnerships in the region;
- research potential investments into technologies of distributed production, in accord with the national policy of subsidizing electricity produced from RES and CHP, able to offer electricity at market prices;
- devote more attention to possible use of environmentally acceptable alternative fuels in both existing facilities and new investment projects focusing at the same time on co-utilization of electricity and heat and the sustainable use of biomass;
- develop commercially interesting products in the field of efficient energy use due to the fulfilment of the requirements for the reduction of primary energy consumption by 2020, both in terms of primary energy as well as energy end-use;
- optimize the volume of employees: no new employment are foreseen until the end of 2016, except from inside of the HSE Group; exceptions are approved by the Management of the company; such calls for employees are published on the website of HSE;
- divest all non-operating assets and activities;
- implement realistic and concrete measures to ensure long-term and short-term solvency and compliance with the provisions of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP); no new borrowings with the exception of borrowing resulting from the adopted investment documentation, or for projects previously agreed and coordinated within the HSE Group;
- perform optimization of business processes, reorganization and new job classification and renovation and simplification of wage systems, taking into account the specifics of individual subsidiaries; continued coordination with social partners of the agreement on the reduction in employee benefits expense. The condition for reducing employee benefits expense is constructive dialogue with social partners, which will on the basis of the mutual agreement and the signing of the social agreement allow for the renovation of the industry and the corporate collective agreement.

The main unknowns that will have impact on the operation of the HSE Group, and can be defined as an increase in "regulatory risk" are in addition:

- not yet adopted national energy policy;
- mode of implementation of the umbrella sectoral Energy Act (EZ-1) and the absence of any new implementing regulations, which the law provides;
- vague policy of subsidizing RES projects, CHP projects and EEU projects under the Energy Act (EZ-1) due to the absence of the necessary implementing regulations, and the lack of resources for support schemes for generating plants using RES and CHP;
- challenging economic and financial situation in the Republic of Slovenia and in the EU.

In 2015, we introduced a 24-hour presence of traders at the premises of the HSE company with the aim of optimizing the production of 24-hour electricity production of HSE Group companies to adjust to the market conditions and to achieve better exploit of the electricity market situation, when trading with electricity that is not connected with own production. The objective of intra-day trading is to strengthen the role of the leading retailer in this segment in the region.

The market in SE Europe is developing, regulation of these markets is approaching developed electricity markets. With regard to changes in local legislation, we therefore may expect that in 2016 conditions will be fulfilled for entering local wholesale markets of Serbia and Croatia with controlling company, and we will take this opportunity. In 2016 more regional exchanges will begin to operate in the region of Southeast Europe, namely in Serbia, Croatia and Bulgaria, where we will begin trading. Trading will expand also to the Turkish border and re-establish some trading through Greece.

3 Social Responsibility Report

3.1 Sustainable development of the HSE Group

In spite of the fact that Slovenia has not updated any development documents concerning sustainable development yet, the HSE Group performs activities in line with the policy of the most efficient European energy companies. The commitment to sustainable development has been a conscious decision of the HSE Group since its establishment. The operation of the Groups has been based on the responsibility towards other people and towards the natural and economic environment. The attitude to the balanced development is one of the essential components of the corporate culture and the mission of the HSE Group. We proactively take opportunities for the development of environmentally friendly methods of electricity production, decrease emissions, take care of waste management, efficiently use natural resources and develop new, original environmental solutions. Sustainable development has a positive impact on the nature, people and the operation and has become increasingly important also from the aspect of growth, costs, margins and the trademark value.

The companies within the HSE Group have displayed a responsible attitude towards all the stakeholders of the company, employees, business partners, shareholders and the general public. As the quality of life is of vital importance to us, the HSE Group invests a lot of resources, in addition to donations and sponsorships, in training and professional development of its employees and the wider social community.

Carefully planned investments are made in the development of environmentally friendly electricity production (RES, EEU). and we take care of the well-being of the future generations by the systemic policy of environmental protection. The policy of environmental management has been properly implemented and applicable legal and technical regulations and standards in the field of environmental protection, fire protection and health protection have been followed.

The risks associated with the non-fulfilment of requirements for sustainable energy policy have been managed by various activities performed during the preparation and implementation of investment and other development projects. The objectives of sustainable energy and environmental policy have been pursued in the construction of new production facilities and in the reconstruction of the existing ones as they are based on the efficient and environmentally friendly use of natural resources. By conducting some key investments (mainly in the construction of HPPs) we achieve the requirements of the common EU and national objectives for the climate and energy package 25/20/20 to the year 2020. In addition to the increase in the share of electricity produced from RES the construction of the replacement Unit 6 at TEŠ pursues also the objective of reducing CO_2 emissions and other hazardous substances into the air.

In 2015, the update of the strategic development documents of the company and the HSE Group was a priority task of the HSE Group. The Development plan of the HSE Group was revised in 2015. The lack of national strategic orientation and policies in the area of energy, climate changes and sustainable use and some cross-sectoral inconsistencies (energy, environmental protection) represent an obstacle in implementing the development plan of the HSE Group that are mostly evident in the field of plans of using hydropower and other RES for energy purposes.

3.2 Responsibility to employess

HR management policy

The responsibility to employees has been defined as one of the key values and strategic orientations also in the coming period. The HR management has been marked by the processes of restructuring, streamlining and optimisation of operation in all the companies of the HSE Group. Uniform standards, common strategy of the HR management and standardisation of business processes and the implementation of optimisation of employee benefits expense have been introduced in the field of HR management. The objective of a “sound” and successful organisation is the ability of quick adjustment to the external and internal changes and the achievement of the key strategic and business objectives of the company and the HSE Group. The core elements of the long-term HR management strategy are:

- focus on the professional, career and personal development of members of the organization by optimizing the utilization of their potential through targeted education and training, by setting up mechanisms for the creation and transfer of knowledge at all levels, by implementing a motivational management model of performance knowing that the members of the organization represent a key competitive advantage of the company HSE and the HSE Group,
- provision of the optimal organisational structure in line with the business strategy and business model of the company and the HSE Group,
- care for quality, healthy and safe working environment, while striving to maintain and upgrade the high standard of the full Family Friendly Company certificate,
- to establish and maintain a strong and development-oriented organisational culture of the company and the HSE Group,
- optimisation and streamlining of the number of employees and employee benefits expense with the strategic objective of increasing the added value per employee,
- introduction of the Registry of skills with career profiles of employees within the HSE Group with a view to optimum utilization of synergy effects of knowledge, experience and competencies in the HSE Group.

We have always maintained the practice of regular and constructive partnership cooperation with trade unions and workers' councils of the HSE Group. Constructive and open manner of adopting agreements with the social partners ensures a balance of diverse interests and the ability to achieve a broad consensus both in terms of the development plans of the HSE and the provision of social security and quality of jobs in the HSE Group.

3.2.1 Employees in the controlling company

In line with the optimisation of employee benefits expense the employment policy of the company and the HSE Group in 2015 was based primarily on recruiting staff from the HSE Group or the internal labour market, part of the staff were recruited from the external labour market, which ensured the inflow new talents, ideas and energies, different views and experience. We make every effort to present the personal and career progress to the employees, grant awards for their performance and career perspective that should be necessarily based on the quality, knowledge and experience. The formation of managing executives and experts is based primarily on the policy of educating our own staff. With the adopted HR management strategy, we have set the goal of establishing a quality and knowledge-based succession-planning model.

In the period from January to December 2015, the HSE company newly employed seventeen persons, while nine employees left the Company in the same period.

Voluntary pension insurance

HSE has had its own programme of voluntary supplementary pension insurance since its establishment. In 2015, the collective voluntary pension insurance of the HSE Group was taken out with Modra zavarovalnica d.d. and included all the employees.

Employees and social responsibility

We, the employees of HSE are not responsible only to ourselves, our employer and the co-workers, but also to the wider social community and therefore we are active members of numerous economic, professional and sports associations. With the aim to promote health and good psycho-physical well-being of the members the HSE Group financially supports sports and recreational activities of its employees in the HSE Sports Club that offers different activities and enables participation in running and cycling events under the auspices of the HSE company.

Education and training

In 2015, the employees attended various professional training courses and education and actively participated in conferences, consultations, symposia and forums in Slovenia and abroad, mainly from the field of marketing electricity, RES, production, accounting, IT, audit, HRM and labour law.

We have worked to introduce training abroad as a part of regular practice of the employees, since we believe that such training courses enable gaining of new and advanced knowledge as well as getting familiar with other or approaches to training, establishing new (international) contacts and improving foreign language skills.

In comparison with the year 2014 the total number of training hours reduced, which resulted in a lower average of training hours per employee; the training was shorter by 3 hours over the previous year. In 2015, the cost of total training hours amounted to EUR 2,956, and the employees received 21 training hours on average.

The share of employees involved in education remains at a high level, employees are willing to invest intensively in their education and training and strive to realize their potential.

Part-time study

In 2015, two employees attended an undergraduate study programme and eight employees were involved in postgraduate study programmes. One employee of the undergraduate programme completed the studies.

3.2.2 Employees in the HSE Group

At the end of 2015, the HSE Group had 3,390 employees, which is a decrease of 281 persons compared to the number as at 31 December 2014. The number of employees decreased most in the PV Group, as 108 persons left the company, and in TET – in liquidation, where 106 employees left, TEŠ followed with 54 persons, DEM and SENG with 10 persons each and HSE Invest with 1 person.

Number of the HSE Group employees

COMPANY	31 Dec 2015	%	31 Dec 2014	%	IND 15/14
HSE	142	4	134	4	106
DEM	266	8	276	8	96
SENG	122	4	132	4	92
TEŠ	385	11	439	12	88
TET - in liquidation	46	1	152	4	30
PV Group	2,357	70	2,465	67	96
HSE Invest	69	2	70	2	99
HSE BE	1	0	1	0	100
HSE Adria	1	0	1	0	100
HSE BH	1	0	1	0	100
Total	**3,390**	**100**	**3,671**	**100**	**92**

Number of employees as at 31 December 2015 and average number of employees in 2015 by education

EDUCATION LEVEL	NUMBER OF EMPLOYEES AS AT 31 DECEMBER 2015		AVERAGE NUMBER OF EMPLOYESS IN 2015	
	Controlling company	HSE Group	Controlling company	HSE Group
1	0	168	0	173
2	0	107	0	122
3	0	69	0	74
4	1	1,194	1	1,239
5	12	906	11	952
6/1	14	361	15	372
6/2	29	213	28	215
7	64	296	61	302
8/1	18	61	17	64
8/2	4	15	5	15
Total	**142**	**3,390**	**137**	**3,525**

3.3 Responsibility to the natural environment

The HSE Group designed its environmental policy at the very beginning of its operation. Its basic components can be summarised as follows:

- electricity production with a minimum environmental impact,
- respect of all legal norms and recommendations,
- introduction of the best technologies available in order to minimize the impact on the environment,
- promotion of the RES development,

- achievement of partnerships with local communities and joint resolving of environmental issues and planning for sustainable development of electricity production,
- achievement of sustainable operation and development of energy capacities.

All electricity-producing companies of the HSE Group and the controlling company have the ISO 9001 international quality certificate and the ISO 14001 international environmental certificate. By consistent following of these standards, the companies ensure safe and environment-friendly production of electricity in all hydropower plants. Thanks to the environmental rehabilitation and modernisations, and the state-of-the-art replacement Unit 6 at TEŠ, also TEŠ achieved a more environment-friendly technology level, while PV was among the first coalmines in the world to demonstrate comprehensive and responsible environmental management in compliance with the requirements of the respective standard.

PV performed the following activities:

- Preparation for coal extraction

The activities relating to the purchase of real estate (land and facilities), procedures of preparing the area and/or cleaning of surfaces – felling of trees and removal of humus - were performed before the beginning of coal extraction in the areas where movements of surfaces were forecast (the areas of Gaberk and Goric).

- Rehabilitation during the extraction

The majority of activities during coal extraction are related to the rehabilitation of the sunken areas between the Velenje Lake and the Družmirje Lake that is located above the area of the Pesje cave and the north-western part of the Preloge cave. The production activities and sinking of the surface are very intensive in this area. The procedures of the area protection, maintenance of watercourses and roads, rehabilitation and maintenance of utility pipelines and devices were carried out in the land sliding area. The sections that will be under no direct impact of the extraction for some years have been temporarily recultivated. Appraisal of land was conducted in this area and farmers received compensation or were offered substitute plots of land due to loss of crops in this area.

- Rehabilitation and recultivation after the extraction

Maintenance of forests and plantations, final rehabilitation of degraded areas and repair of the damaged facilities have been carried out in the areas that are permanently beyond the impact of coal-mining in order to enable the reuse of the area for new activities.

The responsibility to the natural environment at TEŠ has been principally carried out by current controls, monitoring, measures and improvements. For this purpose the production of by-products, emissions, and quality of the external air, the consumption of raw materials and additional water, quantities and quality of waste waters, preparation of closed circuit balancing and waste occurred at TEŠ are monitored. The production of stabilisate was analysed in scope of efficient use of combustion waste in the previous year. As the emission of SO_2 was extremely low during the start-up tests, special attention was paid to the emission of NO_x. A reduction in all half-hour values of $NO_x < 150$ mg/m3 and also the extremely low ammonium slip of < 0.1 mg/m3 were reached in April.

The operation of HPPs with adequate technological solutions does not burden the environment, but the construction can have an impact on the appearance of the landscape, changes in the water regime of the river and thus on the river biotope. Some impacts cannot be completely prevented, and therefore the care for the elimination of their consequences is even more important. Responsible environmental management thus starts when planning technological solutions by preventing any possible unfavourable impacts and by constant monitoring of possible consequences of hydropower plant operation on the environment. With the aim to systematically monitor the impact of the electricity use of the hydro potential and to mitigate its consequences the HSE Group performs activities of environmental protection in line with the requirements of the ISO 14001 standard. In accordance with the requirements of the standard the HSE Group regularly recognises the environmental aspects, takes measures and introduces programmes for the reduction in negative impacts on the environment. The HSE Group, and in particular DEM and SENG pay their special attention to the environment by:

- the implementation of the formulated environmental policy,
- consistent following of the ecologically acceptable flow,
- regular monitoring of the environmental parameters,
- regular maintenance of reservoirs (removal of deposits),
- environmentally-friendly regulation of the water infrastructure, and
- a rescue and protection plan in case of high water levels (care for minimising the impact of electricity production on the environment and protection of inhabitants living along rivers against floods).

RES

The HSE Group has undertaken to produce electricity from renewable energy sources with a minimal impact on the environment and to promote rational use of energy, as it is aware of its responsibility to the environment in which it operates.

The RES field has rapidly developed in Slovenia in line with the model of other European countries. A large part of the Energy Act (EZ) is dedicated to electricity from renewable energy sources (RES) and within that scope to guarantees of origin (GO). The awareness about the importance of electricity produced from renewable energy sources has increased among the consumers and electricity suppliers in Slovenia. European Directive 2009/28/ES prescribes national general objectives for the share of RES in the end consumption for each EU country for the year 2020 to all the EU countries. For Slovenia, this share amounts to 25%.

The energy from hydropower plants is quantitatively the most important source of E-RES in Slovenia, and the HSE Group is the largest producer of hydropower in the country. The area of renewable energy sources is therefore very important for the operation as well as for the future external image of the HSE Group.

Blue energy

The project is aimed at encouraging the purchase of energy from renewable sources, establishing the market in such energy and selling this energy in Slovenia. By implementing the Blue Energy project we have made it possible for customers all over Slovenia to choose by themselves from which sources the electricity they use will be produced.

All hydropower plants of the HSE Group holding the international RECS certificate participate in the Blue Energy project. In Slovenia, HSE and distribution companies sell the energy produced from renewable sources under the Blue Energy brand. HSE is the owner of the brand.

Modri Jan

Behavioural patterns acquired in the early years remain a part of us even when we grow up. Therefore, the importance of responsible behaviour towards the environment has to be taught to children. For this purpose, we have designed the project Modri Jan (a play on words; translated literally, Modri Jan means Blue Ian, when read together as a single word it could be translated as a Wise man), which through its website www.modri-jan.si and targeted projects and activities informs the young ones about the importance of energy and the environment in an entertaining and educative way.

Blue generation

Blue Generation project is an upgrade of Modri Jan, intended for teenagers at the threshold of adulthood and independence. The aim of the project is to create a movement of young people of different interests and subcultures who are aware of the future and would themselves like to contribute to positive changes. The website www.modra-generacija.si is interactive so each member can add their own contribution regarding ecology, environmental protection, renewable resources and energy, and comment on them. The structure of content is tailored to the age group and the topics that interest them, and promotes positive attitude of teenagers to the environment.

Efficient energy use

Since its establishment, HSE has been promoting the use of RES and the protection of environment in which it operates. These activities are in part also the efforts to educate the public on the rational use of energy, the purpose of which is not only a more rational management of the environment but also the prevention of extreme circumstances that can be caused by unreasonable consumption of electricity.

The development trend of HSE in the direction of EEU and RES, which has been realised for almost a decade through the campaign 'You are Energy – Be Efficient' and the network for business and social utility 'Synergy' is based on the EU policies and sustainable development principles. It is important that in planning its development, HSE considers its entrepreneurial, individual and social interest in a balanced way which represents the basis for the socially responsible sustainable approach.

Ecomobil

In the context of promoting the use of E-RES, the HSE Group has set the goal to become, with regard to the adopted transport policy in the Republic of Slovenia, an energy company that promotes the use of renewable energy sources in transport together with the optimization of the transport system. Therefore, in 2011, the company HSE started, with the support of the Government Office of Climate Change, Ministry of the Economy, Ministry of Transport and the Eco Fund, the Ecomobil project: environment-friendly e-mobility, which is a part of the campaign You are Energy – Be Efficient and which was adopted and upgraded by the HSE Group hydro companies.

3.4 Responsibility to the wider social community

Not only standards prescribed by the State and dictated by the company, but mostly the organisational culture have bound us to socially responsible behaviour.

Throughout the year, we, under the auspices of the Centre for social responsibility of the HSE Group, did our best to help organizations, associations and individuals who especially need aid and support with specific donations and sponsorships; we also supported meetings and conferences dealing with electricity, renewable energy sources and energy efficiency use. We were proud sponsors of some major sports and artistic events in Slovenia and events, sports, cultural and humanitarian events in the local communities where the companies of the HSE Group have their head offices.

However, we do not act responsibly only to external stakeholders and the environment, but also to our employees; in doing that we are, among other things, encouraged by the obtained full 'Family-friendly company' certificate.

We ended the year with a charity campaign of the companies in the HSE Group; the employees of all the companies collected many toys for children and gave them to the municipal associations of friends of Youth that took care of distributing them to the children.

4 ACCOUNTING REPORT OF HSE

4.1 INDEPENDENT AUDITOR'S REPORT

KPMG

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Independent Auditor's Report

To the Shareholder of Holding Slovenske elektrarne, d.o.o., Ljubljana

Report on the Financial Statements

We have audited the accompanying financial statements of the company Holding Slovenske elektrarne, d.o.o., Ljubljana which comprise the statement of financial position as at 31 December 2015, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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.

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Holding Slovenske elektrarne, d.o.o., Ljubljana as at 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

Financing

Without expressing qualification, we draw attention to the Note *4.5.7.6.2 Liquidity risk* to the financial statements, which indicates that at the year-end of 2015 the company Holding Slovenske elektrarne was able to ensure bridge financing in the amount of EUR 215,000,000 until obtaining long-term sources. These financial sources are guaranteed until 29 December 2016, whereas negotiations with banks on providing for a long-term sustainable funding of the company are underway in 2016.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

On behalf of the audit company

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boštjan Mertelj	Boris Drobnič
Certified Auditor	*Partner*

KPMG Slovenija, d.o.o.
1

Ljubljana, 31 May 2016

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.

4.2 Statement of Management's Responsibility

The Management is responsible to prepare financial statements for each financial year in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and applicable legislation in a manner that they give a true and fair view of the financial position of the company HSE 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 are prepared on a going concern basis.

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

- accounting policies are appropriately selected and consistently used;
- judgements and assessments are reasonable and wise;

The Management is responsible for keeping relevant records, which in each moment represent the company's financial position with a reasonable precision, and for ensuring that the company's financial statements are consistent with IFRS adopted by the EU. The Management is also responsible for safeguarding the company's assets and preventing and detecting fraud and other irregularities.

The Management confirms that the financial statements are prepared in accordance with provisions of the IFRS without reservation when used.

As at 31 May 2016, the Management adopted the financial statements of the company Holding Slovenske elektrarne d.o.o. for the financial year ended as at 31 December 2015.

Stojan Nikolić,

CFO of HSE d.o.o.

Gorazd Skubin,

COO of HSE d.o.o.

Blaž Košorok,

CEO of HSE d.o.o.

Ljubljana, 31 May 2016

4.3 Introductory notes to the preparation of financial statements

The accounting report of the company Holding Slovenske elektrarne d.o.o. comprises financial statements with accompanying notes.

On the basis of the decision of the Capital Assets Management Agency of the Republic of Slovenia (AUKN RS) as the founder's representative as at 29 November 2010, the company has been since 1 January 2011 preparing its financial statements and accompanying explanatory notes in accordance with IFRS as adopted by the EU.

The audit firm KPMG Slovenija d.o.o. has audited the financial statements with explanatory notes and prepared the Independent Auditor's Report included in the beginning of the section.

4.4 Financial Statements

4.4.1 Statement of Financial Position

Item in EUR	Note	31 Dec 2015	31 Dec 2014
ASSETS		**1,206,606,876**	**1,394,651,222**
A. LONG-TERM ASSETS		**991,425,551**	**989,521,001**
I. Intangible assets	1	21,237,138	24,444,729
II. Property, plant and equipment	2	11,820,636	34,947,327
IV. Long-term investments in subsidiaries	3	826,253,551	884,084,518
V. Other long-term investments and loans	4	126,994,860	40,880,442
VI. Long-term operating receivables		535,689	530,936
VIII. Deferred tax assets	5	4,583,677	4,633,049
B. SHORT-TERM ASSETS		**215,181,325**	**405,130,221**
II. Inventories		841	
III. Short-term investments and loans	6	7,779,330	193,014,788
IV. Short-term trade receivables	7	121,486,101	153,389,351
V. Current tax assets	24	6,358,863	68,300
VI. Other short-term assets	8	22,399,259	30,297,161
VII. Cash and cash equivalents	9	57,156,931	28,360,621
EQUITY AND LIABILITIES		**1,206,606,876**	**1,394,651,222**
A. EQUITY	10	**829,661,564**	**1,152,425,385**
I. Called-up capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Revenue reserves		562,744,824	484,267,929
IV. Hedging reserve		(737,288)	(1,115,050)
V. Fair value reserve		(30,296)	(6,362)
VI. Retained earnings or losses		(323,117,650)	78,476,894
B. LONG-TERM LIABILITIES		**71,321,476**	**69,071,477**
I. Provisions for termination benefits and jubilee premiums	11	751,048	744,400
II. Other provisions	12	3,030,191	3,542,907
IV. Long-term financial liabilities	13	67,539,830	64,783,541
V. Long-term operating liabilities		407	629
C. SHORT-TERM LIABILITIES		**305,623,836**	**173,154,359**
II. Short-term financial liabilities	14	147,028,449	11,588,915
III. Short-term trade liabilities	15	122,698,081	120,554,947
IV. Current tax liabilities	24		1,468,556
V. Other short-term liabilities	16	35,897,306	39,541,941

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

4.4.2 Income Statement

Item in EUR	Note	2015	2014
OPERATING INCOME		**1,303,650,513**	**1,313,019,784**
1. Revenue	18	1,303,117,500	1,312,697,148
4. Other operating income		533,013	322,636
GROSS OPERATING YIELD		**1,303,650,513**	**1,313,019,784**
OPERATING EXPENSES		**1,253,398,195**	**1,214,797,689**
5. Costs of goods, material and services	19	1,242,235,877	1,204,197,544
6. Employee benefits expense	20	7,427,240	8,435,599
7. Write-downs in value	21	3,168,204	1,411,989
8. Other operating expenses		566,874	752,557
OPERATING PROFIT OR LOSS		**50,252,318**	**98,222,095**
9. Finance income	22	21,122,674	65,177,797
10. Finance costs	23	386,382,773	4,686,052
FINANCIAL RESULT		**(365,260,099)**	**60,491,745**
PROFIT OR LOSS BEFORE TAX		**(315,007,781)**	**158,713,840**
TAX	24	**8,109,589**	**17,890,677**
12. Income tax expense		8,246,499	17,554,377
13. Deferred taxes		(136,910)	336,300
NET PROFIT OR LOSS FOR THE PERIOD	25	**(323,117,370)**	**140,823,163**
Majority owner		(323,117,370)	140,823,163
Minority interest			

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

4.4.3 Statement of Other Comprehensive Income

Item in EUR	Note	2015	2014
Net profit or loss of the period	25	**(323,117,370)**	**140,823,163**
Actuarial gains and losses of employee defined benefit plans	11	(24,215)	(20,011)
Items that will not be transferred to profit or loss		**(24,215)**	**(20,011)**
Net effective portion of changes in fair value of cash flow hedges	10	(776,099)	(918,564)
Net effective portion of changes in fair value of cash flow hedges reclassified to profit or loss	10	1,153,861	3,613,102
Items that may be transferred to profit or loss		**377,762**	**2,694,538**
Total comprehensive income for the period		**(322,763,823)**	**143,497,691**
Total comprehensive income for the period attributable to majority owner		(322,763,823)	143,497,691
Total comprehensive income for the period attributable to minority interest			

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

4.4.4 Statement of Cash Flows

Item in EUR	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss for the period	(323,117,370)	140,823,163
Adjustments for:		
Amortisation of intangible assets	301,271	329,734
Depreciation of property, plant and equipment	1,761,453	1,078,757
Write-off of property, plant and equipment	92	
Write-off of trade receivables	1,105,388	
Loss on sale of property, plant and equipment		3,498
Finance income	(21,122,674)	(65,177,797)
Finance costs	386,382,773	4,686,052
Gain on sale of property, plant and equipment	(91,524)	(19,006)
Tax expense	8,109,589	17,890,677
Cash generated from operating activities before change in net current assets and taxes	**53,328,998**	**99,615,078**
Change in net current assets and provisions		
Change in:		
Inventories	(841)	
Trade and other receivables	38,680,783	(371,130)
Trade and other payables	(1,468,573)	(33,908,444)
Provisions	(481,853)	473,041
Income tax paid	(16,005,618)	(21,926,165)
Cash from operating activities	**74,052,896**	**43,882,380**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,073,685	4,093,129
Income from other financing activities	2,175,192	
Dividends received	16,107,683	57,574,436
Proceeds from sale of property, plant and equipment	93,880	84,742
Proceeds from sale of intangible assets	22,723,523	44,795,913
Proceeds from disposal (liquidation/sale) of subsidiaries	171,591	97,059,884
Proceeds from decrease in short-term loans given	840,000	
Proceeds from settlement of derivatives	68,598	
Proceeds from decrease in other short-term investments	563,393	
Acquisition of property, plant and equipment	(150,730)	(23,683,226)
Acquisition of intangible assets	(19,817,295)	(21,038,706)
Acquisition of subsidiaries	(34,000,000)	
Costs for increasing long-term loans to others	(84,828,094)	
Costs for increasing other short-term investments	(82,439,000)	(161,465,052)
Costs for settlement of derivatives	(54,383)	
Net cash used in investing activities	**(175,471,957)**	**(2,578,880)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	73,303,030	
Proceeds from shotr-term borrowings	285,000,000	111,000,000
Proceeds from other long-term financial liabilities	574	
Payment of interest on borrowings	(5,478,226)	(3,607,543)
Costs for other financial liabilities	(2,948,961)	
Repayment of long-term borrowings	(69,653,686)	(11,350,656)
Repayment of short-term borrowings	(150,000,000)	(122,000,000)
Repayment of other long-term financial liabilities	(4,034)	
Net cash used in financing activities	**130,218,697**	**(25,958,199)**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	**28,360,621**	**13,014,445**
Exchange differences on cash	(3,326)	875
Financial result	28,799,636	15,345,301
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**57,156,931**	**28,360,621**

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

4.4.5 Statement of Changes in Equity

Item in EUR	Called-up capital		Revenue reserves			Retained earnings or loss		
	Share capital	Capital surplus	Other revenue reserves	Hedging reserve	Fair value reserve	Retained earnings or loss	Net profit or loss for the period	TOTAL
Balance at 1 Jan 2014	**29,558,789**	**561,243,185**	**413,856,348**	**(3,809,588)**	**13,649**		**8,065,312**	**1,008,927,695**
B.2. Change in total comprehensive income	**0**	**0**	**0**	**2,694,538**	**(20,010)**	**0**	**140,823,163**	**143,497,691**
Net profit or loss for the reporting period							**140,823,163**	**140,823,163**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**0**	**(20,010)**	**0**	**0**	**(20,010)**
Actuarial gains and losses of employee defined benefit plans					*(20,010)*			*(20,010)*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**2,694,538**		**0**	**0**	**2,694,538**
Net effective portion of changes in fair value of instruments for cash flow hedges				*(918,564)*				*(918,564)*
Net effective portion of changes in fair value of instruments for cash flow hedges reclassified to profit or loss				*3,613,102*				*3,613,102*
B.3. Changes within equity	**0**	**0**	**70,411,581**		**0**	**8,065,312**	**(78,476,893)**	**0**
Allocation of the remaining portion of net profit of the comparable period to other equity components						*8,065,312*	*(8,065,312)*	*0*
Allocation of portion of net profit for the period to other equity components pursuant to decision of Management and Supervisory Board			*70,411,581*				*(70,411,581)*	*0*
Balance at 31 Dec 2014	**29,558,789**	**561,243,185**	**484,267,929**	**(1,115,050)**	**(6,361)**	**8,065,312**	**70,411,582**	**1,152,425,386**
Balance at 1 Jan 2015	**29,558,789**	**561,243,185**	**484,267,929**	**(1,115,050)**	**(6,361)**	**8,065,312**	**70,411,582**	**1,152,425,386**
B.2. Change in total comprehensive income	**0**	**0**	**0**	**377,762**	**(23,934)**	**(281)**	**(323,117,370)**	**(322,763,823)**
Net profit or loss for the period							**(323,117,370)**	**(323,117,370)**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**0**	**(23,934)**	**(281)**	**0**	**(24,215)**
Actuarial gains and losses on employee defined benefit plans					*(23,934)*	*(281)*		*(24,215)*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**377,762**		**0**	**0**	**377,762**
Net effective portion of changes in fair value of instruments for cash flow hedges				*(776,099)*				*(776,099)*
Net effective portion of changes in fair value of instruments for cash flow hedges reclassified to profit or loss				*1,153,861*				*1,153,861*
B.3. Changes within equity	**0**	**0**	**78,476,895**			**(8,065,312)**	**(70,411,583)**	**0**
Allocation of part of profit for the period to other equity components pursuant to decision of Management and Supervisory Board			*78,476,895*			*(8,065,312)*	*(70,411,583)*	*0*
Balance at 31 Dec 2015	**29,558,789**	**561,243,185**	**562,744,824**	**(737,288)**	**(30,295)**	**(281)**	**(323,117,371)**	**829,661,563**
Accumulated profit or loss						*(281)*	*(323,117,371)*	*(323,117,652)*

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

4.5 Notes to the Financial Statements of HSE d.o.o.

4.5.1 Reporting entity

Holding Slovenske elektrarne d.o.o. (hereinafter: the 'company') is a company with its registered office in Slovenia and the controlling company of the HSE Group. The address of its registered head office is Koprska ulica 92, Ljubljana.

The financial year of the Company equals the calendar year. The separate financial statements of the company for the year ended 31 December 2015 are presented below.

4.5.2 Basis of preparation

a) Statement of compliance

During the compilation of the financial statements as at 31 December 2015, the company took into account:

- IFRS, which comprise the International Accounting Standards (IAS), interpretations and clarifications of the Standing Interpretation Committee (SIC), the International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU,
- Companies Act (ZGD),
- Energy Act (EZ),
- Corporate Income Tax Act,
- Rules on the implementing the Corporate Income Tax Act and its implementing regulations,
- company's Accounting manual, and
- other applicable legislation.

b) Accounting assumptions and qualitative characteristics of the financial statements

The financial statements are prepared taking into account the basic accounting assumptions:

- accrual basis and
- going concern.

The impacts of transactions and other business events are recognised when they occur, not when they are paid, and are recorded and reported for the periods to which they apply. Accordingly, the financial statements include also the information on liabilities regarding future payments and on assets that shall result in cash inflows in the future.

The financial statements are based also on the assumption that the company will not considerably shrink the volume of its operations or even terminate them, thus that it will continue to operate in the foreseeable future.

The following qualitative characteristics of financial statements have also been observed:

- Fair presentation and compliance with IFRS: the financial statements give a fair view of the company's financial position, financial performance and cash flows.
- Consistency of presentation: presentation and classification of items in the financial statements is the same for each period. Certain items in the accounting report for 2015 are more closely disclosed if compared to the previous year's report, hence also the comparable data are adjusted. Changes in disclosures are as follows:

  a) short-term trade receivables and short-term payables to suppliers are disclosed separately. Other operating receivables and liabilities are recorded among other current assets or liabilities (receivables were in the accounting report for 2014 disclosed within short-term operating receivables, whereby liabilities within short-term operating liabilities);

b) company's liabilities for unused vacation days are recorded under short-term payables to employees within other short-term liabilities (they were in 2014 disclosed among short-term accrued costs and expenses);

c) the item of equity separately discloses the hedging reserve and the fair value reserve (both items were in the accounting report for 2014 recorded under the fair value reserve);

d) financial liabilities arising from derivatives are recorded separately (they were in 2014 disclosed within other long-term and short-term financial liabilities);

e) the statement of cash flows is different in the part relating to operating activities i.e. profit or loss is adjusted by effects that are of non-cash nature, by deferred income and expenses, and items of earnings and cash disbursements arising under cash flows from investing and financing activities. This part was in previous year presented as earnings and expenses and changes in inventories, operating receivables and liabilities;

f) the statement of other comprehensive income and the statement of changes in equity separately disclose the effective portion of changes in fair value of cash flow hedges, which relates to the fair value and disclosed in the income statement.

- Relevance and aggregation: each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.
- Offsetting: assets and liabilities, and income and expenses, are not offset unless required or permitted by a standard or an interpretation.
- Comparative information: except when a standard or an interpretation permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information is included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

The Company uses the same accounting policies for all periods presented in the financial statements for 2015.

c) Basis of measurement

Company's financial statements are prepared on the basis of historical values of balance sheet items, whereas derivatives are carried at fair value.

d) 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.

e) Use of estimates and judgements

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

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 (disclosure 4.5.7.1 points 1 and 2),
- impairment testing of assets (disclosure 4.5.7.1 points 1, 2 and 3),
- assessment of fair value of derivatives (disclosure 4.5.7.1 point 10),
- assessment of realisable values of receivables (disclosure 4.5.7.6.1),
- assessment of provisions for jubilee and termination benefits (disclosure 4.5.7.1 point 11),
- assessment of other provisions (disclosure 4.5.7.1 point 12), and
- assessment of contingent liabilities and assets (disclosure 4.5.7.1 point 17).

Additional estimates and judgements of the management while compiling the financial statements for 31 December 2015:

1. The Company has the right to repurchase at any time by 31 December 2019 the entire equity interest in the company HESS which was sold in 2014 (35.6% and not less). The same valuation method is applied as during the equity interest's sale.

   In the given market circumstances, the current indebtedness of the HSE Group and the generated and planned free cash flow, the company lacks of free cash to purchase the equity interest in the company HESS and copes with difficulties in obtaining additional financial sources by increasing its own borrowing and of the HSE Group's. The business strategy of the company and the HSE Group is directed towards the Group's deleveraging, reducing investment-related costs new production facilities, and optimising the business processes of the HSE Group. All activities focus on achieving the targeted net debt/EBITDA ratio. Consequently, the repurchase of the equity interest in the company HESS was until 2019 not even included in company's and Group's business projections for the 2016-2030 period, which the company's Supervisory Board confirmed in January 2016, and not in the HSE Group's development plan for the 2016-2020 period, which was confirmed by the Supervisory Board and SDH in November 2015.

   By selling its 35.6% equity interest in HESS the company lost its controlling interest over HESS (HSE Group has 49% of voting rights and a minority of members in the Supervisory Board of HESS).

2. The company is engaged in selling and purchasing of electricity (except for derivatives) with the purpose to trade in electricity, hence it is considered a physical supply. These transactions are pursuant to IAS 39 not deemed as transactions within financial instruments (IAS 39/5).

3. According to forecasts, the prices of CO_2 emission coupons have gone up if compared to 2014, which significantly impacted the results of impairment testing on the investment made in TEŠ and consequently it impacted the impairment of this investment.

4. In case of impairment testing at the cash generating unit (CGU) with assets that have limited useful life (TEŠ), the business projections for its entire useful life are taken into consideration. The used price fluctuation projections for electricity and CO_2 emission coupons, compiled by an independent institution, are limited to a period of 25 years. Reasons for using long-term projections during impairment testing comprise following: nature of the activity that required long-term investment cycles, adoption of investment-related decisions based on observing long-term market

projections, existence of long-term projections on price fluctuations for the most significant input data used in impairment testing, uneven posting of investments in maintaining capacities throughout the period of anticipated business operation of energy facilities and adjusting the production volume to the energy product's availability.

4.5.3 Branches and representation offices

The company has a branch office in the Czech Republic and a representative office in Romania. The Company did not perform any transactions through the branch office in 2015 as the trade with electricity was transferred to the company itself. The operations of the branch and the representative office are included in financial statements of the Company.

4.5.4 Fundamental accounting policies

The 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.

4.5.4.1 Foreign currency translation

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

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

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

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

4.5.4.2 Intangible assets

Intangible assets are long-term assets enabling performance of the company's registered activities, whereas physically they do not exist. The company's intangible assets comprise long-term property rights and emission coupons for the purposes of electricity production in the HSE Group. Emission coupons for trading are disclosed among inventories.

Upon initial recognition, an intangible asset is measured at cost. Cost includes costs that can be directly attributed to the acquisition of an item of intangible assets. The company did not finance purchases of intangible assets through loans; therefore, historical cost does not comprise costs of borrowing.

Intangible assets are subsequently measured using the cost model.

The company has no intangible assets, for which it would record the residual value when purchased.

Amortisation is accounted for on a straight-line basis, taking into account the useful life of each individual (integral) part of an intangible asset. The amortisation begins to be calculated from the cost when an asset is available for use. Emission coupons are not amortised, since they are purchased for individual periods in which they are used.

Methods of amortisation and useful life of groups of assets are examined at the end of each financial year and adapted if needed. In the event their useful life is extended, the cost of amortisation in the current year is decreased. If useful life is shortened, amortisation cost increases. The adjustment of useful life has to be calculated in a manner that the asset will be finally amortised in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

Estimated useful lives used for individual intangible assets are:

	2015	2014
Software	2-20 years	2-20 years

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

4.5.4.3 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 (hereinafter also 'fixed assets') are disclosed at cost less accumulated depreciation. 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. Borrowing costs that are directly allocated to the purchase, construction or production of a qualifying asset, i.e. until the capitalisation of an asset, are recognised as a part of cost of such an asset. The company did not obtain any loans for purchase of fixed assets. Accordingly, the costs of borrowing are not attributed to the assets in the process of construction or production.

For later measurement of fixed assets the cost model is used.

The company has no fixed assets, for which it would record the residual value when purchased.

Depreciation is calculated using the straight-line depreciation method, taking into account the useful life of individual (integral) part of a fixed asset. Depreciation begins to be calculated from the cost when an asset is available for use. Assets in the course of construction or production are not depreciated.

Estimated useful lives for individual items of property, plant and equipment are the following:

	2015	2014
Buildings	50 years	50 years
Production equipment	25 years	25 years
Computer equipment	2-5 years	2-4 years
Furniture	10 years	10 years
Small tools	3-4 years	3-5 years
Cars	5 years	5 years
Other devices and equipment	3-10 years	2-10 years

Depreciation methods and useful life of groups of assets are examined at the end of each financial year and adapted if necessary. In case the useful life is extended, the company decreases accrued depreciation costs in the discussed financial year, while in case the useful life is shortened, it increases them. The adjustment of useful life has to be calculated in a manner that the asset will be depreciated in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

The costs of replacement 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.

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.

4.5.4.4 Leased assets

Leases in terms of which the company assumes substantially all major risks and benefits of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in line with the accounting policies applying to assets the company owns.

Other leases are treated as operating leases, where the lease payments are disclosed as cost in the income statement based on straight-line deferral.

4.5.4.5 Long-term investments in subsidiaries

Investments in subsidiaries are those where the company has the controlling influence and it performs consolidated financial statements for this group of companies.

In financial statements, investments in subsidiaries are disclosed at cost. Additional inputs in subsidiaries increase the cost of investments.

The company recognises revenue from investment in the period when the decision on payment of profit shares was adopted.

Any indications of impairment of investments in subsidiaries are determined on an annual basis. In the event impartial evidence exists that a loss due to impairment was incurred, the amount of loss is measured as the difference between the carrying amount of a financial asset and its recoverable amount (the higher of fair value less selling costs and value in use) and is recognised as a financial expense.

If a subsidiary is submitted to liquidation, the difference between carrying amount and liquidation value of the investment is recorded in finance income or expenses.

In case of selling an equity interest in the subsidiary, the difference between the carrying amount and the sales value of the investment is recorded among finance income or expenses.

4.5.4.6 Investments in associates and jointly controlled entities

Investments in associates are investments in which the company has an important influence and usually its stake in such companies ranges between 20% and 50%.

Investments in jointly controlled companies are investments in which the company controls the operations of such companies together with other owners, namely on the basis of contractually agreed division of control.

In the company's financial statements, investments in associates as well investments in jointly controlled companies are carried at cost.

4.5.4.7 Financial instruments

Financial instruments include the following assumptions:

- non-derivative financial assets,
- non-derivative financial liabilities, and
- derivatives.

4.5.4.7.1 Non-derivative financial assets

Non-derivative financial assets comprise cash and cash equivalents trade receivables and loans and investment.

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

a) Loans and trade receivables

Loans and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

At initial recognition, loans and trade receivables are disclosed at fair value increased by direct costs of transaction. After initial recognition are measured at amortised cost and decreased by the loss due to impairment. Loans and trade receivables are recorded in the statement of financial position as financial and operating assets and include granted loans with interests and trade receivables.

In the books of account loans are recognised in accordance with settlement (repayment) date, while trade receivables are recognised in accordance with trading date.

They are included under current assets, except in case of maturities of more than 12 months after the date of the statement of financial position. In such case they are classified under long-term assets.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash, bank deposits of up to three months and other short-term quickly realisable investments with original maturity of three months or less. They are carried at cost. Overdrafts on bank accounts are included under short-term financial liabilities.

4.5.4.7.2 Non-derivative financial liabilities

Non-derivative financial liabilities comprise financial liabilities and trade payables. Non-derivative financial liabilities are initially carried at fair value increased by the costs that are directly attributable to the transaction. After the initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Among them the company records loans received with interest and payables to suppliers.

Loans received are initially recognised on the date of their settlement (payment), while other non-derivative financial liabilities are recognised on the trade date.

The portion of long-term financial liabilities that falls due within less than a year after the cash flow statement date is disclosed under short-term financial liabilities.

4.5.4.7.3 DERIVATIVES

Derivatives entered into by the company meet the criteria as defined in IAS 39 – Financial instruments: recognition and measurement.

Derivatives are used for the hedging of company's exposure against interest rate, price and currency risks. The company has concluded interest and currency swaps as well as futures contracts for the purchase of electricity in the coming years.

These are financial instruments that do not require initial financial investment, while their value is changing due to change in interest rates, 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.

During the classification of derivatives, the company applies hedging criteria as defined in IAS 39, namely:

- the instrument must hedge against cash flow changes that can be attributed to hedged risks;
- hedging efficiency (i.e. level to which the change in the hedging value impacts the hedged item or future transactions) must range from 80% to 125%;
- in case of cash flow hedge, all future transactions that shall be hedged, must be highly probable;
- the possibility of reliable measuring of the hedging's efficiency must exist;
- the hedging must be supported by proper documentation since its start.

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 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 other comprehensive income remains recorded in the hedging reserve until the envisaged transaction impacts the profit or loss. If the envisaged transactions cannot be expected any more, the amount recognised in other comprehensive income must be directly recognised in profit or loss. In other cases, the amount recognised as other comprehensive income is transferred to profit or loss for the same period in which the protected item affects the profit or loss.

Effects of other derivatives, which are not determined as earmarked for 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.

If forward purchases and sales for physical supply of electricity are treated as contracts concluded within the Group's own use, they are not subject to criteria under IAS 39. The latter enters into force when following criteria is met:

- physical supply is part of all such contract,
- volume of purchased or sold energy within the framework of contracts corresponds to the operative requirements of the Group,
- the contract cannot be treated as an option defined in the standard. Contracts on the sale

of energy equal the fixed-term sale or can be deemed as sale of capacities.

The company is of the opinion that transactions subject to negotiations on balancing the commitments on purchasing and selling electricity are to be considered as part of their operations and not within the scope of IAS 39.

4.5.4.8 Impairment of assets

4.5.4.8.1 Financial assets

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

Objective evidence of impairment of financial assets can be: debtor's non-settlement of liabilities or breach of contractual provisions; signs that the debtor will go bankrupt.

a) Impairment of receivables and loans granted

The company individually assesses the evidence on impairment of receivables.

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

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.

For receivables at the beginning of bankruptcy proceeding, an allowance in the amount of 80% of open receivable is created; for disputable receivables 20% of the amount claimed; for receivables subject to compulsory settlement that have not been confirmed yet it represents 50% of the amount claimed in the compulsory settlement proceeding. The percentage may change, if taking into account circumstances and facts of individual case.

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

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 significant loan.

Loss due to impairment related to financial asset carried at amortised cost is calculated as difference between the carrying amount of an asset and expected cash flows discounted at historical interest rate. Loss is recognised among operating expenses in profit or loss.

b) Impairment of available-for-sale financial assets

Loss on impairment of available-for-sale financial assets 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.

4.5.4.8.2 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 estimated.

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.

4.5.4.9 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. 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.

As at 31 December 2002, the general equity revaluation adjustments included the revaluation of share capital before 2002 in accordance with then applicable Slovene Accounting Standards (SAS). The adjustment due to the transfer to new SAS has been transferred to capital surplus.

Other reserves are purposely retained earnings from the previous years. They are created on the basis of the decision by relevant supervisory body or owner.

Hedging reserve comprises amounts arising from the revaluation of derivatives.

Fair value reserve represents actuarial gains relating to payables to employees for termination benefits upon retirement.

Retained earnings include unallocated profit or loss of the current year.

4.5.4.10 Provisions for jubilee premiums and termination benefits upon retirement

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 benefits on retirement 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 retirement and jubilee premiums decrease the created provisions.

4.5.4.11 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.

4.5.4.12 Other provisions

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

The amount of the provision must 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.

4.5.4.13 Other assets and liabilities

Other assets include advances given, receivables due from state institutions and other short-term deferred costs and accrued income. Deferred costs represent the amounts incurred but not yet charged against the profit or loss. Accrued income is income which is taken into account in the profit or loss, although not charged yet.

Other liabilities include advances received, payables to employees, payables to state institutions and other, and long-term and short-term accrued costs and deferred income. Accrued costs are amounts that have not occurred yet but will in the future and have already an impact on profit or loss. Deferred income is income that will in a period longer than one year cover the anticipated expenses.

4.5.4.14 Contingent liabilities

Contingent liability is:

- a possible liability arising from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events that the 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.

Contingent liabilities include the guarantees granted and parent guarantees.

4.5.4.15 Revenue

The sales revenue is recognised at fair value of the received payment of receivables, thus decreased by discounts. 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.

Sales of goods are recognised when the company delivers the products to the client. The client accepts the products, while the collectability of associated receivables is reasonably ensured. In case the company has more positive than negative operating foreign exchange differences, they are recorded as net revenue from the sales of merchandise at net principle.

Sales of services are recognised in the accounting period in which the services are performed or regards the conclusion of the transaction estimated on the basis of actually performed service as the proportional portion of all services performed.

Other operating income relating to operating effects include income from advances granted, income from default interest, gains arising from sales of fixed assets, received compensations and contractual penalties and similar revenue.

Revenue arising from default interest charges and related receivables are recognised upon occurrence if it is probable that the economic benefits related to transaction will flow to the company. On the contrary, default interest charges are recorded as contingent assets and are recognised in the company's books of account upon payments. Recording of default interest is considered individually.

Finance income comprises income from shares in investments (dividends), interest on deposits and loans granted, and income from parent guarantees granted.

4.5.4.16 Expenses

Expenses are recognised if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt and this decrease can be reliably measured.

Operating expenses are recognised once the merchandise has been sold.

Costs of goods sold include expenses related to the sales of electricity, gas, trading emission coupons and their contingent costs. In case the company has more negative than positive foreign exchange differences, they are recorded as costs of goods sold.

Costs of materials are historical costs of materials purchased, namely costs of protection equipment, small tools, whose useful life does not exceed one year, energy products, office material, technical literature and other materials.

Costs of services are historical costs of services purchased, namely maintenance services rendered in connection with software, buildings and equipment, advertising services, insurance premiums, payment transaction and other banking services (except interest), rentals, advisory services, business travels, and similar services.

Write-downs in value include amortisation/depreciation costs related to consistent transfer of value of amortisable intangible assets and property, plant and equipment. Write-downs in value also include write-downs and losses from the sales of intangible assets and property, plant and equipment as well as impairments or write-down of operating receivables.

Employee benefits expense are historical costs that refer to salaries and similar values in gross amounts as well as contributions and allowances that are calculated from this basis and are not an integral part of gross amounts.

Other operating expenses occur in connection with the formation of provisions, donations and other duties.

Financial expenses comprise borrowing costs, including related derivatives and losses from impairment of financial assets and liquidations of subsidiaries. Interest expenses are recognised upon their occurrence, in the amount of agreed-upon interest rate.

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

Deferred tax is completely disclosed using the liabilities method after the statement of financial position for temporary differences arising between the tax base of assets and liabilities and their carrying amounts in financial statements. Deferred 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.

In 2015, the applicable tax rate for corporate income tax amounted to 17%, which will remain the same also in the next tax periods, based on the currently applicable tax legislation.

4.5.4.18 Statement of cash flows

The cash flows statement comprises changes in the balance of cash and cash equivalents for the period for which it was compiled. The cash flow statement is prepared by using the indirect method and data from the statement of financial position, the income statement, and tables outlining the movements in assets and liabilities.

Company's item of cash comprises bank balances, call deposits and deposits of up to three months.

4.5.4.19 Segment reporting

The company does not disclose operations by segments in the annual report. Segment reporting must be disclosed by companies whose equity or debt instruments are traded in the public market, and companies which are issuing equity or debt instrument in public markets.

4.5.4.20 New standards and interpretations ussued by IASB and adopted by the EU and not yet effective

New standards and interpretation stated below are not yet applicable and were not taken into account during the compilation of the financial statements for the fiscal year ended 31 December 2015:

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (Effective for annual periods beginning on or after 1 January 2016; to be applied retrospectively. Early application is permitted.)

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

The impact of the adoption of the amendments can only be assessed in the year of initial application, as this will depend on the acquisition of joint operations that take place during that reporting period. The company does not intend to adopt the amendments early, therefore it is not possible to estimate the impact adoption of the amendments will have on its financial statements.

- **Amendments to IAS 1** (Effective for annual periods beginning on or after 1 January 2016. Early application is permitted.)

The Amendments to IAS 1 include the following five, narrow-focus improvements to the disclosure requirements contained in the standard.

The guidance on materiality in IAS 1 has been amended to clarify that:

- immaterial information can detract from useful information,
- materiality applies to the whole of the financial statements,
- materiality applies to each disclosure requirement in an IFRS.

The guidance on the order of the notes (including the accounting policies) have been amended, to:

- remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements,
- clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

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

- **Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation** (Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.)

Revenue-based depreciation banned for property, plant and equipment

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

New restrictive test for intangible assets

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue

It is expected that the amendments, when initially applied, will not have material impact on the company's financial statements as it does not apply revenue-based methods of amortisation/depreciation.

- **Amendments to IAS 16 Property Plant and Equipment and IAS 41 Agriculture** (Effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.)

These amendments result in bearer plants being in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture, to reflect the fact that their operation is similar to that of manufacturing.

The company does not expect that the amendments, when initially applied, will have impact on its financial statements as it has no bearer plants.

- **Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions** (Effective for annual periods beginning on or after 1 February 2016. The amendments apply retrospectively. Earlier application is permitted.)

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The company does not expect the amendment to have any impact on the financial statements since it does have any defined benefit plans that involve contributions from employees or third parties.

- **Amendments to IAS 27: Equity method in the separate financial statements** (Effective for annual periods beginning on or after 1 January 2016 and apply retrospectively. Early application is permitted.)

The amendments to IAS 27 allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The company does not expect that the amendments, when initially applied, will have material impact on the financial statements as it intends to continue to carry its investments in subsidiaries and associates at cost.

Annual improvements

Annual Improvements to IFRSs 2010-2012 were issued by the IASB in December 2013 and introduce six amendments to six standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The Annual Improvements to IFRSs 2010-2012 cycle of amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Annual Improvements to IFRSs 2012-2014 were issued by the IASB in September 2014 and introduce four amendments to four standards and standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The Annual Improvements to IFRSs 2012-2014 cycle of amendments are applicable to annual periods beginning on or after 1 January 2016, with earlier adoption permitted.

IFRS 3 Business Combinations

The amendment to IFRS 3 Business Combinations (with consequential amendments to other standards) clarifies that when contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to IAS 32, rather than to any other standard. It also clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

The company does not expect that the amendments, when initially applied, will have material impact on the financial statements as it does not record any such case.

MRS 19 Employee Benefits

The amendments to IAS 19 clarify that the discount rate used in calculating employee benefit obligations should be based on high quality corporate bonds or government bonds in the same currency in which the benefit are to be paid.

The discount rate used in the actuarial calculation for accounting of payables arising under jubilee premiums and retirement benefits, is already now founded on high-quality corporate bonds, thus the amendment will not have an impact on the disclosure of liabilities arising from jubilee premiums and termination benefits.

4.5.5 Fair value measurement

With reference to disclosing financial instruments, their fair values must be presented. 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.

In order to determine the fair value of interest and currency swaps we use information submitted to the company by the bank where an individual swap was concluded. Values are verified in the company.

4.5.6 Financial risk management

Identification and management of financial risks are defined in the business report. In notes to financial statements, the risks are presented in connection with items in financial statements (point 4.5.7.6 Financial instruments and risks), namely:

- credit risk,
- liquidity risk,
- currency risk,
- interest rate risk, and
- price risk.

4.5.7 Notes to the financial statements

4.5.7.1 Statement of financial position

Intangible assets (1)

Item in EUR	31 Dec 2015	31 Dec 2014
Emission coupons	19,514,588	22,731,810
Other long-term property rights	1,722,550	1,712,919
Total	**21,237,138**	**24,444,729**

Intangible assets comprise emission coupons for the purposes of electricity production within the HSE Group and software. The item of software in use includes diverse computer software.

Movement in 2015

Item in EUR	Emissions coupons	Other long-term property rights	Total
Cost at 1 Jan 2015	**22,731,810**	**5,908,833**	**28,640,643**
Acquisitions	19,506,393	310,902	19,817,295
Disposals	(22,723,615)		(22,723,615)
Write-offs		(1,083)	(1,083)
Cost at 31 Dec 2015	**19,514,588**	**6,218,652**	**25,733,240**
Write-downs at 31 Dec 2015		**4,195,914**	**4,195,914**
Amortisation		301,271	301,271
Write-offs		(1,083)	(1,083)
Write-downs at 31 Dec 2015		**4,496,102**	**4,496,102**
Carrying amount at 1 Jan 2015	**22,731,810**	**1,712,919**	**24,444,729**
Carrying amount at 31 Dec 2015	**19,514,588**	**1,722,550**	**21,237,138**

Movement in 2014

Item in EUR	Emissions coupons	Other long-term property rights	Total
Cost at 1 Jan 2014	**46,740,686**	**5,657,164**	**52,397,850**
Acquisitions	20,554,800	251,802	21,038,706
Disposals	(44,563,676)		(44,795,913)
Write-offs		(133)	
Cost at 31 Dec 2014	**22,731,810**	**5,908,833**	**28,640,643**
Write-downs at 1 Jan 2014		**3,866,312**	**3,866,312**
Amortisation		329,735	329,735
Write-offs		(133)	(133)
Write-downs at 31 Dec 2014		**4,195,914**	**4,195,914**
Carrying amount at 1 Jan 2014	**46,740,686**	**1,790,852**	**48,531,538**
Carrying amount at 31 Dec 2014	**22,731,810**	**1,712,919**	**24,444,729**

Among its intangible assets, the company records emission coupons for covering proper electricity production at TEŠ. Compared with the previous periods, when free emission coupons for electricity production were given to TPPs by the government, this system changed in 2013, forcing TPPs to purchase emission coupons entirely on the market. In 2011, the Agreements on Managing the Emission Coupon Portfolio were signed according to which HSE manages emission coupons subsidiaries. The company purchases the required quantity of coupons for several years in advance (depending on the quantities of electricity sold in those periods). The amount of coupons needed at TEŠ for the current period is determined at the beginning of the next year, thus the sales of coupons to the companies is carried out in the next period. However, all sales effects are included in the company's operating result for the current year.

At the beginning of 2015, the company had in stock and recorded 3,853,994 emission coupons for covering the requirements of own electricity production in its subsidiaries. For this purpose the company purchased in 2015 3,722,273 and sold 3,885,232 coupons, as at 31 December 2015 the company had 3,691,035 coupons in stock and records EUR 495,200 of profit this relation.

In 2015, the company reviewed useful lives of relevant software and established that useful life of some software had been prolonged, which resulted in decreased amortisation rates. Due to extended useful life of this software, the amortisation charge in 2015 totalled to EUR 42,155, which is EUR 29,427 less than the amortisation of the initially determined useful life.

As at the balance sheet date, the company records EUR 1,094,332 of liabilities for acquiring SAP CRM software (stage II) and for implementing the SAP in subsidiaries.

No pledges or other ownership-related limitations referring to intangible assets exists.

Property, plant and equipment (2)

Item in EUR	31 Dec 2015	31 Dec 2014
Buildings	1,329,587	1,364,584
Production equipment	101,608	106,689
Other equipment	1,072,145	24,179,742
Property, plant and equipment being acquired	9,317,296	9,296,312
Total	**11,820,636**	**34,947,327**

The item of buildings includes part of company's business premises in Ljubljana, whereby part of premises in Ljubljana, business premises in Velenje, Maribor and Nova Gorica are hired by the company. The item of production equipment comprises the solar power plant, while other equipment includes mostly computer equipment. Property, plant and equipment being acquired includes the investment in the construction of the middle Sava HPP.

Movement in 2015

Item in EUR	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost at 1 Jan 2015	**1,733,284**	**127,010**	**31,635,257**	**9,296,312**	**42,791,863**
Acquisitions				150,730	150,730
Disposals			(22,699,584)		(22,699,584)
Transfers from investments			129,746	(129,746)	0
Write - offs			(458,669)		(458,669)
Cost at 31 Dec 2015	**1,733,285**	**127,009**	**8,606,750**	**9,317,296**	**19,784,340**
Write-downs at 1 Jan 2015	**368,700**	**20,321**	**7,455,515**		**7,844,536**
Disposals			(1,185,972)		(1,185,972)
Depreciation	34,998	5,080	1,721,375		1,761,453
Write-offs			(456,312)		(456,312)
Write-downs at 31 Dec 2015	**403,698**	**25,401**	**7,534,606**	**0**	**7,963,705**
Carrying amount at 1 Jan 2015	**1,364,584**	**106,689**	**24,179,742**	**9,296,312**	**34,947,327**
Carrying amount at 31 Dec 2015	**1,329,587**	**101,608**	**1,072,144**	**9,317,296**	**11,820,635**

Movement in 2014

Item in EUR	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost at 1 Jan 2014	**1,733,284**	**127,010**	**8,898,342**	**8,651,362**	**19,409,998**
Acquisitions				23,683,226	23,683,226
Disposals			(231,571)		(231,571)
Transfers from investments			23,038,942	(23,038,276)	666
Write-offs			(70,453)		(70,453)
Cost at 31 Dec 2014	**1,733,284**	**127,010**	**31,635,258**	**9,296,312**	**42,791,864**
Write-downs at 1 Jan 2014	**333,702**	**15,241**	**6,649,627**		**6,998,570**
Disposals			(162,375)		(162,375)
Depreciation	34,998	5,080	1,038,678		1,078,756
Write-offs			(70,414)		(70,414)
Write-downs at 31 Dec 2014	**368,700**	**20,321**	**7,455,516**	**0**	**7,844,537**
Carrying amount at 1 Jan 2014	**1,399,582**	**111,769**	**2,248,715**	**8,651,362**	**12,411,428**
Carrying amount at 31 Dec 2014	**1,364,584**	**106,689**	**24,179,742**	**9,296,312**	**34,947,327**

In 2014, the company purchased from PV equipment for excavating coal at a cost of EUR 22,687,890. The value of purchased equipment grounds on a valuation made for the purpose of sale (fair value method was applied by taking into account cost of dismantling and the set-up at a site outside the cave) by a certified appraiser of plant and equipment registered with the Slovenian Institute of Auditors (SIR). The equipment was leased back to the company PV but is in view of accounting, however, defined as an operating lease since most of the risks and benefits arising in connection with the equipment purchased is held by the company as lessor. The related lease contract is concluded for the period of one year with the option of its prolongation. The lease amount for 2015 was EUR 1,317,635. As at 9 July 2015, the company increase the share capital in PV, partly by means of a non-cash contribution i.e. equipment for excavating coal at the appraisal's value of EUR 21,603,954.

The investment made in the middle Sava HPP, which is disclosed at the year-end of 2015 in the amount of EUR 9,317,296, primarily refers to the compilation and preparation of the pre-investment and investment-related documentation that is required within procedure of setting up the hydro-power plant into the environment. In 2015, the investment in the middle Sava HPP has gone up by EUR 20,984. Due to demanding circumstances on the electricity market, the HSE Group conducts its activities on the project in a limited scope so as to not hinder the long-term spatial planning proceedings. In 2011, the company Srednjesavske elektrarne d.o.o. (SRESA) was established for realisation of the investment in middle Sava HPPs. The company investments in this project will probably be transferred to SRESA upon signing the concession contract on exploitation of the HPPs on the middle Sava. Existing documentation and expert opinions were prepared so that they will not fall under the statute of limitation and can be used by the new investor as the basis for further activities. All the above-mentioned confirms that regardless of the investment's slowdown due to the current unfavourable circumstances with respect to the expected yield, the investment itself is probably not at risk (also because of Slovenia's commitments on increasing the electricity production from renewable sources) and requirement for impairing the investment as at 31 December 2015 not expressed.

The useful lives of significant equipment were checked in 2015 and according to findings made the expected useful lives of have been prolonged, which resulted in lower depreciation rates. Due to extended useful life of this equipment, the depreciation charge in 2015 totalled to EUR 123,296, which is EUR 36,476 less than the depreciation of the initially determined useful life.

The company does not have any item of property, plant and equipment under mortgage but holds EUR 7,223 of equipment under finance lease. As of the balance sheet date, the company recorded EUR 91,731 of liabilities for equipment acquired.

Plant and equipment were not impaired in 2015 as the useful life of relevant equipment does not exceed five years. The company examined also the reasons for possible impairment of business premises, by comparing the market value at the end of 2015 with their carrying amount. It was determined that differences between the carrying and market value are immaterial and indicate that the reasons for impairment are not required to be checked.

Investments in subsidiaries (3)

Item in EUR	31 Dec 2015	31 Dec 2014
DEM d.o.o.	387,058,979	387,058,979
SENG d.o.o.	152,692,250	152,692,250
TEŠ d.o.o.	242,232,000	342,664,278
TET d.o.o. - in liquidation	1	
PV d.d.	42,631,000	
HSE Invest d.o.o.	80,000	80,000
SRESA d.o.o.	60,000	60,000
HSE Italia S.r.l.		29,690
HSE BE d.o.o.	856,000	856,000
HSE Adria d.o.o.	102,553	102,553
HSE MAK Energy DOOEL	26,778	26,778
HSE BH d.o.o.	513,990	513,990
Total	**826,253,551**	**884,084,518**

Large part of company's assets comprise long-term investments in subsidiaries. They include investments in companies, in which the company – directly or indirectly through other owners – owns a controlling interest and prepares consolidated financial statements for this group of companies.

Data about subsidiaries

Company	Address	Country	Activity	% of ownership	% voting rights
DEM d.o.o.	Obrežna ulica 170, 2000 Maribor	Slovenia	Hydroelectricity generation	100.0 %	100.0 %
SENG d.o.o.	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Hydroelectricity generation	100.0 %	100.0 %
TEŠ d.o.o.	Cesta Lole Ribarja 18, 3325 Šoštanj	Slovenia	Electricity production at thermal power	100.0 %	100.0 %
PV d.d.	Partizanska 78, 3320 Velenje	Slovenia	Mining and agglomeration of lignite	99.2 %	99.2 %
TET d.o.o. - in liquidation	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production at thermal power	100.0 %	100.0 %
HSE Invest d.o.o.	Obrežna ulica 170 a, 2000 Maribor	Slovenia	Other project engineering and technical	25.0 %	25.0 %
HSE BE d.o.o.	Bulevar Mihaila Pupina 117, Beograd	Serbia	Electricity trading	100.0 %	100.0 %
HSE Italia S.r.l.	Via Roma 20, 34170 Gorizia	Italy	Electricity trading	0.0 %	0.0 %
HSE Adria d.o.o.	Miramarska 24, 10 000 Zagreb	Croatia	Electricity trading	100.0 %	100.0 %
HSE MAK Energy DOOEL	Belasica no. 2, 1000 Skopje	Macedonia	Electricity trading	100.0 %	100.0 %
HSE BH d.o.o.	Ul. Alije Isakovića br.1, Sarajevo	Bosnia and Herzegovina	Electricity trading	100.0 %	100.0 %
SRESA d.o.o.	Ob železnici 27, 1420 Trbovlje	Slovenia	Hydroelectricity generation	60.0 %	60.0 %

Significant amounts from the financial statements of subsidiaries in 2015

Item in EUR	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
TEŠ d.o.o.	1,119,823,870	904,003,847	161,995,095	(459,045,867)	215,820,023
DEM d.o.o.	523,229,721	12,460,427	67,392,079	8,671,945	510,769,294
SENG d.o.o.	254,005,101	48,116,044	40,943,065	6,172,466	205,889,057
PV d.d.	123,624,126	83,395,676	104,995,892	(69,934,023)	40,228,450
HSE Adria d.o.o.	9,959,085	8,978,979	69,193,664	290,465	980,106
TET d.o.o. - in liquidation	7,826,079	10,924,270	3,632,477	(623,102)	(3,098,191)
HSE BH d.o.o.	3,298,367	2,730,878	16,687,946	26,497	567,489
HSE INVEST d.o.o.	2,982,012	1,250,577	5,423,094	428,872	1,731,435
HSE BE d.o.o.	1,803,904	1,093,585	13,297,073	2,125	710,319
mHE Lobnica d.o.o.	633,440	2,180	28,861	2,851	631,260
SRESA d.o.o.	76,435	11	7	(600)	76,424
HSE MAK Energy DOOEL	75,551	5,476	1,173	(25,129)	70,075
HSE Italia S.r.l.			298	(15,736)	
Total	**2,047,337,691**	**1,072,961,950**	**483,590,724**	**(514,049,236)**	**974,375,741**

Changes in long-term investments in Group companies

Item in EUR	2015
Sale of minority interest in TET d.o.o. - in liquidation	1
Capitalization TEŠ d.o.o.	248,552,790
Capitalization PV d.d.	71,603,954
Voluntary liquidation of the company HSE Italia S.r.l.	(29,690)
Impairment of investment in TEŠ d.o.o.	(348,985,068)
Impairment of investment in PV d.d.	(28,972,954)
Total	**(57,830,967)**

Movement of long-term investments in subsidiaries

Item in EUR	2015	2014
Cost at 1 Jan	**1,082,192,616**	**1,216,906,185**
Additions	320,156,745	
Disposals	(29,690)	(94,199,627)
Transfers, restatements		(40,513,942)
Cost at 31 Dec	**1,402,319,671**	**1,082,192,616**
Write-downs at 1 Jan	**(198,108,098)**	**(197,448,035)**
Impairment	(377,958,022)	(660,063)
Write-downs at 31 Dec	**(576,066,120)**	**(198,108,098)**
Carrying amount at 1 Jan	**884,084,518**	**1,019,458,150**
Carrying amount at 31 Dec	**826,253,551**	**884,084,518**

In January 2015, the company repurchased the total non-controlling interest in the company TET – in liquidation (18.7%) at the price of EUR 1; consequently, the company is now the sole (100%) owner.

As at 30 June 2015, the company increased the share capital in TEŠ at EUR 248,552,790 by means of converting its financial receivables due from TEŠ arising in connection with contracts on assuming the debt, based on which the company directly settled the liabilities to suppliers of equipment for the replacement Unit 6 at TEŠ. The share capital increase was carried out on the basis of a PIT test conducted by an international institution.

As at 9 July 2015, the company increase the share capital in the PV in the amount of EUR 71,603,954, a part thereof was secured through a non-cash contribution i.e. equipment for excavating coal in the amount of EUR 21,603,954 (purchased by the company from PV in 2014), through the borrowing extended in 2013 in the amount of EUR 16,000,000, and partly through a cash contribution of EUR 34,000,000. Upon the share capital increase, the company holds a 99.2% equity interest. The share capital increase was carried out on the basis of a PIT test conducted by an international institution.

The subsidiary HSE Italia was liquidated in 2015. As of 29 June 2015, the HSE Italia prepared within the voluntary liquidation the financial statements and winded up its business operations. The liquidation proceedings were formally concluded on 29 June 2015, when the company was deleted from the companies' register.

None of the subsidiaries or comparable companies is quoted on the stock exchange. Therefore, the reason for possible impairment could not be determined based on the market prices. However, the company verified potential reasons for impairment by comparing the difference between the carrying amounts of the company's long-term investments with the proportionate share of the carrying amount of subsidiaries' total equity. Carrying amounts of the total capital of subsidiaries are with most subsidiaries higher than the carrying amounts of long-term investments in individual company, except with companies PV, TEŠ, and HSE Balkan Energy. Impairment testing of investments in companies PV and TEŠ was carried and consequently also the relevant impairments i.e. as at 30 September 2015. With respect to the fact that investments were evaluated as of 30 September 2015, the company assessed as at 31 December 2015 the circumstances of business operations in the last quarter of 2015. It was established that none of both companies recorded major changes in business circumstances in the last quarter of 2015, indicating that the valuation results of investments made on 30 September 2015 equals the balance established as of 31 December 2015. Impairments testing for the company HSE Balkan Energy was conducted in 2014 and the relevant investment was impaired for the amount of EUR 169,063. Business circumstance have not changed significantly in 2015 that would have an impact on the investment's value and in view of the investment's insignificance in the overall investment portfolio, no impairment testing was carried out in 2015.

The equity interest in the company PV was as at 30 September 2015 subject to impairment testing that was carried out by a certified appraiser registered with the Slovenian Institute of Auditors (SIR).

According to the valuation report for the PV issued on 30 September 2015, value in use is recorded at EUR 42,631,000 or 99.2% of equity interest, hence the long-term investment in PV was impaired by the amount of EUR 28,972,954.

Following assumptions were observed in the valuation:

- the value was assessed by using the method of present value of expected future cash flows (value in use);
- the going concern assumption was used with the limited useful life up to 2054, which is in accordance with the coal mine's useful life;
- impairment testing was performed on the basis of long-term business projections of the cash generating unit up until 2030, and strategic facts on coal's production and sale for the 2031-2054 period with following assumptions being taken into account:

- average annual coal production in the amount of 34,248 TJ/year in the 2016-2030 period;
- gradual decline in the volume of operations in the period from 2030 to 2040 due to the anticipated gradual closing of the coal mine; after 2040, a constant production and sale of coal in expected at 19,155 TJ/year;
- volume of business operations follows the trends in cost of services and employee benefits expense;
- the coal's sale price at 2.75 EUR/GJ is observed throughout the period;
- by the end of the projection's period, costs of closing the coal mine were considered (e.g. costs of closing the mine, costs of termination pays) and income arising on reversal of the working capital and the sale of the remaining fixed assets that are expected in the period of 10 years (up to 2063) in the estimated amount of EUR 37,483,000;
- values of investments in subsidiaries and associates are taken into account (recoverable value based on the value in use), to loans to subsidiaries and the value of excess and non-core properties (market value less costs of selling) in the total amount of EUR 28,524,000;

- the discount rate was applied, which reflects the required weighted average cost of company's total capital (WACC) i.e. in the par value of 8.01%. Long-term projections were made on real prices, thus following discount rates were considered within impairments: 8.23% for the period October-December 2015, 6.0% in 2016 and 2017 and 5.9% from 2018 onwards. The different WACC rates arise in connection with their adjustment to the real basis by taking into account the expectations about the future inflation rate. The inflation rate is founded on forecasts issued by the Slovenian Institute of Macroeconomic Analysis and Development (UMAR).

Sensitivity analysis for the valuation of investment in the company PV

99,2% equity interest in the company PV	Change (in %)		Change in recoverable amount of the 100% equity interest (in EUR)	
Discount rate (WACC)	(0.5)	0.5	2,609,000	(2,389,000)
NOPLAT (EBIT-tax)	(5)	5	(1,492,000)	1,492,000
CAPEX	(2.5)	2.5	5,924,000	(5,924,000)

The equity interest in the company TEŠ was as at 30 September 2015 subject to valuation for accounting purposes; value in use was taken into account as the recoverable value. The valuation was performed by a certified appraiser registered with SIR. According to the report on the value of the company TEŠ as at 30 September 2015, the recoverable amounts to EUR 242,232,000 and is lower from the carrying amount of HSE's investment in this company. Accordingly, the investment in TEŠ was impaired in the amount of EUR 348,985,067. The assessed value was materially impacted by the change in long-term forecasts on market prices for CO_2 emission coupons.

Following assumptions were observed in the valuation:

- the value was assessed by using the method of present value of expected future cash flows (value in use);
- the going concern assumption was used with the input data including the NIP 6 and long-term business projections for TEŠ up until 2054;

- impairment testing was performed on the basis of long-term business projections of the cash generating unit up until 2054, for which impairment testing was performed by taking into account following assumptions:
    - the stock exchange prices of standard forward contracts for electricity and CO_2 emission coupons at the HUPX stock exchange for the 2016-2018 period, whereby for the period from 2018 onwards the long-term market price projections for electricity and CO_2 emission coupons (obtained in September 2015) are taken into account as provided by the internationally renowned Poyry Management Consulting institution (equalling as for the impairment testing results in 2014);
    - average annual electricity production generated by coal power plants in the amount of 3.7 TWh in the 2016-2030 period, 2.6 TWh in the 2031-2040 period, and 2.1 TWh in the 2041-2054 period. The annual volume of electricity produced from the coal power plants is calculated on the basis of annual volumes of coal excavated in PV and the specific use of coal by units. The electricity production is declining with years due to winding up of obsolete coal units and the gradual closure of the coal mine that represents the sole source of primary energy product for the electricity production;
    - value of other income (i.e. income on providing system services, heat energy, income on sale of ash and gypsum) in the amount of EUR 11.3 million in 2016 up to EUR 23.7 million in 2054. Increase in other revenue is attributable to the already signed contracts for system-related services and planned higher revenue from sale of heat energy;
    - possible income on priority dispatch in future years was not taken into account as such supporting measures are required to be launched by other institutions that regulate the energy market in the Republic of Slovenia.
- long-term business projections for the period from 30 September 2015 to 31 December 2040 in real prices by taking into account projections for sales prices of electricity and CO_2 emission coupons with respect to the forecast of an independent institution, whereas for periods up to 31 December 2054 (when the replacement Unit 6 TEŠ is to cease its operations and PV wind up coal excavations) the projections ground on the projections for the year up to 2040 and are exclusive of further growth in the normalized free cash flow;
- compared to the impairment testing of the long-term investment in the company TEŠ which was carried out in 2014, long-term projections for trends in in the market prices of CO_2 emission coupons have changed significantly (as outlined in the table below);
- the discount rate was applied, which reflects the required weighted average cost of company's total capital (WACC) i.e. in the par value of 7.59%. Long-term projections were made on real prices, thus following discount rates were considered within impairments: 7.81% for the period October-December 2015, 5.58% in 2016 and 2017, and 5.48% from 2018 onwards (following discount rates were applied in 2014: 6.37% in 2015, 5.67% in 2016 and 2017, and 5.36% from 2018 onwards). The different WACC rates arise in connection with their adjustment to the real basis by taking into account the expectations about the future inflation rate. The inflation rate is founded on forecasts issued by the Slovenian Institute of Macroeconomic Analysis and Development (UMAR);
- projections used for prices of electricity and CO_2 emission coupons as applied in the impairment testing:

	Basis	Period	Change in electricity price (in %)	Change in CO_2 emission coupons
Year 2015	Starting price	2016	41.90 EUR/MWh	8.15 EUR/t
	Exchange price for derivatives (HUPX)	2016 - 2018	-1.57%	1.46%
	Poyry price forecast	2019 - 2040	4.14%	9.43%
	Poyry price forecast for 2040	2041 - 2054		
Year 2014	Starting price	2016	43.06 EUR/MWh	6.52 EUR/t
	Exchange price for derivatives (HUPX)	2016 - 2018	8.4%	2.72%
	Poyry price forecast	2019 - 2040	3.39%	8.63%
	Poyry price forecast for 2040	2041 - 2054		

- sensitivity analysis for the valuation of investment in the company TEŠ by individual category:

100 % stake in the company TEŠ	Change in %		Change in recoverable amount of assets in EUR	
Electricity sales price	(10)	10	(365,947,000)	356,967,000
Sales price of CO2 emission coupons	(10)	10	130,329,000	(130,790,000)
Discount rate (WACC)	(1)	1	75,722,598	(68,422,978)
NOTPLAT (EBIT-tax)	(10)	10	(37,416,749)	37,416,749

Other long-term investments and loans (4)

Item in EUR	31 Dec 2015	31 Dec 2014
Long-term investments in associated companies	40,513,942	40,513,942
Long-term investments in jointly controlled companies	255,000	255,000
Available-for-sale long-term financial assets	111,000	111,000
Other long-term investments	500	500
Long-term financial receivables and loans	86,114,418	
Total	**126,994,860**	**40,880,442**

The largest share (also the sole change that occurred in 2015) among other long-term investments comprise the long-term loans to TEŠ and PV in the total amount of EUR 86,114,418.

Movement of other long-term investments and loans

Item in EUR	Long-term investments in associated companies	Long-term investments in jointly controlled companies	Available-for-sale long-term financial assets	Other long-term investments	Long-term financial receivables and loans	Total
Balance at 1 Jan 2014	**0**	**255,000**	**111,000**	**500**	**0**	**366,500**
Transfer - restatements	40,513,942					40,513,942
Balance at 31 Dec 2014	**40,513,942**	**255,000**	**111,000**	**500**	**0**	**40,880,442**
Balance at 1 Jan 2015	**40,513,942**	**255,000**	**111,000**	**500**	**0**	**40,880,442**
Acquisitions					86,114,418	86,114,418
Balance at 31 Dec 2015	**40,513,942**	**255,000**	**111,000**	**500**	**86,114,418**	**126,994,860**

a) Long-term investments in associates

No changes were recorded in 2015 with respect to investments in associates. In 2014, the company sold its 35.6% equity interest in the company HESS and thereby lost its majority ownership. Accordingly, this investments was already at the year-end of 2014 disclosed among investments in associates.

Significant amounts in the financial statements of associates for 2015

Item in EUR	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
HESS d.o.o.	304,099,007	29,080,435	14,508,678	2,069,919	275,018,572
Total	**304,099,007**	**29,080,435**	**14,508,678**	**2,069,919**	**275,018,572**

Data on associates as at 31 December 2015

Company	Address	Activity	% of ownership
HESS d.o.o.	Cesta bratov Cerjakov 33a, Slovenia	Electricity production in HPP	15.4%

b) Long-term investments in jointly controlled entities

Investments in jointly controlled entities include the 25% equity interest in the company Soenergetika in the amount of EUR 255,000. No changes were recorded in 2015.

Significant amounts in the financial statements of the jointly controlled company for 2015

Item in EUR	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
SOENERGETIKA d.o.o.	4,563,827	2,710,692	3,793,805	646,289	1,853,135
Total	**4,563,827**	**2,710,692**	**3,793,805**	**646,289**	**1,853,135**

Data on jointly controlled companies as at 31 December 2015

Company	Address	Activity	% of ownership	% voting rights
SOENERGETIKA d.o.o.	Stara cesta 3, 4000 Kranj	proizvodnja elektrike in toplote	25 %	25 %

c) Other long-term investments

Other long-term investments comprise the investment in the company Stelkom (12.13% share) at EUR 111,000 and the contribution in Zavod CO NOT in the amount of EUR 500. No changes were recorded with these investments in 2015.

d) Long-term loans to Group companies

Item in EUR	31 Dec 2015	31 Dec 2014
Long-term financial loans to Group companies	86,114,418	
Total	**86,114,418**	**0**

Key data on long-term loans extended to Group companies in 2015

Company	Date of draw-down	Date of maturity	Interest rate	Insurance	Principal amount	Interest accounted
TEŠ d.o.o.	11.6.2015	2.1.2026	3.50 %	/	33,800,000	537,746
TEŠ d.o.o.	11.6.2015	2.1.2026	4.00 %	/	44,928,094	738,050
PV d.d.	17.12.2015	31.12.2022	4.20 %	bill of exchange	6,100,000	10,529
Total					**84,828,094**	**1,286,324**

As at 31 December 2015, the company established no reasons for an impairment to be carried out in connection with long-term financial receivables and loans.

Deferred tax assets (5)

Item in EUR	31 Dec 2015	31 Dec 2014
Provisions	67,208	69,276
Impairment	4,324,367	4,324,367
Depreciation and amortisation expense	4,452	7,658
Other	187,650	231,748
Total	**4,583,677**	**4,633,049**

Deferred tax assets amounted to EUR 4,583,677 on 31 December 2015 and were calculated by applying the tax rate of 17%, which is applicable for 2015 and the next years. Deferred tax assets were formed in connection with expenses that impact the profit or loss of individual year but they are not fully or in part deductible for tax purposes in the current year (provisions for jubilee premiums and retirement benefits, operating amortisation/depreciation exceeding the deductible for tax purposes, impairment of investments and receivables), and from the fair value of derivatives disclosed in the hedging reserve and does not yet effect the profit or loss.

MOVEMENT OF DEFERRED TAX

Item in EUR	Provisions	Impairment	Depreciation and amortisation expense	Other*	Total
Balance at 1 Jan 2014	**57,062**	**4,669,768**	**10,772**	**370,220**	**5,107,822**
To debit/(credit) of profit or loss	12,214	(345,401)	(3,114)		(336,301)
To debit/(credit) of other comprehensive income				(138,472)	(138,472)
Balance at 31 Dec 2014	**69,276**	**4,324,367**	**7,658**	**231,748**	**4,633,049**
Balance at 1 Jan 2015	**69,276**	**4,324,367**	**7,658**	**231,748**	**4,633,049**
To debit/(credit) of profit or loss	(2,068)		(3,206)	142,183	136,909
To debit/(credit) of other comprehensive income				(186,281)	(186,281)
Balance at 31 Dec 2015	**67,208**	**4,324,367**	**4,452**	**187,650**	**4,583,677**

*Impairment of operating receivables and fair value of derivatives

In 2015, changes in deferred tax receivables amounted to EUR -49,372. EUR 136,910 is recognised in the income statement, while EUR -186,282 is disclosed in the statement of financial position.

SHORT-TERM INVESTMENTS AND LOANS (6)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term financial receivables due from Group companies	1,914,502	169,749,487
Short-term financial loans to Group companies	860,000	17,700,000
Short-term deposits to others	5,004,828	5,565,301
Total	**7,779,330**	**193,014,788**

Short-term financial receivables comprise:

- short-term interest receivables arising on loans to the company RGP in the amount of EUR 2,191 and
- short-term receivables for parent company's guarantees and collaterals provided to subsidiaries in the amount of EUR 1,912,311.

KEY DATA ON SHORT-TERM LOANS GIVEN IN 2015

Company	Date of draw-down	Date of maturity	Interest rate	Insurance	Balance as at 31 Dec 2014	Increase	Decrease	Balance at 31 Dec 2015	Interest accounted
RGP d.o.o.	3.9.2013	31.12.2016	3.00%	bills of exchange	1,000,000		840,000	160,000	23,425
RGP d.o.o.	9.12.2013	31.12.2016	3.00%	bills of exchange	700,000			700,000	19,635
PV d.d.	5.4.2013	9.7.2015	2.77%	bills of exchange	10,000,000		10,000,000		141,140
PV d.d.	18.12.2013	9.7.2015	2.77%	bills of exchange	6,000,000		6,000,000		84,684
Total					**17,700,000**	**0**	**16,840,000**	**860,000**	**268,883**

Short-term deposits granted to others include the deposit at the BLB bank in the amount of EUR 5,004,828.

Movement of short-term financial receivables and loans

Item in EUR	2015	2014
Balance at 1 Jan	**193,014,788**	**31,094,437**
Acquisitions	85,900,729	225,548,972
Repayments	(271,136,187)	(63,628,620)
Balance at 31 Dec	**7,779,330**	**193,014,788**

Core changes in short-term financial receivables and loans in 2015 are attributable to following:

- the issue with state aid as regards the share capital increase in TEŠ was solved by means of a private investor's test. Frome December 2013 HSE and TEŠ concluded several contracts on the debt aquittance in the total amount of EUR 248,552,790 with the purpose to prevent financial damage and avoid the recall of the company Alstom and other suppliers of the replacement Unit 6 at TEŠ. In 2015, the relevant increase thereunder amounted to EUR 82,439,000 and as at 30 June 2015 the company increased the share capital in TEŠ in the amount of EUR 248,552,790 by means of converting receivables under the above-mentioned contracts;
- short-term loans to the company PV in the total amount of EUR 16,000,000 were on 9 July 2015 converted to share capital increase;
- short-term loan to the company RGP in the total amount of EUR 1,000,000 was as at 26 October 2015 repaid in the amount of EUR 840,000; the maturity of the outstanding principal in the amount of EUR 160,000 was prolonged until 31 December 2016;
- maturity of the short-term loan to the company RGP in the amount of EUR 700,000 was prolonged until 31 December 2016;
- HSE accounted in 2015 parent company's guarantees and collaterals provided to subsidiaries at EUR 1,912,311;
- deposit at the NLB in the amount of EUR 563,392 was released on 1 April 2015;
- deposit at the BLB (for collateralizing the EIB loan, which was repaid in the last quarter of 2015 and substituted with a loan from the SID banka) in the amount of EUR 5,001,909 and is held until 31 August 2016.

As at 31 December 2015, no reasons were established for short-term financial receivables and loans to be impaired.

Short-term trade receivables (7)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term operating receivables due from Group companies	10,642,155	27,445,662
Short-term operating receivables due from associates	13,057	23,415
Short-term operating receivables due from jointly controlled companies	234	2,050
Short-term trade receivables	110,830,655	125,918,224
Total	**121,486,101**	**153,389,351**

Short-term operating receivables due from Group companies in the amount of EUR 10,642,155 comprise receivables arising from sales of electricity, advance for the purchase of electricity and various services provided for subsidiaries (e.g. trading, financial function, IT function, etc.).

Short-term operating receivables due from Group companies

Item in EUR		31 Dec 2015	31 Dec 2014
DEM d.o.o.	Slovenia	13,907	6,601
SENG d.o.o.	Slovenia	1,516,230	1,452,950
ELPROM d.o.o.	Slovenia		4,317
TEŠ d.o.o.	Slovenia	161,264	17,505,925
TET v likvidaciji d.o.o.	Slovenia	119,032	25,655
PV d.d.	Slovenia	522,806	2,540,897
HSE Italia S.r.l.	Italija		1,221,721
HSE BE d.o.o.	Serbia	888,390	1,228,549
HSE Adria d.o.o.	Croatia	7,381,129	3,363,190
HSE MAK ENERGY DOOEL	Macedonia	2,097	5,236
HSE BH d.o.o.	Bosnia and Herzegovina	37,300	90,621
Total		**10,642,155**	**27,445,662**

Short-term trade receivables (EUR 110,830,655) comprise primarily receivables from sale of electricity in Slovenia and abroad. Given the lower volume of electricity over 2014, trade receivables decreased also due to lower wholesale prices.

Value of trade receivables pledged for the borrowing amounted as at 31 December 2015 to EUR 40,972,997.

Other short-term assets (8)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term advances	231,909	3,826,188
Short-term operating receivables due from government and other institutions	16,839,270	17,863,677
Short-term operating receivables due from others	3,666,430	3,702,960
Accrued income	662,769	1,693,208
Short-term deferred costs and expenses	998,881	3,211,128
Total	**22,399,259**	**30,297,161**

Short-term operating receivables for advances given are recorded at EUR 231,909. The highest advance is discloses in connection with the company in Luxemburg, where we have a deposit settlement account for paying transferred electricity capacities. The value of advance given declined over the previous year due to the higher bank guarantee provided to this company.

Short-term operating receivables due from state and other institutions (EUR 16,839,271) primarily refer to the input VAT. The largest value thereunder refers to electricity-related invoices received from abroad, where self-taxation is carried out. The right to deduct VAT is gained on the date of the invoice received from abroad. Most of the electricity supplied in December bears the date in January

2016, hence they are included in the VAT return of January 2016.

Short-term operating receivables due from others are recorded at EUR 3,666,340, whereof the largest part refers to the financial coverage for trading at the Italian stock exchange (EUR 3,500,000).

Accrued income on the amount of EUR 662,769 (they relate to 2015 but the respective invoices were issued in 2016) mostly refer to the electricity trading (effects of selling the emission coupons to TEŠ, guarantee of origin).

Short-term deferred costs and expenses in the amount of EUR 998,881 include costs relating to 2016 and primarily relate to electricity trading.

Cash and cash equivalents (9)

Item in EUR	31 Dec 2015	31 Dec 2014
Bank balances	16,736,393	6,284,427
Call deposits	40,420,538	22,076,194
Total	**57,156,931**	**28,360,621**

For the purposes of carrying out its activities, the company holds bank accounts in Slovenia and abroad and as at the year-end of 2015 recorded EUR 16,736,393 of bank balances (most thereof on bank accounts in Slovenia).

As at the reporting date, the company discloses call deposits in the amount of EUR 40,420,538; major part thereof includes overnight deposits of treasury account balances for the purpose of cash pooling in the HSE Group.

As at 31 December 2015, the company had no approved bank overdraft.

Equity (10)

Item in EUR	31 Dec 2015	31 Dec 2014
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Revenue reserves	562,744,824	484,267,929
Hedging reserve	(737,288)	(1,115,050)
Fair value reserve	(30,296)	(6,362)
Retained earnings or losses	(323,117,650)	78,476,894
Total	**829,661,564**	**1,152,425,385**

Capital surplus

Item in EUR	31 Dec 2015	31 Dec 2014
Paid-in capital surplus	561,243,072	561,243,072
Amounts arising from general capital revaluation adjustments	113	113
Total	**561,243,185**	**561,243,185**

The value of share capital and capital surplus remained unchanged in 2015.

Other revenue reserves increased by the amount of accumulated profit of 2014 based on the decision adopted by the Management Board of SDH in the capacity of founder and sole shareholder on 31 August 2015 in the amount of EUR 78,476,893.

As at 31 December 2015, the company discloses under the hedging reserve in total amount of EUR -737,288:

- results of standard futures for electricity in the amount of EUR – 515,307,
- fair value of interest rate swaps for the loan received EUR – 158,247, and
- fair value of currency swaps EUR - 63,734.

Movement of hedging reserve

Item in EUR	Standard futures for electricity	Interest rate swaps	Currency swaps	Total
Balance at 1 Jan 2014	**(2,019,728)**	**(1,807,546)**	**17,686**	**(3,809,588)**
Formation, increase	298,002	859,605	(45,061)	1,112,546
Decrease	(702,687)		(17,686)	(720,373)
Transfer to operating profit or loss	2,440,838			2,440,838
Deferred tax		(146,133)	7,660	(138,473)
Balance at 31 Dec 2014	**16,425**	**(1,094,074)**	**(37,401)**	**(1,115,050)**
Balance at 1 Jan 2015	**16,425**	**(1,094,074)**	**(37,401)**	**(1,115,050)**
Formation, increase	83,658	1,127,502	(76,788)	1,134,372
Decrease	(615,390)		45,061	(570,329)
Deferred tax		(191,675)	5,394	(186,281)
Balance at 31 Dec 2015	**(515,307)**	**(158,247)**	**(63,734)**	**(737,288)**

The hedging reserve increased in 2015 by EUR 377,762, which is the result mostly of reducing the negative fair value of interest rate swaps due to the contract's expiry.

Electricity futures contracts refer to concluding deals on purchase of electricity on foreign electricity exchanges for the period from 2017 to 2018, thus securing the already concluded deals for the sale of electricity in the same period. On the basis of electricity fluctuations on the stock exchange in 2015, a cumulative negative financial effect in the amount of EUR -531,732 was realised. No deferred taxes were accounted in this relation, as the company will pay an agreed-upon price during the deal's realisation.

In 2011, the company concluded a contract on interest rate swap, the negative fair value of which amounted at the year-end of 2014 (inclusive of deferred taxes) to EUR 1,094,074 EUR (fair value of EUR – 1,318,161, deferred tax assets of EUR 224,087). Change in the fair value amounted in 2015 to EUR 1,127,502 and deferred tax assets have declined by EUR 191,675, indicating that the fair value of interest rate swap inclusive of deferred taxes amounted to EUR -158,247 EUR. The fair value of interest rate swap was negative as at 31 December 2015 in the amount of EUR 190,659, whereby deferred tax assets amounted to EUR 32,412. In this connection EUR 1,164,659 of interest was accounted in 2015 which is disclosed among finance costs.

In 2015, the company closed the currency swaps, whose negative fair value amounted as at 31 December 2014 (inclusive of deferred taxes) to EUR -37,401 (negative fair value amounted to EUR 45,061, deferred tax assets to EUR 7,660). The company entered in 2015 into new deals and partly already also closed them. The overall change in the fair value is negative and recorded at EUR 31,727, while deferred tax assets increased by EUR 5,394. The negative fair value of open currency swaps amounted at the end of 2015 to EUR 76,788 EUR, whereof EUR 13,054 were accounted for deferred tax assets. Hence, the closing balance inclusive the tax is recorded at EUR – 63,734.

Movement of fair value reserve

Item in EUR	Actuarial gains/losses on termination benefits upon retirement	Total
Balance at 1 Jan 2014	**13,649**	**13,649**
Formation, increase	(20,011)	(20,011)
Balance at 31 Dec 2014	**(6,362)**	**(6,362)**
Balance at 1 Jan 2015	**(6,362)**	**(6,362)**
Formation, increase	(24,214)	(24,214)
Transfer to retained earnings or losses	280	280
Balance at 31 Dec 2015	**(30,296)**	**(30,296)**

The fair value reserve in the total value of EUR -30,296 discloses at the year-end of 2015 actuarial losses arising on accounted retirement benefits paid to employees. The actuarial loss increased in 2015 by EUR 24,214 and declined by EUR 280, which equals the proportionate utilisation of provisions for termination benefits upon retirement.

Retained earnings or losses

Item in EUR	31 Dec 2015	31 Dec 2014
Net profit or loss for the period	(323,117,370)	70,411,582
Retained earnings	(280)	8,065,312
Total	**(323,117,650)**	**78,476,894**

At the end of 2015, the company discloses loss in the amount of EUR 323,117,370 increased by the proportionate share of utilising provisions for termination benefits in 2015 by EUR 280. The loss is attributable to the impairment of long-term investments in the amount of EUR 377,958,021.

Without this impairment, the company would disclose an operating result of EUR 54,840,651.

Company's total capital declined in 2015 by EUR 322,763,823, namely:

- by the net loss for the period EUR – 323,117,370,
- retained net losses EUR – 280,
- change in the hedging reserve EUR 377,762, and
- change in the fair value reserve EUR – 23,934.

Certain items of equity have changed during the reporting period in the amount of EUR 70,411,583 as the result of:

- transfer of the accumulated profit of 2013 at EUR 8,065,312 to other revenue reserves pursuant to the decision of the Management Board of SDH in the capacity of founder and sole shareholder,
- transfer of accumulated profit of 2014 in the amount of EUR 70,411,581 to other revenue reserves pursuant to the decision of the Management Board of SDH in the capacity of founder and sole shareholder.

As at the reporting date, the accumulated loss amounted to EUR 323,117,650, which is the net loss for the period. If the long-term investments would not be impaired, the accumulated profit would be recorded at EUR 54,840,651 or EUR 23,636,243 less than then company's accumulated profit of 2014 (EUR 41,472,869 more dividends were paid in 2014 than in 2015).

Accumulated profit or loss

Item in EUR	31 Dec 2015	31 Dec 2014
Net profit or loss for the period	(323,117,370)	140,823,163
Retained earnings or losses	(280)	8,065,312
Increase (additional formation) of revenue reserves		(70,411,581)
Total	**(323,117,650)**	**78,476,894**

Provisions for jubilee premiums and retirement benefits (11)

Item in EUR	31 Dec 2015	31 Dec 2014
Provisions for termination benefits upon retirem	550,947	537,553
Provisions for jubilee premiums	200,101	206,847
Total	**751,048**	**744,400**

At the end of 2015, the company discloses provisions for termination benefits and jubilee premiums in the amount of EUR 751,048 created on the basis of an actuarial calculation prepared as at 31 December 2015.

The actuarial calculation was based on:

- the number of employees in the company as at 30 September 2015 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period July – September 2015);
- method for calculating termination and jubilee premiums in the company;
- average salary growth of 0.5% for 2016, 2017 and 2018 and 2.0% p.a. from 2019 onwards;
- nominal long-term interest rate of 2.25%, and
- employee turnover by age category.

Movement in provisions for termination and jubilee premiums

Item in EUR	Provisions for termination benefits upon retirement	Provisions for jubilee premiums	Total
Balance at 1 Jan 2014	**398,053**	**195,243**	**593,296**
Formation, increase	154,196	31,212	185,408
Decrease - reversal	(14,696)	(19,608)	(34,304)
Balance at 1 Jan 2014	**537,553**	**206,847**	**744,400**
Balance at 1 Jan 2015	**537,553**	**206,847**	**744,400**
Formation, increase	37,083	15,652	52,735
Decrease - reversal	(23,689)	(22,398)	(46,087)
Balance at 31 Dec 2015	**550,947**	**200,101**	**751,048**

Sensitivity analysis for provisions for termination and jubilee premiums

	2015			
	Discount rate		Growth of wages	
Item in EUR	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	38,399	(34,821)	(35,137)	38,385
Provisions for jubilee premiums	7,677	(7,198)	(7,264)	7,675
Total	**46,076**	**(42,019)**	**(42,401)**	**46,060**

	2014			
	Discount rate		Growth of wages	
Item in EUR	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	35,140	(31,986)	(32,295)	35,786
Provisions for jubilee premiums	7,478	(7,027)	(7,096)	7,613
Total	**42,618**	**(39,013)**	**(39,391)**	**43,399**

Other provisions (12)

Item in EUR	31 Dec 2015	31 Dec 2014
Provisions for lawsuits	3,030,191	3,542,907
Total	**3,030,191**	**3,542,907**

The item of other provisions comprises at the year-end of 2015 provisions for the lawsuits filed by the company W&P Profil-Solarvalue Holding d.o.o., whose receivable was transferred to the company Gomar d.d., and provisions for the lawsuit filed by minority shareholders of the company PV.

Movement of other provisions

Item in EUR	Lawsuits and litigations	Total
Balance at 1 Jan 2014	**3,241,609**	**3,241,609**
Formation - increase	301,298	301,298
Balance at 31 Dec 2014	**3,542,907**	**3,542,907**
Balance at 1 Jan 2015	**3,542,907**	**3,542,907**
Formation - increase	163,106	163,106
Decrease - reversal	(675,822)	(675,822)
Balance at 31 Dec 2015	**3,030,191**	**3,030,191**

Based on the claim filed by TDR-Metalurgija – in liquidation, the company lost the case in May 2015 pursuant to the decision of the Higher Court and is required to pay the principal amount including default interest in the amount of EUR 675,822. Provisions formed were utilised in this amount.

Formation of other provisions in 2015 relates to the increase in already formed provisions for period's default interest.

Long-term financial liabilities (13)

Item in EUR	31 Dec 2015	31 Dec 2014
Long-term financial liabilities to banks	67,536,803	63,458,893
Long-term derivatives		1,318,161
Other long-term financial liabilities	3,027	6,487
Total	**67,539,830**	**64,783,541**

Company's long-term financial liabilities include following long-term borrowings from banks in the total amount of EUR 67,536,803, namely:

- long-term financial loan in the amount of EUR 1,718,621 by a Slovene bank in 2007 for the period of 10 years,
- long-term borrowing in the amount of EUR 53,818,182 by the SID banka in 2015 for the period of 13 years (replaced the borrowing from EIB), and
- long-term borrowing in the amount of EUR 12,000,000 EUR raised in 2015 for the period of 5 years.

The values of loan principals due in 2016 are recorded as short-term liabilities to banks in the amount of EUR 10,922,090. EUR 11,350,657 of long-term borrowings were repaid in 2015.

Interest on loans for 2015 arising from long-term loans amounts to EUR 331,958, whereas undue interest at the end of 2015 amounted to EUR 22,944 and are disclosed among short-term financial liabilities.

Other financial liabilities in the amount of EUR 3,027 include the value of assets under finance lease (mobile phones).

Movement of long-term financial liabilities in 2015

Item in EUR	Long-term financial liabilities to banks	Derivatives	Other long-term financial liabilities	Total
Balance at 1 Jan 2015	**63,458,893**	**1,318,161**	**6,487**	**64,783,541**
Acquisitions	73,303,030		574	73,303,604
Transfers to short-term liabilities	(10,922,090)			(10,922,090)
Repayments	(58,303,030)		(4,034)	(58,307,064)
Other		(1,318,161)		(1,318,161)
Balance at 31 Dec 2015	**67,536,803**	**0**	**3,027**	**67,539,830**

Movement of long-term financial liabilities in 2014

Item in EUR	Long-term financial liabilities to banks	Derivatives	Other long-term financial liabilities	Total
Balance at 1 Jan 2014	**74,809,549**	**2,177,766**	**0**	**76,987,315**
Acquisitions			14,672	14,672
Transfers to short-term liabilities	(11,350,656)			(11,350,656)
Repayments			(8,185)	(8,185)
Other		(859,605)		(859,605)
Balance at 31 Dec 2014	**63,458,893**	**1,318,161**	**6,487**	**64,783,541**

The long-term loan raised in 2007 will be fully repaid in January 2017. The principal amount is repaid on a semi-annual basis. The agreed-upon interest rate is a 6-month EURIBOR plus a minimum margin. Interest is accounted on a semi-annual basis (30 June and 31 December). The loan is secured with six blank promissory notes.

The long-term borrowing from the EIB taken in 2008 was secured with a bank guarantee issued by the BLB bank, whose validity expired in early August 2015. In compliance with provisions of the loan contract with EIB, the company as borrower should have extended the validity of the existing bank guarantee or ensure the EIB a new bank guarantee 90 days prior to the expiry of the existing one and under terms and conditions that are acceptable to EIB. In line with its policy, the BLB bank was not able to extend the guarantee, whereby also the company did not obtain a new guarantee by another bank that would be acceptable to EIB. In November 2015, the SID bank took over the debt to EIB, by means of which the company now records liabilities to the SID bank. The total amount of the remaining debt remains unchanged in the amount EUR 58,303,030 (portion disclosed among short-term financial liabilities). The borrowing's maturity (September 2028) and the accounting of interest (semi-annual, 1 March and 1 September) remained unchanged as well. The agreed-upon interest rate is the 6-month EURIBOR plus a margin, whereas the variable interest rate equals zero if the EURIBOR is negative (i.e. »zero floor«). The borrowing is secured with blank promissory notes, assignment of receivables due from major local customers, and pledge of the equity interest in the company HESS.

In compliance with the signed contract, the company is required to meet following financial obligations in the HSE Group level:

- reducing employee benefits expense, costs of material and services in view of 2014 (in %): in 2015 – 20%, 2016 – 36%,
- net financial debt / EBITDA: 2015 < 8.2, 2016 < 6.5, and from 2017 onwards < 5.9.

The company monitors the ratios on an ongoing basis and as at 31 December 2015 recorded no breaches of covenants.

In December 2015, the company raised a long-term borrowing at a foreign bank in the amount of EUR 15,000,000 (portion is disclosed among short-term financial liabilities) and matures on 15 December 2020; the borrowing is used to refinance a short-term borrowing in the same amount at the same bank. The borrowing is insured with blank promissory notes. The agreed-upon interest rate is the 6-month EURIBOR plus a margin, whereas the variable interest rate equals zero if the EURIBOR is negative (i.e. »zero floor«). The interest is accounted on a semi-annual basis (15 June and 15 December).

The instalments and related interest are paid in due time by the company.

As at 31 December 2015, the company's long-term borrowings bear the variable EURIBOR interest rate, whereby 50% of its loan portfolio is hedged with interest rate swaps and is therefore considered loans bearing a fixed interest rate.

The estimated fair value of the interest rate swap as at 31 December 2015 was recorded at EUR -190,659 and is disclosed among short-term financial liabilities and the hedging reserve. The interest rate swap expired in March 2016. Detailed disclosures are provided in the section discussing the interest rate risk (section 4.5.7.6.4).

Short-term financial liabilities (14)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term financial liabilities to Group companies	30,778,972	949
Short-term financial liabilities to banks - whereof short-term liabilities excluding interest	115,922,090	11,350,656
Short-term financial liabilities to banks - whereof short-term liabilities for interest	22,944	43,614
Short-term derivative	267,447	45,061
Other short-term financial liabilities	36,996	148,635
Total	**147,028,449**	**11,588,915**

Short-term financial liabilities amounted as at 31 December 2015 to EUR 147,028,449. The increase in short-term financial liabilities over the previous year is mostly the result of raising new short-term borrowings referring to banks and Group companies.

Movement in 2015

Item in EUR	Short-term financial liabilities to Group companies	Short-term financial liabilities to banks - excluding interest	Short-term financial liabilities to banks - interest	Derivatives	Other short-term financial liabilities	Total
Balance at 1 Jan 2015	**949**	**11,350,656**	**43,614**	**45,061**	**148,635**	**11,588,915**
Acquisitions	61,377,204	225,000,000	4,686,405		2,641,074	293,704,683
Transfers from long-term liabilities		10,922,090				10,922,090
Repayments	(30,599,181)	(120,000,000)	(4,707,075)		(2,752,713)	(158,058,969)
Long-term repayments		(11,350,656)				(11,350,656)
Other				222,386		222,386
Balance at 31 Dec 2015	**30,778,972**	**115,922,090**	**22,944**	**267,447**	**36,996**	**147,028,449**

Movement in 2014

Item in EUR	Short-term financial liabilities to Group companies	Short-term financial liabilities to banks - excluding interest	Short-term financial liabilities to banks - interest	Derivatives	Other short-term financial liabilities	Total
Balance at 1 Jan 2014	**11,002,110**	**11,350,656**	**190,853**	**0**	**70,633**	**22,614,252**
Acquisitions	60,165,574	51,891,877	2,834,585		997,121	115,889,157
Transfers from long-term liabilities		11,350,656				11,350,656
Repayments	(71,166,735)	(63,242,533)	(2,981,824)		(919,119)	(138,310,211)
Other				45,061		45,061
Balance at 31 Dec 2014	**949**	**11,350,656**	**43,614**	**45,061**	**148,635**	**11,588,915**

Short-term financial liabilities to Group companies are recorded at EUR 30,778,972 and comprise:

- short-term borrowing in the amount of EUR 30,000,000 EUR bearing the interest rate 2.50% p.a., which grew on 1 February 2015 to 2.77% p.a. and as of 1 October 2015 to 3.00% p.a.; it is insured by means of an enforcement draft,
- undue accounted interest on the relevant borrowing in the amount of EUR 76,438, and
- cost of the guarantee granted to the company by subsidiaries in the amount of EUR 702,534.

Short-term financial liabilities to banks in the amount of EUR 115,945,034 comprise:

- portion of principal amounts of long-term borrowings that mature in 2016 in the total amount of EUR 10,922,090;
- short-term bridge loan in the amount of EUR 105,000,000 provided by the syndicate of banks. The borrowing was raised at the interest rate of 3-month EURIBOR (»zero floor«) plus a magin with a maturity until 29 December 2016 and secured with a guarantee of subsidiaries DEM and SENG. As at 31 December 2015, the borrowing was partly drawn in the amount of EUR 105,000,000 and was used for refinancing short-term borrowings in the same amount that matured on 31 December 2015. In compliance with the signed contract, the company is required to meet the financial covenant i.e. consolidated net debt ratio/consolidated EBITDA, exluding TEŠ in the part where another HSE Group entity is not held liable, must not exceed 4.75:1 in any relevant period. The company monitors the financial covenant on a regular basis and is not in breach as at 31 December 2015;
- undue accounted interest on long-term and short-term borrowings in the amount of EUR 22,944.

Short-term derivatives in the amount of EUR 267,447 comprise the negative fair value of interest rate swaps (EUR 190,659) and the negative fair value of currency risks (EUR 76,788).

The item of other short-term financial liabilities comprises and refers to costs for managing bank guarantees.

Short-term trade payables to suppliers (15)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term operating liabilities to Group companies	51,385,891	40,390,818
Short-term operating liabilities to associates	1,029,610	1,220,180
Short-term operating liabilities to jointly controlled companies	38,881	110,285
Short-term operating liabilities to suppliers	70,243,699	78,833,664
Total	**122,698,081**	**120,554,947**

Most of the short-term operating liabilities to Group companies (EUR 51,385,891) refer primarily to electricity purchased from subsidiaries.

Short-term operating liabilities to Group companies

Item in EUR		31 Dec 2015	31 Dec 2014
DEM d.o.o.	Slovenia	9,109,758	10,814,884
MHE LOBNICA d.o.o.	Slovenia	1,315	3,861
SENG d.o.o.	Slovenia	7,084,405	7,652,861
TEŠ d.o.o.	Slovenia	25,799,218	9,986,005
TET - in liquidation	Slovenia	228,552	143,436
PV d.d.	Slovenia	23,026	8,119,846
HTZ IP d.o.o.	Slovenia	2,356	2,643
HSE INVEST d.o.o.	Slovenia	40,517	9,479
HSE Italia S.r.l.	Italy		1,500
HSE BE d.o.o.	Serbia	767,959	383,030
HSE Adria d.o.o.	Croatia	8,328,785	3,139,758
HSE BH d.o.o.	Bosnia and Herzegovina		133,515
Total		**51,385,891**	**40,390,818**

Short-term liabilities to associates in the amount of EUR 1,029,610 consist of liabilities for electricity purchase from the company HESS.

Short-term trade payables to suppliers (EUR 70,243,699) primarily refer to liabilities for electricity purchased in Slovenia and abroad. In view of lower scope of electricity trading over 2014, also payables to suppliers have declined. The latter is also attributable to lower wholesale prices.

Other short-term liabilities (16)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term operating liabilities from advances	32,300	35,251
Short-term operating liabilities to employees	889,669	1,098,213
Short-term operating liabilities to state and other institutions	14,245,233	10,370,362
Short-term operating liabilities to others	12,740	9,640
Short-term deferred income		82,636
Short-term accrued costs and expenses	20,717,364	27,945,839
Total	**35,897,306**	**39,541,941**

Short-term payables to employees (EUR 889,669) include liabilities for December wages, other employment-related income (EUR 529,365), and liabilities arising on unused vacation days in the amount of EUR 360,304 (2014: EUR 414,694).

Short-term liabilities to the state and other institutions (EUR 14,245,233) comprise VAT liabilities, customs duty liabilities, liabilities for December contributions for salaries and contributions on other employment-related income payable by the employer. The largest is VAT liability which refers to electricity-related invoices received from abroad, where self-taxation applies. The right to deduct VAT is gained on the date of the invoice received from abroad. Most of the electricity supplied in December bears the date in January 2016, hence they are included in the VAT return of January 2016.

Accrued costs are costs and expenses referring to 2015 and included in the income statement, but the company did not receive the relevant bills or invoices in the reporting year. Most thereof includes purchases of electricity for 2015 from TEŠ (EUR 19,807,281). The residual amount includes deviations from commuter schedules for December 2015 and interest on borrowings for 2015.

Contingent liabilities and assets (17)

Item in EUR	31 Dec 2015	31 Dec 2014
Guarantees and parent guarantees granted to subsidiaries in Slovenia	241,415,368	341,403,458
Guarantees granted to subsidiaries in Slovenia	4,060,321	
Guarantees and parent guarantees granted to subsidiaries	8,904,078	10,111,541
Guarantees granted to others	33,878,807	126,015,400
Total	**288,258,574**	**477,530,399**

Contingent liabilities include the granted sureties and parent company guarantees.

The item of guarantees granted to others includes also the difference between the value of the replacement Unit 6 at TEŠ according to NIP 6 (December 2014 issue: EUR 1,428,457,700) and NIP 5 in the amount of EUR 33,878,807 (2014: EUR 125,965,400). This refers to company's obligation under the loan agreement between TEŠ and the EBRD to provide additional financing to settle all liabilities in the event of higher costs for the replacement Unit 6 at TEŠ. Reducing the value of the guarantee given is the result of closing the investment in the Unit 6 in 2015 and thus the settlement of most of liabilities arising under this investment.

Guarantees and parent guarantees granted for subsidiaries in Slovenia

Beneficiary	Debtor	Type of guarantee	Basic legal transaction	Validity From	Validity To	Contingent liability at 31 Dec 2015	Contingent liability at 31 Dec 2014
EIB/ bank consortium**	SENG	Collateral for bank guarantee	Guarantee Facility Agreement dated 15 Feb 2006	15 Feb 2006	Effective for the period of contract's validity		4,406,060
Geoplin d.o.o.*	TEŠ	Guarantee statement	Long-term purchase and sales agreement for natural gas no. 277 between TEŠ and Geoplin as at 23 Nov 2006, 17 Feb 2010, purchase and sales agreement for natural gas no. 277/2013-2015 dated 16 Oct 2013	23 Nov 2006, 1 Aug 2013	Effective for the period of contract's validity		9,200,000
Alstom Consortium*	TEŠ	Parent guarantee	Contract between TEŠ and Alstom Consortium (Contract on the design, procurement and erection of the power island for the facility called 'Sostanj Unit 6') dated 27 Jun 2008, 19 Oct 2009	25 Nov 2009	Effective for the period of contract's validity		74,367,117
EIB/ bank consortium**	TEŠ	Collateral for bank guarantee	Guarantee Facility Agreement dated 24 Nov 2010	24 Nov 2010	Effective for the period of contract's validity	88,000,000	88,000,000
NLB d.d.	TET - in liquidation	Collateral for guarantee	Annex no. 1 to the contract dated 31 Mar 2014	31 Mar 2014	Up until the sale of HSE interest in TET, not later than by 31 Mar 2015		3,327,514
EBRD**	TEŠ	Guarantee for EBRD loan	Agreement on collateral and refund of damages between HSE and EBRD dated 12 Jan 2011	12 Jan 2011	Effective for the period of loan contract's validity	151,314,286	160,000,000
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee issue no.MD1333906422 and Annex no.1 to the contract dated 6 Dec 2013	4 Aug 2014	Effective for the period of contract's validity		99,238
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee isue no.MD1433004143 dated 28 Nov 2014	28 Nov 2014	Effective for the period of contract's validity	1,054,501	1,054,501
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee isue no.MD1433004147 dated 26 Nov 2015 (guarantee isued on 2 Dec 2014)	26 Nov 2014	Effective for the period of contract's validity	275,198	275,198
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee isue no.MD1433004146 dated 26 Nov 2015 (guarantee issued on 8 Dec 2014)	26 Nov 2014	Effective for the period of contract's validity	465,422	465,422
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee isue no.MD1432904107 dated 26 Nov 2014 (guarantee issued on 2 Dec 2014)	26 Nov 2014	Effective for the period of contract's validity	208,409	208,409
NLB d.d.	RGP	Collateral for bank guarantee	Contract on guarantee isue no. MD1505400723 dated 24 Apr 2015 (garantee issued on 28 Apr 2015)	24 Apr 2015	Effective for the period of contract's validity	97,552	
Total						**241,415,368**	**341,403,459**

* Contingent liability refers to the unrealised value of the contracts (without VAT).

**The item of contingent liability refers to the principal amount of the borrowing, which was repaid in late January 2016. The related liability under the gurantee contracth thereby ceased to exist.

Granted guarantels parent guarantees decreased compared with 2014 due to realised transactions and payments to the suppliers Geoplin and Alstom and swap of loan (taking over a portion of the borrowing from EIB by SID relating to SENG, which no longer requires the guarantee of banks that was collateralised with company's suretyship).

As required under the guarantee agreement for the TEŠ's long-term borrowing from the EBRD, the company observes and regularly monitors and reports about the following financial covenants:

- ratio of HSE Group's financial debt/EBITDA must not exceed 6.0x by the year-end of 2014, must not exceed 9.5x in the period from 1 January to 31 December 2015, must not exceed 7.3x in the period from 1 January to 31 December 2016, must not exceed 6.5x in the period from 1 January 2017 to 31 December

2018, must not exceed 6.0x in the period from 1 January 2019 to 31 December 2020, and must not exceed 5.0x in the period from 1 January 2021 onwards;

- ratio EBITDA/interest expense must not be below 3.0x, and
- ratio HSE Group's financial debt/Group's total assets must not exceed 60%.

The tax authorities have the right to audit the company's operations within 10 years after the year in which the tax has been levied, which can subsequently lead to additional tax charges, penalty interest charges and penalties arising from corporate income tax and other taxes and duties.

The company is not aware of any circumstances that could give rise to possible material liability in this respect.

4.5.7.2 INCOME STATEMENT

REVENUE (18)

Item in EUR	2015	2014
On the domestic market	**569,244,554**	**554,764,992**
Electricity	566,225,455	552,063,114
Other mechandise and material	167,993	1,125,813
Other services	2,851,106	1,576,065
On the foreign markets	**733,872,946**	**757,932,156**
Electricity	714,574,818	732,593,410
Other merchandise and material	474,721	5,624,141
Other services	18,823,407	19,714,605
Total	**1,303,117,500**	**1,312,697,148**

The company generates revenue mostly through the sale of electricity. The revenue from the sale of electricity accounts in 2015 for 98% of total net sales revenue or EUR 1,280,800,273.

Revenue from other merchandise (domestic and foreign markets) includes the net value of emission coupons sold (EUR 642,714). Values of sales and purchases of emission coupons were not offset for 2014, instead income on their sale (EUR 6,749,954) and the costs of emission coupons sold (EUR 5,628,796) were disclosed.

Revenue from services provided (EUR 21,674,513) is generated through services in connection with electricity (transfer capacities, contribution for allocation of transfer capacities, guarantee of origin), services provided for the subsidiaries and other companies, and rents.

Compared to 2014, revenue declined mostly as a result of lower prices of electricity.

Costs of good, material and services (19)

Item in EUR	2015	2014
Costs of goods sold	1,187,593,033	1,150,965,162
Dependent costs of goods sold	49,513,628	47,039,082
Total purchase cost of goods sold	**1,237,106,661**	**1,198,004,244**
Energy costs	47,279	54,653
Small tools	555	210
Other costs of material	120,232	171,606
Total costs of material	**168,065**	**226,469**
Costs of transportation	92,392	111,019
Maintenance	1,596,635	1,805,026
Rentals	556,780	559,721
Refund of work-related costs to employees	63,095	64,009
Insurance costs and bank services	759,987	1,002,179
Costs of professional and intellectual services	1,025,185	1,237,352
Costs of fairs, advertising and entertainment	455,090	792,390
Costs of services rendered by individuals	187,388	174,119
Other costs of services	224,598	221,016
Total costs of services	**4,961,150**	**5,966,831**
Total	**1,242,235,876**	**1,204,197,544**

Cost of goods sold, which accounts for 99% of all operating expenses (EUR 1,237,106,661), comprises expenses from electricity purchasing in the amount of EUR 1,187,593,033 (whereof EUR 92,121 refers to net effects of exchange difference) and dependent costs of electricity purchasing in the amount of EUR 49,513,628. Values of sales and purchases of emission coupons were not offset for 2014, instead income on their sale (EUR 6,749,954) and the costs of emission coupons sold (EUR 5,628,796) were disclosed.

Costs of material and services declined over the 2014 balance as the result of business optimisation and restructuring.

Costs of the auditor

Item in EUR	2015	2014
Audit of the Annual Report	14,100	15,000
Total	**14,100**	**15,000**

Apart from auditing the annual report, the company KPMG Slovenija d.o.o. received no other payments from the Group in 2015.

Employee benefits expense (20)

Item in EUR	2015	2014
Wages and salaries	5,717,740	6,477,840
Pension insurance costs	756,008	823,309
Other insurance costs	420,115	476,230
Other labour costs	533,377	658,220
Total	**7,427,240**	**8,435,599**

Employee benefits expense comprises costs of salaries and other earnings by employees, including employer's contributions. This includes also the costs of compensations for unutilised vacation days in 2015, which can be used by 30 June 2016.

Lower employee benefits expense is attributable to decreasing company's basic wages and salaries in the first half-year of 2015.

Number of the group employees

Level of education	As at 1 Jan 2015	As at 31 Dec 2015	Average number of emoloyees in 2015
4	1	**1**	1
5	10	**12**	11
6/1	16	**14**	15
6/2	26	**29**	28
7	58	**64**	61
8/1	16	**18**	17
8/2	5	**4**	5
Total	**132**	**142**	**137**

Write-downs in value (21)

Item in EUR	2015	2014
Amortisation of intangible assets	301,271	329,735
Depreciation of property, plant and equipment	1,761,453	1,078,756
Allowances for or write-offs of receivables	1,105,387	
Sale and write-offs of property, plant and equipment and intangible assets	92	3,498
Total	**3,168,203**	**1,411,989**

Write-offs of value comprise the amortisation of company's assets and the loss on the write-off of equipment. The amortisation and depreciation expense increased if compared to 2014 primarily as the result of depreciating of production equipment purchased from the company PV (it was accounted up to 9 July 2015).

Allowances for operating receivables increased in 2015 by the formation of doubtful receivables arising on default interest and recorded due from the subsidiary PV (EUR 243,739) and by the receivable due from the company TET – in liquidation referring to the sale of emission coupons for 2014 (EUR 861,648).

Finance income (22)

Item in EUR	2015	2014
Dividends and other profit shares	16,107,683	57,580,552
Finance income on loans granted and deposits	2,884,083	2,343,900
Change in fair value of financial assets trough profit or loss	68,598	
Finance income on sale/liquidation of investments	141,902	3,054,934
Other financial income	1,920,408	2,198,411
Total	**21,122,674**	**65,177,797**

In 2015, the company generated EUR 21,124,072 of finance income.

Finance income from shares and interests comprises profit pay-outs of subsidiaries DEM and SENG (total amount of EUR 15,957,683) and the jointly controlled entity Soenergetika (EUR 150,000). Profit shares of subsidiaries are if compared to profit shares received from these subsidiaries 3.5 times lower than in 2014.

Finance income from loans granted and deposits recorded in the amount of EUR 2,884,083 mostly relate to accounted interest for loans to Group companies.

Change in the fair value of investments through profit or loss in the amount of EUR 68,598 refer to gains on futures contracts (electricity trading) and futures contracts for trading with emission coupons.

Finance costs for sale/liquidation of investments recorded at EUR 141,902 refer to income on liquidating the 100% equity interest of HSE Italia. In 2014, the company disclosed among this income also profit on sale of the 35.6% equity interest in the company HESS.

Other finance income mostly comprises revenue from parent guarantees given to Group companies in the amount of EUR 1,919,695.

Finance costs (23)

Item in EUR	2015	2014
Interest expenses	5,533,045	3,965,944
Change in fair value of financial assets trough profit or loss	54,383	0
Finance costs for impairment of investments	377,958,023	660,063
Finance costs for liquidation of investments		44,678
Net exchange losses from financing activities		15,367
Other finance costs	2,837,322	
Total	**386,382,773**	**4,686,052**

Financial expenses for interest (EUR 5,533,045) comprise interest on short-term and long-term borrowings received from banks (EUR 3,693,715), interest accounted on the interest rate swap (EUR 1,164,659), and interest on short-term borrowings from HSE Group companies (EUR 674,671). The relevant expenses for interest have gone up if compared to 2014, which is attributable to higher short-term borrowing in 2015.

Change in the fair value of investments through profit or loss (EUR 54,383) comprise losses generated on futures contracts (electricity trading) and futures contracts for trading with emission coupons.

Loss on impairment of investments (EUR 377,958,022) refers in the amount of EUR 28,972,954 to the company PV and in the amount of EUR 348,985,068 to the company TEŠ.

Other finance costs recorded at EUR 2,837,322 primarily include costs of raising short-term borrowings.

TAX (24)

Item in EUR	2015	2014
a. Current tax	8,246,499	17,554,377
b. Deferred taxes	(136,910)	336,300
Total income tax disclosed in income statement	**8,109,589**	**17,890,677**
Deferred taxes recognised in equity	45,466	231,748

The company is subject to the Value Added Tax Act, the Excise Duty Act, the Financial Services Tax Act, and the Corporate Income Tax Act. The branch office in the Czech Republic is liable to pay corporate income tax.

In accordance with the Corporate Income Tax Act, the tax for 2015 amounted to 17% of the tax base reported in the company's tax return.

The company's current tax in 2015 amounted to EUR 8,246,499; the aforesaid result shows a 50% decline over 2014, which is attributable to the lower operating result generated on the core activity. Based on the 2014 tax return, the company made an advance payment of the income tax for 2015 in the amount of EUR 14,605,362. At the end of 2015, the company discloses receivables in the amount of EUR 6,358,863, which refers to the overpayment of income tax in view of 2015.

Deferred taxes include deferred tax assets. The values of deferred taxes created and used are presented in the table showing deferred tax assets (section 4.5.7.1. - 5).

In establishing the base for current tax, revenue and expenses established in accordance with IFRS were corrected in terms of decrease and increase in tax base, as shown in the table below.

Effective tax rate calculation

Item in EUR	2015	2014
Profit or loss before tax	(315,007,781)	158,713,840
Tax calculated at applicable tax rate	(53,551,323)	26,981,353
Tax on income reducing tax base	(2,761,257)	(10,045,751)
Tax on tax relief	(77,205)	(82,939)
Tax on expenses reducing tax base	(6,086)	(5,901)
Tax on non-deductible expenses	64,513,076	205,327
Tax on other changes in tax calculation	129,294	502,288
Curent taxses	**8,246,499**	**17,554,377**
Deferred tax	**(136,910)**	**336,300**
Total tax	**8,109,589**	**17,890,677**
Effective tax rate in %	**-2.57%**	**11.27%**

As at 31 December 2015, temporary deductible differences for which deferred tax assets were not formed are recorded at EUR 452,980,035; they arise from impairment of investments made in the subsidiary PV and TEŠ. Pursuant to IAS 12 – Income tax, deferred tax assets are recognised only if it is possible that temporary difference can be eliminated in the foreseeable future. The company did not form deferred tax assets in this relation as it has no intention to dispose these investments in the foreseeable future.

Net profit of loss (25)

Item in EUR	2015	2014
Gross operating yield	1,303,650,513	1,313,019,784
Operating profit or loss	50,252,318	98,222,095
Financial result	(365,260,099)	60,491,745
Profit or loss before tax	(315,007,781)	158,713,840
Net profit or loss for the period	**(323,117,370)**	**140,823,163**

The company ended the fiscal year 2015 with a loss in the amount of EUR -323,117,370, which is fully the result of impaired investments in the company PV and TEŠ in the total amount of EUR 377,958,022. Without this impairment, the company would complete the reporting period with a profit at EUR 54,840,652.

Lower operating result in view of 2014 is attributable to the decline in electricity prices as electricity trading is the company's core activity. Lower financial result over 2014 is mostly the result of impaired investments, while the company also received EUR 41,472,869 less profit pay-outs as in 2014. Finance costs were higher as well in 2015 due to raising of short-term borrowings.

4.5.7.3 Related companies

The columns of sales and purchases represent the turnover of all transactions (exclusive of VAT) between the company and related entities in 2015. For financial receivables and loans granted, the balance at the end of 2015 is presented (principal amount with interest). Revenue from parent guarantees granted in 2015 are disclosed separately, in the net value (exclusive of VAT). The value of parent guarantees is disclosed in section 4.5.7.1. (17) Contingent liabilities and assets.

The balance of outstanding operating receivables due from related entities is disclosed in section 4.5.7.1. (7) Short-term operating receivables, while the balance of outstanding operating liabilities is disclosed in section 4.5.7.1. (15) Short-term trade payables to suppliers.

Data on related entities

Item in EUR	Disposals	Acquisitions	Granted loans including interest	Raised loans including interest	Income on guarantees issued
DEM d.o.o.	52,017	65,014,664		30,778,972	
mHE Lobnica d.o.o.		10,971			
SENG d.o.o.	11,061,071	40,448,719			
TEŠ d.o.o.	3,139,199	179,254,535	81,858,310		1,854,421
TET d.o.o. - in liquidation	149,234	2,150,976			7,384
PV d.d.	4,997,029	170,760	6,110,529		
HTZ VELENJE I.P. d.o.o.		30,617			
GOST d.o.o.		140			
RGP d.o.o.	43,060		881,081		18,890
HSE Invest d.o.o.		82,899			
HSE Italia S.r.l.	1,189				
HSE Balkan Energy d.o.o.	7,919,337	11,834,981	35,750		35,750
HSE Adria d.o.o.	56,170,494	67,293,178	3,250		3,250
HSE MAK Energy DOOEL	3,641				
HSE BH d.o.o.	15,637	3,101,294			
Total	**83,551,908**	**369,393,734**	**88,888,920**	**30,778,972**	**1,919,695**

Sales and purchase prices for services are defined on the basis of the applicable internal price list of HSE Group companies, rentals and sales prices for electricity on the basis of comparable free prices, and purchase prices for electricity on the basis of cost mark-up method and sales prices achieved on the market.

The comapns is fully (100%) owned by the Republic of Slovenia. In 2015, no dividends were paid out.

Transactions with Republic of Slovenia and entities which are directyl owner by the Republic of Slovenia

in EUR

Business partner	Outstanding receivables as at 31 Dec 2015	Outstanding liabilities as at 31 Dec 2015	Expenses in 2015	Income in 2015
ELES d.o.o.	2,535,049	418,161	3,454,363	18,881,603
ELEKTRO MARIBOR ENERGIJA PLUS d.o.o.	5,681,703	544,155	4,501,566	49,039,736
ELEKTRO ENERGIJA d.o.o.	10,036,385	2,729,003	26,779,653	95,363,314
E3 d.o.o.	5,022,305	17,765	545,475	39,827,517
ECE d.o.o.	12,239,607	283,951	1,688,779	83,957,688
ELEKTRO GORENJSKA PRODAJA d.o.o.			450,228	27,108,601
ELEKTRO PRIMORSKA d.d.	966,277			4,742,834
GEN-I d.o.o.	1,108,593	1,240,971	57,438,745	73,833,298
GEN ENERGIJA d.o.o.	642,104	18,229	135,477	5,935,726
Energy sector - total	**38,232,023**	**5,252,235**	**94,994,286**	**398,690,317**
TALUM d.d.	3,482,767			22,331,219
Aluminium production	**3,482,767**	**0**	**0**	**22,331,219**
NLB d.d.		4,750	41,293	2,183
SID d.d.		58,303,031	256,626	0
Banks - total	**0**	**58,307,781**	**297,919**	**2,183**
Total	**41,714,790**	**63,560,016**	**95,292,205**	**421,023,719**

The table shows transactions with entities, which are directly or indirectly majorly owned by the Republic of Slovenia (more than 50%) and are important for HSE from the perspective of significance of transactions (income or expenses in 2015 exceed EUR 2 million), except banks where all transactions are disclosed. Other transactions with companies, ministries, agencies and other legal entities, where the Republic of Slovenia is a majority or minority owner, are irrelevant in terms of reporting.

4.5.7.4 Operating leases

The company is renting business premises, garages, parking lots, server lockers and a secure system computer room.

The table below outlines liabilities arising from the operating lease in the notice period, which represents the minimum amounts of lease payments:

Item in EUR	31 Dec 2015	31 Dec 2014
Less than one year	296,133	296,133
Total	**296,133**	**296,133**

Costs for the operating lease amounted in 2015 to EUR 556,780.

4.5.7.5 Remuneration

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement comprises:

- gross compensation included in the notification to the income tax return statement,
- other allowances (meals, transportation, per diems), and
- premiums paid for voluntary supplementary pension insurance.

Remuneration of Supervisory Board members includes gross attendance fees of all members, including travel expenses related to the performance of tasks in the Supervisory Board and the Supervisory Board Committees. In 2015, the company provided no advances, loans or guarantees to these persons and records no receivables due from these persons at the end of the reporting period.

Short-term operating liabilities include payables for December wages paid to the company's Management and employees who are not subject to the tariff part of the collective agreement, and attendance fees for December paid to members of the Supervisory Board and its Committees.

Earnings in 2015

Item in EUR	Salary	Other earnings	Bonuses	Refund of costs	Attendance fees	Total
Members of the Management Board	273,784	6,938	8,374	3,497	3,860	**296,453**
Members of the Supervisory Board and the Audit Committee			102	4,668	136,057	**140,827**
Employees who are not subject to the tariff part of the collective agreement	719,406	22,853	7,441	16,220		**765,920**
Total	**993,190**	**29,791**	**15,917**	**24,385**	**139,917**	**1,203,200**

Earnings in 2014

Item in EUR	Salary	Other earnings	Bonuses	Refund of costs	Attendance fees	Total
Members of the Management Board	160,872	3,796	3,683	1,967	4,218	**174,536**
Members of the Supervisory Board and the Audit Committee				3,619	139,667	**143,286**
Employees who are not subject to the tariff part of the collective agreement	1,479,230	46,686	19,160	35,586		**1,580,662**
Total	**1,640,102**	**50,482**	**22,843**	**41,172**	**143,885**	**1,898,484**

Remuneration of employees who are not subject to the tariff part of the collective agreement have declined by nearly 50% if compared to 2014, which is the result of lower wages and salaries in the company and a decrease in staff who is not subject to the tariff part of the collective agreement.

Earning received by Management Board members in 2015

Item in EUR	Gross salary	Other earnings	Bonuses	Refund of costs	Attendance fees	Total
Blaž Košorok	144,527	3,328	1,759	1,654		**151,268**
Stojan Nikolić	129,257	3,610	6,615	1,843	3,860	**145,185**
Total	**273,784**	**6,938**	**8,374**	**3,497**	**3,860**	**296,453**

Earnings received by Supervisory Board memebers in 2015

Item in EUR	Gross attendance fee	Travel costs	Bonuses	Total
Boštjan Jančar	13,804	255	17	**14,076**
Boštjan Markoli	15,224	816	17	**16,057**
Jernej Otič	15,700	1,398	17	**17,115**
Miloš Pantoš	21,350	23	17	**21,390**
Črt Slokan	14,695	543	17	**15,255**
Drago Štefe	15,300	367	17	**15,684**
Total	**96,073**	**3,402**	**102**	**99,577**

Earnings received by Audit Committee members in 2015

Item in EUR	Gross attendance fees	Travel costs	Total
Boštjan Jančar	4,761		**4,761**
Boštjan Markoli	6,173	21	**6,194**
Darinka Virant	14,226	128	**14,354**
Damir Rakela	13,951	1,117	**15,068**
Total	**39,111**	**1,266**	**40,377**

* By applying the Code of SDH (March 2016) - disclosure of earnings received by external members

Earnings received by members of the Human Resources nad Nomination Committee

Item in EUR	Gross attendance fee	Total
Jernej Otič	190	**190**
Miloš Pantoš	410	**410**
Črt Slokan	273	**273**
Total	**873**	**873**

4.5.7.6 Financial instruments and risks

This section refers to section 4.5.6 of the accounting report, as well as to the chapter about financial risks in the business report.

4.5.7.6.1 Credit risk

An important part of activities where we face the risk of partners' non-fulfilment of obligations results from electricity trading where the majority of these activities are represented by contractual relations with partners with high credit rating. Activities for managing credit risks are subject to the company's Credit risk management policy and the On Boarding Policy, which clearly define the procedures and due diligence applied while selecting the business partners. The decision upon the form of business relationship with our partners is based on prior analysis of partner's credit rating, which further defines the possible volume and time frame of operations, elements of contractual relationship and particularly the necessary volume of additional collateral for complying with contractual liabilities in form of bank and corporate guarantees, advances received and other adequate forms of insurance. In forming contractual relationship and selecting insurance we particularly consider possible limitations of partner's local legislation (primarily insolvency-related legislation and acts on financial insurance and instruments), since it is fundamental in the procedure of collection of potentially unfulfilled obligations or realisation of insurance received.

Credit exposure to individual partners is monitored on a daily basis; accordingly, credit risks are monitored and managed through adaptation of operational limits and timely demands to potentially submit additional collaterals. Contractual relationships are managed on the basis of general and framework agreements that determine the right to set-off the maximum possible volume of mutual receivables and liabilities in case of early termination of a contract due to the partner's possible default. Credit exposure is valued by taking into account the legal safety of unchallengability of offset mutual receivables and liabilities in case of the partner's insolvency.

Within the framework of managing credit risks towards banks and financial institutions, the company regularly monitors the information of our bank's business operations. The risk is additionally managed by means of diversification of funds deposits by investing short-term funds for current operations, and by the use of derivatives such as currency swaps and interest rate swaps on the basis of standard ISDA contracts.

Company's maximum exposure to credit risk dues to its short-term operating and financial receivables lies in the carrying amount of short-term receivables' individual items, decreased by financial securities.

Credit risk estimate as at 31 December 2015

Item in EUR	Receivables	Collateralised receivables	Uncollateralised receivables	LGD**
Short-term operating receivables due from Group companies*	10,039,515	9,718,423	321,092	0
Short-term operating receivables due from associates	13,057	13,057	0	5
Short-term operating receivables due from jointly controlled companies	234	234	0	0
Short-term trade receivables	110,830,655	95,955,969	14,874,686	579,453
Total	**120,883,461**	**105,687,683**	**15,195,778**	**579,458**

*Amount of receivables is exclusive of advances granted 602.640 EUR

**LGD - loss in case of non-payment

The evaluation of the credit risk took into account the probability of default subject to the partner's credit rating, the type of collateral received as well as the credit rating of its issuer.

Unsecured part of receivables is the sum of portion of sales on open account within the framework of determined credit limits. Open account sale is subject to the applicable credit risk policy within the framework of approved business partners credit limits with regard to their financial capacity and risk. The majority of unsecured receivables are the receivables to partners with good credit rating and highly regulated activity which are widely state-owned. The latter also include providers of system services, where just like in case of energy exchanges collaterals cannot be obtained, but nevertheless these partners fall into the credit rating category with a low probability of default.

Regardless of estimated low counterparty risk, each credit rating grade represents higher or lower average risk of loss due to non-payment or non-fulfilment of contractual obligations. The expected loss of individual credit rating grade is defined on the basis of transition matrix of credit rating agencies. Even the collateralised receivables carry a certain risk of non-fulfilment with regard to the guarantor's credit rating. Receivables due from partners are collateralised with bank and corporate guarantees, pledge of receivables from contracts on management of bank accounts, deposits and enforcement drafts. Receivables are exceptionally secured with promissory notes, namely in combination with corporate guarantees, or as an independent instrument in case of smaller volume of transactions with a partner. If in the latter case the partner is a limited liability company owned by physical persons, receivables are secured by the company with promissory notes.

In 2015, our partners with few exceptions regularly met their obligations.

In case of delays, the customers in Slovenia and abroad are charged default interest at the contractual rate.

Company's trade receivables to domestic customers represent as at 31 December 2015 just under half of all trade receivables, hence Slovenia still remains the company's most important sales market.

At the year-end of 2015, the company records EUR 1,685,957 of doubtful receivables consisting of the receivable arising in 2012 from the sale of electricity and amounting to EUR 824,308 (or 75% of the receivable) and the receivable formed in 2015 and arising from the sale of emission coupons to the company TET – in liquidation for 2014 at EUR 861,648. In 2015, the company wrote off doubtful receivables in the amount of EUR 25,275 due from two customers, which both ended bankruptcy proceedings. In 2015 the company formed and wrote off also a receivable arising on default interest due from the company PV (EUR 243,739).

Changes in allowances for short-term operating receivables

Item in EUR	2015	2014
Balance at 1 Jan	**849,584**	**849,584**
Formation of allowances for receivables	1,105,388	
Final write-off of receivables	(269,015)	
Balance at 31 Dec	**1,685,957**	**0**

Long-term operating and financial receivables by maturity as at 31 Dec 2015

Item in EUR	DUE DATE: UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	DUE DATE: FROM 3 TO 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	DUE DATE: OVER 5 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	Total
Long-term financial loans to Group companies			86,114,418	**86,114,418**
Long-term operating receivables due from others	535,689			**535,689**
Balance at 31 Dec 2015	**535,689**	**0**	**86,114,418**	**86,650,107**

Lond-term operating and financial receivablse by maturity as at 31 Dec 2014

Item in EUR	DUE DATE: UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 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 operating receivables due from others	530,936			**530,936**
Balance at 31 Dec 2014	**530,936**	**0**	**0**	**530,936**

Short-term operating and financial receivables by maturnity as at 31 December 2015

Item in EUR	DUE DATE: NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	OVERDUE FROM 3 TO 6 MONTHS (from 91 days to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (from 181 days to 270 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	Total
Short-term operating receivables due from Group companies	10,639,535	864,268				**11,503,803**
Short-term operating receivables due from associates	13,057					**13,057**
Short-term operating receivables due from jointly controlled companies	234					**234**
Short-term trade receivables	106,554,109	4,001,776			1,099,078	**111,654,963**
Short-term advances	231,909					**231,909**
Short-term operating receivables due from state and other institutions	16,839,271					**16,839,271**
Short-term operating receivables due from others	3,666,430					**3,666,430**
Short-term financial receivables and loans to Group companies	2,774,502					**2,774,502**
Short-term deposits granted to others	5,004,828					**5,004,828**
Total at 31 Dec 2015	**145,723,875**	**4,866,044**	**0**	**0**	**1,099,078**	**151,688,997**

Short-term operating and financial receivables by maturity as at 31 December 2014

Item in EUR	DUE DATE: NOT YET DUE	OVERDUE UP TO 3 MONTHS (90 days)	OVERDUE FROM 3 TO 6 MONTHS (from 91 days to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (from 181 days to 270 days)	OVERDUE MORE THAN ONE YEAR (more than 361 days)	Total
Short-term operating receivables due from the Group companies	25,468,787	1,023,274	824,318	129,283		**27,445,662**
Short-term operating receivables due from associates	23,415					**23,415**
Short-term operating receivables due from jointly controlled companies	2,050					**2,050**
Short-term trade receivables	117,348,922	8,294,533			1,105,017	**126,748,472**
Short-term advances	3,826,188					**3,826,188**
Short-term operating receivables due from state and other institutions	17,863,677					**17,863,677**
Short-term operating receivables due from others	3,702,959				19,336	**3,722,295**
Short-term financial receivables and loans to Group companies	187,449,487					**187,449,487**
Short-term deposits granted to others	5,565,302					**5,565,302**
Total at 31 Dec 2014	**361,250,787**	**9,317,807**	**824,318**	**129,283**	**1,124,353**	**372,646,548**

Most of overdue receivables at the end of 2015 refers to invoices issued for electricity sold that have already been settled by the time this report was prepared (apart from receivables for which allowances have been formed).

4.5.7.6.2 LIQUIDTY RISK

In 2015, the company intensively managed the liquidity risk and accordingly acted with provisions of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP). Aimed at managing the liquidity risk, the company regularly managed the liquidity and solvency of the HSE Group by monitoring the liquidity situation of the HSE Group as a whole and in terms of individual companies, on a monthly and annual basis. The ongoing monitoring of cash flows, the implementation of the HSE Group's cash management policy, the active attitude to financial markets and the availability and provision of adequate credit lines enabled the company to have a controlled and sufficient liquidity in 2015 and an adequate liquidity risk management.

As at 31 December 2015, the company's overdue short-term liabilities were settled.

Maturity of the company's long-term operating and financial liabilities in the next years is shown in the table below:

LONG-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY AS AT 31 DECEMBER 2015

	DUE DATE			
Item in EUR	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 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 financial liabilities to banks	9,203,469	22,454,545	35,878,789	**67,536,803**
Other long-term financial liabilities	3,027			**3,027**
Long-term trade payables	407			**407**
Balance at 31 Dec 2015	**9,206,903**	**22,454,545**	**35,878,789**	**67,540,237**

LONG-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY AS AT 31 DECEMBER 2014

	DUE DATE			
Item in EUR	UP TO 2 YEARS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION	FROM 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 financial liabilities to banks	7,922,090	15,173,166	40,363,637	**63,458,893**
Other long-term financial liabilities	6,487			**6,487**
Long-term of derivatives	1,318,161			**1,318,161**
Long-term trade payables	629			**629**
Balance at 31 Dec 2014	**9,247,367**	**15,173,166**	**40,363,637**	**64,784,170**

A portion of long-term borrowings that fall due within one year is disclosed among short-term financial liabilities.

Company's exposure to liquidity risk as at 31 December 2015 and arising from financial liabilities to banks is shown in the table below. The relevant amounts disclosed are not discounted and include the contractually anticipated interest.

Exposure to liquidty risk arising on financial liabilities to banks

Item in EUR	Expected cash flows: Up to 2 months after the date of statement of financial position	2 to 12 months after the date of statement of financial position	1 to 2 years after the date of statement of financial position	2 to 5 years after the date of statement of financial position	More than 5 years after the date of statement of financial position	Total
Financial liabilities to banks without interest rate hedging						
Short-term borrowings		(109,258,333)				**(109,258,333)**
Long-term borrowings	(1,735,642)	(10,470,466)	(10,682,072)	(26,008,973)	(39,729,015)	**(88,626,168)**
Total	**(1,735,642)**	**(119,728,799)**	**(10,682,072)**	**(26,008,973)**	**(39,729,015)**	**(197,884,501)**
Liabilities to banks relating to interest rate hedging						
Interest rate swap		(577,957)				**(577,957)**
Total		**(577,957)**				**(577,957)**

Conditions in the area of electricity trading and projections of electricity prices in coming years are an essential factor at liquidity risk management and play a decisive role while generating revenue by the company and consequently on the entire HSE Group level. The trend of low electricity prices continued also in 2015 and price projections for the near future do not envisage essential price increases. Unfavourable conditions are present also on the European financial markets, where regardless of the expansive monetary policy the European economy still shows no signs of recovery. Nonetheless, the company succeeded in 2015 to obtain a sufficient amount of credit and guarantee lines for smooth business operations. At the year-end of 2015, the company was approved a bridge loan in the amount of EUR 215,000,000 until obtaining long-term funds from the consortium of international banks; the respective borrowing was as at 31 December 2015 drawn in the amount of EUR 105,000,000 EUR and the difference in January 2016. Additional liquidity was also secured through HSE Group's cash management i.e. free cash flow from the company DEM in the amount EUR 30,000,000.

The company raised the bridge loan with the purpose to convert it into a long-term source of financing, primarily in form of bonds with a maturity of up to 10 years or in form of a long-term syndicated bank borrowing. Activities required for a successful issue of bonds have intensified in the last quarter of 2015 and first quarter of 2016, namely:

- elaboration of a prospectus that provides bond's terms and conditions, description of the issuer, main risks to which the investor can be exposed to in view of the issuer, financial data and characteristics of the notes;
- review of interim consolidated financial statements as at 30 September 2015 by the audit company, based on which the HSE Group after two years gained an unqualified opinion.

For the purpose of issuing bonds, the company started with procedures of obtaining a credit rating from renowned credit rating agencies. In February 2016, the company received the credit rating »Ba2 stable« (Moody's) and »BB positive« (Standard & Poor's) that are deemed criteria of HSE Group's credibility and financial stability. The first attempt to issue bonds in the amount of EUR 285,000,000 with a set price limit did not meet company's expectations, hence the bonds were not issued yet. Regardless the aforesaid, the HSE Group has the financial sources secured up until 29 December 2016, whereby relations with banks have significantly improved and contractual provisions of all loan contracts are governed in a way that there will be no more breaches of covenants and qualified auditor's opinions. The banks already indicated their intention to ensure long-term sources in case the company decides not to issue bonds. Furthermore, the company already negotiates with banks to extend the maturity of the bridge loan and continues with procedures for a parallel scenario of obtaining a long-term borrowing from the banking syndicate, which will provide for the company and HSE Group's sustainable liquidity in the long term. The demand is addressed to a broad range of banks, whereof certain already indicated their willingness to participate.

With respect to the above-mentioned, the Management estimates that the company's liquidity risk was adequately managed in 2015. Based on the implemented activities, the Management can reasonably expect a successful adjustment of financial sources' maturity by the end of 2016. The structure of financing activities will namely change by the year-end in favour of long-term sources, as the short-term bridge loan will be repaid by means of income generated from long-term borrowing i.e. either by issuing bonds or a bank loan with a minimum maturity of five years. Given the aforesaid and by means of a continued operational restructuring, the Management assesses that HSE Group's long-term sustainable financial stance will be ensured.

4.5.7.6.3 Currency risk

Currency risk is a risk associated with transactions involving foreign currencies and is subject to changes in exchange rates. Currency risk in operations is smaller, since the majority of inflows and outflows are in domestic currency - euro. Currency risk occurs mostly in relation with exercising our primary activity i.e. electricity trading. In 2015, the company traded primarily in Hungary, where electricity purchases are carried out in HUF and these transactions are hedged with currency swaps. The company will in 2016 start selling electricity also in the Czech Republic (CZK), hence it properly provided for hedges against CZK currency (i.e. currency swaps).

In 2015, the company managed its currency risk adequately. While hedging against currency risk, the company acts in compliance with the Rules on Currency Risk Management. The risk is managed through appropriate hedging strategy with the use of derivatives, namely with currency FX Forward concluded with commercial banks, by which the exchange rate of a foreign currency against the domestic currency is fixed. By fixing the foreign exchange rate the company ensures the requested and known electricity price in EUR and at the same time the already known cash flow from payments in foreign currency. Currency swap transactions (for HUF and CZK) are concluded on the basis of standard contracts ISDA with renowned commercial banks and it is estimated that the possibility of non-realisation of these transactions is minimal. The discussed transactions are concluded exclusively with the intention to hedge against risks and not for speculation purposes, while from the hedge accounting perspective they are considered as highly efficient, as the concluded currency hedging corresponds to all features of the hedged item.

Other currencies are present in minimum amount and therefore the company does not perform sensitivity analysis for the change in foreign exchange rates, since the change in exchange rate would not significantly affect the profit or loss.

The company constantly monitors the currency risk and reports to the management on a regular basis. In addition, the company continuously follows developments on the money market, changes in prices and values of currency hedging contracts.

The following exchange rates were used to convert assets and liabilities as at 31 December 2015:

Country	Currency designation	Closing exchange rate for 2015 (in EUR)	Closing exchange rate for 2014 (in EUR)
Czech Republic	CZK	27.0230	27.7350
Hungary	HUF	315.9800	315.5400
Romania	RON	4.5240	4.4828
USA	USD	1.0887	1.2141
Great Britain	GBP	0.7340	0.7789

FOREIGN EXCHANGE RISK AS AT 31 DECEMBER 2015

Item in EUR	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	86,114,418			**86,114,418**
Long-term operating receivables	350,661		185,028	**535,689**
Short-term financial receivables and loans	7,779,330			**7,779,330**
Short-term operating receivables	142,221,932		1,778	**142,223,710**
Long-term financial liabilities	(67,539,830)			**(67,539,830)**
Long-term operating liabilities	(407)			**(407)**
Short-term financial liabilities	(147,028,449)			**(147,028,449)**
Short-term operating liabilities and other liabilities	(136,325,100)	(275,042)	(917,577)	**(137,517,719)**
Net exposure of the statement of financial position at 31 Dec 2015	**(114,427,445)**	**(275,042)**	**(730,771)**	**(115,433,258)**

As at the year-end of 2015, the company has an open long-term financial coverage for the Czeck OTE stock market in the amount of CZK 5,000,000 or EUR 185,028.

Company's item of short-term trade payables to suppliers comprises payables to suppliers in Hungary in the amount of HUF 86,907,748 or EUR 275,042, for which a currency hedge was entered into. As for other currencies, most of short-term operating liabilities refers to transactions conducted on the Romanian OPCOM stock exchange in the amount of RON 4,126,787 or EUR 912,257. Transactions carried out in other currencies are of negligible value.

FOREIGN EXCHANGE RISK AS AT 31 DECEMBER 2014

Item in EUR	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans				**0**
Long-term operating receivables	350,658		180,278	**530,936**
Short-term financial receivables and loans	193,014,768		20	**193,014,788**
Short-term operating receivables	178,752,729		29,447	**178,782,176**
Long-term financial liabilities	(64,783,541)			**(64,783,541)**
Long-term operating liabilities	(629)			**(629)**
Short-term financial liabilities	(11,588,915)			**(11,588,915)**
Short-term operating liabilities and other liabilities	(131,650,394)	(161)	(3,164)	**(131,653,719)**
Net exposure of the statement of financial position at 31 Dec 2014	**164,094,676**	**(161)**	**206,581**	**164,301,096**

Currency swaps contracts by maturity

Item in EUR	31 Dec 2015	31 Dec 2014
Concluded contracts for interest rate swaps relating to purchase of HUF - up to 12 months	6,298,210	1,796,030
Concluded contracts for interest rate swaps relating to sale of CZK - up to 12 months	2,002,866	
Total	**8,301,076**	**1,796,030**

For the purpose of hedging against currency risks arising on already concluded deals for 2016, the company entered at the year-end of 2015 into forward contracts for purchasing HUF and selling CZK.

Effect of currency swaps

Item in EUR	2015	2014
Unrealised loss on effective swaps	(76,788)	(45,061)
Realised profit on effective swaps	39,597	11,091
Realised loss on effective swaps	(28,799)	(30,517)

With respect to hedges against currency risks, the company discloses at the end of 2015 a negative fair value at EUR 76,788. In connection with the implemented currency swaps under the HUF purchase contracts in 2015, the company disclosed the net effect of EUR 10,797 as the difference between the generated profit of EUR 39,597 and the incurred loss of EUR 28,799 and records it as decrease within the purchase costs of goods.

4.5.7.6.4 Interest rate risk

For the purpose of hedging against interest rate risk, the company acts in compliance with the Rules of HSE Group's interest rate management, which defines the policy of managing interest rate risk in HSE Group companies. Interest rate risk was in 2015 adequately managed as it aims to limit and reduce the risk relating to interest rate fluctuations and thereby stabilise cash flows. As at the reporting date, the company recorded long-term borrowings tied to the EURIBOR variable interest rate, whereas 50% of its loan portfolio is hedged by means of interest rate swaps (IRS); the relevant loans are considered as loans bearing a fixed interest rate. The interest rate swap transaction is highly efficient and fully complies in all its characteristics with hedge accounting. The hedging is successful, hence the change in fair value is recognised directly in equity.

Interest rate risks are regularly monitored and reported about. Referring to the aforesaid also developments on the cash market, the movement of interest rates and the value of concluded interest rate hedges are monitored on an ongoing basis.

Exposure to interest rate risk – bank borrowings

Item	Value at 31 Dec 2015 (in EUR)	Share	Value at 31 Dec 2014 (in EUR)	Share
Long-term borrowings - fixed interest rate (inclusive of IRS)	39,393,939	50%	42,424,242	57%
Long-term borrowings - variable interest rate	39,064,953	50%	32,385,307	43%
Total	**78,458,893**	**100%**	**74,809,549**	**100%**

Contracts concluded for interest rate swaps by maturity

Item in EUR	31 Dec 2015	31 Dec 2014
1 to 5 years	39,393,939	42,424,242
Total	**39,393,939**	**42,424,242**

Effect of interest rate swaps

Item in EUR	2015	2014
Unrealised loss on effective swaps	(190,659)	(1,318,161)
Realised loss on effective swaps	(1,164,659)	(1,152,838)

Company's contract on interest rate swap expired in early March 2016. Accordingly, a new strategy for managing interest rate risk was adopted pursuant to which the company plans to hedge against interest rate fluctuations in the first half-year of 2016 by dispersing the risk. The concluded contracts for long-term borrowings include the provision that the variable interest rate equals 0 if the EURIBOR is negative (i.e. zero floor). Hedging of short-term maturity rates would in circumstances that apply to the money market additionally increase costs of financing and expose the company to the risk of a decline in interest rates.

Cash flow sensitivity analysis with financial instruments bearing a variable interest rate

The change in interest rate for 50 b. p. on the reporting date would increase (decrease) the net profit or loss for the values stated below. Analysis prepared for both years assumes that all variables, particularly foreign currency rates, remain unchanged. In the calculation, the receivables/liabilities at variable interest rate are reduced by the total amount of IRS transactions concluded. Due to negative values of EURIBOR interest rates, we used as the lowered rate the mark-up to the variable interest rate, which is of fixed nature. Consequently, the final result is different with +/- 50 b.p. change in interest rate.

Financial instruments bearing the variable interest rate

FINANCIAL INSTRUMENTS	Net profit or loss 2015		Net profit or loss 2014	
Item in EUR	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial liabilities	(622,851)	83,367	(414,467)	375,868

Fixed interest rates are agreed for the financial assets, thus the sensitivity analysis has not been conducted for this part.

HSE Group's financial risks were in 2015 appropriately managed.

4.5.7.6.5 Price risk

Price risks are managed by the company on the basis of the adopted Strategy and Rules on Market Risk Management, by means of which it ensures long-term electricity trading and exploitation of favourable market opportunities that assure better operations and increase in market shares on electricity markets, whereas concurrently the company defines the measures for price risk assessment and limits of its exposure to the abovementioned risks.

Futures contracts for electricity

One form of long-term electricity trading are also futures contracts, which have two basic purposes, namely position trading and hedging against price risks.

The company trades with futures with the purpose to protect long-term positions against price risks. In sales and purchase of electricity with physical purchase after 2015 (operations through OTC market, bilateral conclusion of contracts), the company simultaneously concludes futures contract with the position contrary quantity and the same maturity. In this way, the company financially fixes the revenue from a sales or purchase transaction, meaning that loss arising from the purchase of futures contracts is compensated with revenue from physical contract on sales of electricity. In this connection the company recorded as at the year-end of 2015 futures contracts in the amount of EUR 2,814,150, which were concluded already prior to 2015. Related disclosures are outlined in section 4.5.7.1 (10) Equity.

Concluded standard call futures for hedging puposes

Item in EUR	31 Dec 2015	31 Dec 2014
For electricity - for hedging	2,814,150	2,814,150
Total	**2,814,150**	**2,814,150**

The purchase or sales of futures contract with the purpose of position trading in the time of open position increases the price exposure of the company since it is concluded with the intention to generate revenue on the account of changes in the prices of electricity. The price exposure is reduced only in case of concluding diametric futures contract. All futures contracts concluded in 2015 were also closed in 2015. The trading effect thereunder are disclosed among finance income or finance costs.

Emission coupons

As for the field of emission coupons, the company has been implementing the Strategy on Sales of Own Production and Purchase of CO_2 Emission Coupons for the Purposes of Own Production with the goal of ensuring long-term and stable revenue from electricity sales. Implementation of the strategy of selling own production is based on expected electricity production of subsidiaries. Thus, in the current year the company sells electricity produced by its subsidiaries for some years in advance, while the main goal of the strategy is to maximise profit and to ensure stable revenue from electricity sales.

As the EU member and the signatory of Kyoto protocol, Slovenia committed itself to decrease CO_2 emissions. Energy companies or the companies that use carbon energy sources for electricity production (coal, gas, residual fuel oil, ELKO etc.) feel the measures for reduction of CO_2 emissions the most. The cost of CO_2 emissions in the first (2005-2007) and second (2008-2012) trading period was not significant, since the abovementioned production companies covered a larger part of CO_2 emissions with free emission coupons granted by governments. In 2013, with the third trading period, the method of emission coupons allocation in the energy sector changed, as thermal power plants have to fully cover all CO_2 emissions with the purchase of emission coupons in open market. This caused an increase in operating expenses of power plants and in the risk of change in market value per emission coupon with each sale of electricity from the abovementioned production companies without simultaneous purchase of emission coupons with regard to emission factor CO_2/MWh. This applies also to the companies TEŠ and TET – in liquidation.

Already in 2011, the company decided to partly protect itself against risks of change in the price of CO_2 emission coupons by adopting the Strategy of Trading with Emission Coupons in the Period 2013-2020 and the Decision on Purchase of Emission Coupons for the Purposes of Own Production after 2012. These measures stipulates that, in a certain period after the sales of own electricity production in TEŠ and TET, the company has to buy a certain share of emission coupons. As a result, in 2011 Agreements on Emission Coupon Portfolio Management was signed with the subsidiaries, which stipulate that the company HSE manages the emission coupons of both subsidiaries and takes care of sufficient amount of coupons to cover liabilities to the state. The strategy of trading with emission coupons was upgraded in 2013 and merged with the Strategy on Sales of Own Production and Purchase of CO_2 Emission Coupons for the Purposes of Own Production.

In 2015, the company entered into futures contracts for purchasing and selling emission coupons only in connection with the trading activity. As at the end of 2015, the company recorded in this relation open contracts in the amount of EUR 1,636,250.

Concluded standard call futures for trading

Item in EUR	31 Dec 2015	31 Dec 2014
Emission coupons - trading	1,636,250	
Total	**1,636,250**	**0**

4.5.7.7 Capital management

Item in EUR	31 Dec 2015	31 Dec 2014
Long-term financial liabilities	67,539,830	64,783,541
Short-term financial liabilities	147,028,449	11,588,915
Total financial liabilities	214,568,279	76,372,456
Equity	829,661,564	1,152,425,386
Financial liabilities/capital	**0.26**	**0.07**
Net financial liability	157,411,348	48,011,835
Net debt/equity	**0.19**	**0.04**

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.

The ratio shows the relationship between the company's debt and equity. The financial leverage ratio at the end of 2015 was higher than in 2014. At the end of 2015, the company succeeded in obtaining a bridge loan in the amount of EUR 215 million until obtaining long-term funds from the consortium of international banks. The respective borrowing was used by the company in January 2016 to repay TEŠ's long-term borrowing from EIB in the amount of EUR 110 million and a portion of long-term borrowing from EBRD in the amount of EUR 37,8 million.

4.5.7.8 Fair values

The company estimates that the carrying amount is a sufficient approximation for its financial instruments, except derivatives, which are recorded at fair value.

Carrying amounts and fair values of financial instruments

	31 Dec 2015		31 Dec 2014	
Item in EUR	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**111,500**	**111,500**	**111,500**	**111,500**
Available-for-sale financial assets	111,500	111,500	111,500	111,500
Non-derivative financial assets at amortised cost	**293,810,078**	**293,810,078**	**400,688,520**	**400,688,520**
Financial receivables	93,893,748	93,893,748	193,014,788	193,014,788
Operating receivables	142,759,399	142,759,399	179,313,111	179,313,111
Cash	57,156,931	57,156,931	28,360,621	28,360,621
Total	**293,921,578**	**293,921,578**	**400,800,020**	**400,800,020**
Derivative financial liabilities at fair value	**267,447**	**267,447**	**1,363,222**	**1,363,222**
Derivative financial instruments (liabilities)	267,447	267,447	1,363,222	1,363,222
Non-derivative financial liabilities at amortised cost	**351,818,958**	**351,818,958**	**206,663,582**	**206,663,582**
Bank borrowings	183,481,837	183,481,837	74,853,163	74,853,163
Other financial liabilities	30,818,995	30,818,995	156,071	156,071
Operating liabilities	137,518,126	137,518,126	131,654,348	131,654,348
Total	**352,086,405**	**352,086,405**	**208,026,804**	**208,026,804**

Financial instruments at fair value by hieararchy

Item in EUR	31 Dec 2015	31 Dec 2014
Financial assets at third-level fair value	111,500	111,500
Financial liabilities at second-level fair value	267,447	1,363,222

4.5.8 Events after the balance sheet date

No events occurred after the date of the statement of financial position that could affect the amounts in the company's financial statements for 2015. For the purpose of disclosure, however, following significant events occurred after the date of statement of financial position:

- In late December 2015, the company signed with the banking syndicate a contract on a short-term bridge loan in the amount of EUR 215 million with a maturity of up to one year. A portion of the loan in the amount of EUR 105 million was drawn at the end of December 2015 with the purpose to repay two short-term borrowings in the amount of EUR 105 million that were raised in 2015. As at 27 January 2016, the residual amount of the borrowing in the amount of EUR 110 million was drawn, based on which the company repaid in January 2016 TEŠ's long-term loan from EIB in the amount of EUR 110 million, which was secured with a guarantee of commercial banks (the banks acting as guarantor were not ready to extend the validity of the guarantee fot the period of five years, as required by EIB, or the new garantor bank failed to meet credit rating requirements of, and a portion of the long-term borrowing from EBRD in the amount of EUR 37.8 million. In addition to funds from the bridge loan, the company obtained additional assets within the HSE Group i.e. from SENG (EUR 10 million) and DEM (EUR 8 million).
- At the same time to repaying the loan from EIB to TEŠ in the amount of EUR 110 million, the company's guarantee for this loan in the amount of EUR 88 million was released.
- In February 2016, the company received the credit rating »Ba2 stable« (Moody's) and »BB positive« (Standard & Poor's) that are deemed criteria of HSE Group's credibility and financial stability.
- In late May 2016, borrowings as recorded on 31 March 2016 in the amount of EUR 228,062,740 (including interest) were transferred to TEŠ among its capital surplus; accordingly the company's long-term investment in TEŠ increased.

4.5.9 Additional disclosures pursuant to Energy Act

The company started producing electricity in SPP Velenje in 2011, while in 2013 it was involved also in gas trading, which means that besides electricity trading it is engaged in gas trading and electricity production activity as well. In accordance with the Energy Act provisions, the company monitors its gas trading activity (in 2015 conducted solely for the first three months) and electricity production in SPP, separately.

The income statement for the activities of electricity production in SPP and gas trading is composed based on the following rules:

- value of invoices issued to clients for gas or the SPP electricity is disclosed in net operating income,
- costs of maintenance and operations of the SPP are recorded among costs of materials and services,
- depreciation costs refer to depreciation of the SPP,
- employee benefits expense represents salaries and duties of employees in gas trading,
- current tax is calculated as corporate income tax based on profit on the profit or loss of individual activity.

Income statement for 2015 (Energy Act)

Item in EUR	Electricity trading	SP production	Gas trading	Total
OPERATING INCOME	**1,303,608,427**	**20,127**	**21,959**	**1,303,650,513**
1. Revenue	1,303,075,414	20,127	21,959	1,303,117,500
2. Other operating income	533,013			533,013
GROSS OPERATING YIELD	**1,303,608,427**	**20,127**	**21,959**	**1,303,650,513**
OPERATING COSTS	**1,253,382,067**	**6,510**	**9,618**	**1,253,398,195**
5. Costs of goods, material and services	1,242,234,362	1,430	85	1,242,235,877
6. Employee benefits expense	7,417,707		9,533	7,427,240
7. Write-downs in value	3,163,124	5,080		3,168,204
8. Other operating costs	566,874			566,874
OPERATING PROFIT	**50,226,360**	**13,617**	**12,341**	**50,252,318**
9. Finance income	21,122,674			21,122,674
10. Finance costs	386,382,773			386,382,773
FINANCIAL RESULT	**(365,260,099)**			**(365,260,099)**
PROFIT OR LOSS BEFORE TAX	**(315,033,739)**	**13,617**	**12,341**	**(315,007,781)**
TAX	**8,101,889**	**5,602**	**2,098**	**8,109,589**
11. Income tax	8,242,086	2,315	2,098	8,246,499
12. Deferred taxes	(140,197)	3,287		(136,910)
NET PROFIT OR LOSS FOR THE PERIOD	**(323,135,628)**	**8,015**	**10,243**	**(323,117,370)**
Majority stakeholder	(323,135,628)	8,015	10,243	(323,117,370)

The statement of financial position for the activities of electricity production in SPP and gas trading is composed based on the following rules:

- carrying amount of the SPP is disclosed under the production equipment in property, plant and equipment,
- short-term operating receivables include receivables from buyers of electricity and gas, as well as input VAT,
- profit or loss of individual activity and the difference between assets and liabilities in the statement of financial position are disclosed in equity,
- operating liabilities include payables to gas suppliers and providers of maintenance and operational services for the SPP and output VAT.

Statement of financial position as at 31 December 2015 (Energy Act)

Item in EUR	Electricity trading	SP production	Gas trading	Total
ASSETS	**1,206,396,886**	**170,372**	**39,618**	**1,206,606,876**
A. LONG-TERM ASSETS	**991,323,942**	**101,609**	**0**	**991,425,551**
I. Intangible assets	21,237,138			21,237,138
II. Property, plant and equipment	11,719,027	101,609		11,820,636
IV. Long-term investments in subsidiaries	826,253,551			826,253,551
V. Other long-term investments and loans	126,994,860			126,994,860
VI. Long-term operating receivables	535,689			535,689
VIII. Deferred tax assets	4,583,677			4,583,677
B. SHORT-TERM ASSETS	**215,072,944**	**68,763**	**39,618**	**215,181,325**
II. Inventories	841			841
III. Short-term investments	7,779,330			7,779,330
IV. Short-term operating receivables	121,484,044	2,057		121,486,101
V. Current tax receivables	6,358,863			6,358,863
VI. Other short-term assets	22,398,966	293		22,399,259
VII. Cash and cash equivalents	57,050,900	66,413	39,618	57,156,931
EQUITY AND LIABILITIES	**1,206,396,886**	**170,372**	**39,618**	**1,206,606,876**
A. EQUITY	**829,452,597**	**169,349**	**39,618**	**829,661,564**
I. Called-up capital	29,412,444	146,345		29,558,789
II. Capital surplus	561,243,185			561,243,185
III. Revenue reserves	562,744,824			562,744,824
IV. Hedging reserve	(737,288)			(737,288)
V. Fair value reserve	(30,296)			(30,296)
VI. Retained earnings	(323,180,272)	23,004	39,618	(323,117,650)
B. LONG-TERM LIABILITIES	**71,321,476**	**0**	**0**	**71,321,476**
I. Provisions for termination benefits upon retirement and jubilee premiums	751,048			751,048
II. Other provisions	3,030,191			3,030,191
IV. Long-term financial liabilities	67,539,830			67,539,830
VI. Deferred tax liabilities	407			407
C. SHORT-TERM LIABILITIES	**305,622,813**	**1,023**	**0**	**305,623,836**
II. Short-term financial liabilities	122,697,058	1,023		122,698,081
III. Short-term operating liabilities	147,028,449			147,028,449
V. Other short-term liabilities	35,897,306			35,897,306

Statement of cash flows (Energy Act)

Item in EUR	Electricity trading	SP production	Gas trading	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit or loss for the period	(323,135,628)	8,015	10,243	(323,117,370)
Adjustments for:				
Amortisation of intangible assets	301,271			301,271
Depreciation of property, plant and equipment	1,756,373	5,080		1,761,453
Write-off of property, plant and equipment	92			92
Write-off of trade receivables	1,105,388			1,105,388
Finance income	(21,122,674)			(21,122,674)
Finance costs	386,382,773			386,382,773
Gain on sale of property, plant and equipment	(91,524)			(91,524)
Tax expense	8,101,889	5,602	2,098	8,109,589
Cash generated from operating activities before change in net current assets and taxes	**53,297,960**	**18,697**	**12,341**	**53,328,998**
Change in net current assets and provisions				
Change in:				
Inventories	(841)			(841)
Trade and other receivables	38,681,899	(1,124)	8	38,680,783
Trade and other payables	(1,465,054)	703	(4,222)	(1,468,573)
Provisions	(481,853)			(481,853)
Income tax paid	(15,992,798)	(4,877)	(7,943)	(16,005,618)
Cash from operating activities	**74,039,313**	**13,399**	**184**	**74,052,896**
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	3,073,685			3,073,685
Income from other financing activities	2,175,192			2,175,192
Dividends received	16,107,683			16,107,683
Proceeds from sale of property, plant and equipment	93,880			93,880
Proceeds from sale of intangible assets	22,723,523			22,723,523
Proceeds from disposal (liquidation/sale) of subsidiaries	171,591			171,591
Proceeds from decrease in short-term loans given	840,000			840,000
Proceeds from settlement of derivatives	68,598			68,598
Proceeds from decrease in other short- term investments	563,393			563,393
Acquisition of property, plant and equipment	(150,730)			(150,730)
Acquisition of intangible assets	(19,817,295)			(19,817,295)
Acquisition of subsidiaries	(34,000,000)			(34,000,000)
Costs for increasing long-term loans to others	(84,828,094)			(84,828,094)
Costs for increasing other short-term investments	(82,439,000)			(82,439,000)
Costs for settlement of derivatives	(54,383)			(54,383)
Net cash used in investing activities	**(175,471,957)**			**(175,471,957)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term borrowings	73,303,030			73,303,030
Proceeds from short-term borrowings	285,000,000			285,000,000
Proceeds from other long-term financial liabilities	574			574
Payment of interest on borrowings	(5,478,226)			(5,478,226)
Costs for other financial liabilities	(2,948,961)			(2,948,961)
Repayment of long-term borrowings	(69,653,686)			(69,653,686)
Repayment of short-term borrowings	(150,000,000)			(150,000,000)
Repayment of other long-term financial liabilities	(4,034)			(4,034)
Net cash used in financing activities	**130,218,697**			**130,218,697**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	**28,268,173**	**53,014**	**39,434**	**28,360,621**
Exchange differences on cash	(3,326)			(3,326)
Financial result	28,786,053	13,399	184	28,799,636
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**57,050,900**	**66,413**	**39,618**	**57,156,931**

5 ACCOUNTING REPORT OF HSE GROUP

5.1 INDEPENDENT AUDITOR'S REPORT

KPMG

KPMG Slovenija, podjetje za revidiranje, d.o.o.
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Independent Auditor's Report

To the Shareholder of Holding Slovenske elektrarne, d.o.o., Ljubljana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company Holding Slovenske elektrarne, d.o.o., Ljubljana and its subsidiaries (the Holding Slovenske elektrarne Group) which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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.

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Holding Slovenske elektrarne Group as at 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

Financing

Without expressing qualification, we draw attention to the Note *5.5.7.5.2 Liquidity risk* to the financial statements, which indicates that at the year-end of 2015 the Holding Slovenske elektrarne Group was able to ensure bridge financing in the amount of EUR 215,000,000 until obtaining long-term sources. These financial sources are guaranteed until 29 December 2016, whereas negotiations with banks on providing for a long-term sustainable funding of the Group are underway in 2016.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

On behalf of the audit company

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boštjan Mertelj	Boris Drobnič
Certified Auditor	*Partner*

KPMG Slovenija, d.o.o.
1

Ljubljana, 31 May 2016

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.

5.2 Statement of Management's Responsibility

The Management is responsible for preparation of consolidated financial statements for each financial year in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable legislation in a manner that they give a true and fair view of the financial position of the HSE Group.

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

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

- accounting policies are appropriately selected and consistently used;
- judgements and assessments are reasonable and wise.

The Management is responsible for keeping relevant records, which in each moment represent the HSE Group financial position with a reasonable precision, and for ensuring that the consolidate financial statements are consistent with IFRS adopted by the EU. The Management is also responsible for safeguarding the HSE Group's assets and preventing and detecting fraud and other irregularities.

The Management confirms that the consolidated financial statements are prepared in accordance with the provisions of IFRS as adopted by the EU.

As at 31 May 2016, the Management adopted the consolidated financial statements of the HSE Group for the financial year ended 31 December 2015.

Stojan Nikolić,

CFO of HSE d.o.o.

Gorazd Skubin,

COO of HSE d.o.o.

Blaž Košorok,

CEO of HSE d.o.o.

Ljubljana, 31 May 2016

5.3 Introductory Notes to Preparation of Consolidated Financial Statements

The financial part of consolidated financial report comprises consolidated financial statements and accompanying explanatory notes for the HSE Group (hereinafter: 'the Group').

On the basis of the decision of the Capital Assets Management Agency of the Republic of Slovenia (AUKN RS) as the founder's representative as at 29 November 2010, the HSE Group has been since 1 January 2011 preparing its financial statements and accompanying explanatory notes in accordance with IFRS as adopted by the EU.

The audit firm KPMG Slovenija d.o.o. has audited the consolidated financial statements with explanatory notes and prepared the Independent Auditor's Report included in the beginning of the section.

5.4 CONSOLIDATED FINANCIAL STATEMENTS

5.4.1 Consolidated Stetement of Financial Position

Item in EUR	Note	31 Dec 2015	31 Dec 2014
ASSETS		**2,233,923,431**	**2,728,888,082**
A. LONG-TERM ASSETS		**1,939,116,779**	**2,405,973,836**
I. Intangible assets	1	20,180,784	22,567,489
II. Property, plant and equipment	2	1,769,006,910	2,241,267,011
III. Investment property	3	6,703,254	
V. Other long-term investments and loans	4	136,550,516	135,548,014
VI. Long-term operating receivables		1,102,917	819,330
VII. Other long-term assets		566,301	600,857
VIII. Deferred tax assets	5	5,006,097	5,171,135
B. SHORT-TERM ASSETS		**294,806,652**	**322,914,246**
I. Assets (disposal groups) held for sale	6	12,393,292	9,304,315
II. Inventories	7	18,684,680	23,643,698
III. Short-term investments and loans	8	19,819,239	6,024,008
IV. Short-term trade receivables	9	125,545,340	143,163,264
V. Current tax assets	30	6,532,048	112,178
VI. Other short-term assets	10	32,951,772	52,368,610
VII. Cash and cash equivalents	11	78,880,281	88,298,173
LIABILITIES AND EQUITY		**2,233,923,431**	**2,728,888,082**
A. EQUITY	12	**991,749,078**	**1,471,547,419**
I. Called-up capital		29,558,789	29,558,789
II. Capital surplus		561,243,185	561,243,185
III. Revenue reserves		413,856,350	413,856,350
IV. Hedging reserve		(797,127)	(1,642,338)
V. Fair value reserve		(651,136)	(159,917)
VI. Retained earnings or losses		(10,774,325)	461,050,199
VIII. Consolidated capital adjustment - exchange rate differences		(1,383,607)	(1,366,493)
VII. Minority interest		696,949	9,007,644
B. LONG-TERM LIABILITIES		**786,957,878**	**937,281,163**
I. Provisions for termination benefits and jubilee premiums	13	13,730,236	13,669,669
II. Other provisions	14	51,613,813	37,561,255
III. Other long-term liabilities	15	4,695,702	8,180,614
IV. Long-term financial liabilities	16	716,664,095	877,622,131
V. Long-term operating liabilities		250,130	243,479
VI. Deferred tax liabilities	5	3,902	4,015
D. SHORT-TERM LIABILITIES		**455,216,475**	**320,059,500**
I. Liabilities (disposal groups) held for sale	17	6,322,063	10,453,623
II. Short-term financial liabilities	18	298,441,112	58,774,687
III. Short-term trade liabilities	19	99,152,504	191,534,749
IV. Current tax liabilities	30	50,339	2,000,029
V. Other short-term liabilities	20	51,250,457	57,296,412

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

5.4.2 Consolidated Income Statement

Item in EUR	Note	2015	2014
1 Revenue	22	1,224,011,025	1,258,391,110
3. Capitalised own products and own services	23	33,408,479	30,501,902
4. Other operating income	24	15,403,412	24,471,566
OPERATING INCOME		**1,272,822,916**	**1,313,364,578**
2. Change in inventories of products and work in progress		(636,495)	2,866,225
GROSS OPERATING YIELD		**1,272,186,421**	**1,316,230,803**
OPERATING EXPENSES		**1,715,747,600**	**1,324,343,838**
5. Costs of goods, material and services	25	960,389,143	935,403,100
6. Employee benefits expense	26	129,488,553	146,923,084
7. Write- downs in value	27	565,120,996	165,425,865
a) Depreciation and amortization		81,112,019	88,495,749
b) Impairments/write-offs/sales of intangible assets , property, plant and equipment		473,996,333	72,302,670
c) Impairments/write-offs of receivables		3,762,867	1,054,011
d) Impairments/write-offs of inventories		6,249,777	3,573,435
8. Other operating expenses	28	60,748,908	76,591,789
OPERATING PROFIT OR LOSS		**(443,561,179)**	**(8,113,035)**
9. Financial income		367,311	1,607,309
10. Financial costs		27,209,418	13,181,089
FINANCIAL RESULT	29	**(26,842,107)**	**(11,573,780)**
11. Share of profit of equity-accounted investees		1,229,676	4,950,903
PROFIT OR LOSS BEFORE TAX		**(469,173,610)**	**(14,735,912)**
TAX	30	**10,929,118**	**20,954,523**
12. Income tax expense		11,007,032	21,225,488
13. Deferred taxes		(77,914)	(270,965)
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	31	**(480,102,728)**	**(35,690,435)**
Majority owner		(477,880,573)	(24,831,823)
Minority interest		(2,222,155)	(10,858,612)

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

5.4.3 Consolidated Statement of Other Comprehensive Income

Item in EUR	Note	2015	2014
Net profit or loss of the period	31	**(480,102,728)**	**(35,690,435)**
Actuarial gains and losses of employee defined benefit plans	13	**(517,470)**	(268,265)
Gains and losses on foreign currency translation of the financial statements of foreign operations		**(17,119)**	(129,496)
Items that will not be transferred to profit or loss		**(534,589)**	**(397,761)**
Net effective portion of changes in fair value of cash flow hedges	12	**(853,951)**	(1,139,795)
Net effective portion of changes in fair value of cash flow hedges reclassified to profit or loss	12	**1,700,735**	4,207,644
Change in fair value of financial assets available for sale		**(98)**	(225,945)
Items that may be transferred to profit or loss		**846,686**	**2,841,904**
23. Total comprehensive income for the period		**(479,790,631)**	**(33,246,292)**
Total comprehensive income for the period attributable to majority owner		**(477,558,509)**	(22,347,146)
Total comprehensive income for the period attributable to minority interest		**(2,232,122)**	(10,899,146)

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

5.4.4 Consolidated Statement of Cash Flows

Item in EUR	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss for the period	(480,102,728)	(35,690,435)
Adjustments for:		
Amortisation of intangible assets	1,311,219	1,520,463
Depreciation of property, plant and equipment	79,730,899	86,963,052
Amortisation of investment property	69,901	12,234
Impairment of property, plant and equipment, intangible assets and investment property	470,044,869	70,688,179
Impairment of other	225,033	197,906
Write-off of property, plant and equipment	3,764,942	1,453,453
Write-off of trade receivables	3,762,867	1,054,011
Write-off of inventories	6,249,777	3,573,435
Loss on sale of property, plant and equipment	186,522	161,038
Finance income	(367,311)	(1,607,309)
Finance costs	27,209,418	13,181,089
Share of profit of equity-accounted investees	(1,229,676)	(4,950,903)
Gain on sale of property, plant and equipment	(2,177,295)	(4,269,098)
Reversal of impairment of trade receivables	(153,467)	(3,694,381)
Tax expense	10,929,118	20,954,523
Cash generated from operating activities before change in net current assets and taxes	**119,454,088**	**149,547,257**
Change in net current assets and provisions		
Change in:		
Inventories	793,073	187,472
Trade and other receivables	33,176,331	21,778,434
Assets held for sale	(1,245,652)	(985,242)
Trade and other payables	(81,197,007)	34,055,274
Liabilities held for sale	(4,131,560)	
Provisions	13,595,655	141,070
Income tax paid	(19,376,592)	(27,866,164)
Cash from operating activities	**61,068,336**	**176,858,101**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	140,736	1,183,577
Income from other financing activities	135,285	
Dividends received	2,960	
Proceeds from sale of property, plant and equipment	11,348,520	6,336,148
Proceeds from sale of intangible assets		232,355
Proceeds from sale of investment property	24,637	110,000
Proceeds from sale of other short-term investments	171,892	
Proceeds from decrease in short-term loans given	59,609	348,903
Proceeds from settlement of derivatives	68,598	
Proceeds from decrease in short-term investments	27,510,872	61,633,335
Proceeds from decrease in long-term other investments	160	93,034,378
Acquisition of property, plant and equipment	(101,446,968)	(226,688,481)
Acquisition of intangible assets	(20,459,242)	(23,802,418)
Costs for increasing short-term loans	(3,022)	(86,623)
Costs for increasing other short-term investments	(41,050,407)	(40,797,241)
Costs for increasing other long-term investments	(296,592)	(710,173)
Net cash used in investing activities	**(123,792,962)**	**(129,206,240)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	79,903,030	81,120
Proceeds from short-term borrowings	294,000,876	134,206,711
Proceeds from other long-term financial liabilities	574	14,201
Payment of interest on borrowings	(20,076,212)	(5,936,780)
Costs for other financial liabilities	(7,946,201)	(6,003)
Repayment of long-term borrowings	(82,253,702)	(28,100,172)
Repayment of short-term borrowings	(210,309,086)	(134,791,845)
Repayment of other short-term borrowings		(6)
Repayment of other long-term financial liabilities	(4,845)	
Dividends paid	(7,700)	(5,237)
Net cash used in financing activities	**53,306,734**	**(34,538,011)**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	**88,298,173**	**75,184,323**
Financial result	(9,417,892)	13,113,850
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**78,880,281**	**88,298,173**

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

5.4.5 Consolidated Statement of Changes in Equity

	Called-up capital		Revenue reserves			Retained earnings or losses				
Item in EUR	Share capital	Capital surplus	Other revenue reserves	Hedging reserve	Fair value reserve	Retained earnings or losses	Ner profit or loss for the period	Translation reserve	Minority interest	Total
Balance at 1 Jan 2014	**29,558,789**	**561,243,185**	**413,856,350**	**(4,677,039)**	**260,610**	**416,905,196**	**68,981,896**	**(1,243,072)**	**61,901,157**	**1,546,787,072**
B.1. Transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,005**	**(41,994,367)**	**(41,993,362)**
Dividend pay-out								1,005	(5,237)	(4,232)
Other changes in equity									(41,989,130)	(41,989,130)
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**3,034,701**	**(420,527)**	**0**	**(24,831,824)**	**(129,496)**	**(10,899,146)**	**(33,246,292)**
Net profit or loss for the reporting period							**(24,831,824)**		**(10,858,611)**	**(35,690,435)**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**0**	**(237,610)**	**0**	**0**	**(129,496)**	**(30,655)**	**(397,761)**
Actuarial gains and losses of employee defined benefit plans					*(237,610)*				*(30,655)*	*(268,265)*
Gains and losses on foreign currency translation of the financial statements of foreign operations								*(129,496)*		*(129,496)*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**3,034,701**	**(182,917)**	**0**	**0**	**0**	**(9,880)**	**2,841,904**
Net effective part of change in fair value of instrument for cash flow hedges				*(1,139,795)*						*(1,139,795)*
Net effective portion of changes in fair value of instruments for cash flow hedges reclassified to profit or loss				*4,174,496*					*33,148*	*4,207,644*
Change in fair value of available-for-sale financial assets					*(182,917)*				*(43,028)*	*(225,945)*
B.3. Changes within eqiuty	**0**	**0**	**0**	**0**	**0**	**68,976,826**	**(68,981,896)**	**5,070**	**0**	**0**
Allocation of the remaining portion of net profit of the comparable period to other equity components						68,981,896	(68,981,896)			0
Other changes in equity						(5,070)		5,070		0
Balance at 31 Dec 2014	**29,558,789**	**561,243,185**	**413,856,350**	**(1,642,338)**	**(159,917)**	**485,882,022**	**(24,831,824)**	**(1,366,493)**	**9,007,644**	**1,471,547,418**
Balance at 1 Jan 2015	**29,558,789**	**561,243,185**	**413,856,350**	**(1,642,338)**	**(159,917)**	**485,882,022**	**(24,831,824)**	**(1,366,493)**	**9,007,644**	**1,471,547,418**
B.1. Transactions with owners	**0**	**0**	**0**	**0**	**0**	**6,070,871**	**0**	**0**	**(6,078,571)**	**(7,700)**
Dividend pay-out									(7,700)	(7,700)
Other changes in equity						6,070,871			(6,070,871)	0
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**845,212**	**(491,219)**	**(14,811)**	**(477,880,573)**	**(17,119)**	**(2,232,121)**	**(479,790,631)**
Net profit or loss for the reporting period							**(477,880,573)**		**(2,222,155)**	**(480,102,728)**
Items that will not be transferrd to profit or loss	**0**	**0**	**0**	**0**	**(491,121)**	**(14,811)**	**0**	**(17,119)**	**(11,538)**	**(534,589)**
Actuarial gains and losses of employee defined benefit plans					*(491,121)*	*(14,811)*			*(11,538)*	*(517,470)*
Gains and losses on foreign currency translation of the financial statements of foreign operations								*(17,119)*		*(17,119)*
Items that may be transferred to profit or loss	**0**	**0**	**0**	**845,212**	**(98)**	**0**	**0**	**0**	**1,572**	**846,686**
Net effective part of change in fair value of instrument for cash flow hedges				*(853,951)*						*(853,951)*
Net effective portion of changes in fair value of instruments for cash flow hedges reclassified to profit or loss				*1,699,163*					*1,572*	*1,700,735*
Change in fair value of financial assets available for sale					*(98)*					*(98)*
B.3. Changes within eqiuty	**0**	**0**	**0**	**0**	**0**	**(24,831,824)**	**24,831,814**	**5**	**(3)**	**(8)**
Allocation of the remaining portion of net profit of the comparable period to other equity components						(24,831,824)	24,831,824			0
Other changes in equity							(10)	5	(3)	(8)
Balance at 31 Dec 2015	**29,558,789**	**561,243,185**	**413,856,350**	**(797,126)**	**(651,136)**	**467,106,258**	**(477,880,583)**	**(1,383,607)**	**696,949**	**991,749,079**

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

5.5 Notes to the Consolidated Financial Statements

5.5.1 Reporting entity

Consolidated financial statements for the HSE Group (hereinafter: 'Group') are prepared by the controlling company Holding Slovenske elektrarne d.o.o. (hereinafter: 'the controlling company'). The consolidated financial statements as a part of the company's and Group's annual report are available at the registered office of the controlling company Koprska ulica 92, Ljubljana.

Consolidated financial statements as at 31 December 2015 outline the operations of the Group which encompass the controlling company and its subsidiaries, interests in jointly controlled entities and associates.

The Group is the largest Slovenian organisation engaged in the field of electricity and is the largest electricity producer (hydro and thermal power production) and trader in Slovenia's wholesale market and electricity trader in the European wholesale market. The Group also fully covers the production of coal as required by the coal-fired power plant for producing electricity. Group's production capacities are all located in Slovenia.

The financial year of the Group is equal to the calendar year. The consolidated financial statements for the year ended 31 December 2015 are presented below.

5.5.1.1 HSE Group as at 31 December 2015

Group companies included in the consolidated financial statements of the HSE Group

Company	% of co-ownership at 31 Dec 2015	% of co-ownership at 31 Dec 2014	Registered seat
HSE d.o.o.	100.0 %	100.0 %	Slovenia
DEM d.o.o.	100.0 %	100.0 %	Slovenia
SENG d.o.o.	100.0 %	100.0 %	Slovenia
TEŠ d.o.o.	100.0 %	100.0 %	Slovenia
PV d.d.	99.2 %	77.7 %	Slovenia
GOST d.o.o.	99.2 %	77.7 %	Slovenia
HTZ IP d.o.o.	99.2 %	77.7 %	Slovenia
PV Invest d.o.o.	99.2 %	77.7 %	Slovenia
RGP d.o.o.	99.2 %	77.7 %	Slovenia
GOLTE d.o.o.	74.8 %	58.6 %	Slovenia
TET d.d. - in liquidation	100.0 %	81.3 %	Slovenia
HSE Invest d.o.o.	75.0 %	75.0 %	Slovenia
SRESA d.o.o.	60.0 %	60.0 %	Slovenia
mHE Lobnica d.o.o.	65.0 %	65.0 %	Slovenia
ELPROM d.o.o.	100.0 %	100.0 %	Slovenia
HSE MAK Enery DOOEL	100.0 %	100.0 %	Macedonia
HSE Italia S.r.l.	-	100.0 %	Italy
HSE Adria d.o.o.	100.0 %	100.0 %	Croatia
HSE BH d.o.o.	100.0 %	100.0 %	Bosnia and Herzegovina
HSE BE d.o.o.	100.0 %	100.0 %	Serbia

Prior to the consolidation of the HSE Group, the Premogovnik Velenje Group (hereinafter: the PV Group) had been consolidated. In accordance with the consecutive consolidation method, consolidated financial statements are already prepared at the level of the subsidiary PV and are then included in the consolidated financial statements of the HSE Group.

The consolidated annual report of the PV Group is available at the registered office of the company Premogovnik Velenje d.d., Partizanska cesta 78, Velenje.

Companies included in the consolidated financial statements of the PV Group

Company	Registered seat
PV d.d.	Slovenia
GOST d.o.o.	Slovenia
HTZ IP d.o.o.	Slovenia
PV Invest d.o.o.	Slovenia
RGP d.o.o.	Slovenia
GOLTE d.o.o.	Slovenia

Significant amounts in the financial statements of subsidiaries

Item in EUR	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
TEŠ d.o.o.	1,119,823,870	904,003,847	161,995,095	(459,045,867)	215,820,023
DEM d.o.o.	523,229,721	12,460,427	67,392,079	8,671,945	510,769,294
SENG d.o.o.	254,005,101	48,116,044	40,943,065	6,172,466	205,889,057
PV d.d.	123,624,126	83,395,676	104,995,892	(69,934,023)	40,228,450
HTZ I.P. d.o.o.	19,283,352	18,329,525	32,630,112	(4,443,829)	953,827
PV Invest d.o.o.	15,813,460	7,757,293	7,055,421	(665,332)	8,056,167
HSE Adria d.o.o.	9,959,085	8,978,979	69,193,664	290,465	980,106
GOLTE d.o.o.	8,569,820	8,469,342	1,501,300	(607,038)	100,478
TET d.o.o. - in liquidation	7,826,079	10,924,270	3,632,477	(623,102)	(3,098,191)
RGP d.o.o.	6,123,240	4,366,869	13,066,383	(1,455,960)	1,756,371
HSE BH d.o.o.	3,298,367	2,730,878	16,687,946	26,497	567,489
GOST d.o.o.	3,298,285	5,511,602	4,356,554	(183,827)	(2,213,317)
HSE Invest d.o.o.	2,982,012	1,250,577	5,423,094	428,872	1,731,435
HSE BE d.o.o.	1,803,904	1,093,585	13,297,073	2,125	710,319
mHE Lobnica d.o.o.	633,440	2,180	28,861	2,851	631,260
SRESA d.o.o.	76,435	11	7	(600)	76,424
HSE MAK Energy DOOEL	75,551	5,476	1,173	(25,129)	70,075
ELPROM d.o.o.	60,049	48	11	(3,721)	60,001
HSE Italia S.r.l.			298	(15,736)	
Total	**2,100,485,897**	**1,117,396,629**	**542,200,505**	**(521,408,943)**	**983,089,268**

The company HSE Italia was in 2015 included in the consolidation for the last time as it winded up its operations on the basis of voluntary liquidation. The company was formally deleted from the register of companies on 29 June 2015.

The subsidiaries Jama Škale v zapiranju d.o.o. and TET Novi materiali d.o.o. were put to halt due to insignificance and were not included in the consolidated financial statements, neither on the level of the controlling company nor the Group. The exclusion of these two companies is not significant for the fair presentation of Group's operations.

5.5.1.2 Associates

Company	Co-owner company	Registered seat	% co-ownership	% co-owner - HSE Group company
ELDOM d.o.o.	DEM d.o.o.	Slovenia	50.0%	50.0%
	TEŠ d.o.o.	Slovenia	26.0%	
ERICO d.o.o.	PV d.d.	Slovenia	22.8%	48.8%
PLP d.o.o.	PV d.d.	Slovenia	26.0%	25.8%
SIPOTEH d.o.o.	PV d.d.	Slovenia	41.7%	41.7%
	TEŠ d.o.o.	Slovenia	8.0%	
	PV d.d.	Slovenia	10.9%	
	HTZ IP d.o.o.	Slovenia	0.9%	
RCE d.o.o. - in bankruptcy	PV INVEST d.o.o.	Slovenia	4.5%	24.3%
	RCE d.o.o. - in bankruptcy	Slovenia	18.5%	
FILVOTEH d.o.o.	HTZ IP d.o.o.	Slovenia	23.8%	42.3%
	RCE d.o.o. - in bankruptcy	Slovenia	18.5%	
KARBOTEH d.o.o.	PV d.d.	Slovenia	23.8%	42.3%
	RCE d.o.o. - in bankruptcy	Slovenia	18.5%	
TEHNOVETER d.o.o.	PV d.d.	Slovenia	23.8%	42.3%
	DEM d.o.o.	Slovenia	30.8%	
	HSE d.o.o.	Slovenia	15.4%	
HESS d.o.o.	SENG d.o.o.	Slovenia	2.8%	49.0%
PV Fairwood - in liquidation	PV d.d.	Slovenia	40.0%	39.7%

5.5.1.3 Jointly controlled companies

Data on jointly controlled entities as at 31 December 2015

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

5.5.1.4 Branches and representative offices

The Group has two foreign branch offices, in Macedonia and the Czech Republic, and a representative office in Romania. In 2015, transactions through branch offices were performed to a minimum degree or were not carried out at all. The operations of branch and representative offices are included in the Group's financial statements.

5.5.2 Basis of prepration

a) Statement of compliance

During the compilation of the consolidated financial statements as at 31 December 2015, the company took into account:

- IFRS, which comprise the International Accounting Standards (IAS), interpretations and clarifications of the Standing Interpretation Committee (SIC), the International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU,
- Companies Act (ZGD),
- Energy Act (EZ),
- Mining Act,
- Group's Accounting manual, and
- other applicable legislation.

b) Accounting assumptions and qualitative characteristics of financial statements

The consolidated financial statements are prepared taking into account the basic accounting assumptions:

- accrual basis and
- going concern.

The impacts of transactions and other business events are recognised when they occur, not when they are paid, and are recorded and reported for the periods to which they apply. Accordingly, the consolidated financial statements include also the information on liabilities regarding future payments and on assets that shall result in cash inflows in the future.

The consolidated financial statements are based also on the assumption that the Group will not considerably shrink the volume of its operations or even terminate them, thus that it will continue to operate in the foreseeable future.

The following qualitative characteristics of financial statements have also been observed:

- Fair presentation and compliance with IFRS: the consolidated financial statements give a fair view of the Group's financial position, financial performance and cash flows.
- Consistency of presentation: presentation and classification of items in the consolidated financial statements is the same for each period. Certain items in the consolidated accounting report for 2015 are more closely disclosed if compared to the previous year's report, hence also the comparable data are adjusted. Changes in disclosures are as follows:

a) short-term trade receivables and short-term payables to suppliers are disclosed separately. Other operating receivables and liabilities are recorded among other current assets or liabilities (receivables were in the consolidated accounting report for 2014 disclosed within short-term operating receivables, whereby liabilities within short-term operating liabilities);

b) Group's liabilities for unused vacation days are recorded under short-term payables to employees within other short-term liabilities (they were in 2014 disclosed among short-term accrued costs and expenses);

c) the item of equity separately discloses the hedging reserve and the fair value reserve (both items were in the consolidated accounting report for 2014 recorded under the fair value reserve);

d) financial liabilities arising from derivatives are recorded separately (they were in 2014 disclosed within other long-term and short-term financial liabilities);

e) the consolidated income statement separately discloses the share in operating results of associates and jointly controlled entities, which was in 2014 disclosed among finance income and finance costs;

f) the consolidated statement of cash flows is different in the part relating to operating activities i.e. profit or loss is adjusted by effects that are of non-cash nature, by deferred income and expenses, and items of earnings and cash disbursements arising under cash flows from investing and financing activities. This part was in previous year presented as earnings and expenses and changes in inventories, operating receivables and liabilities;

g) the consolidated statement of other comprehensive income and the consolidated statement of changes in equity separately disclose the effective portion of changes in fair value of cash flow hedges, which relates to the fair value and disclosed in the income statement.

- Relevance and aggregation: each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.
- Offsetting: assets and liabilities, and income and expenses, are not offset unless required or permitted by a standard or an interpretation.
- Comparative information: except when a standard or an interpretation permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information is included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

The Group uses the same accounting policies for all periods presented in the financial statements for 2015.

c) Basis of measurement

The consolidated financial statements are prepared on the basis of historical values of balance sheet items of Group companies, except the following assets and liabilities carried at fair value:

- derivatives, and
- available-for-sale financial assets (in case the fair value can be reliably determined.

d) Functional and presentation currency

The consolidated financial statements contained in this Report are presented in euro (EUR) without cents. The euro has been the functional and presentation currency of the Group. Due to the rounding of amounts, minor but insignificant deviations exist in the tables.

e) Use of estimates and judgments

The preparation of consolidated financial statements requires that the controlling company's management to forms certain estimates and assumptions which affect the application of accounting policies and the disclosed amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Significant estimates on uncertainty and critical judgements, which were made by the management while implementing the accounting policies and with the largest impact on the amounts in financial statements, were prepared by using equal accounting procedures as during the compilation of consolidated financial statements as at 31 December 2014.

Estimates and assumptions are present at least at the following judgements:

- assessment of useful life of amortisable assets (disclosure 5.5.7.1 points 1 and 2),
- impairment testing of assets (disclosure 5.5.7.1 points 1, 2 and 3),

- assessment of fair value of derivatives (disclosure 5.5.7.1. point 12),
- assessment of realisable values of receivables (disclosure 5.5.7.5.1.),
- assessment of net realisable value of inventories (disclosure 5.5.7.1. point 7),
- assessment of provisions for jubilee and termination benefits (disclosure 5.5.7.1. point 13),
- assessment of other provisions (disclosure 5.5.7.1. point 14), and
- assessment of contingent liabilities and assets (disclosure 5.5.7.1. point 21).

Additional estimates and judgements made by the management during the preparation of financial statements as at 31 December 2015 comprise:

1. The controlling company has the right to repurchase at any time by 31 December 2019 the entire equity interest in the company HESS which was sold in 2014 (35.6% and not less). The same valuation method is applied as during the equity interest's sale.

   In the given market circumstances, the current indebtedness of the Group and the generated and planned free cash flow, the controlling company lacks of free cash to purchase the equity interest in the company HESS and copes with difficulties in obtaining additional financial sources by increasing its own borrowing and of the Group's. The business strategy of the controlling company and the Group is directed towards the Group's deleveraging, reducing investment-related costs new production facilities, and optimising the business processes of the Group. All activities focus on achieving the targeted net debt/EBITDA ratio. Consequently, the repurchase of the equity interest in the company HESS was until 2019 not even included in the controlling company's and Group's business projections for the 2016-2030 period, which the controlling company's Supervisory Board confirmed in January 2016, and not in the Group's development plan for the 2016-2020 period, which was confirmed by the controlling company's Supervisory Board and SDH in November 2015.

   By selling its 35.6% equity interest in HESS the controlling company lost its controlling interest over HESS (HSE Group has 49% of voting rights and a minority of members in the Supervisory Board of HESS).

2. The obligation to dismantle power plant relates solely to the replacement Unit 6 at TEŠ, as indicated in the Energy licence for this building. The environmental permits for other production facilities do not include the obligation of dismantling.

   As for hydro power plants, regular maintenance is demanded in the period of the concession's duration. Costs of dismantling are not anticipated for the concession operator after the expiry of the concession.

3. The controlling company is engaged in selling and purchasing of electricity (except for derivatives) with the purpose to trade in electricity, hence it is considered a physical supply. These transactions are pursuant to IAS 39 not deemed as transactions within financial instruments (IAS 39/5).

4. According to forecasts, the prices of CO_2 emission coupons have gone up if compared to 2014, which significantly impacted the results of impairment testing on the Group's assets and consequently the relevant impairments.

5. In case of impairment testing of assets that have an unlimited useful life (hydro power plants and goodwill), 15-year projections for such cash generating unit are used, whereby for units with a limited useful life (thermal power plants) the business projections for its entire useful life are taken into consideration. The used price fluctuation projections for electricity and CO_2 emission coupons, compiled by an independent institution, are for the above-mentioned first group limited to a period of 15 years and for the second group to 25

years. Reasons for using long-term projections during impairment testing comprise following: nature of the activity that required long-term investment cycles, adoption of investment-related decisions based on observing long-term market projections, existence of long-term projections on price fluctuations for the most significant input data used in impairment testing, uneven posting of investments in maintaining capacities throughout the period of anticipated business operation of energy facilities and adjusting the production volume to the energy product's availability.

6. Assets and liabilities of the company TET, which is in regular liquidation since December 2014, are recorded among assets or liabilities held for sale. Assets are valued at liquidation value, whereby the final liquidation date was postponed to 2016 due to the energy facility's liquidation-related specifics. The values hereunder are in view of the Group insignificant.

5.5.3 Fundamental accountin policies

5.5.3.1 Foreign currency translation

Transactions expressed in foreign currency are translated into the relevant functional currency at the exchange rate applicable on the date of transaction. Cash and liabilities expressed in a foreign currency at the end of the reporting period are converted into functional currency at then applicable exchange rate. Positive or negative foreign exchange differences are differences between amortised cost in the functional currency at the beginning of the period, which is repaired for the amount of effective interest and payments during the period, as well as amortised cost in foreign currency converted at the exchange rate at the end of the period. Foreign exchange differences are recognised in the income statement, namely in net amounts.

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

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

5.5.3.2 Basis for consolidation

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

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

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

Consolidated financial statements do not include balances of receivables and liabilities among the Group companies, revenue and expenses and unrealised profits and losses from transactions within the Group.

Exchange differences from translation of financial statements of subsidiaries whose functional currency is not the same as presentation currency of the Group are recognised in consolidated equity adjustment or statement of other comprehensive income.

5.5.3.3 INTANGIBLE ASSETS

Intangible assets are long-term assets enabling the performance of the Group companies' registered activities without existing physically.

Intangible assets comprise long-term property rights (also emission coupons), goodwill and other intangible assets.

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

Intangible assets are subsequently measured using the cost model.

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

Goodwill appears in consolidation and represents a surplus of cost over the acquirer's share in fair value of acquired recognisable assets, liabilities and contingent liabilities of the subsidiary on the date of acquisition. Goodwill is recognised as an asset and is examined at least once per year due to impairment. Each impairment is immediately recognised in the consolidated income statement and is not subsequently reversed. In case of disposal of subsidiary, the adequate amount of goodwill is included in the establishment of profit/loss in sales and effect on the Group's profit or loss.

Amortisation is accounted for on a straight-line basis, taking into account the useful life of each individual (integral) part of an intangible asset. The amortisation is measured at cost when an asset is available for use. Emission coupons are not amortised, since they are purchased for individual periods in which they are used.

ESTIMATED USEFULL LIFE – INTANGIBLE ASSETS

	2015	2014
Software	2-20 years	2-20 years
Licences	2-10 years	2-10 years
Other long-term property rights	4-10 years	4-10 years
Other intangble assets	4-10 years	4-10 years

Useful life of groups of intangible assets are examined at the end of each financial year and adapted, if needed. If useful life is extended the amortisation cost decreases and if the useful life is shortened, the amortisation cost increases. The adjustment of useful life has to be calculated in a manner that the asset will be amortised in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

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.

On disposal, intangible assets are eliminated from the books of account, and the difference between the net sales value and the carrying amount of a disposed intangible asset is transferred to other operating income or write-downs.

5.5.3.4 PROPERTY, PLANT AND EQUOIPMENT

Property, plant and equipment are long-term assets owned by the Group companies and used for the performance of their activities.

Property, plant and equipment comprise land, buildings, production equipment, other equipment and assets in the course of construction.

Property, plant and equipment (also 'fixed assets') are carried at cost, less accumulated depreciation and losses from impairment. Cost includes costs that can be directly attributed to the acquisition of an item of property, plant and equipment. Cost includes borrowing costs related to the acquisition of a fixed asset until its working condition and also cost of dismantling, which depends upon the type of asset.

The parts of items of plant and equipment with different useful lives are accounted for as individual assets. Spare parts of higher value are recorded as fixed assets and are depreciated over the useful life of the related asset.

The anticipated costs of regular inspections and repairs of fixed assets are considered as parts of property, plant and equipment. They include repairs that are usually carried out every few years (periodically) and require substantial resources.

The cost of an item of property, plant and equipment constructed or manufactured within the Group consists of the costs incurred as a result of its construction or manufacturing and of indirect construction or manufacturing costs that can be attributed to the item.

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

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

Depreciation is calculated using the straight-line depreciation method, taking into account the useful life of individual (integral) part of a fixed asset. Depreciation begins when an asset is available for use. Land, quarries and assets in the course of construction or production are not depreciated.

Assets acquired free-of-charge are depreciated, while at the same time a part of long-term deferred revenue is transferred to other operating revenue. This part equals the value of calculated depreciation.

ESTIMATED USEFUL LIFE – PROPERTY, PLANT AND EQUIPMENT

	2015	2014
Buildings	10-70 years	10-70 years
Parts of buildings	5-70 years	5-70 years
Production equipment	4-50 years	4-50 years
Parts of produciton equipment	5-25 years	5-25 years
Computer equipment	2-10 years	2-10 years
Furniture	4-10 years	4-10 years
Small tools	3-10 years	3-10 years
Cars	5-10 years	5-10 years
Other vehicles	4-10 years	4-10 years
Other devices and equipment	2-16 years	2-16 years

Useful life of groups of fixed assets are examined at the end of each financial year and adapted, if needed. In the event their useful life is extended, the cost of depreciation in the current year is decreased. If useful life is shortened, depreciation cost increases. The adjustment of useful life has to be calculated in a manner that an asset will be depreciated in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

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

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

5.5.3.5 Leases

Leases in terms of which the Group assumes substantially all major risks and benefits of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in line with the accounting policies applying to assets owned by the Group. Minimum lease payments made under finance leases are apportioned between the finance expense and reduce the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are treated as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

5.5.3.6 Long-term investments in associates and jointly controlled companies

Investments in associates are investments in which the Group has an important influence and usually its stake in such company ranges between 20% and 50%.

Investments in jointly controlled companies are investments in which the Group controls the operations of such companies together with other owners, namely on the basis of contractually agreed division of control.

Investments in associates and in jointly controlled companies are at acquisition carried at cost in consolidated financial statements, whereas later on their carrying amount changes due to write-ups as the result of using the equity method.

5.5.3.7 Financial instruments

Financial instruments include the following assumptions:

- non-derivative financial assets,
- non-derivative financial liabilities, and
- derivatives.

I. Non-derivative financial assets

The Group's non-derivative financial assets comprise available-for-sale financial assets, trade receivables, loans and cash and cash equivalents.

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or financial assets at fair value through profit or loss.

Available-for-sale financial assets are recognised after the trading date.

They are carried at fair value, if the fair value can be established and the profit or loss during valuation is recognised directly in other comprehensive income or equity, except loss due to impairment. These are recognised so 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 asset is recognised under the fair value reserve.

At derecognition of investment, the accumulated profit and loss recorded in other comprehensive income are transferred to profit or loss.

In case the fair value cannot be reliably measured, since the range of justified fair value assessments is of significant importance and the probability of various assessments is difficult to be assessed, the Group companies measure the financial asset at cost.

Loans and trade receivables

Loans and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

At initial recognition, loans and trade receivables are disclosed at fair value increased by direct costs of transaction. After initial recognition are measured at amortised cost and decreased by the loss due to impairment. Loans and trade receivables are recorded in the consolidated statement of financial position as financial and operating assets and include granted loans, deposits and receivables due from buyers.

In the books of account loans are recognised in accordance with settlement date, while receivables are recognised in accordance with trading date.

They are included under current assets, except in case of maturities of more than 12 months after the date of the statement of financial position. In such case they are classified under long-term assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank deposits of up to three months and other short-term quickly realisable investments with original maturity of three months or less. They are carried at cost. Overdrafts on bank accounts are included under short-term financial liabilities.

II. Non-derivative financial liabilities

Non-derivative financial liabilities comprise, financial and trade liabilities. Non-derivative financial liabilities are initially carried at fair value increased by the costs that are directly attributable to the transaction. After the initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Among them, the Group records loans received with interest other financial suppliers liabilities and liabilities to others.

Loans received are initially recognised on the date of their settlement (payment), while other non-derivative financial liabilities are recognised on the trade date.

The portion of long-term financial liabilities that falls due within less than a year after the cash flow statement date is disclosed under short-term financial liabilities.

III. Derivative financial instruments

Derivatives entered into by the Group meet the criteria as defined in IAS 39 – Financial instruments: recognition and measurement.

Derivatives are used for the hedging of Group's exposure against interest rate, price and currency risks. The Group has concluded interest rate and currency swaps as well as futures contracts for the purchase of electricity in the following years.

These are financial instruments that do not require initial financial investment, while their value is changing due to change in interest rates, 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.

During the classification of derivatives, the Group applies hedging criteria as defined in IAS 39, namely:

- the instrument must hedge against cash flow changes that can be attributed to hedged risks;
- hedging efficiency (i.e. level to which the change in the hedging value impacts the hedged item or future transactions) must range from 80% to 125%;
- in case of cash flow hedge, all future transactions that shall be hedged, must be highly probable;
- the possibility of reliable measuring of the hedging's efficiency must exist;
- the hedging must be supported by proper documentation since its start.

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 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 Group 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 other comprehensive income remains recorded in the hedging reserve until the envisaged transaction impacts the profit or loss. If the envisaged transactions cannot be expected any more, the amount recognised in other comprehensive income must be directly recognised in profit or loss. In other cases, the amount recognised as other comprehensive income is transferred to profit or loss for the same period in which the protected item affects the profit or loss.

Effects of other derivatives, which are not determined 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.

If forward purchases and sales for physical supply of electricity are treated as contracts concluded within the Group's own use, they are not subject to criteria under IAS 39. The latter enters into force when following criteria is met:

- physical supply is part of all such contract,
- volume of purchased or sold energy within the framework of contracts corresponds to the operative requirements of the Group,
- the contract cannot be treated as an option defined in the standard. Contracts on the sale of energy equal the fixed-term sale or can be deemed as sale of capacities.

The Group is of the opinion that transactions subject to negotiations on balancing the commitments on purchasing and selling electricity are to be considered as part of their operations and not within the scope of IAS 39.

5.5.3.8 Inventories

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

The value of finished products and work in progress includes total production costs in the narrow sense, which comprise direct costs of materials, direct costs of services, direct labour costs, direct depreciation/amortisation costs and general production costs. General production costs are costs of materials, services, salaries and amortisation/depreciation, which are charged in the framework of production process, but cannot be directly connected to developing business effects. A part of production costs in total costs (materials, services, labour costs and depreciation) is established once per year on the basis of data from the previous year.

If the prices of items purchased in the current accounting period differ from the prices of items of inventory of the same class the first in first our (FIFO) method is applied to decrease the quantities of inventories during ther year.

Net realisable value is assessed on the basis of selling price in the normal course of business reduced by the estimated costs of completion and sales. The write-downs of damaged, expired and useless inventories are regularly performed during the year by individual items.

At least once per year, namely as at the date of preparation of annual financial statements, the evidence on impairment of inventories is assessed. The impairment of inventories is assessed for each individual type of inventories. Individual types of inventories are classified as groups of inventories with similar characteristics on the basis of time component of changes in inventories. In the assessment of impairment for an individual group, the criteria of professional assessment, further utilisation or sale are used.

5.5.3.9 Impairment of assets

I. Financial assets

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

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

Impairment of receivables and loans granted

The Group individually assesses the evidence on impairment of receivables.

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

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.

For receivables at the beginning of bankruptcy proceeding, an allowance in the amount of 80% of open receivable is created; for disputable receivables 20% of the amount claimed; for receivables subject to compulsory settlement that have not been confirmed yet it represents 50% of the amount claimed in the compulsory settlement proceeding. The percentage may change, if taking into account circumstances and facts of individual case.

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

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 Group to enter the collection procedure through court, receivables are finally written down in full based on the management's decision.

The Group assesses evidence on loan impairment for each significant loan.

Loss due to impairment related to financial asset carried at amortised cost is calculated as difference between the carrying amount of an asset and expected cash flows discounted at historical interest rate. Loss is recognised in profit or loss.

II. Non-financial assets

On each reporting date, the Group companies verify 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 estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is 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 receipts of other assets and groups of assets (cash-generating unit). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

At the end of the reporting period, the Group companies evaluate losses due to impairment in previous periods and determine whether the loss has decreased or even disappeared. Loss due to impairment is reversed in case there has been a change in assessments, on the basis of which a company defines the recoverable amount of an asset. The impairment loss is reversed to the amount up to which the asset’s increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation if no impairment loss has been recognised for the asset in prior periods. Loss on impairment of goodwill is not derecognised.

5.5.3.10 Equity

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

As at 31 December 2002, the general equity revaluation adjustments included the revaluation of share capital before 2002 in accordance with then applicable Slovene Accounting Standards (SAS). The adjustment due to the transfer to new SAS has been transferred to capital surplus.

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

Hedging reseve comprises amounts from revaluation of derivatives.

Fair value reserve represents amounts arising from revaluation available-for-sale financial-assets of the Group, and the cumulative amount of actuarial gains/losses arising from the actuarial calculation from provisions for termination benefits upon retirement.

The retained earnings include profits or loss of the Group companies in the current and previous years.

The consolidated equity adjustment includes exchange rate differences from translations of items in financial statements of the Group companies operating abroad.

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

5.5.3.11 Provisions for jubilee premiums and termination benerfist upon retirement

In accordance with legal regulations, collective agreements and internal rules, the Group companies are obliged to pay jubilee premiums to employees and termination benefits on their retirement for which provisions are created. There are no other existing pension liabilities.

Provisions are created in the amount of estimated future payments for termination benefits on retirement 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 for all companies. Payments for termination benefits on retirement and jubilee premiums decrease the created provisions.

5.5.3.12 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 Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

5.5.3.13 Other provisions

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

The amount of the provision must be 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.

5.5.3.14 Government grants

All types of government grants are initially recognised as deferred income within long-term liabilities when there is reasonable assurance that they will be received and that the Group will comply with terms and conditions associated with the grant. Subsequently they are recognised in the income statement among other operating income in the useful life of each individual asset.

Government grants received for covering costs and expenses are recognised as income in periods in which the relevant costs arise that are to be replaced by the government grants.

5.5.3.15 Other assets and ilabilities

Other assets include advances given, receivables due from state and other institutions and other long-term and short-term deferred costs and accrued income.

Accrued income is income which is taken into account in the profit or loss, although not charged yet.

Deferred costs represent the amounts incurred but not yet charged against the profit or loss.

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.

Deferred income is income that will in a period longer than one year cover the anticipated expenses. They include also government grants and asset-related grants.

Accrued costs are amounts that have not occurred yet but will in the future and have already an impact on profit or loss.

5.5.3.16 Contingent liabilities

Contingent liability is:

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

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

5.5.3.17 Revenue

The sales revenue is recognised at fair value of the received payment of receivables, namely decreased by discounts. 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 Group stops deciding on products sold.

Sales of goods are recognised when the Group delivers the products to the client. The client accepts the products, while the collectability of associated receivables is reasonably ensured.

Sales of services are recognised in the accounting period in which the services are performed as regards the conclusion of the transaction estimated on the basis of actually performed service as the proportional share of all services performed.

Revenue arising from default interest charges and related receivables are recognised upon occurrence if it is probable that the economic benefits related to transaction will inflow to companies. On the contrary, default interest charges are recorded as contingent assets and are recognised in the Group's books of account upon payments. Recording of default interest is considered individually.

Other operating income related to operating effects are composed of revenue from the reversal of provisions, revenue from utilisation of deferred income, gains arising from sales of fixed assets, reversal of impairment of receivables, received compensations and contractual penalties, and similar revenue (ex. government grants).

Finance income comprises revenue from shares in investments, interest on loans and deposits given and revenue of associates. Interest revenue is recognised upon its occurrence, in the amount of agreed-upon interest rate.

5.5.3.18 Expenses

Expenses are recognised if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt and this decrease can be reliably measured. Operating expenses are recognised once 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 production in progress are recognised as operating expenses upon their occurrence.

The cost of goods sold includes expenses related to the sales of electricity and contingent costs of electricity. In case the Group has more negative than positive operating foreign exchange differences, they are recorded as costs of goods sold.

Costs of material are historical costs of materials purchased that are directly used for creating products and services (direct costs of material), as well as costs of material that do not have such characteristics and are included in relevant purpose (functional) groups of indirect operating costs. The first subgroup includes costs of raw materials, other materials and purchased parts and semi-finished products whose consumption can be related to creating products and services. The second group includes costs of auxiliary materials for maintenance of property, plant and equipment, small tools whose useful life does not exceed one year, spare parts for servicing of products after their sale, office supplies, specialised literature and other items. Costs of materials cover also the accrued costs of shrinkage, spilling, breakage and failure.

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

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

Employee benefits expense are historical costs that refer to salaries and similar values 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 creation of products and services (costs of direct work) or they have the nature of indirect costs and are comprised in relevant purpose (functional) groups of indirect costs.

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

Finance costs comprise borrowing costs, including related derivatives and impairment of investments. Interest expenses are recognised upon their occurrence, in the amount of agreed-upon interest rate.

5.5.3.19 Taxation

Taxes include current and deferred tax liabilities. Current tax is included in the consolidated income statement. Deferred tax in recognised in the consolidated income statement and in the consolidated statement of financial position.

Current tax liabilities are based on taxable profit for the period. The taxable profit defers from net profit reported in the Group's profit or loss, since it excludes the items of revenue or expenses that are taxable or deductible in other years as well as items that are never taxable or deductible. The Group companies' current tax liabilities are calculated with tax rates that are applicable on the reporting date. If current tax liability is lower than advances paid, current tax receivable is posted.

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 rates (and legislation) 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.

Deferred tax liability represents the amount of accounted income tax from taxable temporary differences, which indicates that the amount of taxes to be paid will increase in the future.

Income tax rates by country

Country	Effective tax rate in 2015
Slovenia	17%
Croatia	20%
Serbia	15%
Macedonia	10%
Bosnia and Herzegovina	10%
Romania	16%

5.5.3.20 Consolidated statement of cash flows

The consolidated statement of cash flows comprises changes in the balance of cash and cash equivalents for the period for which it was compiled. The consolidated cash flow statement is prepared by using the indirect method and data from the consolidated statement of financial position, the consolidated income statement, and tables outlining the movements in assets and liabilities.

Group's item of cash comprises cash, bank balances, call deposits and deposits of up to three months.

5.5.3.21 Segment reporting

The Group does not disclose operations by segments in the annual report. Segment reporting must be disclosed by the companies whose equity or debt instruments are traded in the market and companies which are issuing treasury or debt securities in public security markets.

5.5.3.22 New standards and interpretations issued by IASB and adopted by the EU and not yet effective

New standards and interpretation stated below are not yet applicable and were not taken into account during the compilation of the financial statements for the fiscal year ended 31 December 2015:

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (Effective for annual periods beginning on or after 1 January 2016; to be applied retrospectively. Early application is permitted.)

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

The impact of the adoption of the amendments can only be assessed in the year of initial application, as this will depend on the acquisition of joint operations that take place during that reporting period. The Group does not intend to adopt the amendments early, therefore it is not possible to estimate the impact adoption of the amendments will have on its financial statements.

- Amendments ti IAS 1 (Effective for annual periods beginning on or after 1 January 2016. Early application is permitted)

The Amendments to IAS 1 include the following five, narrow-focus improvements to the disclosure requirements contained in the standard.

The guidance on materiality in IAS 1 has been amended to clarify that:

- immaterial information can detract from useful information,
- materiality applies to the whole of the financial statements,
- materiality applies to each disclosure requirement in an IFRS.

The guidance on the order of the notes (including the accounting policies) have been amended, to:

- remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements,
- clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

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

- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.)

Revenue-based depreciation banned for property, plant and equipment

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

New restrictive test for intangible assets

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are ‘highly correlated’, or when the intangible asset is expressed as a measure of revenue.

It is expected that the amendments, when initially applied, will not have material impact on the Group's financial statements as it does not apply revenue-based methods of amortisation/depreciation.

- **Amendments to IAS 16 Property Plant and Equipment and IAS 41 Agriculture** (Effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.)

These amendments result in bearer plants being in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture, to reflect the fact that their operation is similar to that of manufacturing

The Group does not expect that the amendments, when initially applied, will have impact on its financial statements as it has no bearer plants.

- **Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions** (Effective for annual periods beginning on or after 1 February 2016. The amendments apply retrospectively. Earlier application is permitted.)

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The Group does not expect the amendment to have any impact on the financial statements since it does have any defined benefit plans that involve contributions from employees or third parties.

Annual improvements

Annual Improvements to IFRSs 2010-2012 were issued by the IASB in December 2013 and introduce six amendments to six standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The Annual Improvements to IFRSs 2010-2012 cycle of amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Annual Improvements to IFRSs 2012-2014 were issued by the IASB in September 2014 and introduce four amendments to four standards and standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The Annual Improvements to IFRSs 2012-2014 cycle of amendments are applicable to annual periods beginning on or after 1 January 2016, with earlier adoption permitted.

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

The Group does not expect the provisions to have a significant impact on its financial statements.

IFRS 3 Business Combinations

The amendment to IFRS 3 Business Combinations (with consequential amendments to other standards) clarifies that when contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to IAS 32, rather than to any other standard. It also clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

The Group does not expect that the amendments, when initially applied, will have material impact on the financial statements as it does not record any such case.

IAS 19 Employee benefits

The amendments to IAS 19 clarify that the discount rate used in calculating employee benefit obligations should be based on high quality corporate bonds or government bonds in the same currency in which the benefit are to be paid.

The discount rate used in the actuarial calculation for accounting of payables arising under jubilee premiums and retirement benefits, is already now founded on high-quality corporate bonds, thus the amendment will not have an impact on the disclosure of liabilities arising from jubilee premiums and termination benefits.

5.5.4 Fair value measurement

With reference to disclosing financial instruments, their fair values must be presented. 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.

5.5.5 Financial risk management

Detection and management of financial risks is defined in the business report.

In notes to consolidated financial statements, the risks are presented in connection with items in consolidated financial statements (Point 5.5.7.5. Financial instruments and risks), namely:

- credit risk,
- liquidity risk,
- currency risk,
- interest rate risk, and
- price risk.

5.5.6 Changes in the Group in 2015

Elimination of the company from Group

The company HSE Italia was in 2015 included in the consolidation for the last time. The company was established in 2003 with the purpose to trade in electricity in that country. The decision on conducting the company's voluntary liquidation was adopted due to limitations in electricity trading in Italy. The company winded up its operations on 29 June 2015 and the formal deletion from the companies' register was carried out.

Voluntary liquidation of HSE Italia

Item in EUR	2015	2014
Revenue	298	6,170,788
Expenses	16,034	6,152,728
Profit or loss before tax	**(15,736)**	**18,060**
Tax		5,100
Net profit or loss	**(15,736)**	**12,960**

5.5.7 Notes to the consolidated financial statements

5.5.7.1 Consolidated statement of financial position

As at 31 December 2015, Group's assets were recorded at EUR 2,233,923,431 and show a decline over the previous year by 18%, which is mostly the consequence of impairment that were carried out in the total amount of EUR 479,267,835 and refer to assets used by Group companies for conducting their core activities. The amount of impairments include impairments of fixed and current assets (e.g. inventories, receivables).

Intangible assets (1)

Item in EUR	31 Dec 2015	31 Dec 2014
Emission coupons	4,072,705	5,891,538
Other long-term property rights	3,721,023	4,287,695
Goodwill	12,387,056	12,387,056
Other intangible assets		1,200
Total	**20,180,784**	**22,567,489**

Goodwill represent more than 50% of total intangible assets, whereas a fifth of the amount refers to emission coupons and nearly one fifth relates to long-term property rights (most thereof software).

MOVEMENTS IN 2015

Item in EUR	Emissions coupons	Other long-term property rights	Goodwill	Other intangible assets	Total
Cost at 1 Jan 2015	**5,891,538**	**15,620,961**	**12,387,056**	**6,180**	**33,905,735**
Acquisitions	19,574,523	749,966			20,324,489
Disposals	(21,393,356)	(56)			(21,393,412)
Transfers - restatements		(20,734)		(1,200)	(21,934)
Exchange rate differences		(3)			(3)
Write-offs		(1,067,474)			(1,067,474)
Cost at 31 Dec 2015	**4,072,705**	**15,282,660**	**12,387,056**	**4,980**	**31,747,401**
Write-downs at 1 Jan 2015	**0**	**11,333,266**	**0**	**4,980**	**11,338,246**
Disposals		(147)			(147)
Transfers - restatements		(79,854)			(79,854)
Amortisation		1,311,218			1,311,218
Exchange rate differences		(2)			(2)
Imapairmets		64,630			64,630
Write-offs		(1,067,474)			(1,067,474)
Write-downs at 31 Dec 2015	**0**	**11,561,637**	**0**	**4,980**	**11,566,617**
Carrying amount at 1 Jan 2015	**5,891,538**	**4,287,695**	**12,387,056**	**1,200**	**22,567,489**
Carrying amount at 31 Dec 2015	**4,072,705**	**3,721,023**	**12,387,056**	**0**	**20,180,784**

MOVEMENTS IN 2014

Item in EUR	Emissions coupons	Other long-term property rights	Goodwill	Other intangible assets	Total
Cost at 1 Jan 2014	**10,415,106**	**19,996,922**	**12,389,845**	**10,835**	**42,812,708**
Acquisitions	20,958,329	2,844,089			23,802,418
Disposals, write-offs	(25,481,897)	(652,711)			(26,134,608)
Disposal of Group company		(5,860,493)	(2,789)		(5,863,282)
Assets included in the disposal group		(669,588)			(669,588)
Transfers - restatements		(37,231)		(4,655)	(41,886)
Exchange rate differences		(27)			(27)
Cost at 31 Dec 2014	**5,891,538**	**15,620,961**	**12,387,056**	**6,180**	**33,905,735**
Write-downs at 1 Jan 2014	**0**	**11,306,887**	**0**	**4,980**	**11,311,867**
Disposals, write-offs		(420,356)			(420,356)
Disposal of Group company		(460,669)			(460,669)
Assets included in the disposal group		(630,200)			(630,200)
Amortisation		1,520,463			1,520,463
Exchange rate differences		(16)			(16)
Imapairmets		17,157			17,157
Write-downs at 31 Dec 2014	**0**	**11,333,266**	**0**	**4,980**	**11,338,246**
Carrying amount at 1 Jan 2014	**10,415,106**	**8,690,035**	**12,389,845**	**5,855**	**31,500,841**
Carrying amount at 31 Dec 2014	**5,891,538**	**4,287,695**	**12,387,056**	**1,200**	**22,567,489**

The Group purchases emission coupons for the purpose of electricity production within the Group. Up until 2012, the Group received free of charge most of the emission coupons on the basis of the Environment Protection Act, Ordinance on the National Plan for the Allocation of Emission

Coupons and Decision on Emission Coupons. With the beginning of 2013, the method of emission coupons allocation in the energy sector changed, so that TPPs had to purchase all emission coupons in the market. The opening balance of the Group's emission coupons amounted to 4,300,673 coupons or EUR 5,891,538. In 2015, 3,573,838 emission coupons were purchased (EUR 19,574,523) and 3,875,911 coupons were sold or used (EUR 21,393,356). Accordingly, the Group still recorded 3,998,600 emission coupons in the amount of EUR 4,072,705 at the year-end of 2015.

The largest amount among other long-term property rights refers to the licenced software, which the Group uses for information support. In 2015, additions hereunder amounted to EUR 749,966 and write-offs were recorded at EUR 1,067,474 (the written off software had no carrying amount).

Amortisation of long-term property rights for 2015 amounted to EUR 1,311,218. In 2015, the useful lives of significant software was checked and according to present findings made the useful lives of certain software were not properly assessed. The useful lives of the said software were accordingly extended. Due to extended useful lives, amortisation charge in 2015 totalled to EUR 42,155, which is EUR 29,426 less than if the rates were not changed.

The Group conducted impairments in 2015 of long-term property rights in the amount of EUR 64,630 based on the valuation of a certified appraiser.

As of 30 September 2015, the recoverable value of the cash generating unit of SENG (goodwill) was assessed by means of an impairment testing. The value in use was calculated on the basis of the present value of expected free cash flow taking into account SENG's business projections for the period of up to 2030, which were compiled by considering the real growth of cash flow elements.

The calculated value in use is based among others also on long-term forecasts on movement of market prices for electricity, prepared by the internationally renowned institution Poyry Management Consulting (as in case of the impairment testing as at 31 December 2014), except for the first three years (2016-2018), when the stock market prices for standard futures contracts for electricity on the HUPX stock exchange were used. The anticipated annual growth in electricity market prices in the period from 2019 to 2030 is set at 6.41% (2014: 4.56%), whereas for the first three years a decline in the electricity market prices is envisaged by 1.57% (2014: increase of 8.4%). The average annual growth of the normal real free cash flow in the impairment testing carried out (i.e. from 2030 onwards) equals 0%.

The average production taken into account was 854 GWh/year. The average production of the hydro power plant on Soča was defined on the basis of statistical data on the average hydrology on the Soča river. In 2018 (lower by 165 GWh) and 2025 (lower by 111 GWh), a lower electricity production is anticipated due to the overhaul of the Avče and plant in the years 2028-2030, when to the renovation of the HPP Solkan is planned (lower by 6 GWh).

The recoverable value of the cash generating unit SENG amounted as at 30 September 2015 to EUR 555,154,000. It was established that the recoverable value of the cash generating unit, which includes goodwill, exceeds its carrying amount by EUR 306,253,658; accordingly no grounds existed for impairing the goodwill and other assets of the CGU. With respect to the valuation of goodwill as at 31 December 2015, the Company assessed the change in business circumstances in the last quarter of 2015, given the fact that the impairment testing was conducted after 30 September 2015. The Company established that relevant circumstances of CGU's business operations have not significantly changed in the last quarter of 2015, showing that the valuation of goodwill as at 31 December 2015 remains unchanged in view of the balance as at 30 September 2015.

The estimate took into account the required yield rate, which differs by years; thus the used WACC is recorded at 7.62% for the last quarter of 2015, 5.40% for 2016 and 2017, and 5.30% for periods after 2018 (in 2014 following real required yield rates were used in the impairment testing: 6.36% for 2015, 5.66% for 2016 and 2017, and 5.35% for period after 2018). The different WACC rates arise in connection with their adjustment to the real basis by taking into account the expectations about the future inflation rate. The inflation rate is founded on forecasts issued by the Slovenian Institute of Macroeconomic Analysis and Development (UMAR).

Sensitivity analysis – valuation of goodwill

	Change (in %)		Change in recoverable value of 100% equity interest in SENG (in EUR)	
Electricity sales price	(20)	20	(176,903,000)	176,902,000
Discount rate (WACC)	(20)	20	226,625,000	(128,925,000)
NOPLAT (EBIT - tax)	(20)	20	(97,462,000)	97,462,000

In 2015, cost of intangible assets of Group companies was exclusive of interest arising on the purchase prior to being made ready for its use, as these assets were not financed through borrowings.

Group records no assets acquired through finance lease.

As at the year-end of 2015, the Group concluded EUR 1,094,332 worth of contracts for purchasing intangible assets in the coming years.

Property, plant and equipment (2)

Itam in EUR	31 Dec 2015	31 Dec 2014
Land	26,613,285	30,406,678
Buildings	425,310,245	433,982,417
Production equipment	1,275,447,159	388,494,137
Other equipment	29,265,353	40,110,441
Property, plant and equipment being acquired	12,370,868	1,348,273,338
Total	**1,769,006,910**	**2,241,267,011**

Most of the Group companies are engaged in the production of electricity or extraction of raw materials used for electricity production. This requires specialised equipment and buildings, where the equipment is located. Therefore, property, plant and equipment account for the largest part of the Group's assets.

MOVEMENTS IN 2015

Itam in EUR	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost at 1 Jan 2015	**38,211,715**	**1,115,181,021**	**1,878,791,678**	**86,492,244**	**1,348,317,072**	**4,466,993,730**
Acquisitions			19,693	10,703	101,395,283	101,425,679
Disposals	(590,593)	(950,982)	(24,253,881)	(406,787)	(119,043)	(26,321,286)
Transfers from investments	679,865	89,041,835	1,330,836,552	5,117,911	(1,425,654,874)	21,289
Transfers - restatements	(2,272,251)	(18,066,413)	(7,462,217)	(804,462)	(32,368)	(28,637,711)
Exchange rate differences	1	2	(3)	(93)		(93)
Write-offs	(160,464)	(5,202,205)	(4,847,801)	(711,929)	(3,465,595)	(14,387,994)
Cost at 31 Dec 2015	**35,868,273**	**1,180,003,258**	**3,173,084,021**	**89,697,587**	**20,440,475**	**4,499,093,614**
Write-downs at 1 Jan 2015	**7,805,037**	**681,198,604**	**1,490,297,541**	**46,381,803**	**43,734**	**2,225,726,719**
Disposals	(176,128)	(719,604)	(22,875,547)	(339,765)		(24,111,044)
Transfers from investments		1,866,801			(1,866,801)	0
Transfers - restatements	(1,260,360)	(8,192,412)	(2,851,814)	(76,579)	1,761,568	(10,619,597)
Depreciation		17,664,363	57,029,247	5,037,289		79,730,899
Exchange rate differences			1	(90)		(89)
Impairments	2,886,439	67,973,430	380,853,293	10,135,971	8,131,106	469,980,239
Write-offs		(5,098,169)	(4,815,859)	(706,395)		(10,620,423)
Write-downs at 31 Dec 2015	**9,254,988**	**754,693,013**	**1,897,636,862**	**60,432,234**	**8,069,607**	**2,730,086,704**
Carrying amount at 1 Jan 2015	**30,406,678**	**433,982,417**	**388,494,137**	**40,110,441**	**1,348,273,338**	**2,241,267,011**
Carrying amount at 31 Dec 2015	**26,613,285**	**425,310,245**	**1,275,447,159**	**29,265,353**	**12,370,868**	**1,769,006,910**

MOVEMENTS IN 2014

Itam in EUR	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost at 1 Jan 2014	**38,588,048**	**1,344,176,409**	**2,131,259,984**	**59,072,063**	**1,214,502,544**	**4,787,599,048**
Acquisitions					226,688,481	226,688,481
Disposal, write-offs	(445,514)	(5,772,857)	(9,433,240)	(963,835)	(114,118)	(16,729,564)
Disposal of a Group company	(67,000)	(135,854,777)	(123,173,650)	(1,972,693)	(25,255,262)	(286,323,382)
Transfers from investments	764,333	10,697,565	26,063,046	26,933,829	(64,508,735)	(49,962)
Transfers - restatements	936,615	(2,705,577)	(2,180,034)	3,479,011	(2,449,255)	(2,919,240)
Assets included in the disposal group	(1,107,915)	(95,254,010)	(142,846,811)	(30,927)	(342,542)	(239,582,205)
Exchange rate differences				(1,125)		(1,125)
Impairments	(456,852)	(105,732)	(897,617)	(24,079)	(204,041)	(1,688,321)
Cost at 31 Dec 2014	**38,211,715**	**1,115,181,021**	**1,878,791,678**	**86,492,244**	**1,348,317,072**	**4,466,993,730**
Write-downs at 1 Jan 2014	**3,932,917**	**754,531,881**	**1,546,349,303**	**45,240,307**	**6,002**	**2,350,060,410**
Disposal, write-offs	(13,991)	(4,590,367)	(9,153,565)	(743,553)		(14,501,476)
Disposal of a Group company		(10,022,246)	(21,498,105)	(1,052,961)		(32,573,312)
Transfers - restatements	842,480	(1,630,119)	4,955,210	(4,809,397)	5,998	(635,828)
Assets included in the disposal group		(93,027,700)	(139,932,250)			(232,959,950)
Depreciation		21,919,307	59,255,793	5,787,952		86,963,052
Exchange rate differences				(1,068)		(1,068)
Impairments	3,043,631	14,017,848	50,321,155	1,960,523	31,734	69,374,891
Write-downs at 31 Dec 2014	**7,805,037**	**681,198,604**	**1,490,297,541**	**46,381,803**	**43,734**	**2,225,726,719**
Carrying amount at 1 Jan 2014	**34,655,131**	**589,644,528**	**584,910,681**	**13,831,756**	**1,214,496,542**	**2,437,538,638**
Carrying amount at 31 Dec 2014	**30,406,678**	**433,982,417**	**388,494,137**	**40,110,441**	**1,348,273,338**	**2,241,267,011**

The most significant among investments in fixed assets of Group companies in 2015 are the investments made in the replacement Unit 6 at TEŠ, investments in the reconstruction of production facilities and purchasing equipment for conducting the core activity in the total amount of EUR 101,425,679 (whereof EUR 67,158,315 refers to the replacement Unit 6 at TEŠ). More details on Group's investments are disclosed in the business report of this annual report (Section 2.11 Investments).

Group's most significant investment i.e. the replacement Unit 6 at TEŠ, was in July 2015 made ready for use and activated. The value comprises also capitalised costs of financing that amounted to EUR 122,932,152 in the overall period of the investment (whereof in 2015 in the amount of EUR 23,155,709).

The residual value for the replacement Unit 6 at TEŠ was also assessed in the amount of EUR 15,500,070. The Group did not assess the residual values for other assets.

Increases in investments made in the replacement Unit 6 at TEŠ are attributable to the costs of dismantling that were taken into account. Costs of dismantling were on the basis of a technical study and obligation under the Energy permit estimated at EUR 16,120,000. By considering the discount rate of 1.436 (30-year German bonds), the aforesaid value is as at the date of creating provisions (19 June 2015) recorded at EUR 9,113,400.

The most important transfers of fixed assets include the transfer of apartments, garages and business premises to investment property in the amount of EUR 6,797,791, transfer of the transmission network to assets held for sale in the amount of EUR 7,034,844 (this part was in 2015 already sold), transfer of land to inventories of work in progress in the amount of EUR 1,136,359, and transfer of inventories of spare parts in the amount of EUR 947,473.

Write-off of fixed assets at the carrying amount of EUR 3,767,571 refers to the renovation of plants and equipment or write-offs due to wear, whereby a part includes also the write-off of investments being acquired for which ti was established that they cannot be implemented due to various reasons.

As at 30 September 2015, impairment testing for property, plant and equipment was conducted in CGUs that record losses. The most significant among them is the CGU that comprises electricity production in the company TEŠ and obtaining the energy product for this production in the company PV (coal excavation). Certified appraisers have assessed the recoverable value of assets.

Given the type of assets, following recoverable value was taken into account:

- value in use (for assets that companies use for conducting the core activity) or
- fair value less costs of selling (for assets that are not used while conducting the core activity).

Valuations of assets that are used for the core activity by the most significant CGUs, took account of following assumptions:

- value is assessed by means of the present value of expected free cash flows (value in use);
- going concern assumption was applied for CGUs with limited useful life up to 2054;
- for CGU's operations, long-term projections for the period until 2030 were used (strategic platforms on production and coal sale for the 2031–2054 period) respectively long-term projections of TEŠ's operations until 2054 and NIP 6;
- long-term projections for CGUs took into account following assumptions:
  - the stock exchange prices of standard forward contracts for electricity and CO_2 emission coupons at the HUPX stock exchange for the 2016-2018 period, whereby for the period from 2018 onwards the long-term market price projections for electricity and CO_2 emission coupons (obtained in September 2015) are taken into account as provided by the internationally renowned Poyry Management Consulting institution (equalling the impairment testing results in 2014);
  - average annual electricity production generated by coal power plants in the amount of 3.7 TWh in the 2016-2030 period, 2.6 TWh in the 2031-2040 period, and 2.1 TWh in the 2041-2054 period. The annual volume of electricity produced from the coal power plants is calculated on the basis of annual volumes of coal excavated in PV and the specific use of coal by units. The electricity production is declining with years due to winding up of obsolete coal units and the gradual closure of the coal mine that represents the sole source of

primary energy product for the electricity production;

- average annual production of coal in the amount of 34,248 TJ/year in the 2016-2030 period;
- gradual decline in volume of operations from 2030 to 2040 due to the anticipated gradual closing of the coal mine; constant production of coal at 19.155 TJ/year is expected after 2040;
- coal mine's volume of operations is in line with the trend in movement of costs of services and employee benefits expense;
- by the end of the projection's period, costs of closing the coal mine were considered (e.g. costs of closing the mine, costs of termination pays) and income arising on reversal of the working capital and the sale of the remaining fixed assets that are expected in the period of 10 years (up to 2063) in the estimated amount of EUR 37,483,000;
- value of other income (i.e. income on providing system services, heat energy, income on sale of ash and gypsum) in the amount of EUR 11.3 million in 2016 up to EUR 23.7 million in 2054. Increase in other revenue is attributable to the already signed contracts for system-related services and planned higher revenue from sale of heat energy;
- possible income on priority dispatch in future years was not taken into account as such supporting measures are required to be launched by other institutions that regulate the energy market in the Republic of Slovenia.

- long-term business projections for the period from 30 September 2015 to 31 December 2040 in real prices by taking into account projections for sales prices of electricity and CO_2 emission coupons with respect to the forecast of an independent institution, whereas for periods up to 31 December 2054 (when the Unit 6 is to cease its operations and PV wind up coal excavations) the projections ground on the projections for the year 2040 and are exclusive of further growth in the normalized free cash flow.

Compared to the impairment testing of the long-term investment in the company TEŠ which was carried out in 2014, long-term projections for trends in in the market prices of CO_2 emission coupons have changed significantly (as outlined in the table below);

	Basis	Period	Change in electricity price (in %)	Change in CO_2 emission coupons (in %)
Year 2015	Starting price	2016	41,90 EUR/MWh	8.15 EUR/t
	Exchange price for derivatives (HUPX)	2016 - 2018	-1.57%	1.46%
	Poyry price forecast	2019 - 2040	4.14%	9.43%
	Poyry price forecast for 2040	2041 - 2054		
Year 2014	Starting price	2016	43.06 EUR/MWh	6.52 EUR/t
	Exchange price for derivatives (HUPX)	2016 - 2018	8.4%	2.72%
	Poyry price forecast	2019 - 2040	3.39%	8.63%
	Poyry price forecast for 2040	2041 - 2054		

- as for the most significant CGU, the discount rate was applied, which reflects the required weighted average cost of company's total capital (WACC) i.e. in the par value of 7.59%. Long-term projections were made on real prices, thus following discount rates were considered within impairments: 7.81% for the period October-December 2015, 5.58% in 2016 and 2017, and 5.48% from 2018 onwards (following discount rates were applied in 2014: 6.37% in 2015, 5.67% in 2016 and 2017, and 5.36% from 2018 onwards). The different WACC rates arise in connection with their adjustment to the real basis by taking into account the expectations about the future inflation rate. The inflation rate is founded on forecasts issued by the Slovenian Institute of Macroeconomic Analysis and Development UMAR.
- sensitivity analysis by individual categories for the most material part of the CGU:

	Change (in %)		**Change in recoverable amount of assets (in EUR)**	
Electricity sales price	(10)	10	(365,947,000)	356,967,000
Sales price of CO_2 emission coupons	(10)	10	130,329,000	(130,790,000)
Discount rate (WACC)	(0.5)	0.5	75,722,598	(68,422,978)
NOPLAT (EBID - tax)	(10)	10	(37,416,749)	37,416,749

The total value of impairment made to Group's fixed assets was recorded at EUR 469,980,239. Impairment of land is disclosed at EUR 2,886,439, of buildings at EUR 67,973,430, of production plant at EUR 380,853,293, of other equipment at EUR 10,135,971, and impairment of investments in course of constructions was recorded at EUR 8,131,106; thereof the impairment of fixed assets that participate in the production of electricity in TEŠ account for EUR 391,074,932 (impairment of the replacement Unit 6 at TEŠ is recorded at the total of 349,236,413) and fixed assets related to excavation of coal account for EUR 55,748,289.

With respect to the valuation of property, plant and equipment as at 31 December 2015, the Group assessed the change in business circumstances in the last quarter of 2015, given the fact that the impairment testing was conducted after 30 September 2015. It was established that relevant circumstances of business operations have not significantly changed in the last quarter of 2015, showing that the valuation of property, plant and equipment as at 31 December 2015 remains unchanged in view of the balance as at 30 September 2015.

The useful lives of significant fixed assets were checked in 2015 and according to findings made the expected useful lives of certain buildings and equipment have been prolonged, which resulted in lower depreciation rates. Consequently, depreciation of these buildings amounted in 2015 to EUR 67,490, which is EUR 39,651 less than the accounted depreciation in view of the initially determined useful life, whereby in case of equipment to EUR 123,296 or EUR 36,476 less than the accounted depreciation in view of the initially determined useful life.

Other equipment under finance lease is recorded at EUR 131,568, whereby the Group recorded no real properties under finance lease.

The Group’s property and equipment are mortgaged in total amount of up to EUR 132,400,251 (2014: EUR 131,273,279) i.e. EUR 1,016,757 relating to land, EUR 83,725,399 to buildings and EUR 47,658,095 to production plant.

At the end of 2015, the Group has a total of EUR 15,681,771 of contracts concluded for purchase of property, plant and equipment in the coming years.

Investment property Naložbene nepremičnine (3)

Item in EUR	31 Dec 2015	31 Dec 2014
Land	101,724	
Buildings	6,601,529	
Total	**6,703,253**	**0**

Based on the reassessment of the criteria using – renting, a transfer of apartments, garages and business premises to investment properties was carried out as at 30 September 2015.

Investment property are mortgaged up to EUR 2,794,427. The carrying amount of investment property equals the fair value of these assets.

Movements in 2015

Item in EUR	Land	Buildings	Total
Cost at 1 Jan 2015	**0**	**0**	**0**
Transfers - restatements	186,144	10,661,282	10,847,426
Disposals		(37,185)	(37,185)
Cost at 31 Dec 2015	**186,144**	**10,624,097**	**10,810,241**
Write-downs at 1 Jan 2015	**0**	**0**	**0**
Transfers - restatements	84,420	3,965,215	4,049,635
Disposals		(12,548)	(12,548)
Depreciation		69,901	69,901
Write-downs at 31 Dec 2015	**84,420**	**4,022,568**	**4,106,988**
Carrying amount at 1 Jan 2015	**0**	**0**	**0**
Carrying amount at 31 Dec 2015	**101,724**	**6,601,529**	**6,703,253**

Other long-term investments and loans (4)

Item in EUR	31 Dec 2015	31 Dec 2014
Long-term investments in associated companies	135,777,157	134,711,253
Long-term investments in jointly controlled companies	463,255	451,683
Available-for-sale long-term financial assets	139,788	161,798
Other long-term investments	7,191	7,191
Long-term financial receivables and loans	163,125	216,089
Total	**136,550,516**	**135,548,014**

No material changes were recorded in 2015 with respect to other long-term investments and loans.

Movement of other long-term investments (exclusive of loans)

Item in EUR	2015	2014
Balance at 1 Jan	**135,331,925**	**3,136,861**
Acquisitions		14,191
Disposals	(21,892)	(603,303)
Transfer - restatements	(150,000)	128,714,645
Assets included in the disposal group		(308,673)
Increase in value	1,329,630	5,159,724
Impairments	(102,272)	(781,520)
Balance at 31 Dec	**136,387,391**	**135,331,925**

a) Investments in associates

Associated company	31 Dec 2015	31 Dec 2014
ELDOM d.o.o.	134,459	128,153
ERICO d.o.o.	427,037	422,514
PLP d.o.o.	249,038	203,952
SIPOTEH d.o.o.	3,311	103,383
PV Fairwood - in liquidation		2,200
HESS d.o.o.	134,963,312	133,851,051
RCE d.o.o. - in bankruptcy		
Total	**135,777,157**	**134,711,253**

Group's most significant investment in associates is the 49% equity interest in the company HESS in the amount of EUR 134,963,312.

In addition to the stated companies, the Group discloses also investments in companies Filvoteh, Tehnoveter and Karboteh, which were established and impaired in 2014. Co-owner of these companies is the company RCE, which is in bankruptcy.

Movement of long-term investments in associates

Item in EUR	2015	2014
Balance at 1 Jan	**134,711,253**	**1,596,044**
Acquisitions		9,000
Acquisitions - HESS		128,908,000
Attributable gains under the equity method	1,168,176	4,979,729
Attributable losses under the equity method	(100,072)	(118,378)
Impairments	(2,200)	(663,142)
Balance at 31 Dec	**135,777,157**	**134,711,253**

Change in the value of investments in associates primarily refers to the write-up of profits based on the equity method applied.

Investment made in the company PV Fairwood was impaired in 2015; its operations are on halt since the company was founded in 2012, hence the liquidation procedure was started and is to be completed in 2016.

Companies ERICO and HESS were audited while other associates were not subject of the audit.

Data of associates as at 31 December 2015

Company	Address	Activity
ELDOM d.o.o.	Vetrinjska ulica 2, Maribor, Slovenia	property management for payment of under contract
ERICO d.o.o.	Koroška cesta 58, Velenje, Slovenia	ecologic research, monitoring
PLP d.o.o.	Partizanska 78, Velenje, Slovenia	timber activity
SIPOTEH d.o.o.	Partizanska 79, Velenje, Slovenia	production of technological and mining equipment
PV Fairwood - in liquidation	Singapur	coal mining modernisation
RCE d.o.o. - in bankruptcy	Preloška cesta 1, Velenje, Slovenia	R&D in natural scirnce and technology
FILVOTEH d.o.o.	Cesta Simona Blatnika 18,Velenje, Slovenia	engineering activity, advisory
TEHNOVETER d.o.o.	Cesta Simona Blatnika 18,Velenje, Slovenia	engineering activity, advisory
KARBOTEH d.o.o.	Cesta Simona Blatnika 18,Velenje, Slovenia	engineering activity, advisory
HESS d.o.o.	Cesta bratov Cerjakov 33a, Brežice, Slovenia	electricity production in HPP

Significant amounts from the financial statements of associates as at 31 December 2015

in EUR

Company	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
HESS d.o.o.	304,099,007	29,080,435	14,508,678	2,069,919	275,018,572
RCE d.o.o. - in bankruptcy					
SIPOTEH d.o.o.	1,946,770	2,060,821	1,583,889	(238,266)	(114,051)
ERICO d.o.o.	1,797,879	412,443	2,072,156	9,231	1,385,436
PV Fairwood - in liquidation					
PLP d.o.o.	1,709,416	600,246	2,935,882	173,404	1,109,170
ELDOM d.o.o.	416,885	147,970	727,935	12,613	268,915
TEHNOVETER d.o.o.	338	10	600	(7,540)	328
KARBOTEH d.o.o.	1,365	11		(6,178)	1,354
FILVOTEH d.o.o.	10,267	4,557	53,268	1,590	5,710
Total	**309,981,927**	**32,306,493**	**21,882,408**	**2,014,773**	**277,675,434**

b) Investments in jointly controlled entities

Item in EUR	31 Dec 2015	31 Dec 2014
SOENERGETIKA d.o.o.	463,255	451,683
Total	**463,255**	**451,683**

Investments in jointly controlled entities include the 25% equity interest in the company Soenergetika.

MOVEMVENT OF LONG-TERM INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Item in EUR	2015	2014
Balance at 1 Jan	**451,683**	**470,489**
Pay-out of attributable profits	(150,000)	(193,355)
Attributable profits under the equity method	161,572	174,549
Balance at 31 Dec	**463,255**	**451,683**

SIGNIFICANT AMOUNTS IN THE FINANCIAL STATEMENTS OF THE JOINTLY CONTROLLED COMPANY FOR 2015

Company	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
SOENERGETIKA d.o.o.	4,563,827	2,710,692	3,793,805	646,289	1,853,135
Total	**4,563,827**	**2,710,692**	**3,793,805**	**646,289**	**1,853,135**

DEFERRED TAS ASSETS AND LIABILITIES (5)

The Group discloses deferred tax assets and liabilities that have not significantly changed in 2015.

DEFERRED TAX ASSETS

Item in EUR	31 Dec 2015	31 Dec 2014
Provisions	421,873	482,938
Impairment	4,380,689	4,380,689
Depreciation and amortisation expense	4,452	7,658
Other	199,083	299,850
Total	**5,006,097**	**5,171,135**

DEFERRED TAX LIABILITIES

Item in EUR	31 Dec 2015	31 Dec 2014
Financial assets	3,902	3,922
Other		93
Total	**3,902**	**4,015**

Change in deferred tax assets is in 2015 recorded at EUR – 165,038 and is included in the consolidated income statement in the amount of EUR 77,912 and in equity at EUR -242,950.

CHANGES IN DEFERRED TAX ASSETS

Item in EUR	Provisions	Impairment	Depreciation and amortisation expense	Other	Total
Balance at 1 Jan 2014	**1,225,609**	**982,982**	**383,932**	**2,652,702**	**5,245,225**
To debit/(credit) of profit or loss	(725,487)	3,398,107	(363,177)	(2,086,991)	222,452
To debit/(credit) of other comprehensive income	(17,184)	(400)	(13,097)	(265,861)	(296,542)
Balance at 31 Dec 2014	**482,938**	**4,380,689**	**7,658**	**299,850**	**5,171,135**
Balance at 1 Jan 2015	**482,938**	**4,380,689**	**7,658**	**299,850**	**5,171,135**
To debit/(credit) of profit or loss	(61,065)		(3,206)	142,183	77,912
To debit/(credit) of other comprehensive income				(242,950)	(242,950)
Balance at 31 Dec 2015	**421,873**	**4,380,689**	**4,452**	**199,083**	**5,006,097**

Change in deferred tax assets arising on provisions relate to changes is provisions for jubilee premiums and termination benefits, and to changes in other provisions.

No changes in deferred tax assets relating to impairment were recorded in 2015, whereby they include mostly receivables arising from impairment of long-term investment made in the subsidiary, which started liquidation procedures in 2014.

Changes in deferred tax assets relating to amortisation and depreciation arise from differences established between the operating and tax depreciation in 2015.

Other changes in deferred tax assets primarily refer to changes in fair values of interest and currency swaps and to impairment of receivables.

MOVEMENT OF DEFERRED TAX LIABILITIES

Item in EUR	Financial assets	Other	Total
Balance at 1 Jan 2014	**51,509**	**3,716**	**55,225**
To debit/(credit) of profit or loss	(48,513)		(48,513)
To debit/(credit) of other comprehensive income	926	(3,623)	(2,697)
Balance at 31 Dec 2014	**3,922**	**93**	**4,015**
Balance at 1 Jan 2015	**3,922**	**93**	**4,015**
To debit/(credit) of profit or loss		(93)	(93)
To debit/(credit) of other comprehensive income	(20)		(20)
Balance at 31 Dec 2015	**3,902**	**0**	**3,902**

ASSETS INCLUDED IN THE DISPOSAL GROUP (6)

As for the assets included in the disposal group, the Group separately discloses the assets of the company that started liquidation procedures and assets held for sale.

31.12.2015	Assets included in the disposal group	Assets held for sale	Total
TET - in liquidation	7,561,174		7,561,174
DEM		3,250	3,250
SENG		63,676	63,676
TEŠ		201,723	201,723
PV		1,701,793	1,701,793
HTZ		2,087,004	2,087,004
Golte		774,672	774,672
Total	**7,561,174**	**4,832,118**	**12,393,292**

31.12.2014	Assets included in the disposal group	Assets held for sale	Total
TET - in liquidation	7,884,876		7,884,876
DEM		3,251	3,251
TEŠ		201,723	201,723
HTZ		871,247	871,247
Golte		343,218	343,218
Total	**7,884,876**	**1,419,439**	**9,304,315**

Assets included in the disposal group have not materially changed over 2014, as the sale of equipment and plant of the company TET – in liquidation was not performed according to plans. Current circumstances on the electricity market do not allow new investment cycles and are thereby mostly on halt as well as the reconstruction of the thermal power plant facilities in the wider region, where the biggest yield from the sale of TET assemblies was expected. Accordingly, the equipment, apart from certain smaller units, is still at the TET location, whereas the sale to possible investors was slowed down.

Given the accelerated disinvestment process, the Group's assets held for sale have considerably increased in 2015 if compared to the previous year i.e. by EUR 3,412,679 (the change mostly refers to the value of the hotel, apartments and outhouses).

INVENTORIES (7)

Item in EUR	31 Dec 2015	31 Dec 2014
Material	9,850,753	15,301,424
Work-in-progress	1,139,985	33,573
Products and merchandise	7,693,942	8,308,701
Total	**18,684,680**	**23,643,698**

The largest amount in the inventories of spare parts and materials is represented by inventories of spare parts and materials for maintenance, which are necessary for fast repair of defects of production equipment and thus ensuring reliable production, inventory of coal and heating oil.

Increase in the value of inventories of work in progress increased over 2014, which is mainly attributable to the transfer of land from fixed assets in the amount of EUR 1,136,359 under assessing the criteria of the purpose for which this land was acquired i.e. building for the purpose of sale.

The highest amount among inventories of products and merchandise refers to inventory of coal.

As for the company TEŠ, the difference arising on the use of the weighted average price instead of the FIFO method, which is recorded at EUR 58,394, was reassessed. The relevant value was not considered during the preparation of the consolidated income statements based on irrelevance.

As at the year-end of 2015, the Group checked the net realisable value of inventories of material and spare parts. Based on the valuation carried out by a certified appraiser registered with the Slovenian Institute of Auditors (SIR), inventories were impaired in the amount of EUR 5,668,198. Due to quality-related change in inventories, a write-off was carried out in the amount of EUR 581,579. Both is disclosed in the consolidated income statement among write-downs in value.

Inventory surpluses and deficits

Item in EUR	31 Dec 2015	31 Dec 2014
Surpluses in year-end count	17,742	205,668
Deficits in year-end count	(17,239)	(174,782)

No inventories have been pledged as collateral.

Short-term investments and loans (8)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term financial receivables and loans to associates	34,373	49,000
Short-term financial receivables and loans to others	1,034	42,997
Short-term deposits to others	19,783,832	5,932,011
Total	**19,819,239**	**6,024,008**

Increase in short-term deposits granted to others refers in the amount of EUR 14,250,957 to liabilities arising under the loan contract with EBRD; the deposit is earmarked for repayment the loan instalments.

Short-term operating trade receivables (9)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term operating receivables due from associates	626,607	807,918
Short-term operating receivables due from jointly controlled companies	234	2,050
Short-term trade receivables	124,918,499	142,353,296
Total	**125,545,340**	**143,163,264**

Due to production of electricity by subsidiaries and purchase of electricity by the controlling company, the majority of short-term trade receivables are related to the sale of electricity by the controlling company. These have declined over 2014 as the result of lower volume of trading outside the Group in December and the fall of wholesale electricity prices if compared to the previous year.

Value of pledged receivables under loans amounted as at 31 December 2015 to EUR 92,539,414.

Disclosures in relation to maturity of receivables, allowances for receivables and insuring short-term operating receivables are represented in the section on financial risk management hereunder.

Other short-term assets (10)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term advances	1,673,527	6,705,124
Short-term operating receivables due from government and other institutions	24,654,801	29,697,336
Short-term operating receivables due from others	4,553,905	6,457,193
Accrued income	486,352	5,921,270
Short-term deferred costs and expenses	1,583,187	3,587,687
Total	**32,951,772**	**52,368,610**

Short-term advances granted have decreased over 2014 as a result of completing the investment in the replacement Unit 6 at TEŠ. In addition, the controlling company recorded a lower advance for the deposit settlement account relating to the payment of transfer capacities for electricity as the relevant bank guarantee was increased for this purpose. Thus, the item of advances includes accrued payments made to suppliers.

Most of receivables to state and other institutions relate to the input VAT, the significant amount of EUR 2,839,260 refers to receivables of overpaid concession-related advances and water refunds for lower production in hydro power plant if compared to 2014.

The largest portion of short-term operating receivables to others refers to guarantees for financial coverage under electricity trading of the controlling company.

Short-term deferred costs primarily relate to transactions arising in connection with electricity trading.

Cash and cash equivalents (11)

Item in EUR	31 Dec 2015	31 Dec 2014
Cash in hand and cheques received	57,472	29,590
Bank balances	33,069,184	8,990,095
Call deposits	45,753,625	76,981,463
Deposits tied up to 3 months		2,297,025
Total	**78,880,281**	**88,298,173**

For the purposes of carrying out its activities, the Group holds bank accounts in Slovenia and abroad (parent company in particular). Call deposits include mostly overnight deposits or treasury account balances for the purpose of cash pooling in the HSE Group.

EQUITY (12)

Item in EUR	31 Dec 2015	31 Dec 2014
Called-up capital	29,558,789	29,558,789
Capital surplus	561,243,185	561,243,185
Revenue reserves	413,856,350	413,856,350
Hedging reserve	(797,127)	(1,642,338)
Fair value reserve	(651,136)	(159,917)
Retained earnings or losses	(10,774,325)	461,050,199
Consolidation equity adjustement	(1,383,607)	(1,366,493)
Minority interest	696,949	9,007,644
Total	**991,749,078**	**1,471,547,419**

CAPITAL SURPLUS

Item in EUR	31 Dec 2015	31 Dec 2014
Paid-in capital surplus	561,243,072	561,243,072
Amounts arising from general capital revaluation adjustments	113	113
Total	**561,243,185**	**561,243,185**

The value of share capital, capital surplus and revenue reserves remained unchanged in 2015.

Revenue reserves refer to the portion of controlling company's profits brought forward and implemented until 31 December 2013. Since that date, possible profits of the controlling company, which are allocated to revenue reserves in the consolidated financial statements remain recorded under retained earnings or losses.

As at 31 December 2015, the Group discloses under the hedging value reserve in total amount of EUR -797,127 EUR:

- results of standard futures for electricity in the amount of EUR – 515,307,
- fair value of interest rate swaps for the loans received (EUR – 218,086), and
- fair value of currency swaps (EUR - 63,734).

Change in hedging reserve

Item in EUR	Standard futures for electricity	Interest rate swaps	Currency swaps	Total
Balance at 1 Jan 2014	**(2,019,728)**	**(2,674,997)**	**17,686**	**(4,677,039)**
Formation, increase	298,002	1,309,340	(45,061)	1,562,281
Decrease	(702,687)		(17,686)	(720,373)
Transfer to operating profit or loss	2,440,838			2,440,838
Deferred tax		(255,705)	7,660	(248,045)
Balance at 31 Dec 2014	**16,425**	**(1,621,362)**	**(37,401)**	**(1,642,338)**
Balance at 1 Jan 2015	**16,425**	**(1,621,362)**	**(37,401)**	**(1,642,338)**
Formation, increase	83,658	1,651,621	(76,788)	1,658,491
Decrease	(615,390)		45,061	(570,329)
Deferred tax		(248,345)	5,394	(242,951)
Balance at 31 Dec 2015	**(515,307)**	**(218,086)**	**(63,734)**	**(797,127)**

The hedging reserve increased in 2015 by EUR 845,211, which is the result mostly of reducing the negative fair value of interest rate swaps due to the contract's expiry.

Electricity futures contracts refer to concluding deals on purchase of electricity on foreign electricity exchanges for the period from 2017 to 2018, thus securing the already concluded deals for the sale of electricity in the same period. On the basis of electricity fluctuations on the stock exchange in 2015 cumulative negative financial effect in the amount of EUR -531,732 was realised. No deferred taxes were accounted in this relation, as the Group will pay an agreed-upon price during the deal's realisation.

In 2011 the Group concluded contract on interest rate swaps, the negative fair value of which amounted at the year-end of 2014 (inclusive of deferred taxes) to EUR 1,621,362 (fair value of EUR – 1,913,552, deferred tax assets of EUR 292,190). Change in the fair value amounted in 2015 to EUR 1,651,621 and deferred tax assets have declined by EUR 248,345, indicating that the fair value of interest rate swap inslusive of deferred taxes amounted to EUR -218,086. The fair value of interest rate swap was negative as at 31 December 2015 in the amount of EUR 261,931, whereby deferred tax assets amounted to EUR 43,845. In this connection EUR 1,711,533 of interest was accounted in 2015 which is disclosed among finance costs.

In 2015, the Group closed the currency swaps, whose negative fair value amounted as at 31 December 2014 (inclusive of deferred taxes) to EUR -37,401 (negative fair value amounted to EUR 45,061, deferred tax assets to EUR 7,660). The Group entered in 2015 into new deals and partly already also closed them. The overall change in the fair value is negative and recorded at EUR 31,727, while deferred tax assets increased by EUR 5,394. The negative fair value of open currency swaps amounted at the end of 2015 to EUR 76,788 EUR, whereof EUR 13,054 were accounted for deferred tax assets. Hence, the closing balance inclusive the tax is recorded at EUR – 63,734.

Change in fair value reserve

Item in EUR	Available-for-sale financial assets	Actuarial gains/losses on termination benefits upon retirement	Other	Total
Balance at 1 Jan 2014	**215,830**	**34,712**	**10,070**	**260,612**
Change	4,520	(235,022)	1,495	(229,007)
Disposal of a Group company	(187,438)	(4,081)		(191,519)
Balance at 31 Dec 2014	**32,912**	**(204,391)**	**11,565**	**(159,914)**
Balance at 1 Jan 2015	**32,912**	**(204,391)**	**11,565**	**(159,914)**
Change	(98)	(505,932)		(506,030)
Transfer to retained earnings or losses		14,810		14,810
Balance at 31 Dec 2015	**32,814**	**(695,513)**	**11,565**	**(651,134)**

Group's fair value reserve discloses at the year-end of 2015:

- change in the value of financial assets available for sale in the mount of EUR 32,814,
- actuarial losses on retirement benefits in the amount of EUR -695,513, and
- revaluation of land in the amount of EUR -11,565 EUR.

Retained earnings or losses

Item v EUR	31 Dec 2015	31 Dec 2014
Net profit or loss for the period	(477,880,573)	(24,831,823)
Retained earnings	467,106,258	485,882,022
Total	**(10,774,315)**	**461,050,199**

At the end of 2015, the Group discloses loss in the amount of EUR -477,880,573. Retained earnings or losses increased in 2015 by EUR 6,070,871 on the account of purchasing the minority interest in the company TET – in liquidation, and declined by EUR 14,811 due to losses on actuarial calculations for retirement benefits. Loss for the reporting period is mostly attributable to the impairment of assets in the amount of EUR 479,267,835.

Translation reserve amounted to EUR 1,383,607 and includes exchange differences arising on the translation of financial statements of subsidiaries abroad into the Group's presentation currency.

Equity of the non-controlling interest represents the value of owners holding non-controlling interests in subsidiaries and is disclosed at EUR 696,949. The decline in non-controlling interests in the amount of EUR 8,310,695 (2014: EUR 9,007,644) is attributable to the controlling company's purchase of the total minority interest in the company TET – in liquidation in January 2015, to the increase in equity interest conducted by the controlling company to the share capital increase in the company PV, and to losses incurred by subsidiaries in 2015, where owners of the non-controlling interest were present.

Non-controlling equity interests

Item in EUR	31 Dec 2015 Non-controlling interests	Jan-Dec 2015 Share in the operating profit or loss	31 Dec 2014 Non-controlling interests	Jan-Dec 2014 Share in the operating profit or loss
PV d.d.	534,897	(2,131,030)	13,582,000	(6,579,676)
HTZ IP d.o.o.	(103,685)	(35,362)	(1,808,493)	(830,221)
GOST d.o.o.	(51,495)	(1,502)	(880,235)	(235,748)
PV Invest d.o.o.	(31,993)	(2,769)	(791,246)	(30,983)
RGP d.o.o.	(17,144)	(6,577)	(75,284)	(485,720)
GOLTE d.o.o.	(318,000)	(152,891)	(1,149,528)	(596,886)
HESS d.o.o.				444,135
TET d.o.o. - in liquidation			(462,100)	(2,577,637)
HSE Invest d.o.o.	432,858	107,218	334,079	24,237
SRESA d.o.o.	30,570	(240)	30,809	(65)
mHE LOBNICA d.o.o.	220,941	998	227,642	7,699
PARTNER d.o.o.				2,253
Total	**696,949**	**(2,222,155)**	**9,007,644**	**(10,858,612)**

Accumulated profit or loss is not established on the Group level.

Provisions for jubilee premiums and retirement benerfits (13)

Item in EUR	31 Dec 2015	31 Dec 2014
Provisions for termination benefits upon retirement	10,568,067	10,128,106
Provisions for jubilee premiums	3,162,169	3,541,563
Total	**13,730,236**	**13,669,669**

The Group discloses provisions for termination benefits and jubilee premiums created on the basis of an actuarial calculation prepared as at 31 December 2015. No significant changes were recorded if compared to the previous year.

Change in provisions for termination and jubilee premiums

Item in EUR	Provisions for termination benefits upon retirement	Provisions for jubilee premiums	Total
Balance at 1 Jan 2014	**10,201,918**	**4,076,193**	**14,278,111**
Formation, increase	2,652,551	515,423	3,167,974
Decrease - reversal	(694,674)	(616,211)	(1,310,885)
Decrease - utilisation	(887,420)	(328,734)	(1,216,154)
Liabilities included in the disposal group	(1,063,033)		(1,063,033)
Disposal of a Group company	(81,236)	(105,108)	(186,344)
Balance at 1 Jan 2014	**10,128,106**	**3,541,563**	**13,669,669**
Balance at 1 Jan 2015	**10,128,106**	**3,541,563**	**13,669,669**
Formation, increase	1,218,632	472,970	1,691,602
Decrease - reversal	(778,671)	(852,364)	(1,631,035)
Balance at 31 Dec 2015	**10,568,067**	**3,162,169**	**13,730,236**

The actuarial calculation was based on:

- the number of employees in the Group as at 30 September 2015 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period July – September 2015);
- method for calculating termination and jubilee premiums in the company;
- average salary growth of 0.5% for 2016, 2017 and 2018 and 2.0% p.a. from 2019 onwards;
- nominal long-term interest rate of 2.25%, and
- employee turnover by age category.

Sensitivity analysis for provisions for termination and jubilee premiums

	2015			
	Discount rate		Growth of wages	
Item in EUR	Decresase by 0.5%	Increase by 0.5%	Decresase by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	240,657	(198,808)	(29,949)	66,761
Provisions for jubilee premiums	66,559	(59,712)	7,008	(1,322)
Total	**307,216**	**(258,520)**	**(22,941)**	**65,439**

	2014			
	Discount rate		Growth of wages	
Item in EUR	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	512,135	(474,113)	(417,558)	465,685
Provisions for jubilee premiums	120,423	(113,189)	(96,130)	101,964
Total	**632,558**	**(587,302)**	**(513,688)**	**567,649**

OTHER PROVISIONS (14)

Item in EUR	31 Dec 2015	31 Dec 2014
Provisions for lawsuits	4,508,442	5,080,471
Provisions for closing works on mining caves	28,611,052	28,993,052
Provisions for compensations	20,493	43,293
Other provisions	18,473,826	3,444,439
Total	**51,613,813**	**37,561,255**

Increase in other provisions over the 2014 year-end balance primarily refers to the cost of dismantling the replacement Unit 6 at TEŠ in the amount of EUR 9,113,400 (more details in Note 5.5.7.1 – 2) and unpaid wages for 2012 and 2013 in the amount of EUR 5,340,611 that will be paid in 2017 and 2018 based on the social agreement signed on 4 April 2016.

MOVEMENT OF OTHER PROVISIONS

Item in EUR	Lawsuits	Closing works on mining caves	Compensations	Other provisions	Total
Balance at 1 Jan 2014	**8,126,093**	**28,993,052**	**43,293**	**5,433,468**	**42,595,906**
Formation, increase	799,666			3,121,090	3,920,756
Decrease - reversal				(405,704)	(405,704)
Decrease - utilisation	(2,195,288)			(1,633,285)	(3,828,573)
Liabilities included in the disposal group	(1,650,000)			(3,071,130)	(4,721,130)
Balance at 31 Dec 2014	**5,080,471**	**28,993,052**	**43,293**	**3,444,439**	**37,561,255**
Balance at 1 Jan 2015	**5,080,471**	**28,993,052**	**43,293**	**3,444,439**	**37,561,255**
Formation, increase	163,106	317,000		15,605,646	16,085,752
Decrease - reversal	(675,822)		(22,800)	(406,582)	(1,105,204)
Decrease - utilisation	(59,313)	(699,000)		(169,677)	(927,990)
Balance at 31 Dec 2015	**4,508,442**	**28,611,052**	**20,493**	**18,473,826**	**51,613,813**

Provisions for legal actions are created on the basis of assessed liabilities from legal actions, in which the Group acts as the defendant. Formation of these provisions refers also to the increase due to new lawsuits and charged default interest on the part of damage amounts claimed. Reversal of provisions primarily refers to payment upon a lost action.

Provisions for closing down the remaining Velenje coal mining site are created on the basis of an assessment prepared by a group of experts of the PV company. Provisions for covering the relevant costs are recorded in the financial statement at the present value of anticipated costs of closing down (the average discount rate of German bonds was applied). Costs of closing works comprises following activities: ecological restoration, hydrological and geomechanical monitoring, liquidation of pit buildings. The implementation of these activities is planned after 2054, when coal mine is planned to be closed. The estimate on provisions required is mostly exposed to the risk of price fluctuations for services of ecological restoration and monitoring, and the prices of material and construction services rendered in connection with the liquidation of pit buildings. The last estimate of provisions was performed on 31 December 2015, when the decision was made to decrease the value in the total amount of EUR 382,000

OTHER LONG-TERM LIABILITIES (15)

Item in EUR	31 Dec 2015	31 Dec 2014
Emissions coupons	200,193	338,138
State aids received	4,495,509	7,842,476
Total	**4,695,702**	**8,180,614**

The largest portion of other long-term liabilities include government grants received, among them exemption from payment of contributions for the disabled, in accordance with the Vocational Rehabilitation and Employment of Disabled Persons Act. They are used to settle costs indicated in the aforementioned Act. The second largest item among government grants relates to assets received for co-financing fixed assets that are reduced by accumulated depreciation.

MOVEMENT OF OTHER LONG-TERM LIABILITIES

Item in EUR	Emissions coupons	State aids received	Other	Total
Balance at 1 Jan 2014	**0**	**11,061,743**	**16,244**	**11,077,987**
Acquisitions	446,856	6,842,912	65,587	7,355,355
Disposal	(108,718)	(9,219,468)	(1,891)	(9,330,077)
Disposal from a Group company			(24,499)	(24,499)
Reversal		(842,711)	(55,441)	(898,152)
Balance at 31 Dec 2014	**338,138**	**7,842,476**	**0**	**8,180,614**
Balance at 1 Jan 2015	**338,138**	**7,842,476**	**0**	**8,180,614**
Acquisitions		11,708,112		11,708,112
Disposal	(137,945)	(9,356,625)		(9,494,570)
Reversal		(5,698,454)		(5,698,454)
Balance at 31 Dec 2015	**200,193**	**4,495,509**	**0**	**4,695,702**

LONG-TERM FINANCIAL LIABILITIES (16)

Item in EUR	31 Dec 2015	31 Dec 2014
Long-term financial liabilities to banks	716,626,111	875,587,140
Long-term derivatives		1,969,366
Other long-term financial liabilities	37,984	65,625
Total	**716,664,095**	**877,622,131**

Long-term financial liabilities to banks include long-term borrowings. The item of other long-term financial liabilities included as at 31 December 2014 mostly financial liabilities under concluded contracts for interest rate swaps, which were as at 31 December 2015 disclosed among short-term financial liabilities that expire in the first quarter of 2016.

Loans have been taken at Slovene and foreign banks with fixed and vaiable interest rates in the range between 0.315% and 7.9%, depending on the type of the loan, maturity and the timing of borrowing. The loans which fall due in a period of more than five years but not later than 2038 are also included.

Long-term loans are mostly intended for the financing of property, plant and equipment.

Movement in 2015

Item in EUR	Long-term financial liabilities to banks	Derivatives	Other long-term financial liabilities	Total
Balance at 1 Jan 2015	**875,587,140**	**1,969,366**	**65,625**	**877,622,131**
Acquisitions	79,903,030		574	79,903,604
Transfer from short-term liabilities	377,127		1,020	378,147
Transfer to short-term liabilities	(175,585,163)		(24,390)	(175,609,553)
Repayments	(63,656,023)		(4,845)	(63,660,868)
Other		(1,969,366)		(1,969,366)
Balance at 31 Dec 2015	**716,626,111**	**0**	**37,984**	**716,664,095**

Movement in 2014

Item in EUR	Long-term financial liabilities to banks	Derivatives	Other long-term financial liabilities	Total
Balance at 1 Jan 2014	**890,846,843**	**3,330,071**	**52,045**	**894,228,959**
Acquisitions			82,153	82,153
Transfer to short-term liabilities	(37,853,903)		(13,535)	(37,867,438)
Transfer from short-term liabilities	22,808,334			22,808,334
Repayments	(214,134)		(55,038)	(269,172)
Dolgoročna odplačila				
Other		(1,360,705)		(1,360,705)
Balance at 31 Dec 2014	**875,587,140**	**1,969,366**	**65,625**	**877,622,131**

In December 2015, the controlling company raised a long-term borrowing at a commercial bank in the amount of EUR 15,000,000 and a maturity of five years. The borrowing shall be used for financing current operating assets.

The long-term borrowing, raised by controlling company at the EIB, was in 2015 taken over by the SID banka. The long-term borrowing from the EIB taken in 2008 was secured with a bank guarantee issued by the BLB bank, whose validity expired in early August 2015. In compliance with provisions of the loan contract with EIB, the controlling company as borrower should have extended the validity of the existing bank guarantee or ensure the EIB a new bank guarantee 90 days prior to the expiry of the existing one and under terms and conditions that are acceptable to EIB. In line with its policy, the BLB bank was not able to extend the guarantee, whereby also the controlling company failed to obtain a new guarantee by another bank that would be acceptable to EIB. In November 2015, the SID bank took over the debt to EIB, by means of which the controlling company now records liabilities to the SID bank. The total amount of the remaining debt remains unchanged in the amount EUR 58,303,030. The borrowing's maturity (September 2028) remained unchanged as well.

The subsidiary PV obtained in 2015 a long-term borrowing in the amount of EUR 6,600,000 and a maturity of up to 2020.

The validity of the bank guarantee of TEŠ expired in January 2016, by means of which the long-term loan from the EIB in the amount of EUR 110,000,000 was insured. TEŠ failed to provide the guarantee's extension as the banks acting as guarantor were not prepared to extend the validity of the guarantee for the period of five years, as required by EIB, or the new guarantor bank failed to meet credit rating requirements of EIB. Accordingly, in Januarj TEŠ repaid to EIB the long-term loan in the amount of EUR 110,000,000. Due to the early repayment of the EIB loan, TEŠ was, pursuant to provisions of the loan contract signed with EBRD, required to proportionally repay also a part of the long-term loan from EBRD in the amount of EUR 37,828,571. This portion of borrowings is therefore disclosed among short-term financial liabilities.

The portion of other long-term borrowings that mature in less than a year from the date of the statement of financial position in the total amount of EUR 27,756,592 was also transferred to short-term financial liabilities.

Short-term borrowings whose maturity was changed in 2015 (i.e. EUR 377,127) were transferred back from short-term to long-term financial liabilities.

The Group repaid in 2015 also the portion of long-term borrowings in the total amount of EUR 5,352,993 (in addition to the aforesaid loan exchange at the controlling company). Most thereof relates to the SENG company, which in 2015 prematurely repaid two long-term borrowings raised with the maturity of up to 2019. The two long-term borrowings were repaid by SENG by raising new short-term loans at a lower interest rate and thus reducing the costs of financing.

In compliance with signed loan and guarantee contracts, individual companies as well as the Group are obliged to observe certain financial, legal and technical obligations. As at 31 December 2014, certain deviations from of covenants appeared under loan agreements or agreements on guarantees issues. In 2015, the Group succeeded to settle contractual provisions of all loan contracts in the way that covenants will no longer be breached. Accordingly, the Group did not breach any covenants under signed loan contracts as at 31 December 2015.

Long-term borrowings are secured with bills of exchange, guarantees, mortgages taken out on real estate, assignment of receivables, pledge of accounts, or cash equity interests, with a guarantee of the controlling company or with a guarantee the Republic of Slovenia.

Interest rate swaps are concluded for a portion of long-term loans based on which the risk of interest rate fluctuations is mitigated. Their fair values are, due to the fall of interest rates, disclosed among other short-term financial liabilities and as a negative fair value reserve. Further details are provided in the section on interest rate risk (Section 5.5.7.5.4).

Maturities of long-term liabilities by period are disclosed within the section on liquidity risk.

Liabilities included in the disposal group (17)

Liabilities included in the disposal group in the amount of EUR 6,322,063 (2014: EUR 10,453,623) include liabilities of the subsidiary that started liquidation procedures in 2014.

Short-term financial liabilities (18)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term financial liabilities to banks - whereof short-term liabilities excluding interest	464,390	462,258
Short-term financial liabilities to banks - whereof short-term liabilities for interest	297,415,255	57,113,108
Short-term derivatives	392,960	45,061
Other short-term financial liabilities	168,507	1,154,260
Total	**298,441,112**	**58,774,687**

Most of short-term financial liabilities refer to borrowings from banks. The item of other short-term financial liabilities primarily consists of the negative fair value of interest rate swaps.

Short-term financial liabilities to banks include also a portion of Group's long-term borrowings that mature within one year after the date of the consolidated statement of financial position, and short-term loans. Interest rates range from 0.89% to 6.30%. Accounted interest due and relating to loans amounted at the end of the reporting period to EUR 464,390.

Movement in 2015

Item in EUR	Short-term financial liabilities to banks - interest	Short-term financial liabilities to banks - excluding interest	Short-term derivatives	Other short-term financial liabilities	Total
Balance at 1 Jan 2015	**462,258**	**57,113,108**	**45,061**	**1,154,260**	**58,774,687**
Acquisitions	29,974,655	294,000,876		2,642,108	326,617,639
Transfer from long-term liabilities		175,585,163		24,390	175,609,553
Transfer to long-term liabilities		(377,127)		(1,020)	(378,147)
Repayment of short-term liabilities	(29,986,181)	(190,733,411)		(3,629,031)	(224,348,623)
Repayment of long-term liabilities		(38,173,354)		(22,260)	(38,195,614)
Other	13,658		347,899	60	361,617
Balance at 31 Dec 2015	**464,390**	**297,415,255**	**392,960**	**168,507**	**298,441,112**

Movement in 2014

Item in EUR	Short-term financial liabilities to banks - interest	Short-term financial liabilities to banks - excluding interest	Short-term derivatives	Other short-term financial liabilities	Total
Balance at 1 Jan 2014	**652,418**	**69,752,689**	**0**	**258,160**	**70,663,267**
Acquisitions	5,184,354	134,206,711		1,847,864	141,238,929
Transfer from long-term liabilities		37,853,903		13,535	37,867,438
Transfer to long-term liabilities	(170,401)	(22,137,933)			(22,308,334)
Repayments	(5,204,112)	(162,892,017)		(965,349)	(169,061,478)
Other		329,754	45,061	50	374,865
Balance at 31 Dec 2014	**462,259**	**57,113,107**	**45,061**	**1,154,260**	**58,774,687**

The essential increase in short-term financial liabilities to banks as at the year-end of 2015 over the previous year is attributable to the controlling company's borrowing from a syndicate of banks in the amount of EUR 105,000,000 (in view of off-set and repayment of short-term borrowing).

Transfer of long-term borrowings that mature within one year after the date of the statement of financial position is in detail outlined under long-term financial liabilities.

Long-term borrowings were in 2015 repaid in the amount of EUR 38,173,354.

Short-term trade payables to suppliers (19)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term operating liabilities to associates	1,777,619	1,956,084
Short-term operating liabilities to jointly controlled companies	38,881	110,285
Short-term operating liabilities to suppliers	97,336,004	189,468,380
Total	**99,152,504**	**191,534,749**

The decline in trade payables to suppliers refers largely (80%) to completing the investments in the replacement Unit 6 at TEŠ and the related repayment of trade payables.

Disclosures regarding the maturity of trade payables are provided in the section discussing liquidity risk.

Other short-term liabilities (20)

Item in EUR	31 Dec 2015	31 Dec 2014
Short-term operating liabilities from advances	335,036	305,596
Short-term operating liabilities to employees	11,889,499	13,407,125
Short-term operating liabilities to state and other institutions	24,118,336	24,093,469
Short-term operating liabilities to others	2,321,944	4,307,050
Short-term deferred income	38,368	82,636
Short-term accrued costs and expenses	12,547,274	15,100,536
Total	**51,250,457**	**57,296,412**

Payables to state and other institutions (primarily arising on VAT) account nearly half of other short-term liabilities. Approximately a quarter of other short-term liabilities, which mostly include payables to employees, refer to December earnings paid out in January 2016. The Group hereunder discloses also liabilities arising on unused vacation days in the amount of EUR 1,571,079 (2014: EUR 3,871,215). Short-term accrued costs largely refer to costs for accounted interest and bank guarantees, costs for damages and costs relating to electricity purchases (inclusive of costs for emission coupons).

Contingent liabilities (21)

Item in EUR	31 Dec 2015	31 Dec 2014
Performance/warranty guarantees	1,514,808	2,305,786
Other	2,066,317	50,000
Total	**3,581,125**	**2,355,786**

The guarantees for appropriate execution of works and repair of irregularities comprise the guarantees the Group gave to third parties in connection with transactions performed.

Other contingent liabilities, therefore, include the Group's guarantees to third parties and the estimated value of lawsuits for which the possibility of the Group losing in legal procedures has been assessed as low. The increase over the previous year primarily arises in connection with the controlling company's guarantee referring to the hazardous waste dump owned by the company TET – in liquidation.

The tax authorities have the right to verify the operations of the Group companies at any time within the legally determined period and in any country they are registered, which may cause additional tax liabilities, default interest and penalties arising from corporate income tax, other taxes and duties.

5.5.7.2 Consolidated income statement

Data provided in the consolidated income statement for the period January-December 2015 no longer include business operations of the HESS company that was in the fourth quarter of 2014 eliminated from consolidation. Furthermore, operations of TET – in liquidation were materially cut down with respect to the volume of operations in 2014.

Revenut (22)

Item in EUR	2015	2014
On the domestic market	**552,228,620**	**581,189,642**
Electricity	523,590,011	528,880,474
Heat energy	3,024,273	3,354,696
Other products	126,171	366,970
Other merchandise and material	5,883,180	19,381,685
Other services	19,604,985	29,205,817
On the foreign markets	**671,782,404**	**677,201,468**
Electricity	652,152,161	651,372,735
Other products	11,011	132,270
Other merchandise and material	506,835	5,664,534
Other services	19,112,397	20,031,929
Total	**1,224,011,024**	**1,258,391,110**

Most of the revenue refers to the revenue generated through the sale of electricity by the controlling company.

Income generated on other merchandise and material include mainly the sale of gas. Revenue recorded by the controlling company from other merchandise includes the net value of emission coupons sold (EUR 248,428). Values of sales and purchases of emission coupons were not off set for 2014, instead income on their sale (EUR 6,396,431) and the costs of emission coupons sold (EUR 5,628,796).

Revenue from services provided is generated through services in connection with electricity (transfer capacities, contribution for allocation of transfer capacities, etc.), construction and maintenance services, and rents and other services.

Capitalised own products (23)

Capitalised own products and services recorded at EUR 33,408,479 (2014: EUR 30,501,902) mostly include:

- construction of the replacement Unit 6 at TEŠ and the implementation of test launching,
- engineer services rendered during the construction and reconstruction of HPPs, and
- worked relates to pit sites.

Other operating income (24)

Item in EUR	2015	2014
Income on reversal of provisions	1,718,552	5,637,918
Reversal of deferred income	9,223,071	9,173,325
Profits from sale of property, plant and equipment	2,177,295	4,269,098
Reversal of impaired receivables	153,467	3,694,381
Income on compensations and contractual penalties	368,312	459,674
Other operating revenue	1,762,715	1,237,170
Total	**15,403,412**	**24,471,566**

Revenue from utilisation of deferred revenue account for the largest share among other operating revenue and represent assigned allowances for disabled persons as well as revenue relating to depreciation costs of co-financing property, plant and equipment.

Significant amount among other operating revenue refers also to gains on the sale of fixed assets and revenue from reversal of provisions.

Costs of goods, materials and services (25)

Item in EUR	2015	2014
Costs of goods sold	888,647,041	807,134,678
Costs of material	32,143,427	59,241,738
Costs of services	39,598,675	69,026,684
Total	**960,389,143**	**935,403,100**

Item in EUR	2015	2014
Costs of goods sold	839,478,116	759,997,713
Dependent costs of goods sold	49,168,925	47,136,966
Total purchase cost of goods sold	**888,647,041**	**807,134,679**
Costs of material	22,754,595	46,623,547
Costs of subsidiary material	2,241,724	2,846,012
Energy costs	1,921,001	2,448,118
Costs of spare parts	4,094,312	5,604,853
Small tools	274,229	346,546
Office stationary	341,998	362,169
Professional literature	135,674	191,620
Other costs of material	379,894	(553,789)
Total costs of material	**32,143,427**	**59,241,738**
Costs of services related to creating products	8,207,227	26,778,658
Costs of transportation	997,803	1,950,313
Maintenance	9,816,450	13,010,953
Rentals	1,554,518	1,910,994
Refund of work-related costs to employees	250,752	351,832
Insurance costs and bank services	5,091,555	5,899,963
Costs of professional and intellectual services	4,060,364	4,402,410
Costs of research and development	241,140	2,063,823
Costs of fairs, advertising and entertainment	877,427	1,679,590
Costs of services rendered by individuals	1,186,618	1,360,409
Municipal utility services	3,770,265	4,704,517
Costs of managing the dumping areas	894,511	14,867
Costs of mining damage	532,423	721,388
Cleaning-related services	454,032	473,429
Administration of properties	343,716	320,826
Costs of security and surveillance	299,935	249,386
Other costs of services	1,019,939	(6,484,413)
Total costs of services	**39,598,675**	**69,026,684**
Total	**960,389,143**	**935,403,100**

Costs of goods sold in the amount of EUR 888,647,041 include mainly costs of purchasing electricity and accompanying expenses thereof. If compared to 2014, costs of goods sold grew by 11%. The said increase is attributable to higher purchases from external suppliers as Group's own production declined due to various factors i.e. poor hydrology in 2015, testing the replacement Unit 6 at TEŠ, liquidation of the company TET. Values of sales and purchases of emission coupons were by the controlling company not offset for 2014, instead income on their sale (EUR 6,396,431) and the costs of emission coupons sold (EUR 5,628,796) were disclosed.

Costs of material in the amount of EUR 32,143,427 comprise the most significant costs of energy products required for the production of electricity and heat, as well as spare parts and maintenance material. Costs of material have decreased over the previous year by 46%, which is the result of optimising Group's operations, the capitalisation of test-related costs for the replacement Unit 6 at TEŠ (production-related expenses and income are recorded in the off-set amount as part of investments) and the TET company, which is in liquidation since December 2014 and conducts no business operations (this company recorded EUR 4 million costs of material in 2014).

Major amounts among costs of services (EUR 39,598,675) refer to costs of creating products, maintenance costs for Group's fixed assets, insurance premiums and sewage disposal services. In view of 2014, costs of services declined by nearly 44%, mostly due to losing business deals in the construction-related activity for the foreign market, and optimising Group's operations; the respective 2014 balance included also costs of services of TET – in liquidation and HESS (EUR 3.5 million).

Costs of the auditor

Item in EUR	2015	2014
Audit of the Annual Report	146,356	146,050
Total	**146,356**	**146,050**

In 2015, the financial statements of the HSE Group companies in Slovenia were audited by the audit firm KPMG Slovenija d.o.o., which carried out also a review of financial information of subsidiaries abroad that are included in the consolidation if their financial statements were not audited in the country of residence. Three companies registered abroad were audited by the audit companies in their respective countries.

Apart from auditing the annual reports of Group companies, KPMG Slovenija d.o.o. received no other payments from the Group in 2015.

Employee benefits expense (26)

Item in EUR	2015	2014
Wages and salaries	96,317,527	106,360,566
Pension insurance costs	14,427,376	17,939,757
Other insurance costs	6,590,422	7,635,878
Other labour costs	12,153,228	14,986,883
Total	**129,488,553**	**146,923,084**

Employee benefits expense comprise salaries and wage compensations, social insurance contributions, additional pension insurance and other labour costs (meal allowance, commuting allowance, annual leave allowance, solidarity aid, provisions for jubilee and termination benefits, etc.). Costs of compensations for unused vacation days in 2015, which can be utilised by 30 June 2016, are accounted as well.

Employee benefits expense decrease over 2014, as anticipated under the planned optimisation of Group's operations. Employee benefits expense for 2014 included also related expenses of TET– in liquidation and HESS (in the total amount of EUR 7.3 million). As at 31 December 2015, the employee benefits expense additionally include the value of unpaid wages for 2012 and 2013 in the amount of EUR 5,414,791; they shall be paid out in 2017 and 2018 in accordance with the social agreement signed on 4 April 2016.

Number of the group employees

Level of education	As at 1 Jan 2015	As at 31 Dec 2015	Average number of employees in 2015
1	177	168	173
2	136	107	122
3	77	68	73
4	1,284	1,195	1,240
5	998	906	952
6/1	382	361	372
6/2	216	213	215
7	308	296	302
8/1	67	61	64
8/2	14	15	15
Total	**3,659**	**3,390**	**3,525**

Write-downs in value (27)

Item in EUR	2015	2014
Amortisation of intangible assets	1,311,219	1,520,463
Depreciation of property, plant and equipment	79,730,899	86,963,052
Depreciation of investment property	69,901	12,234
Allowances for or write-offs of receivables	3,762,867	1,054,011
Allowances for or write-offs of inventories	6,249,777	3,573,435
Impairment of property, plant and equipment and intangible assets	470,044,869	70,688,179
Write-offs of property, plant and equipment	3,764,942	1,453,453
Sale of property, plant and equipment and investment property	186,522	161,038
Total	**565,120,996**	**165,425,865**

The majority of write-downs in value made in 2015 relates to the impairment of property, plant and equipment, which is in detail outlines in section 5.5.7.1 (2) Property, plant and equipment.

The Group applies similar rates of depreciation to intangible assets and fixed assets of the same kind. As for the manufacturing plant and equipment, individual subsidiaries apply depreciation rates that correspond to the activity carried out.

The impact of impairment of fixed assets made in 2014 contributed to a lower depreciation in 2015, in the last quarter of 2015 also impairments of fixed assets as at 30 September 2015. The second half-year of 2015 already takes account of the depreciation of the replacement Unit 6 at TEŠ. The depreciation of TET– in liquidation and HESS amounted in 2014 to EUR 10 million.

Depreciation of fixed assets acquired through government grants or free of charge is accounted for separately. For the amount of accumulated depreciation, long-term deferred income is utilised and other operating income is recorded.

65% of allowances and value adjustments made for operating receivables and inventories relate to the impairment of inventories to their realisable value, and 35% to the formation of doubtful operating receivables, which is outlined in the section of credit risk.

Other operating expenses (28)

Item in EUR	2015	2014
Provisions	663,106	3,356,993
Fee for building site use	8,759,638	8,901,067
Concessions	11,864,405	21,175,006
Environmental charges	29,780,096	33,259,928
Donations	325,695	666,285
Other operating expenses	9,355,968	9,232,510
Total	**60,748,908**	**76,591,789**

The most important among other operating expenses are the environmental levies (costs of emission coupons and water recovery), the concession contribution paid to the state, and charge for the use of construction land. If compared to 2014, concession contribution paid declined mostly due to lower electricity production in the HPPs and the Group's lower average price of electricity that consequently lowers the related concessions.

Financial result (29)

The Group incurred in 2015 a negative financial result in the amount of EUR 26,842,107 (a negative result was recorded also in 2014 in the amount of EUR 11,573,780). The financial result worsened mostly due to higher interest on borrowings received, which is in detail discussed below.

Finance income

Item in EUR	2015	2014
Dividends and other profit shares	2,960	18,341
Finance income on loans granted and deposits	140,736	928,608
Change in fair value of financial assets trough profit or loss	68,598	
Finance income on sale/liquidation of investments	19,732	559,607
Net exchange gains from financing activities	1,156	
Other financial income	134,129	100,753
Total	**367,311**	**1,607,309**

The share in the positive operating result of associates and jointly controlled companies, which was accounted by using the equity method, was in 2014 recorded among finance income in the amount of EUR 5,148,809, whereas in this report it is disclosed in the consolidated income statement under item 11 (together with related finance costs). The share in profits of associates and jointly controlled entities for 2015 is recorded at EUR 1,329,748.

Finance costs

Item in EUR	2015	2014
Interest expenses	20,078,344	7,076,417
Change in fair value of financial assets trough profit or loss	170,631	622,792
Finance costs for liquidation of investments		5,049,543
Net exchange losses from financing activities		15,367
Other finance costs	6,960,448	416,970
Total	**27,209,423**	**13,181,089**

Finance costs have gone up over the previous year by 111%. The reasons behind the increase in finance costs comprise: the completion of the investment in the replacement Unit 6 at TEŠ (costs of financing were during the construction recognised as cost of the investment) and higher interest under contracts for short-term borrowings raised.

The largest part of finance costs refers to interest on long-term and short-term borrowings that take account also of interest rate swaps in the amount of EUR 1,711,533 (more details are provided in Note 5.5.7.5.4 – Interest rate risk).

Interest on loans for acquiring property, plant and equipment until made ready for their use are disclosed as part of these assets – disclosed in detail in Note 5.5.7.1 (2).

Other finance costs in the amount of EUR 6,960,448 include primarily insurance costs referring to borrowings raised.

The share in the negative operating result of associates, accounted by using the equity method and in 2014 disclosed among finance costs in the amount of EUR 197,906, is in this report disclosed in the consolidated income statement within item 11. The share in losses of associates and jointly controlled companies for 2015 is recorded at EUR 100,072.

Tax (30)

Item in EUR	2015	2014
a. Current tax	11,007,032	21,225,488
b. Deferred taxes	(77,914)	(270,965)
Total income tax disclosed in income statement	**10,929,118**	**20,954,523**
Deferred taxes recognised in equity	56,899	299,850

The HSE Group companies are liable to pay corporate income tax, VAT, financial services tax and excise duties.

In 2015, four out of fourteen Group companies in Slovenia were liable to pay corporate income tax, as well as three out of five companies abroad. Owing to tax reliefs or the utilisation of tax losses and financial loss, the remaining companies did not determine the tax base.

Current tax of Group companies in 2015 amounts to EUR 11,007,032, which is nearly 50% less than in 2014. The largest decline in current tax is recorded by the controlling company (EUR 9,307,878) due to lower taxable basis if compared to 2014. As at the year-end of 2015, Group companies disclose EUR 6,532,048 of current tax assets and EUR 50.339 of current tax liabilities.

Deferred taxes refer to deferred tax assets recognised in the amount of likely available profit against which they can be used in the future. Deferred tax assets are decreased by the amount up to which it is no longer probable that tax deductible expenses can be utilised in the future or the amount up to which expenses have been included in tax statements for the current year. The Group's deferred taxes comprise deferred tax assets in the amount of EUR 5,006,097 and EUR 3,902 of deferred tax liabilities. Further details on deferred tax assets are disclosed in Note 5.5.7.1 (4).

At the end of 2015, the Group companies' unutilised tax losses amounted to EUR 736,939,388 for which no deferred tax assets were formed.

In establishing the base for current tax, income and expenses established in accordance with IFRS were corrected in terms of decrease and increase in tax base, as shown in the table below.

Effective tax rate calculation

Item in EUR	2015	2014
Profit or loss before tax	(470,725,587)	(14,735,912)
Tax calculated at applicable tax rate	(80,012,725)	(2,494,178)
Tax on income reducing tax base	(313,440)	(947,921)
Tax on tax relief	(589,338)	(788,026)
Tax on expenses reducing tax base	(292,456)	(1,503,078)
Tax on non-deductible expenses	2,795,934	1,712,904
Tax on other changes in tax calculation	9,113	620,097
Tax effect of non-deductible deferred receivables for tax losses	89,409,944	24,625,691
Current tax	**11,007,032**	**21,225,489**
Deferred taxes	**(77,914)**	**(270,965)**
Total tax	**10,929,118**	**20,954,524**
Effective tax rate	**-2.32%**	**-142.20%**

Net profit of loss for the period (31)

Item in EUR	2015	2014
Gross operating yield	1,272,186,421	1,316,230,803
Operating profit or loss	(443,561,179)	(8,113,035)
Financial result	(26,842,107)	(11,573,780)
Profit or loss before tax	(469,173,610)	(14,735,912)
Net profit or loss for the period	**(480,102,728)**	**(35,690,435)**

Due to the changed market conditions, particularly the fall of electricity prices, the Group companies checked in 2015 the value of their assets and consequently made certain impairments which mostly contributed to the loss in the current period. Total impairment of Group's assets is recorded at EUR 479,267,835; without the impairments made, the Group would disclose loss for 2015 in the amount of EUR -824,893 EUR. Excluding the impairments, the Group's operating result worsened mostly as the result of lower electricity prices on the wholesale market and the lower electricity production compare to 2014 (in particular due to poor hydrology and the testing of the replacement Unit 6 at TEŠ that resulted in non-optimum production by other units in TEŠ in 2015). A material increase over the previous year is shown also by finance costs, which is in detail disclosed within section 29 (financial result) hereunder.

5.5.7.3 RELATED COMPANIES

Item in EUR	Sales in 2015	Purchases in 2015	Loans granted as at 31 Dec 2015	Other receivables as at 31 Dec 2015	Other liabilities as at 31 Dec 2015
Associates	1,677,380	10,656,645	34,373	793,501	1,779,591
Jointly controlled companies	161,764	353,243		234	38,881
Total	**1,839,144**	**11,009,888**	**34,373**	**793,735**	**1,818,472**

Item in EUR	Sales in 2014	Purchases in 2014	Loans granted as at 31 Dec 2014	Other receivables as at 31 Dec 2014	Other liabilities as at 31 Dec 2014
Associates	443,570	3,611,839	49,000	991,779	1,956,084
Jointly controlled companies	1,680	567,341		2,050	110,285
Total	**445,250**	**4,179,180**	**49,000**	**993,829**	**2,066,369**

The Group conducted transactions with related companies on the basis of sales and purchase contracts signed. Sales and purchases comprise the turnover of all transactions (exclusive of VAT), including finance income. Transactions with associates mostly refer to the purchase of electricity from the HESS and the write-up of profits in this company.

The most important transactions with related companies include following:

- transactions with associates and jointly controlled companies, and
- transactions with companies that are directly or indirectly owned by the Republic of Slovenia (ownership exceeds 50%) and are important for HSE from the perspective of significance of transactions (income or expenses in 2015 exceed EUR 2 million), except banks where all transactions are disclosed. Transactions primarily relate to trading in electricity or financing of the Group.

The controlling company is fully (100%) owned by the Republic of Slovenia. In 2015, no dividends were paid out.

Business partner	Outstanding receivables as at 31 Dec 2015	Outstanding liabilities as at 31 Dec 2015	Expenses in 2015	Income in 2015
ELES d.o.o.	2,535,049	418,161	3,454,363	18,881,603
ELEKTRO MARIBOR ENERGIJA PLUS d.o.o.	5,681,703	544,155	4,501,566	49,039,736
ELEKTRO ENERGIJA d.o.o.	10,036,385	2,729,003	26,779,653	95,363,314
E3 d.o.o.	5,022,305	17,765	545,475	39,827,517
ECE d.o.o.	12,239,607	283,951	1,688,779	83,957,688
ELEKTRO GORENJSKA PRODAJA d.o.o.			450,228	27,108,601
ELEKTRO PRIMORSKA d.d.	966,277			4,742,834
GEN-I d.o.o.	1,108,593	1,240,971	57,438,745	73,833,298
GEN ENERGIJA d.o.o.	642,104	18,229	135,477	5,935,726
Energy sector - total	**38,232,023**	**5,252,235**	**94,994,286**	**398,690,317**
TALUM d.d.	3,482,767			22,331,219
Aluminium production	**3,482,767**	**0**	**0**	**22,331,219**
GEOPLIN d.o.o.		315,019	7,036,237	5,507,191
Gas sale		**315,019**	**7,036,237**	**5,507,191**
ABANKA d.d.		110,000	17,064	
NKBM		10,880,000		
NLB d.d.		18,523,516	1,079,799	2,183
SID d.d.		88,809,281	1,242,066	
PROBANKA d.d.		1,780,000	112,484	
Banks - total	**0**	**120,102,797**	**2,451,413**	**2,183**
Total	**41,714,790**	**125,670,051**	**104,481,936**	**426,530,910**

5.5.7.4 Remuneration

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement comprises:

- gross compensation included in the income tax return statement,
- other allowances (meals, transportation, per diems, untaxed portion of jubilee benefits), and
- premiums paid for voluntary supplementary pension insurance.

Remuneration of Supervisory Board members includes gross attendance fees of all members (composition of the Supervisory Board changed during the year), including travel expenses related to the performance of tasks in the Supervisory Boards and their Committees.

In 2015, members of Management Boards, other employees who are not subject to the tariff part of the collective labour agreement, and members of the Group's Supervisory Boards did not participate in the net profits under resolutions adopted by the Shareholders' Meeting, nor were they approved any advances, loans or guarantees by group companies..

EARNINGS IN 2015

Item in EUR	Salary	Other earnings	Bonuses	Refund of costs	Total
Members of the Management Board	1,183,336	34,869	31,562	26,451	1,276,218
Members of the Supervisory Board and the Audit Committee		174,805	166	4,739	179,710
Employees who are not subject to the tariff part of the collective agreement	2,064,265	336,504	40,140	35,944	2,476,853
Total	**3,247,601**	**546,178**	**71,868**	**67,134**	**3,932,781**

EARNINGS IN 2014

Item in EUR	Salary	Other earnings	Bonuses	Refund of costs	Total
Members of the Management Board	1,223,092	145,296	41,824	26,608	1,436,820
Members of the Supervisory Board and the Audit Committee		246,533		11,970	258,503
Employees who are not subject to the tariff part of the collective agreement	3,531,185	367,656	89,492	65,382	4,053,715
Total	**4,754,277**	**759,485**	**131,316**	**103,960**	**5,749,038**

Remuneration of employees who are not subject to the tariff part of the collective agreement have declined over 2014, which is the result of lower salaries and a reduced number of staff in certain Group companies.

EARNINGS RECEIVED BY MANAGEMENT BOARD MEMBERS IN 2015

Management Board	Company	Gross salary	Other earnings	Bonuses	Voluntary additional pension insurance	Refund of costs	Attendance fees	Total
Blaž Košorok	HSE	144,527	791	1,759	2,537	1,654		151,268
Stojan Nikolić (since 1 October 2014)	HSE	129,257	791	6,615	2,819	1,843	3,860	145,185
Viljem Pozeb	DEM	132,019	3,610	3,991		1,622		141,242
Marjan Pintar	SENG	105,468	3,375	4,901		1,751		115,495
Peter Dermol (from 1 January 2014 to 5 December 2014)	TEŠ	981						981
Matjaž Eberlinc (from 1 January 2015 to 30 November 2015)	TEŠ	114,805	4,146	3,494		1,133		123,578
Sandi Ritlop	HSE Invest	109,594	791	3,873		1,559		115,817
Ludvik Golob	PV	98,873	2,484	3,094	893	1,513		106,857
Boris Štefančič (from 1 January 2015 to 27 October 2015)	PV	75,526	790	26		4,602		80,944
Mojca Letnik (since 1 December 2015)	PV	7,827			36	122		7,985
Suzana Koželjnik (since 1 December 2014)	HTZ	58,674	1,480	3	893	1,414		62,464
Drago Potočnik (until 31 May 2015)	PV Invest	24,270	791	1,351	372	545		27,329
Janez Rošer (since 1 June 2015)	PV Invest	30,889	460	2	466	1,615		33,432
Marjan Hudej	RGP	60,366	791	2,450	893	1,443		65,943
Boštjan Hoheger	GOST	53,795	900	3		1,386		56,084
Ernest Kovač	GOLTE	36,465	900			4,252		41,617
Total		**1,183,336**	**22,100**	**31,562**	**8,909**	**26,454**	**3,860**	**1,276,221**

Earnings received by Supervisory Board members

Supervisory Board members	Company	Gross attendance fee	Travel costs	Bonuses	Total
Boštjan Jančar	HSE	13,804	255	17	14,076
Boštjan Markoli	HSE	15,224	816	17	16,057
Jernej Otič	HSE	15,700	1,398	17	17,115
Miloš Pantoš	HSE	21,350	23	17	21,390
Črt Slokan	HSE	14,695	543	17	15,255
Drago Štefe	HSE	15,300	367	17	15,684
Gregor Cenc	HSE Invest	1,375		2	1,377
Katja Rejec	HSE Invest	1,375		2	1,377
Drago Polak	HSE Invest	1,375	71	2	1,448
Andrej Tumpej	HSE Invest	1,375		3	1,378
Alida Rejec	HSE Invest	1,375		2	1,377
Irena Šlemic	HSE Invest	1,788		2	1,790
Jože Kaligaro (from 1 January 2015 to 27 October 2015)	PV	3,592		17	3,609
Stojan Nikolić (since 10 July 2015)	PV	5,319			5,319
Klemen Potisek (from 1 January 2015 to 9 July 2015)	PV	2,606		17	2,623
Boštjan Markoli (since 10 July 2015)	PV	4,092			4,092
Bojan Brcar	PV	6,798		17	6,815
Lajlar Bojan	PV Invest	386			386
Berlot Zdenka	PV Invest	297			297
Žavbi Aleš	PV Invest	297			297
Vovk Matija	PV Invest	297			297
Drago Potočnik	GOLTE	2,635			2,635
Janko Lukner	GOLTE	1,883			1,883
Tina Blazinšek	GOLTE	1,883			1,883
Total		**134,821**	**3,473**	**166**	**138,460**

Earnings received by Audit Committee members in 2015

Audit Committee members	Company	Gross attendance fee	Travel costs	Total
Boštjan Jančar	HSE	4,761		4,761
Boštjan Markoli	HSE	6,173	21	6,194
Darinka Virant	HSE	14,226	128	14,354
Damir Rakela	HSE	13,951	1,117	15,068
Total		**39,111**	**1,266**	**40,377**

* By applying the Code of SDH (March 2016) - disclosure of earnings received by external members

Earnings received by members of the Human Resources and Nomination Committee in 2015

Members of the Human Resources and Nomination Committee	Company	Gross attendance fee	Total
Jernej Otič	HSE	190	190
Miloš Pantoš	HSE	410	410
Črt Slokan	HSE	273	273
Total		**873**	**873**

5.5.7.5 Finančni instrumenti in tveganja

This section refers to section 5.5.5 of the accounting report, as well as to the chapter about financial risks in the business report.

5.5.7.5.1 Credit risk

Nearly 96% of Group's revenue refers to the activity of electricity trading, therefore most of the credit risk management activities are centred in the controlling company. The latter manages credit risk in accordance with procedures described in section 4.5.7.6.1 Credit risk (Accounting report of the controlling company), which discusses also the structure of the controlling company's short-term receivables and their management. Other Group companies sell most of its production directly to the controlling company, which settles its liabilities pursuant to the provisions of the contracts on electricity purchase concluded by the controlling company and its subsidiaries. The electricity is thereupon sold on the market by the controlling company meaning that it is the parent company which is mostly exposed to credit risk. The remaining credit risks of subsidiaries are managed according to internal policies and procedures of each individual subsidiary.

Group companies manage credit risk by means of a detailed examination and rational selection of their business partners prior to their approval, by means of regular monitoring of operations of each individual business partner upon their approval, and by means of a conservative approach that further defines the volume of operations with each partner.

Operating receivables are collateralised with bank guarantees, corporate guarantees, pledge of receivables under contracts on managing bank accounts, with deposits and enforcement drafts. In exceptional cases, the controlling company insures the receivables also with bills of exchange, mostly in combination with corporate guarantees, or as an individual instrument in case of minor volume of business operations with a partner. Subsidiaries insure their receivables primarily with bills of exchange. Nearly 74% of Group companies' short-term trade receivables are insured, which represent the majority of Group's total receivables.

Within the framework of managing credit risks towards banks and financial institutions, the company regularly monitors the information of our banks's business operations. The risk is additionally managed by means of diversification of funds deposits, by investing short-term funds for current operations, and by the use of derivatives such as currency swaps and interest rate swaps on the basis od standard ISDA contracts.

In case of delays, the customers in Slovenia and abroad are charged default interest at the contractual rate.

LONG-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY AS AT 31 DEC 2015

Item in EUR	DUE DATE: up to 2 years after the date of the statement of financial position	DUE DATE: from 3 to 5 years after the date of the statement of financial position	DUE DATE: over 5 years after the date of the statement of financial position	Total
Long-term depositis to others	16,439	119,959	26,727	163,125
Long-term operating receivables due from associated companies	166,894			166,894
Long-term trade receivables	155,335	165,386		320,721
Long-term advances	9,147	27,440	36,586	73,173
Long-term operating receivables due from others	4,789	3,894	535,689	544,372
Balance at 31 Dec 2015	**352,604**	**316,679**	**599,002**	**1,268,285**

LONG-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY AS AT 31 DEC 2014

Item in EUR	DUE DATE: up to 2 years after the date of the statement of financial position	DUE DATE: from 3 to 5 years after the date of the statement of financial position	DUE DATE: over 5 years after the date of the statement of financial position	Total
Long-term depositis to others	167,224	22,212	26,653	216,089
Long-term operating receivables due from associated companies	183,861			183,861
Long-term trade receivables		5,447		5,447
Long-term advances	9,146	27,439	45,734	82,319
Long-term operating receivables due from others	541,777	5,926		547,703
Total 31 Dec 2014	**902,008**	**61,024**	**72,387**	**1,035,419**

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY AS AT 31 DEC 2015

Item in EUR	Not yet due	DUE DATE: Overdue up to 3 months (90 days)	DUE DATE: Overdue from 3 to 6 months (from 91 days to 180 days)	DUE DATE: Overdue from 6 to 9 months (from 181 days to 270 days)	DUE DATE: Overdue from 9 to 21 months (from 271 days to 360 days)	DUE DATE: Overdue more than one year (more than 361 days)	Total
Short-term operating receivables due from associates	293,897	109,320	112,471	82,534	63,307	123,010	784,539
Short-term operating receivables due from jointly controlled companies	234						234
Short-term trade receivables	120,390,963	4,341,951	677,772	418,749	261,066	5,575,906	131,666,407
Short-term advances	1,673,527					206,731	1,880,258
Short-term operating receivables due from state and other institutions	24,654,801						24,654,801
Short-term operating receivables due from others	4,373,902					1,033,690	5,407,592
Short-term financial receivables and loans to associates	35,462						35,462
Short-term financial receivables and loans to others	26,131						26,131
Short-term deposits granted to others	19,406,754	312		13,493	292,681	70,592	19,783,832
Total at 31 Dec 2015	**170,855,671**	**4,451,583**	**790,243**	**514,776**	**617,054**	**7,009,929**	**184,239,256**

Short-term operating and financial receivables by maturity as at 31 Dec 2014

Item in EUR	Not yet due	Overdue up to 3 months (90 days)	Overdue from 3 to 6 months (from 91 days to 180 days)	Overdue from 6 to 9 months (from 181 days to 270 days)	Overdue from 9 to 21 months (from 271 days to 360 days)	Overdue more than one year (more than 361 days)	Total
		DUE DATE					
Short-term operating receivables due from associates	689,299	53,750	28,162	27,968	16,846		816,025
Short-term operating receivables due from jointly controlled companies	2,050						2,050
Short-term trade receivables	131,441,536	10,544,638	457,046	55,712	326,310	3,682,804	146,508,046
Short-term advances	4,182,205					2,729,650	6,911,855
Short-term operating receivables due from state and other institutions	29,697,336						29,697,336
Short-term operating receivables due from others	6,457,192					369,999	6,827,191
Short-term financial receivables and loans to associates		49,000					49,000
Short-term financial receivables and loans to others	17,109	8,479	146	243	15,000	2,020	42,997
Short-term deposits granted to others	5,775,136	34,591	120,000		2,284		5,932,011
Total at 31 Dec 2014	**178,261,863**	**10,690,458**	**605,354**	**83,923**	**360,440**	**6,784,473**	**196,786,511**

Movement of allowances for long-term financial receivables

Item in EUR	2015	2014
Balance at 1 Jan	**0**	**0**
Formation of allowances for receivables	2,243	
Balance at 31 Dec	**2,243**	**0**

Movement of allowances for short-term financial receivables and loans

Item in EUR	2015	2014
Balance at 1 Jan	**0**	**0**
Formation of allowances for receivables	26,186	
Balance at 31 Dec	**26,186**	**0**

Movement of allowances for short-term operating receivables

Item in EUR	2015	2014
Balance at 1 Jan	**4,739,586**	**8,047,900**
Collected written-off receivables	(153,467)	(3,694,381)
Formation of allowances for receivables	3,526,339	1,184,291
Final write-off of receivables	(146,199)	(798,224)
Balance at 31 Dec	**7,966,259**	**4,739,586**

As at the year-end of 2015, EUR 7,966,259 of adjustmentsfor doubtful and disputable short-term operating receivables were formed.

In 2015 the majority of adjustments for short-term operating receivables in the amount of EUR 3,526,339 referred primarily to receivables recorded by Group companies due from construction companies.

In 2015 credit risks were properly managed. All activities in the Group were performed in compliance with applicable policies and rules that refer to credit risk management.

5.5.7.5.2 Liquidity risk

Liquidity or solvency risk is the risk associated with insufficient financial sources and the subsequent inability of the Group to settle its liabilities in due time.

In accordance with Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP), the Group companies manage their liquidity risks by preparing and exercising the policy of regular liquidity management, which is confirmed by managements of individual Group companies and complies with the Annual Business Plan. The fiscal year 2015 was with respect to liquidity risk extremely demanding and activities in the field of liquidity risk management very intensive for the Group. Liquidity in the Group is monitored on an updated and thorought basis, Group companies prepare monthly liquidity plans, as well as 3-year solvency plans. Liquidity plans are complied on a daily basis for the current three months.

Liquidity risk is in 2015 assessed as properly managed and provides for Group's good reputation as the result of successful operations, ongoing customisation of receivables' and liabilities' maturity, consistent collection of past due receivables, the liquidity reserve, the availability of appropriate credit lines, and the possibility of constant generating of cash flows from operations.

Liquidity risk management requires the management of relevant risk by individual categories of Group's operations, namely:

Management of liquidity risk arising on operating activities, which is closely linked to the credit risk. Liquidity risk arising on operations is managed primarily through adjusting of payment deadlines for receivables and liabilities that occur in connection with the core activity – electricity trading, as well as payment deadlines for other liabilities in a way that Group companies settle their trade payables in due time. Measures for managing this category of liquidity risk aims at providing optimum payment ability for settling current liabilities of Group companies in normal, as well as critical circumstances that arise from electricity trading, transfer capacities, CO_2 emission coupons and futures contracts that require an adequate amount of liquidity reserves in order to ensure stable daily operations and trading. The respective measures include an up-to-date monitoring of settlements by suppliers, in addition to extending payment deadlines, agreements on postponing of payments, and selective payments to suppliers. Further, the Group has established also the »cash management« system that aims to optimise Group companies' liquidity and exploit the synergy effects of the Group as a whole. »Cash management« is carried out in the Group in form of borrowings among Group companies: the primary source of financing short-term deficits recorded by Group companies are the free cash surpluses of other Group companies. The liquidity risk arising from operations is in 2015 assessed as efficiently managed.

Management of liquidity risk arising on investment activities is closely linked to investment risk. Management of liquidity risk arising on investment activities relates to financing investments in accordance with investment-related programmes and in a way that sufficient funds anticipated in the financial plans are timely ensured, and that no delays occur in the implementation of projects. Investment-related liquidity risk is also reflected on the side of inflows – by implementing divestment activities that are carried out within the process of optimising business operations of Group companies. The Group involved in largest Slovenian investment i.e. the project of the replacement Unit 6 at TEŠ, whose investor is the subsidiary company TEŠ. The latter received from the controlling company in 2015 all necessary funds in compliance with the NIP 6. In 2015 was solved the issue of state aids as regards the capital increase in TEŠ with the private investor test. On that basis the controlling company converted receivables arising under contracts debt aquittance in the long-term investment in TEŠ totalling to EUR 248.6 million. Within the framework of managing liquidity risk arising on investments, certain activities of managing solvency risk (risk of ensuring liquidity in the long-term, reslting from the risk of ensuring capital adequacy due to the prolonged operations resulting on loss, and the risk of short-term and long-term solvency) were carried. In 2015, the issue about the possibility of capital increase in the PV company was also solved by means of a private investor test, thus the controlling company increased the share capital in that company in July 2015 in the amount of EUR 71.6 million. Other companies in the PV Group cope with insolvency as well. The companies HTZ and GOST managed the insolvency based on measures adopted in compliance with Article 35 of the ZFPPIPP. Also the company Golte recorded insolvency, which pursuant to the law prepared a Report on Financial restructuring measures and issued a plan of a simplified compulsory settlement by means of which the insolvency is managed. Liquidity risk arising on investments is in 2015 assessed as efficiently managed.

MANAGEMENT OF LIQUIDITY RISK ARISING ON FINANCING ACTIVITIES is the risk linked to providing sufficient funds for Group's operating and investment activities, which includes an active relationship to financial markets, obtaining of sufficient short-term borrowings and credit lines, as well as long-term sources of financing for the purpose of a timely repayment of Group companies' liabilities that arise on operating and investment activities by taking into account obligations defined in the loan contracts. Liquidity risk arising on financing activities was adequately managed in 2015 as the Group obtained a sufficient amount of credit and guarantee lines for smooth operations i.e. bridge loan (until obtaining long-term sources of financing by a syndicate of international banks) in the amount of EUR 215 million, which was drawn as at 31 December 2015 in the amount of EUR 105 million and the residual value in January 2016. The controlling company started in 2015 with procedures of obtaining long-term financial source by issuing bonds. For the purpose of issuing bonds, the controlling company started with procedures of obtaining a credit rating from renowned credit rating agencies. In February 2016, the company received the credit rating »Ba2 stable« (Moody's) and »BB positive« (Standard & Poor's) that are deemed criteria of HSE Group's credibility and financial stability. The first attempt of bond issue in the amount of EUR 285,000,000 with a set price limit did not meet controlling company's expectations, hence the bonds were not issued yet. Regardless the aforesaid, the HSE Group has the financial sources secured up until 29 December 2016, whereby relations with banks have significantly improved and contractual provisions of all loan contracts are governed in a way that there will be no more breaches of covenants and qualified auditor's opinions. Banks already indicated their intention to ensure long-term sources in case the company decides not to issue bonds. Furthermore, the controlling company already negotiates with banks to extend the maturity of the bridge loan and continues with procedures for a parallel scenario of obtaining a long-term borrowing from the banking syndicate, which will provide for the company and HSE Group's sustainable liquidity in the long term. The demand is addressed to a broad range of banks, whereof certain already indicated their willingness to participate.

Based on the implemented activities, the Management of the controlling company can reasonably expect a successful adjustment of financial sources' maturity by the end of 2016. The structure of financing activities will namely change by the year-end in favour of long-term sources, as the short-term bridge loan will be repaid by means of income from long-term borrowing i.e. either by issuing bonds or a bank loan with a minimum maturity of five years. Given the aforesaid and by means of a continued operational restructuring, the Management of the controlling company assesses that the Group's long-term sustainable financial stance will be ensured.

Group's long-term and short-term liabilities by maturity is provided in tables below.

Long-term operating and financial liabilities by maturity as at 31 December 2015

Item in EUR	DUE DATE: up to 2 years after the date of the statement of financial position	DUE DATE: from 3 to 5 years after the date of the statement of financial position	DUE DATE: over 5 years after the date of the statement of financial position	Total
Long-term financial liabilities to banks	47,297,986	183,835,464	485,492,661	716,626,111
Other long-term financial liabilities	24,467	13,517		37,984
Long-term operating liabilities from associates	1,972			1,972
Long-term trade payables to suppliers	99,990	21,423		121,413
Long-term operating liabilities from advances		1,350	5,759	7,109
Other long-term operating liabilities	954	1,430	117,252	119,636
Balance at 31 Dec 2015	**47,425,369**	**183,873,184**	**485,615,672**	**716,914,225**

Long-term operating and financial liabilities by maturity as at 31 December 2014

Item in EUR	DUE DATE: up to 2 years after the date of the statement of financial position	DUE DATE: from 3 to 5 years after the date of the statement of financial position	DUE DATE: over 5 years after the date of the statement of financial position	Total
Long-term financial liabilities to banks	62,502,029	185,454,281	627,630,830	875,587,140
Other long-term financial liabilities	1,996,069	38,922		2,034,991
Long-term trade payables to suppliers	22,041	2,180		24,221
Long-term operating liabilities from advances		1,350	5,759	7,109
Other long-term operating liabilities	62,097		150,052	212,149
Balance at 31 Dec 2014	**64,582,236**	**185,496,733**	**627,786,641**	**877,865,610**

As at the year-end of 2015, the Group discloses overdue short-term liabilities, primarily referring to the PV Group companies.

Short-term operating and financial liabilities by maturity as at 31 December 2015

Item in EUR	Not yet due	DUE DATE: Overdue up to 3 months (90 days)	DUE DATE: Overdue from 3 to 6 months (from 91 days to 180 days)	DUE DATE: Overdue from 6 to 9 months (from 181 days to 270 days)	DUE DATE: Overdue from 9 to 12 months (from 271 days to 360 days)	DUE DATE: Ovedue more than one year (more than 361 days)	Total
Short-term operating liabilities to associates	1,478,826	298,323				470	1,777,619
Short-term operating liabilities to jointly controlled companies	38,881						38,881
Short-term operating liabilities to suppliers	94,749,090	1,912,771	282,076	126,149	82,643	183,273	97,336,002
Short-term operating liabilities from advances	335,036						335,036
Short-term operating liabilities to employees	10,318,420						10,318,420
Short-term operating liabilities to state and other institutions	24,118,336						24,118,336
Short-term operating liabilities to others	2,321,944						2,321,944
Short-term financial liabilities to banks	297,502,518	103,831	103,832	103,832	65,632		297,879,645
Other short-term financial liabilities	561,467						561,467
Balance at 31 Dec 2015	**431,424,517**	**2,314,925**	**385,908**	**229,981**	**148,275**	**183,743**	**434,687,349**

SHORT-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY AS AT 31 DECEMBER 2014

Item in EUR	Not yet due	DUE DATE Overdue up to 3 months (90 days)	Overdue from 3 to 6 months (from 91 days to 180 days)	Overdue from 6 to 9 months (from 181 days to 270 days)	Overdue from 9 to 12 months (from 271 days to 360 days)	Ovedue more than one year (more than 361 days)	Total
Short-term operating liabilities to associates	1,875,803	42,152		11,826	26,302		1,956,083
Short-term operating liabilities to jointly controlled companies	110,285						110,285
Short-term operating liabilities to suppliers	177,738,242	4,773,278	1,624,579	200,659	3,373,906	1,757,714	189,468,378
Short-term operating liabilities from advances	305,596						305,596
Short-term operating liabilities to employees	9,535,910						9,535,910
Short-term operating liabilities to state and other institutions	24,093,469						24,093,469
Short-term operating liabilities to others	4,307,050						4,307,050
Short-term financial liabilities to banks	49,036,845	1,540,670	2,343,743	1,583,036	3,071,072		57,575,366
Other short-term financial liabilities	1,173,652	8,730	8,320			8,619	1,199,321
Balance at 31 Dec 2014	**268,176,852**	**6,364,830**	**3,976,642**	**1,795,521**	**6,471,280**	**1,766,333**	**288,551,458**

Exposure to liquidity risk arising on financial liabilities to banks as at 31 December 2015 is outlined in the table below. The amounts presented are not discounted and include contractually anticipated interest rates.

EXPOSURE TO LIQUIDITY RISK ARISING ON FINANCIAL LIABILITIES TO BANKS

Item in EUR	EXPECTED CASH FLOWS up to 2 months after the date of statement of financial position	2 to 12 months after the date of statement of financial position	1 to 2 years after the date of statement of financial position	2 to 5 years after the date of statement of financial position	more than 5 years after the date of statement of fincial position	Total
Financial liabilities to banks without interest rate hedging						
Short-term borrowings	(5,025,768)	(121,718,799)				(126,744,567)
Long-term borrowings	(151,067,463)	(47,219,276)	(75,344,672)	(253,167,177)	(603,872,934)	(1,130,671,522)
Total	**(156,093,231)**	**(168,938,075)**	**(75,344,672)**	**(253,167,177)**	**(603,872,934)**	**(1,257,416,089)**
Liabilities to banks relating to interest rate hedging						
Interest rate swap	(46,060)	(785,660)				(831,720)
Total	**(46,060)**	**(785,660)**				**(831,720)**

5.5.7.5.3 CURRENCY RISK

The Group is exposed to currency risk in a lesser extent since the majority of inflows and outflows are performed in domestic currency euro.

In 2015, the Group managed its currency risk adequately. While hedging against currency risk, the company acts in compliance with the Rules on Currency Risk Management. The controlling company is mainly exposed to currency risk while trading with electricity in foreign currencies on foreign markets. The controlling company manages the currency risk through appropriate hedging strategy using derivatives i.e. the currency forward swap FX Forward. Transactions hereunder are from the hedge accounting perspective considered highly efficient, as the concluded currency hedging corresponds to all features of the hedged item. Currency swap transactions (for HUF and CZK) are concluded on the basis of standard contracts ISDA with renowned commercial banks and it is estimated that the possibility of non-realisation of these transactions is minimal.

The exposure to currency risk occurs in operations of subsidiaries registered in SE Europe. With regard to the fact that operations of subsidiaries based in SE Europe represent a smaller segment of operations in comparison with total HSE Group operations, the exposure to currency risk is thus minimum.

Since other currencies are used in smaller extent, the Group does not perform sensitivity analysis for changes in foreign currencies exchange rates, since this would not significantly affect the Group's profit or loss.

The following exchange rates were used for translation of items in the consolidated financial statements:

Country	Currency designation	Closing exchange rate for 2015 (in EUR)	Closing exchange rate for 2014 (in EUR)
Bosnia in Herzegovina	BAM	1.9558	1.9558
Croatia	HRK	7.6380	7.6580
Macedonia	MKD	61.5550	61.6950
Romania	RON	4.5240	4.4828
Serbia	RSD	121.2300	120.6000

Foreign exchange risk as at 31 December 2015

Item in EUR	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	153,125		10,000	**163,125**
Long-term operating receivables	917,889		185,028	**1,102,917**
Short-term financial receivables and loans	19,798,628		20,611	**19,819,239**
Short-term operating receivables	156,423,938		3,632	**156,427,570**
Long-term financial liabilities	(716,664,095)			**(716,664,095)**
Long-term operating liabilities	(250,130)			**(250,130)**
Short-term financial liabilities	(298,441,112)			**(298,441,112)**
Short-term operating liabilities and other liabilities	(135,050,251)	(275,042)	(920,949)	**(136,246,242)**
Net exposure of the statement of financial position at 31 Dec 2015	**(973,112,008)**	**(275,042)**	**(701,678)**	**(974,088,728)**

As at 31 December 2015, the Group – in addition to receivables and liabilities disclosed in EUR – records trade payables in Hungary in the amount of HUF 86,907,748 or EUR 275,042, for which a currency hedge was entered into. As for other currencies, most of short-term operating liabilities refers to transactions conducted on the Romanian OPCOM stock exchange in the amount of RON 4,126,787 or EUR 912,257. Transactions carried out in other currencies are of negligible value.

Foreign exchange risk as at 31 December 2014

Item in EUR	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	206,089		10,000	**216,089**
Long-term operating receivables	639,052		180,278	**819,330**
Short-term financial receivables and loans	5,977,314		46,694	**6,024,008**
Short-term operating receivables	184,425,554		1,597,363	**186,022,917**
Long-term financial liabilities	(877,622,131)			**(877,622,131)**
Long-term operating liabilities	(243,479)			**(243,479)**
Short-term financial liabilities	(58,774,687)			**(58,774,687)**
Short-term operating liabilities and other liabilities	(229,466,864)	(161)	(309,749)	**(229,776,774)**
Net exposure of the statement of financial position at 31 Dec 2014	**(974,859,152)**	**(161)**	**1,524,586**	**(973,334,727)**

Contracts concluded for interest rate swaps by maturity

Item in EUR	31 Dec 2015	31 Dec 2014
Contracts concluded for interest rate swaps relating to purchase of HUF - up to 12 months	6,298,210	1,796,030
Contracts concluded for interest rate swaps relating to sale of CZK - up to 12 months	2,002,866	
Total	**8,301,076**	**1,796,030**

For the purpose of hedging against currency risks arising on already concluded deals for 2016, the controlling company entered at the year-end of 2015 into forward contracts for purchasing HUF and selling CZK.

Effect of currency swaps

Item in EUR	2015	2014
Unrealised loss on effective swaps	(76,788)	(45,061)
Realised profit on effective swaps	39,597	11,091
Realised loss on effective swaps	(28,799)	(30,517)

5.5.7.5.4 Interest rate risk

For the purpose of hedging against interest rate risk, the Group acts in compliance with the Rules of HSE Group's interest rate management, which defines the policy of managing interest rate risk in Group companies. Interest rate risk was in 2015 adequately managed as it aims to limit and reduce the risk relating to interest rate fluctuations and thereby stabilise cash flows.

As at 31 December 2015, nearly EUR 579 million (65%) of Group's total long-term borrowings bear the fixed interest rate, whereof EUR 522.7 million (90%) refer to borrowings with fixed interest rate and EUR 56.4 million (10%) are insured with IRS; these borrowings are therefore treated as borrowings with the fixed interest rate.

Interest rate hedging in the Group aims solely at hedging and achieving a stable cash flow and is thereby in view of hedge accounting deemed as highly efficient. Relevant transactions of interest rate hedging are concluded on the basis of standard contracts ISDA with renowned banks and it is estimated that the possibility of non-realisation of these transactions is minimal.

Interest rate risk of Group companies is regularly monitored and reported about. Referring to the aforesaid also developments on the money market, the movement of interest rates and the value of concluded interest rate hedges are monitored on an ongoing basis, with individual Group companies adopting appropriate hedging strategies.

Contracts concluded for interest rate swaps as at 31 December 2015

Item in EUR	Value of borrowings with the interest rates hedged by IRS	Maturity of IRS
HSE	39,393,939	1.3.2016
SENG	11,318,750	30.3.2016
PV	5,687,500	30.4.2016
Total	**56,400,189**	

Contracts concluded for interest rate swaps by maturity

Item in EUR	31 Dec 2015	31 Dec 2014
1 to 5 years	56,400,189	62,792,992
Total	**56,400,189**	**62,792,992**

Effect of interest rate swaps

Item in EUR	2015	2014
Unrealised loss on effective swaps	(316,172)	(1,969,366)
Realised loss on effective swaps	(1,711,533)	(1,747,380)

Contracts on interest rate swaps concluded by the controlling company and the subsidiaries SENG and PV expire in March and April 2016. With respect to the current situation on the capital market, new strategies for managing interest rate risk will be prepared, whereby the Group shall focus on dispersing the risk. Certain long-term loan contracts include provisions that the variable interest rate equals 0 if the EURIBOR is negative (i.e. zero floor). Hedging of short-term maturity rates would in circumstances that apply to the money market additionally increase costs of financing and expose the Group to the risk of a decline in interest rates.

Cash flow sensitivity analysis with financial instruments bearing a variable interest rate

The change in interest rate for 50 b. p. on the reporting date would increase (decrease) the Group’s net profit or loss for the values stated below. Analysis prepared for both years assumes that all variables, particularly foreign currency rates, remain unchanged. In the calculation, the receivables/liabilities at variable interest rate are reduced by the total amount of IRS transactions concluded). Due to the low interest rate of the borrowing from EIB, the interest rate would be negative if taking into account a decrease in the interest rate by 50 b.p.; thus, the lowest possible i.e. 0.01% was in this case taken into account. Consequently, the final result is different with +/- 50 b.p. change in interest rate.

FINANCIAL INSTRUMENTS BEARING THE VARIABLE INTEREST RATE

FINANCIAL INSTRUMENTS	Net profit or loss 2015		Net profit or loss 2014	
Item in EUR	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial instruments bearing the variable interest rate	**(1,126,105)**	**586,621**	**(1,024,356)**	**985,757**
Financial assets	18,920	(18,920)	53,162	(53,162)
Financial liabilities	(1,145,025)	605,541	(1,077,518)	1,038,919

5.5.7.5.5 PRICE RISK

Group monitors and manages the price risk by means of a combination of value-at-risk methods and the stop-loss mechanism. The price risks arise on fluctuation of market prices of electricity and other energy products (e.g. coal, gas, oil, etc.) that have a direct impact on electricity prices or on Group's operations. In addition, the group is exposed to price fluctuations of CO_2 permits, which must be provided for the operations of Group's TPP.

Group's exposure to electricity prices depends on the openness of the company's overall position in a given moment. A closed position indicates that purchases and sales in terms of volume, by point of supply coincide and the company is not exposed to fluctuation of electricity market prices. An open position indicates that in terms of volume, by point of supply or maturity transactions do not coincide, thus the company is in an open or net position of exposure to price fluctuations.

Given that the Group operates in various countries, net positions and electricity prices in diverse countries or regional markets and their correlations must be taken into account. The impact of price risk on Group's operations can be quantified on the basis of key variables:

- Group's market position on individual markets at a specific moment of supply,
- volatility or price fluctuation on individual markets at a specific moment of supply, and
- correlation between prices on individual markets in a certain moment of supply.

The above-mentioned variables are considered in the calculation of the VaR (value-at-risk) parameter, which is the key indicator of Group's exposure to price fluctuations, while directly also to volume risk (through the market position). The Group monitors the 5-day VaR with 95% of confidence interval. The respective parameter represents the amount of possible loss of the Group's trading portfolio in five days, which in 95% of cases of normal market movements will not be exceeded in view of market prices, correlation and volatility, as well as in view of Group's volume position. The core parameter in controlling the market position risk is the value of VaR, which for all transactions must not exceed EUR 25 million. In 2015, the average value amounted to EUR 1.6 million, with the highest daily value being recorded at EUR 3.1 million. While measuring the overall or total exposure, the Group launched in 2015 a mechanism for measuring and limiting exposure for each trading group separately.

The Group manages and controls price risks by means of following activities and methods:

- daily monitoring of the market position at the level of Group, as well as the controlling company by country and individual group of transactions that have a similar purpose or meaning. If the position in a certain moment exceeds the volumes allowed by rules, then it is properly adjusted (i.e. conclusion of a purchase or sales transaction),
- daily market activities – conclusion of counter transactions with equal volume on the same market or purchasing derivatives by means of financial settlement (futures contracts) in view of the type of the trading deal,
- daily monitoring and analysing the prices of energy products and forecasting expected price changes on various markets,

- daily monitoring of market activities on the CO_2 emission coupons market,
- monitoring investment-related decisions in the energy sector of the EU and the economic growth in the leading countries,
- daily monitoring and analysing the value of the parameter VaR and MtM (mark-to-market) in terms of individual groups of Group's transactions that have a similar purpose by taking into account limitations or the levels of the VaR value defined within the rules,
- daily monitoring of the value of coverage used for price fluctuations with the purpose to generate added value or minimising the risk of loss in compliance with the principle of good management,
- daily reviews of conditions, prices and events on the electricity market,
- reviews of Group's exposure on a two-week basis by individual groups of transactions with similar purpose, and a review of conditions on the oil and coal markets.

The impact of production failure is assessed on the basis of the stress-test analysis. Effects of the seasonal fluctuation of hydrological conditions is assessed on the basis of historic data and current environmental data.

The strategy of selling Group's own production was launched with the purpose of dispersing the price risk over a longer period of time. The period of sale in the future is subject to the liquidity of the market. Procedures related to implementing the strategy of selling own production are constantly monitored and evaluated at least every two weeks by the group in charge of selling own production. The controlling company reduced the risk arising on electricity prices by means of partial sales of own electricity volumes and purchases of CO_2 permits on the energy markets for years ahead.

5.5.7.6 Capital management

Item in EUR	31 Dec 2015	31 Dec 2014
Long-term financial liabilities	716,664,095	877,622,131
Short-term financial liabilities	298,441,112	58,774,687
Total financial liabilities	1,015,105,207	936,396,818
Equity	991,749,076	1,471,547,419
Financial liabilities/capital	**1.02**	**0.64**
Net financial liability	936,224,926	848,098,645
Net debt/equity	**0.94**	**0.58**

Low electricity prices and thereby lower income in view of the fact that in the past years the Group launched a comprehensive investment cycle, put the Group in a position when it is required – in order to maintain financial stability and implement set goals - to carry out large-scale measures with the aim to optimise operations, increase the added value and, in particular, improve the liquidity situation. In the period of changed conditions on the electricity market, to which the Group and the entire energy sector is exposed to, require the managements of Group companies to monitor and ensure capital adequacy on an ongoing basis.

The Group monitors changes in equity using the financial leverage ratio, which is calculated by dividing total net liabilities by total equity. Net debt or net liabilities include loans received and other financial liabilities less cash.

The ratio shows the relationship between Group's borrowings and equity, which was as at the year-end of 2015 higher than in 2014. The latter is attributable to impairment of assets and Group's increased borrowing due to financing the replacement Unit 6 at TEŠ and ensuring assets for managing Group's liquidity. At the end of 2015, the controlling company raised short-term bridge loans in the amount of EUR 105,000,000 and a long-term borrowing in the amount of EUR 15,000,000.

The Group adopted numerous measures for optimising the business operations. Certain effects were already visible in 2015 (employee benefits expense, material and services declined over 2014 by EUR 74,663,385, disinvestment of non-operating assets, etc.), whereas other additional effects shall be visible in the coming years.

5.5.7.7 FAIR VALUES

The Group estimates that the carrying amount is a sufficient approximation for its financial instruments, except derivatives, which are recorded at fair value.

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

	31 Dec 2015		31 Dec 2014	
Item in EUR	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**146,979**	**146,979**	**168,989**	**168,989**
Available-for-sale financial assets	146,979	146,979	168,989	168,989
Non-derivative financial assets at amortised cost	**255,393,033**	**255,393,033**	**281,380,517**	**281,380,517**
Financial receivables	19,982,364	19,982,364	6,240,097	6,240,097
Operating receivables	156,530,388	156,530,388	186,842,247	186,842,247
Cash	78,880,281	78,880,281	88,298,173	88,298,173
Total	**255,540,012**	**255,540,012**	**281,549,506**	**281,549,506**
Derivative financial liabilities at fair value	**392,960**	**392,960**	**1,975,853**	**1,975,853**
Derivative financial instruments (liabilities)	392,960	392,960	1,975,853	1,975,853
Non-derivative financial liabilities at amortised cost	**1,163,851,702**	**1,163,851,702**	**1,185,079,499**	**1,185,079,499**
Bank borrowings	1,014,505,756	1,014,505,756	933,162,506	933,162,506
Other financial liabilities	206,491	206,491	1,258,459	1,258,459
Operating liabilities	149,139,455	149,139,455	250,658,534	250,658,534
Total	**1,164,244,662**	**1,164,244,662**	**1,187,055,352**	**1,187,055,352**

FINANCIAL INSTRUMENTS AT FAIR VALUE BY HIERARCHY

Item in EUR	31 Dec 2015	31 Dec 2014
Financial assets at first-level fair value	27,824	27,942
Financial assets at third-level fair value	119,155	141,047
Financial liabilities at second-level fair value	392,960	1,975,853

5.5.8 Events after the balance sheet date

Apart from the signed Agreement between the management of PV and social partners in April 2016, based on which subsidiaries of the PV Group formed provisions for unpaid wages from 2012 and 2013 that shall be paid out in 2017 and 2018, the Group recorded no events that would have an impact in the consolidated financial statements for 2015. For the purpose of disclosure, however, following significant events occurred after the date of the consolidated statement of financial position:

- In late December 2015, parent company signed with the banking syndicate a contract on a short-term bridge loan in the amount of EUR 215 million with a maturity of up to one year. A portion of the loan in the amount of EUR 105 million was drawn at the end of December 2015 with the purpose to repay two short-term borrowings in the amount of EUR 105 million that were raised in 2015. As at 27 January 2016, the residual amount of the borrowing in the amount of EUR 110 million was drawn, based on which the company repaid in January 2016 TEŠ's long-term loan from EIB in the amount of EUR 110 million, which was secured with a guarantee of commercial banks (the banks acting as guarantor were not ready to extend the validity of the guarantee fot the period of five years, as required by EIB, or the new guarantor bank failed to meet credit rating requirements of EIB), and a portion of the long-term borrowing from EBRD in the amount of EUR 37.8 million. In addition to funds from the bridge loan, the controlling company obtained additional assets within the HSE Group i.e. from SENG (EUR 10 million) and DEM (EUR 8 million). At the same time by repaying the loan from EIB to TEŠ in the amount of EUR 110 million, the controlling company's guarantee for this loan in the amount of EUR 88 million was released.
- In February 2016, the controlling company received the credit rating »Ba2 stable« (Moody's) and »BB positive« (Standard & Poor's) that are deemed criteria of HSE Group's credibility and financial stability.
- In March 2016, TEŠ prepared a Plan for the financial and operating restructuring of TEŠ for the period from 2016 to 2018, which defines the relevant measures.
- Within the process of optimising the business operations, the management of TEŠ prepared a draft Programme of dispersing redundant workers based on the agreement made with the company's trade union, and submitted it to the social partners on 8 April 2016.
- On the basis of public bidding relating to the divestment of non-operating assets, a contract on the sale of the Zimzelen centre for elderly people in Topolščica was signed in February 2016, and a contract on the sale of the Oleander hotel in Strunjan in April 2016.
- In late May 2016, borrowings as recorded on 31 March 2016 in the amount of EUR 228,062,740 (including interest) were transferred to TEŠ among its capital surplus; accordingly the company’s long-term investment in TEŠ increased.

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Abbreviations

BAT	International standard for the Best Available Technology
BDP	Gross domestic product
BiH	Bosnia and Herzegovina
BSP	BSP Regional Energy Exchange
bp	Basic point
CO NOT	Centre of Excellence for low carbon technologies
CRM	Mechanisms to ensure sufficient production capacity
PSP	Pump-storage power plant
DEM	Dravske elektrarne Maribor d.o.o.
DPN	National spatial plan
DRSC	Slovenian Roads Agency
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EECS	European energy certificate system
EEU	Efficient energy use
EEX	European Energy Exchange
EFET	Standard electricity trading contract
EIB	European Investment Bank
ELES	ELES d.o.o., sistemski operater prenosnega elektroenergetskega omrežja
EMIR	European Market Infrastructure Regulation
ERP	Enterprise resource planning
ESC	Economic and Social Council
ETS	Emission trading system
EU	European Union
EUR	Euro
EXAA	Energy Exchange Austria
EZ	Energy Act

EZS	Energy Chamber of Slovenia
FFC	Family friendly company
GFA	Guarantee Facility Agreement
GG	Greenhouse gases
GPO	Main operating facility
GTO	Main technological facility
HESS	Hidroelektrarne na spodnji Savi d.o.o.
HPP	Hydro-power plant
HSE	Holding Slovenske elektrarne d.o.o.
HSE BE	HSE Balkan Energy d.o.o.
HSE BH	HSE BH Energetsko preduzeće d.o.o.
HTZ	HTZ harmonija tehnologije in znanja, invalidsko podjetje d.o.o. Velenje
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	Interpretations issued by International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IRS	Interest rate swap
IS	Information system
ISDA	International Swaps and Derivatives Association
ISO	International Organization for Standardisation
IT	Information technology
LECs	Levy Exemption Certificate for Great Britain
MF	Ministry of Finance
MG	Ministry of Commerce
MGRT	Ministry of Economic Development and Technology
MKO	Ministry of Agriculture and the Environment
MOP	Ministry of the Environment and Spatial Planning
MSR	Market Stability Reserve
MTE	Main technology equipment
MtM	Mark to market
MzI	Ministry of Infrastructure

MzIP	Ministry of Infrastructure and Spatial Planning
MW	Megawatt
NEK	Krško Nuclear Power Plant
NDEP	National Development Energy Plan
NFPP	Operational and Financial Restructuring Plan
NIP 6	Amended investment programme; audit 6
OAN	Committee for Active Supervision of Investments
ODOS	Electronic document system
OHSAS	Occupational health and safety management system
OSH	Occupational safety and health
OTC	Over the counter
OTE	Czech electricity gas marker operator
PIT	Private Investigator Test
PR	Protection reley
PSP	Pumped-storage power plant
PV	Premogovnik Velenje d.d.
PXE	Czech Power Exchange Central Europe
RCE	Regional Centre of Energy
RECS	Renewable Energy Certificates System
REMIT	Regulation on Wholesale Energy Markets Integrity and Transparency
RES	Renewable energy sources
R&D	Research and development
RGP	RGP d.o.o., rudarski gradbeni programi
RMC	Risk Management Committee
ROA	Return on assets
ROE	Return on equity
RS	Republic of Slovenia
SAP	Systems, Applications & Products in Data Processing
SAP CRM	SAP Customer Relationship Management
SAS	Slovenian Accounting Standards
SB	Supervisory Board

SCADA	Supervisory control and data acquisition
SDE	Trade Union of Energy Sector Workers in Slovenia
SDH	Slovenski državni holding d.d.
SEE CAO	The Coordinated Auction Office for South East Europe
SEL	Savske elektrarne Ljubljana d.o.o.
SENG	Soške elektrarne Nova Gorica d.o.o.
sHPP	Small hydro-power plant
SIC	Standard Interpretations Committee
SID	Slovenian Export and Development Bank
SIR	Slovenian Institute of Auditors
SKZG	Farmland and Forest Fund of the Republic of Slovenia
SOD	Slovenska odškodninska družba d.d.
SODO	Electricity distribution system operator
SPESS	Independence and the Union of Coal Miners of Slovenia
SPP	Solar power plant
SRESA	Srednjesavske elektrarne d.o.o.
SSD	Workers' Councils and Joint Workers' Council of the HSE Group
SURS	Statistical Office of the Republic of Slovenia
SUVI	System of managing information security
TEB	Termoelektrarna Brestanica d.o.o.
TEŠ	Termoelektrarna Šoštanj d.o.o.
TET	Termoelektrarna Trbovlje d.o.o. in liquidation
TC	Telecommunications
TP	Technological platform
TPP	Thermal power plant
TSO	System operator of transmission networks
UMAR	Slovenian Institute of Macroeconomic Analysis and Development
USD	US dollar
UVK	Competition Protection Office
VaR	Value at risk
VAT	Value added tax

ZDIJZ	Public Information Access Act
ZFPPIPP	Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
ZGD	Companies Act
ZGO	Construction Act
ZJNVETPS	Act Regulating Public Procurement in Water, Energy, Transport and Postal Services
ZOPSPU-A	Provision of Payment Services to Budget Users
ZPODPTEŠ	Act Regulating Guarantee of Republic of Slovenia for Liabilities under Long-Term Loan of EUR 440 Million Made to Termoelektrarna Šoštanj, d.o.o. by European Investment Bank for Financing Termoelektrarna Šoštanj 600 MW Replacement Unit-6 Installation Project
ZSDU	Worker Participation in Management Act
ZSSS	Slovenian Association of Free Trade Unions
ZUPEVIP	Act on Spatial Planning of Energy Infrastructure
ZUPUDPP	Act regarding the siting of spatial arrangements of national significance in physical space
ZV-1	Water Act
WACC	Weighted average cost of capital