Annual report

of the HSE Group and the Company

2016

hse Group

The turnover year

Legend

The financial report of the HSE Group and group - related information are marked with G

The financial report of the Company and company - related information are marked with C

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G Focuses of the Operations of the HSE Group

EBITDA = EBIT + write-downs in EUR thousand

Total financial liabilities in EUR thousand

Production/sales by the companies of the HSE Group in GWh

Added value per employee in EUR thousand

G Focuses of the Operations of the HSE Group

	G HSE Group		C HSE Company	
	2016	2015	**2016**	2015
Net sales in EUR	**1,179,841,222**	1,224,011,025	**1,234,432,724**	1,303,117,500
Net economic result in EUR	**21,660,852**	(480,102,728)	**44,359,794**	(323,117,370)
NET revenue in EUR	**1,208,102,097**	1,274,519,975	**1,293,688,715**	1,324,773,186
EBIT = Net operating profit in EUR	**75,788,791**	(443,561,179)	**64,969,271**	50,252,318
EBITDA = (EBIT + Write-downs in EUR thousand)	**156,451,712**	121,559,817	**65,734,932**	53,420,522
Assets in EUR	**2,156,756,540**	2,233,923,430	**1,299,127,630**	1,206,606,876
Capital in EUR	**1,015,220,355**	991,749,078	**876,576,884**	829,661,564
Debts to banks in EUR	**896,097,180**	1,014,505,756	**245,192,351**	183,481,837
Total debts in EUR	**899,604,980**	1,015,105,207	**246,409,568**	214,568,280
Investments in EUR	**33,510,462**	97,958,218	**853,639**	461,632
Produced electricity in GWh	**7,778**	6,763	**7,778**	6,763
Electricity sold in GWh	**28,344**	27,194	**30,483**	29,131
NUMBER OF EMPLOYEES				
End of year	**3,110**	3,390	**150**	142
The mean is calculated from the mean account balance of the employees on 31/12	**3,250**	3,531	**147**	138
INDICES				
Proper financing rate	**47.07**	44.39	**67.47**	68.76
Long-term financing rate	**89.82**	79.62	**85.73**	74.67
Basic investment rate	**80.73**	80.09	**3.02**	2.74
Long-term investment rate	**87.58**	86.58	**85.98**	81.79
Capital coverage of fixed assets ratio	**0.58**	0.55	**22.37**	25.10
Direct coverage of short-term liabilities ratio (quick ratio)	**0.39**	0.22	**0.17**	0.21
Accelerated coverage of short-term liabilities ratio (accelerated ratio)	**1.06**	0.56	**0.91**	0.68
Short-term coverage of short-term liabilities (short-term ratio)	**1.19**	0.65	**0.95**	0.70
Efficiency of operations ratio	**1.07**	0.74	**1.06**	1.04
Return on equity (ROE)	**0.022**	(0.390)	**0.052**	(0.326)
Return on assets (ROA)	**0.010**	(0.193)	**0.035**	(0.248)
Added value in EUR	**282,241,248**	251,684,865	**73,877,588**	60,847,762
Added value per employee in EUR	**86,843**	71,289	**506,011**	440,926
Debt-capital relation ratio	**0.89**	1.02	**0.28**	0.26
Total financial debt / EBITDA	**5.75**	8.35	**3.75**	4.02
EBITDA / financial expenditure from loans received	**4.61**	6.05	**5.90**	9.65
Total financial debt / assets	**0.42**	0.45	**0.19**	0.18
Net financial debt / EBITDA	**5.22**	7.70	**3.31**	2.95

TIMELINE OF MAJOR EVENTS OF THE HSE GROUP IN 2016

January

- On the basis of the decision of 5 January, Jama Škale, a company in the process of closing, was closed in a simple dissolution without going into liquidation.
- On 7 January, the Court of Auditors of the Republic of Slovenia published the audit report: "Corrective Measures in the Audit of HSE Group Cash Flow Management due to Investment in Unit 6". All presented corrective measures were evaluated as satisfactory.
- In January 2016, the validity of the Šoštanj Thermal Power Plant's (TEŠ) guarantee by commercial banks, with which the loan of the European Investment Bank in the amount of EUR 110 million was secured. The banks issuing the guarantee for the period of five years were not ready to extend or did not meet the prudential criteria of the European Investment Bank. For this reason, at the end of January, TEŠ repaid the long-term loan from the European Investment Bank and the proportionate share of the long-term loan of the European Bank for Reconstruction and Development (EBRD). The source for the repayment of the long-term loans was provided to TEŠ by HSE, the managing company, which at the end of 2015 was able to secure a short-term bridging loan.
- On 26 January, the Celje District Court issued a decision on simplified capital reduction of the capital of Golte, with which the insolvency of the company as per the criterion of Point 2 of Article 14, Paragraph 3, of the Financial Operations, Insolvency Proceedings, and Compulsory Dissolution Act was resolved.

February

- On 9 February, HSE's Supervisory Board appointed Gorazd Skubin a member of the management—technical director; he took up his duties on 1 April.
- On 10 February, DEM signed a contract of sale for its 50% share of DEM in ELDOM. The entire purchase price was received on 15 February. Following this, the company is no longer proprietarily linked to ELDOM.
- On 11 February, PV's subsidiary, Jama Škale, company in winding up, was erased from the business register. The company was established for the requirements of the winding up of Jama Škale and has been suspended.
- On 12 February, the proceeds from the sale of the Barbara Hotel in Fiesa were received. The contract for the sale of the hotel was signed on 29 December 2015.
- On 12 February, HTZ recognised that under Article 14 of the Financial Operations, Insolvency Proceedings, and Compulsory Dissolution Act, it had been insolvent on 31 December 2015. On the basis of this finding, the Report on Financial Restructuring Measures of the Company was drawn up and on 11 March delivered to the owner. On 17 March, the owner adopted a decision and approved the implementation of measures envisaged in the above-mentioned report. On 5 April, a decision on the simplified capital reduction of HTZ was issued in the Celje District Court.
- On 29 February, the environmental permit enabling the operations of TEŠ Unit 4 became definitive, enabling the operations of TEŠ Unit 4 until 31 January 2023, in the total amount of 17,500 operating hours.
- HSE became a full member of the Bulgarian IBEX day-ahead power exchange.

March

- In early March, HSE received the provisional credit ratings "Ba2 stable" (Moody's credit-rating agency) and "BB positive" (Standard&Poor's credit-rating agency). The credit ratings that are a measure of the credibility and financial stability of the company and the HSE company are related to the process of acquisition of long-term financial resources.

- On 15 March, a Golte meeting was conducted, at which a decision on the company's outstanding recapitalisation through non-monetary contribution and cash contribution was confirmed. The decision for Golte, the majority owner of which is PV Invest, to enter simple receivership became final on 16 March. Recapitalisation was concluded on 15 June and was not successful.
- On 18 March, the call for interested bidders for the purchase of HSE bonds ended. The aggregate demand sufficed for the liquidity requirements of the HSE Group, but the achieved interest rate surpassed expectations.
- On 18 March, the collection of the investor's binding interest for the purchase of HSE bonds ended. The approval of long-term indebtedness in the form of the issuance of debt securities—bonds was received by HSE from the Ministry of Finance on 5 January. The aggregate demand sufficed for the liquidity requirements of the HSE Group, but the achieved interest rate surpassed expectations.
- On 23 March, the TEŠ management received notification from the Trade Union of Energy Sector Workers of Slovenia about strike activities planned for April 2016. On the basis of a decision by the Trade Union of Energy Sector Workers of Slovenia, strike activities ceased on 20 April.
- On 30 March, the Slovenian National Holding Company adopted new Articles of Association of HSE, Limited Liability Company, and appointed four additional members to the HSE Supervisory Board. Thus, the HSE company is supervised by eight representatives of capital and four representatives of the workers. The new members of the HSE's Supervisory Board are Viktor Vračar Ph.D., Matjaž Marovt, Barbara Gorjup M.Sc. and Milan Perović as the representatives of capital and Vanja Živanić Jovanović and Damjan Lipušček as employee representatives. On 5 April, the new articles were entered in the commercial register.
- On 30 March, Gost recognised insolvency on 31 December 2015 and thus, together with the owner, began implementing the report on operational and financial restructuring of the company.
- In March, HSE Invest signed an amendment for the continuation of the implementation of the commissioning of a pumped-storage plant (PSP) in the Republic of South Africa.
- HUPX Hungarian Power Exchange established day-ahead electricity marketing; HSE started actively participating.

April

- On 4 April, an agreement for 2016 was signed between the social partners and the PV Management Board, representing the continuation of the measures from the past year and finding common solutions for successful operational remediation of the entire PV Group. The agreement applies for all employees of the PV Group, for whom the provisions of the Collective Agreement of the Slovenian Coal-Mining Industry applies. It was concluded with the purpose of successful financial and operational restructuring of the companies of the PV Group, with an emphasis on a socially balanced approach. The agreement has been concluded for the period from 1 April to 31 December 2016.
- On the basis of the reopening of competition for the purpose of divestment of non-operating assets, on 14 April, PV signed a contract on the sale of the Oleander Hotel in Strunjan. The entire purchase price was paid in May.
- In April, SENG began building the Kneža small-scale hydroelectric power plant.

May

- On 1 May, the services that provides meals at work to TEŠ's employees were taken over by a company outside the HSE Group.
- At the end of May, HSE's loans to TEŠ at 31 March 2016 were transferred to TEŠ's capital reserves.
- On 26 May, a three-party contract was signed between GOST, PV, and a company outside the HSE on the provision of food services, taking on employees, and the lease of catering establishments. On 1 June, a company outside the HSE Group took over the conduction of organised meals and catering activities at all of the existing locations that were previously held by Gost, including all 53 of Gost's employees.

June

- On 1 June, Gost ceased performing catering operations and on 30 June no longer had any employees, except the director.
- On 3 June, new Articles of Association came into force; the amendments refer to internal rules for the work of the supervisory board.
- On 9 June, TEŠ acquired an operating permit for Unit 6, which was issued at the end of the twelve-month preliminary operation.
- SENG hydroelectric power plants reached a record monthly production (88.7 GWh).
- PV Invest signed a new contract on the Sale of Developed Immovable Property, a transfer of the concession, and the transfer of the employees of the Zimzelen Centre for the Elderly. The entire purchase price was paid on 29 July.

July

- On 15 July, with its entry into the commercial register PV Invest became the 100% owner of Gost. PV withdrew in the entire share on 14 July.
- Gorazd Skubin, who was named the HSE's General Director at the meeting of the HSE's Supervisory Board on 23 June 2016, took up his office early, i.e. on 16 July.

- On 16 July, the Supervisory Board of HSE Invest got two new members, i.e. Alida Rejec (prolongation of the term of office) and Ivan Zagožen M.Sc. (new member replacing Irena Šlemic).

August

- At the meeting of 30 August, HSE as the only DEM shareholder adopted a revised DEM 2015 Annual Report. On the basis of the HSE's, which is the only DEM shareholder, decision of 25 August, a redistribution of other reserves from profit to the net retained profit of recent years was carried out.
- As the only shareholder in SENG HSE adopted a decision on the payment of balance-sheet profit from 2015, which was paid on 31 August.
- On 4 August, the HSE's Supervisory Board adopted a decision on the recapitalisation of TET – in liquidation, and a conclusion of an amendment to the contract on the provision of tertiary reserves until the end of 2016.
- On 29 August, the 26th regular meeting of the PV Assembly took place, where the PV shareholders were informed of the resignation of a member of the PV's Supervisory Board, Boštjan Markoli Ph.D. By 10 July 2019, Uroš Podobnik had been elected to this post.
- On 31 August, Ivan Zagožen M.Sc. became a member of the HSE Invest's Supervisory Board.
- On 31 August, the Slovenian National Holding received the Annual Report of the HSE Group and Company for 2015 with the Auditor's Reports and a Report of the Supervisory Board on the Verification of the Annual Report and noted their findings.

September

- On 6 September, a new Articles of Association of the HSE Limited Liability Company came into force (changes in Article 19 — commercial director instead of technical director, and Article 24, which deals with employee participation in profits).
- On 30 September, Fairwood PV officially ceased to exist.

October

- In October, TEŠ achieved a new monthly record in electrical power production in the entire history of the company, i.e. 475 GWh, which is almost 16% more than planned. The reasons for such high production were the high prices of electrical power on the European market.
- On 13 October, the Slovenian National Holding became familiar with the TET's liquidation process and expects from HSE's Management and Supervisory Boards that in the framework of its competences it continues to carry out all activities and measures required for a successful conclusion of the liquidation process.
- In October, HSE carried out a subsequent non-monetary payment to capital reserves of TET—in liquidation.

November

- The exclusion of minor shareholders in PV was carried out, through which HSE became the PV's 100% owner.
- On 29 November, on the basis of a court decision, Gost merged with PV Invest and was thus simultaneously deleted from the register of companies. The merger cut-off date was 30 September 2016.
- HSE started trading on the Croatian CROPEX day-ahead public exchange.

December

- HSE obtained all required internal approvals and the final approval of the Ministry of Finance for long-term indebtedness. The long-term five-year loan was drawn down on 29 December.
- HSE became a full member of the Serbian SEEPEX day-ahead power exchange.
- At the end of December, HSE received the final credit ratings "Ba2 stable" (Moody's credit-rating agency) and "BB stable" (Standard&Poor's credit-rating agency).
- On 23 December 2016, TEŠ acquired a so-called waiver of obligation from the European Investment Bank, which enabled it to operate Unit 4 from 1 January 2017 for a period of at most six months.

2016

The turnover year

MANAGEMENT LETTER

The year 2016, which this annual report deals with, was one of those that will be remembered by the HSE Group and Company as extremely difficult, but also successful. We operated with a profit and reduced indebtedness, which is a radical change in comparison to the previous year and thus an important turning point in our operations.

First, a short walk through the numbers. In 2016, electric power production by HSE power plants was 15 percent higher in comparison to the preceding year, while in total our power plants produced 7.8 TWh of electric power. Here, it must be emphasised that in 2016 Unit 6 of TEŠ was available for the first time for commercial purposes through the entire year. The HSE Group's hydropower companies, i.e. Maribor Drava Power Plants and Nova Gorica Soča Power Plants, are the largest Slovenian renewable electric power producers. We have been increasing our presence on foreign markets too. Last year, HSE was involved in the purchase and sale of electric power in the European area in the amount of 30.5 TWh, which was 2.4-times higher than the annual consumption of Slovenian customers. At the end of 2016, HSE employed 3,110 people, while the added value per employee amounted to EUR 86,843, which puts us on top in Slovenia.

In 2016, HSE created EUR 1.2 billion of revenue. The measures taken to rationalise and consolidate operations are showing results as after a record loss in 2015, which resulted from impairments, the group created EUR 22 million net profit and EUR 156.5 million EBITDA, which is 29 percent more than in 2015. After a long period characterised by a build-up of indebtedness, in 2016 we turned this trend around too. In comparison to the preceding year, the debt held by banks had decreased by 12 percent by the end of 2015. At the end of 2016, net indebtedness equalled EUR 816 million, while HSE was able to secure long-term resources in the value of EUR 180 million and an additional long-term framework loan of EUR 50 million through refinancing short-term loans. Through debt-restructuring we improved the liquidity and financial situation of the entire HSE Group.

Because electric power is the main and single goods that our production and sales are based on, it is worth mentioning that the shift of indices last year's in a positive direction coincides with an important anniversary in the electric power industry. Namely, in 2016 we celebrated the 160th anniversary of the birth of the inventor and visionary Nikola Tesla, and after all, all of us working in this industry are his "heirs". "The desire that guides me in all I do is the desire to harness the forces of nature to the service of mankind." This is his famous thought that we like to identify with. Nature provides us everything from its hands: the originality of electric power, which meets our vital needs, and numerous other benefits in the form of business connections, economic welfare, and environmental opportunities. Namely, electrical power is a versatile good. It is global and universal. And the HSE Group is actively, decisively and proudly a part of this globality. On the twenty-seven power markets where we operate and which extend far beyond the borders of Slovenia, we have been recognised for a number of years as a reliable and propulsive business partner and an equal rival to the largest in our industry. Decisiveness, grit, and commitment, and particularly our focus on results are those of our characteristics that have significantly contributed to the content of this annual report.

The central goal that we have set ourselves for the future is to remain the bearer of development and progress of the Slovenian energy industry on the one hand, and an established participant on the Slovenian and European markets on the other hand. We have enough of the energy required for this, its core containing knowledge, experience, will, and the capacity of more than three thousand HSE Group employees. These have, with the participation of the owner, business partners, and the local community of course, helped to co-create the image and the business results of the HSE Group and Company presented on the following pages. And, as stated in the introduction, the results confirm that 2016 was the turnaround year and a good starting point for the future.

Ljubljana, 26 April 2017

Stojan Nikolić M.Sc.
Financial Director of HSE d. o. o.

Matjaž Marovt
General Director of HSE d. o. o.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Holding Slovenske elektrarne d. o. o. is in accordance with the provisions of Article 282 of the Companies Act (ZGD-1) and the provisions of Article 14 of Articles of association of Holding Slovenske elektrarne d. o. o., a limited liability company, (HSE), and with this report notifies the founder of:

- the method and scope of the verification of HSE's management and operations during the 2016 financial year,
- opinion on the work of HSE's management in 2016,
- opinion on HSE's operations in 2016,
- verification and confirmation of the HSE Group and Company 2016 annual report.

Until 5 April 2016, the following representatives were active in the Supervisory Board, in the 2016 financial year: Miloš Pantoš Ph.D. (Chairman of the Supervisory Board; until 13 May 2016), Boštjan Markoli Ph.D. (Deputy Chairman), Drago Štefe M.Sc., Črt Slokan and, as the representatives of the employees, Boštjan Jančar and Jernej Otič. Since 5 April 2016, the following representatives of capital have been active: Milan Perović (Chairman of the Supervisory Board; from 13 May 2016), Viktor Vračar Ph.D., Barbara Gorjup M.Sc., Matjaž Marovt, and the additional representatives of the employees, Vanja Živanić Jovanović and Damjan Lipušček.

The Method and Scope of the Verification of HSE's Management and Operations During the 2016 Financial Year

In 2016, the HSE Management Board met at a total of 21 meetings, eight of which were ordinary, four extraordinary, and nine correspondence meetings.

The HSE Supervisory Board was kept regularly informed of the results of the HSE Group's and company's operations and with the implementation of the decisions of the Supervisory Board, it dealt with transactions, for which in accordance with the Articles of Association a prior consent of the Supervisory Board is required, transactions between HSE and PV, which in accordance with the Slovenian National Holding Act (ZSDH-1) require the permission of the Supervisory Board, and other operational and strategically important areas that significantly affect the medium-term and long-term interests of the HSE Group and Company.

The HSE management regularly notified the HSE Supervisory Board of information about the course of the investment into the replacement Unit 6, informed it about the TEŠ Operations Strategy until 2030 and the Audit of Possible Scenarios of TEŠ Operations from 2017 to 2030. On the basis of the presentation and the submitted additional document, the Supervisory Board supported the strategic orientation of HSE's and TEŠ's management to carry out all the activities required to obtain a waiver from the European Investment Bank. It was regularly updated on PV and TEŠ issues and the course of TET's liquidation and its operations, whereby it issued consent for the execution of an additional payment into the company. It agreed with the planned exclusion of PV's minor shareholders. It agreed with the recapitalisation of TEŠ, d. o. o.

The HSE Supervisory Board was regularly acquainted with the operations of the HSE Group and Company and with the reports on the implementation of measures for optimisation and rationalisation of operations. It monitored the process of the provision of short-term and long-term fund resources (bank loans and the issue of bonds), was acquainted with liquidity, borrowing, receivables, reports on risk management, commitments of HSE or of other companies of the HSE Group through banking contracts and the implementation of the decisions of the sole shareholder. On the basis of its supervisory function, the HSE's Supervisory Board acquired answers to additionally set questions complementing the materials for the Supervisory Board's meetings.

The Supervisory Board was regularly informed of activities required to issue HSE's long-term bonds and granted the management its approval for the continuation of all procedures and conditions. It was acquainted with the report on the process of the issue of HSE bonds, the costs incurred, the banks' previous report on the reasons for unsuccessful sale, and the measures for the provision of liquidity, and it acquired an extended banks' report.

The HSE's Supervisory Board granted several approvals for HSE's and TEŠ's borrowing activities and granting guarantees to dependent companies. It adopted the 2016 Business Plan, with an additional plan for 2017 and 2018, complementing the HSE 2016–2030 Business Group Projections. At its 22th ordinary meeting, it discussed and confirmed the Annual Report of the HSE company and group for 2015, approved the proposal of the management to the founder to draw down other reserves from profit in the amount of EUR 323,117,650.23 to cover the losses accumulated in 2015 in the amount of EUR 323,117,650.23, which comprise current loses in 2015 in the amount of EUR 323,117,369.88 and transferred actuarial losses from the drawing of the proportionate share of provisions for termination benefits at retirement in the amount of EUR 280.35. On the basis of the opinion of the audit committee of HSE's Supervisory Board, it proposed to the founder to appoint KMPG Slovenija as the financial statements auditor of the HSE Group and Company for 2016. It confirmed the work plan of the Internal Audit Committee from 2016, was regularly acquainted with audits of this group, with the Reports on the Work of the Internal Audit Department and with key management activities in 2016.

In February 2016, the Supervisory Board appointed Gorazd Skubin the technical director, and in June 2016, the Director General of HSE, and settled the relationship with the General Director, Blaž Košorok, regarding the expiry of his mandate.

In 2016, the HSE's Supervisory Board intensively focused its activities on the supervision of the liquidity situation and borrowing by the HSE Group and Company, where it paid special attention to monitoring the situation in the group's companies PV and TEŠ. The HSE's Supervisory Board estimates that it acted for the benefit of the company, on the basis of the information and reports submitted to it by the management, and within its powers and competences stipulated by law and the company's Articles of Association.

In early 2016, the Supervisory Board carried out self-assessment and analysis and adopted appropriate decisions. In all cases of a conflict of interest in decision-making, the members of the Supervisory Board exclude themselves.

Operation of the Supervisory Board's Audit Committee

On 13 May 2016, the Chairman of the HSE, d. o. o., Supervisory Board's Audit Committee (RK NS HSE), Boštjan Markoli Ph.D., stepped down, and Barbara Gorjup M.Sc. (Master / ISCED 7/2) was appointed the Chairman. On 16 June 2016, the Supervisory Board recalled the external HSE SB AC members Darinka Virant and Damir Rakelo, and appointed Boštjan Markoli Ph.D. (Doctor / ISCED 8) and Maja Zaman Groff Ph.D. (Doctor / ISCED 8) external members. Throughout 2016, Boštjan Jančar (Master / ISCED 7/1) represented the employees in the HSE SB AC.

In 2016, the HSE SB AC met at seven ordinary meetings and one extraordinary meeting. All AC members were present at meetings. The Supervisory Board's members who are not members of the audit committee, were informed of the Audit Committee's work through minutes of meetings and through regular reporting by the Audit Committee on its work at Supervisory Board meetings. AU discussed issues in accordance with the Companies Act (ZGD-1), Recommendations for the Work of Audit Committees, Rules of Work of the Audit Committee, the Audit Committee's 2016 work plan, and the HSE Supervisory Board's decisions.

HSE SB AC was informed of the findings of the preliminary audit of financial statements of HSE group and HSE d. o. o. for 2015 by the KPMG Slovenija d. o. o. audit company, and of the operations of the HSE group and HSE d. o. o. In 2015. It was informed about the annual report of the internal audit department for 2015, its activity plan for 2016, and was regularly acquainted through the entire year with mid-year reports on the work of the Internal Audit Department and the reports on the implementation of its recommendations. The Audit Committee was also informed of the risk management activity plan of the HSE Group and HSE d. o. o. for 2016 and received periodic reports through the entire year of on risk management.

At all meetings, it was kept up to date with the evaluation of mid-year operations of the HSE Group and HSE d. o. o. and in particular focused on financial and accounting data, liquidity, and borrowing. The Audit Committee was informed of the findings of the financial statement audit of the HSE Group and HSE d. o. o. for 2015, discussed the proposal by the management on the distribution of HSE d. o. o. balance-sheet profit for 2015, heard about the letter to the management by the KMPG Slovenija d. o. o. audit company, the HSE Group and HSE d. o. o. 2015 annual report, the auditor's opinion, and drew up a report on its work in 2015, supplemented by the HSE Group and HSE d. o. o. 2015 annual reports assessment.

Besides this, it sent the Supervisory Board a proposal for the appointment of the auditor of the 2016 HSE Group and HSE d. o. o. annual report, and was informed of the contract on the audit of the 2016 HSE Group and HSE d. o. o. annual report, supplemented by a timetable and the proposed content of the preliminary audit of financial statements of the HSE Group and HSE d. o. o. for 2016. It carried out an interview with the appointed auditor regarding the preliminary audit of financial statements of the HSE Group and HSE d. o. o. for 2016, was informed of the preparation of the HSE

Group and HSE d. o. o. business plan for 2017 with an additional plan for 2018 and 2019 and the baselines for the HSE Group and HSE d. o. o.'s business plan for 2017, supplemented by a 2018 and 2019 plan. It discussed the draft of the business plan of the HSE Group and HSE d. o. o. for 2017, with an additional plan for 2018 and 2019, and was informed about the HSE Group and HSE d. o. o.'s risk plan for the 2017 business plan, it adopted the 2017 plan of the audit committee's activities and carried out a self-assessment for work in 2016, thus setting the basis of its work in the next year.

Operations of the Staff Appointment Committee of HSE's Supervisory Board and the Staff Committee of HSE's Supervisory Board

Until 13 May 2016, the Supervisory Board's Staff Appointment Committee operated in the company, consisting of: Miloš Pantoš Ph.D., the Chairman, Črt Slokan, Jernej Otič. In 2016, the Staff Appointment Committee of the Supervisory Board met at one ordinary meeting and conducted two correspondence meetings, with the task of expert assistance to the Supervisory Board in the management of the selection and appointment of a management member, the technical director, which started at the end of 2015 and concluded in 2016.

On 13 May 2016, after the recall of the Supervisory Board's Staff Appointment Committee, a permanent Staff Committee of the Supervisory Board consisting of Milan Perović (Chairman), Matjaž Marovt, Črt Slokan, and Jernej Otič (the last as a representative of the employees) was appointed with a decision by the Supervisory Board. In 2016, the Staff Committee met at three ordinary meetings and carried out one correspondence meeting, with the aim of providing expert assistance to the Supervisory Board in the management of the procedure for the selection and appointment of the Director General, which was concluded in 2016.

Operations of the HSE Supervisory Board Restructuring Committee

On 13 May 2016, the HSE Supervisory Board Restructuring Committee was named with the decision of the Supervisory Board, consisting of Viktor Vračar Ph.D. (Chairman), Matjaž Marovt, Miloš Pantoš Ph.D., and Vanja Živanić Jovanović. It met at five ordinary meetings. The committee provided expert assistance to the Supervisory Board regarding the restructuring, it considered questions, in accordance with the Rules of Work and the decisions of the HSE Supervisory Board.

Operations of the HSE Supervisory Board's Marketing and Investment Committee

On 13 May 2016, the HSE Supervisory Board's Marketing and Investment Committee was appointed with a Supervisory Board decision, consisting of: Miloš Pantoš Ph.D. (Chairman), Boštjan Markoli Ph.D., Viktor Vračar Ph.D., Drago Štefe M.Sc., Damjan Lipušček. It met at three regular sessions. The committee provided expert assistance to the Supervisory Board regarding marketing and investment, it considered questions, in accordance with the Rules of Work and the decisions of the Supervisory Board.

Opinion on the Work of the Management in 2016

In accordance with the law and good practice in the year 2016, the HSE Supervisory Board comprehensively supervised the management and operations of the HSE Group and Company.

HSE meetings were attended by the management, the members have also reported in detail at each point, alongside other heads of expert services of HSE, and answered the additional questions of the Supervisory Board members. Regular communication between the management and the Supervisory Board's Chairman also took place outside the meetings of the Supervisory Board.

The HSE expert services have held meetings, regularly implemented technical improvements, and provided the HSE Supervisory Board with administrative and organisational support.

The Supervisory Board regularly monitored and assessed the work of the management, when it assessed periodic business results, compared the HSE Group and HSE d. o. o. operations to past periods and planned objectives and informed itself about the reports of external experts regarding individual companies of the HSE Group.

The management acted with care and commitment in the best interest of the HSE Group and HSE d. o. o. and successfully collaborated with the Supervisory Board.

Opinion on the Company's Operations in 2016

In 2016, HSE operated successfully and with net revenue in the amount of EUR 44.4 million (in 2015, it operated at a loss due to the implemented impairment). In comparison to the preceding year 2015, EBITDA had increased by 23%, the operating revenue is better by 29%. Even without taking impairment of long-term financial investment in subsidiaries and financial revenue from profit-sharing net revenue of 2016 would be 12% better in comparison to the preceding year 2015. On 31 December 2016, the sales volume was 5% higher in comparison to 2015; assets on 31 December 2016 were 8% higher, in particular due to investment in dependent companies, capital was 6% higher.

The total indebtedness of the company on 31 December 2016 in the amount of EUR 246.4 million is due to the drawing up of EUR 180 million, 15% higher in comparison to the situation on 31 December 2015. By providing long-term resources, the capital structure of the company improved, and the operations and financing indices improved too. The Supervisory Board monitored the procedure of providing long-term financing resources, the provision of which is mandatory for the long-term financial viability of the company and the HSE Group.

Verification and Confirmation of the HSE Group and HSE d. o. o. 2016 Annual Report

In compliance with Paragraph 3 of Article 27 of the Companies Act (ZGD-1), immediately after the drawing up and issue of the auditor's opinion the management of the HSE Supervisory Board delivered the 2016 Annual Report of HSE Group and Company, complemented with the reviewer's reports for 2016, which was discussed by the Supervisory Board at the 32nd ordinary meeting on 11 May 2017.

The audit of the 2016 Annual Report of the HSE Group and Company was done by the KPMG Slovenija audit company, which issued a positive opinion on the financial statements of the HSE Group and Company.

At its 32nd ordinary meeting on 11 May 2017, the Audit Committee of the HSE Supervisory Board discussed the revised HSE Group and Company 2016 Annual Report and established that the report had been drawn up on time, and that it has been compiled clearly, transparently, and in accordance with the Companies Act. (ZGD-1), the valid International Financial Reporting Standards as adopted by the European Union; the provisions of the Energy Act (EZ-1) and other relevant legislation. The audit committee made no comments on the 2016 HSE Group and Company Annual Report, so it proposed to the Supervisory Board to adopt a decision on the confirmation of the 2016 HSE Group and Company Annual Report, in accordance with Article 282 of the Companies Act.

On the basis of the auditor's opinion, the HSE Audit Committee's position, data and disclosures in the Group's Annual Report and the 2016 HSE Group and Company Annual Report, the HSE's Supervisory Board estimates that the auditor carried out its work professionally, in accordance with the valid legislation and commercial practice, that in all important aspects the annual report is drawn up in accordance with the requirements of the Companies Act (ZGD-1) and that in all important aspects the financial statements fairly represent the HSE Group and Company's financial situation on 31 December 2016 and its business results and cash flows for the then ended year, in accordance with the International Financial Reporting Standards as adopted by the European Union. The Supervisory Board has no comments on the auditor's report. He also has no comments on the 2016 Annual Report of the HSE Group and Company that would in any way prevent it from taking the decision on confirming it. For this reason, the HSE Supervisory Board has in accordance with Paragraph 3 of Article 282 of the Companies Act (ZGD-1) adopted the 2016 Annual Report of the HSE Group and Company. The mentioned report was adopted in an open deadline, i.e. prior to the expiry of one month from the day when the company's management submitted the 2016 Annual Report to the HSE Supervisory Board.

Ljubljana, 11 May 2017

Milan Perović
Chairman of the HSE d. o. o. Supervisory Board

PRESENTATION OF THE HSE GROUP

The HSE Group is the largest Slovenian organisation in the electric power industry and the largest producer and trader of electric power on the wholesale market in Slovenia. The single voice of the companies comprising the HSE Group ensures its enhanced competitiveness, optimum use of production capacities in relation to the current market situation, reduction of the negative financial effects of production loss, a more comprehensive offer of all electricity products, a reduced risk in taking long-term contracts, and greater possibilities of entry to foreign markets.

The HSE Group's activity comprises the management of energy and the environment and the process and risks related thereto. The following activities are the main ones in a wide set:

- electricity and heat production;
- lignite extraction;
- sale and trading of electricity and heat, electricity futures, electricity allowances, gas, etc.;
- optimisation of the HSE Group's production;
- provision of the systemic services required for the functioning of the electric power system in Slovenia;
- management and implementation of energy projects and environmental projects.

The main activities of the HSE Group are electricity production and trading so with the aim of as high as possible efficiency of operations, it seeks to capitalise on the synergies of a wide spectrum of production capacities. The operational and cost characteristics of individual production units differ from one another, so it is possible with an appropriate combination to achieve lower-cost provision of electric power. At the same time, the electricity market price changes, so the planning and optimisation of production units are, taking technical criteria and ever more demanding electricity market situation into account, all the more important.

G Business model of the HSE Group

Legend:	2016	2015

Sales to foreign markets

Electricity sales in GWh:	**20,402**	18,711
Share of sales to foreign markets:	**67%**	64%

Sales of electricity on the domestic market

Sales of electricity in GWh:	**10,081**	10,420
Share of sales to the domestic market:	**33%**	36%

HSE

Number of employees:	**150**	142
Purchase of electricity in GWh:	**30,483**	29,131

Electricty resources

Purchase of electricity in GWh:	**22,705**	22,367
Share of other resources:	**74%**	77%

Proper production resources

Number of employees:	**1,936**	2,073
Production in GWh:	**7,778**	6,763
Share of proper resources:	**26%**	23%
Power in MW:	**1,858**	2,164

Hydropower

47% of resources

Number of employees:	**359**	388
Production in GWh:	**3,659**	3,206
Power in MW:	**929**	930
Number of units:	**66 turbines**	67 turbines

Thermal power

53% of resources

Number of employees:	**346**	431
Production in GWh:	**4,119**	3,557
Power in MW:	**929**	1,234
Number of units:	**2 blocks and 4 gas turbines**	3 blocks and 4 gas turbines

Primary resources

Number of employees:	**1,231**	1,254
Production in TJ:	**39,390**	36,336

DEM

Number of employees:	**237**	266
Production in GWh:	**2,846**	2,544
Power in MW:	**592**	592
Number of units:	**28 turbines**	28 turbines

TEŠ

Number of employees:	**323**	385
Production in GWh:	**4,119**	3,557
Power in MW:	**871**	1,176
Number of units:	**2 blocks and 2 gas turbines**	3 blocks and 2 gas turbines

PV

Number of employees:	**1,231**	1,254
Production in TJ:	**39,390**	36,336

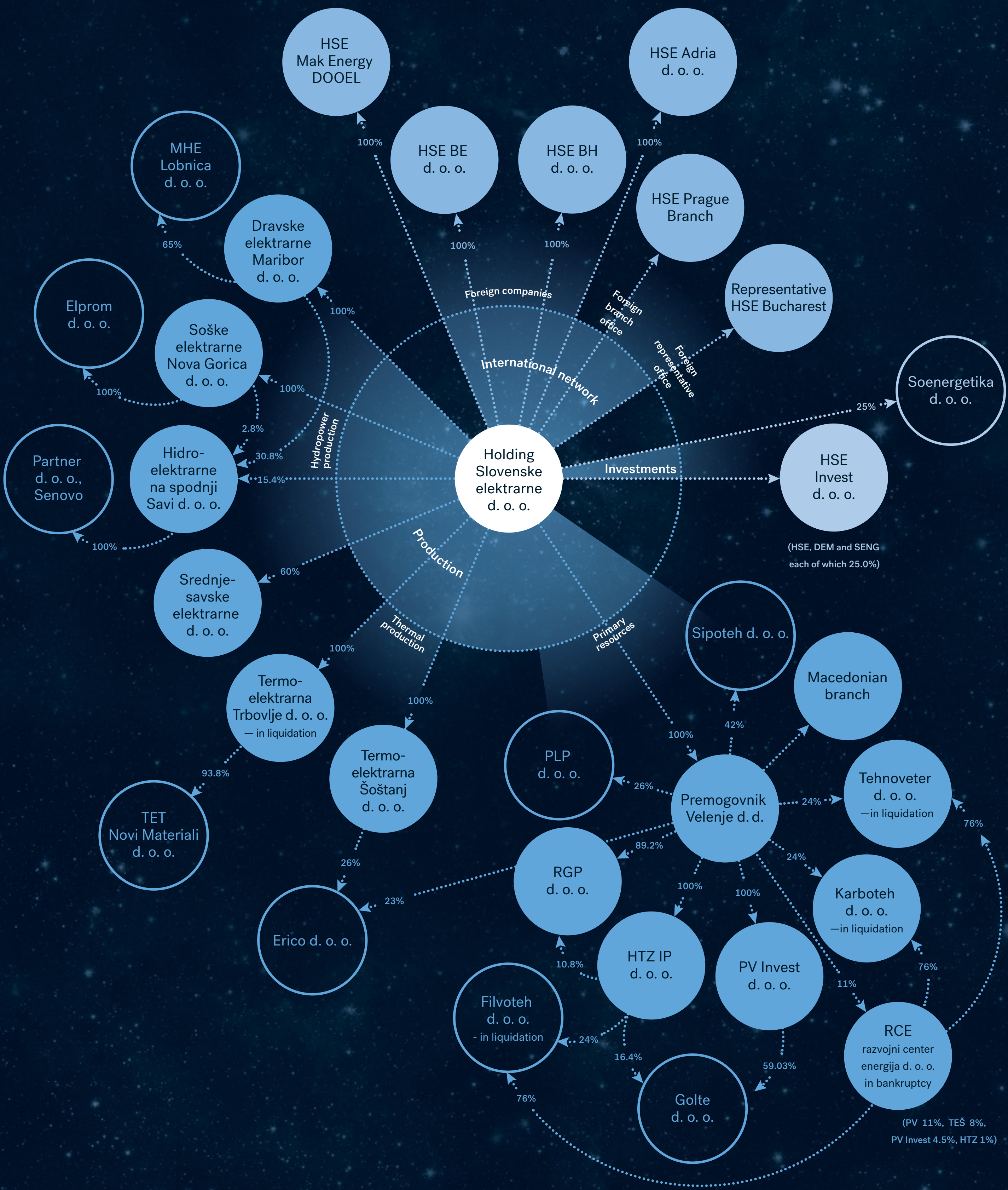
SENG

Number of employees:	**122**	122
Production in GWh:	**813**	662
Power in MW:	**337**	338
Number of units:	**38 turbines**	39 turbines

TET-in liquidation

Number of employees:	**23**	46
Production in GWh:	**0**	0
Power in MW:	**58**	58
Number of units:	**2 gas turbines**	2 gas turbines

G **Related Companies of the HSE Group on 31 December 2016**



G **Revenues from electricity sales of the HSE holding company in EUR million in 2016 and the change given in % from 2015**

C Managing company

General data of the managing company

Full name of company	Holding Slovenske elektrarne d. o. o.
Short name	HSE d. o. o.
Type of organisation	Limited liability company
Address	Koprska ulica 92, 1000 Ljubljana, Slovenia
Telephone	+386 1 470 41 00
Fax	+386 1 470 41 01
Reg. Insert No.	1/35036/00, registered with the District Court of Ljubljana
Fixed assets in EUR	29,558,789
Size	Large company
Ownership structure	100% Republic of Slovenia
Year of establishment	2001
Tax id number	99666189
VAT identification number	SI99666189
Registration number	1662970000
Company's core business	Electricity trading
Web address	www.hse.si
Email	hse@hse.si; info@hse.si

C Organisation of the managing company

The Company's organisational chart on 31 December 2016

Financial Director of HSE

Financial sector	General sector
Financial department	Main office and archives
Accounting department	Legal aid office
Controlling department	Human resources management
Risk management department	Commercial department
	Corporative management department
	Business analysis department

General Director of HSE

Management support services	Investment sector	Informatics sector	Marketing sector	Production sector
Department for corporative communications of the HSE Group	Projects and new technologies department	Systemic infrastructure department	Invoicing department	Maintenance department
Department for corporative security of the HSE Group	Project office	Business informatics department	Marketing department	Operations department
Internal audit department			Market analysis department	
Representative of the management for quality and environment				
Department for prevention and detection of fraud				
Department for energy politics and strategies				

C Management of the Holding Company

The Republic of Slovenia as the only shareholder manages the holding company through the Slovenian National Holding, the Slovenian national holding managing company. The members of the HSE Supervisory Board are appointed by the Slovenian National Holding, which in doing so sensibly takes into account the Corporate Governance Code for Companies with State Capital Investments. The code stipulates that the Supervisory Management Board is composed in a manner that provides for responsible supervision and the taking of decisions to the benefit of the company. In the assembly of the Management Board, the professional expertise, experience, and skills of individual members of the Supervisory Board shall be taken into account and shall be complementary To an even larger extent, the continuity and diversity of the composition of the Supervisory Board regarding characteristics such as age, international composition and gender balance (the heterogeneity of composition) must be ensured.

C Bodies of the Leadership and Management of the HSE Holding Company

Assembly

Shareholder
Republic of Slovenia 100% equity

Supervisory board

31/12/2016	1/1/2016
Capital representatives	**Capital representatives**
Milan Perović - Chairman	Miloš Pantoš Ph.D. - Chairman
Boštjan Markoli Ph.D. - Deputy Chairman	Boštjan Markoli Ph.D. - Deputy Chairman
Črt Slokan	Črt Slokan
Drago Štefe M.Sc.	Drago Štefe M.Sc.
Miloš Pantoš Ph.D.	
Viktor Vračar Ph.D.	
Barbara Gorjup M.Sc.	
Matjaž Marovt	
Employee representatives	**Employee representatives**
Boštjan Jančar	Boštjan Jančar
Jernej Otič	Jernej Otič
Damjan Lipušček	
Vanja Živanić Jovanović	
Audit committee	**Audit committee**
Barbara Gorjup M.Sc. - Chairman	Boštjan Markoli Ph.D. - Chairman
Boštjan Markoli Ph.D.	Boštjan Jančar
Maja Zaman Groff Ph.D.	Darinka Virant
Boštjan Jančar	Damir Rakela
Staff committee	**Staff nomination committee**
Milan Perović - Chairman	Miloš Pantoš Ph.D. - Chairman
Matjaž Marovt	Črt Slokan
Črt Slokan	Jernej Otič
Jernej Otič	
Restructuring committee	
Viktor Vračar Ph.D. - Chairman	
Matjaž Marovt	
Miloš Pantoš Ph.D.	
Vanja Živanić Jovanović	
Marketing and Investment committee	
Miloš Pantoš Ph.D.- Chairman	
Boštjan Markoli Ph.D.	
Viktor Vračar Ph.D.	
Drago Štefe M.Sc.	
Damjan Lipušček	

31/12/2016	1/1/2016
General director	**General director**
Gorazd Skubin	Blaž Košorok
Financial director	**Financial director**
Stojan Nikolić M.Sc.	Stojan Nikolić M.Sc.

Declaration on Management of the Company

In accordance with Article 70, Paragraph 5 of the Companies Act, the company Holding Slovenske elektrarne d. o. o., Koprska ulica 92, 1000 Ljubljana (HSE) declares as follows:

The Management and Supervisory Boards of HSE declare that in 2016 the management of the company was conducted in compliance with the applicable laws and regulations, with the Articles of Association of the HSE Limited Liability Company, with recommendations cited in the Corporate Governance Code for Companies with State Capital Investments.

In compliance with Article 60a of the Companies Act, the HSE's Management and Supervisory Boards declare that the annual report with all its components, including the declaration on the management of the company, has been drawn up and published in accordance with the Companies Act and the International Financial Reporting Standards.

The declaration on the management of the company is a constituent part of the annual report and is available on the company's website, htpp://www.hse.si.

1. Declaration of Conformity with the Corporate Governance Code for Companies with State Capital Investments (Slovenian National Holding Code) and with the Recommendations and Expectations of the Slovenian National Holding (SNH Recommendations)

HSE uses as its reference code the Corporate Governance Code for Companies with State Capital Investments of the Slovenian National Holding, a public limited liability company (Slovenski državni holding, d. d. (code), which was replaced in March 2016 by the eponymous Code, which is publicly accessible on the Slovenian National Holding's website.

In its operations the company has, taking into account its activity and other specificities, mainly complied sensibly with the Code. In 2016, with the „comply or explain" principle, the company did not fully respect the following recommendations of the Code (March 2016):

- Recommendation 3.2: We do not comply with the recommendation because the Management Board adopted the Rules on Corporate Governance in the HSE Group and Company, which sensibly, tailored to the HSE Group, complies with the recommendation. The Rules have not been made public.
- Recommendation No. 6.9.3: HSE does not comply with the recommendation in the part referring to D&O insurance. In regard to collective D&O insurance, HSE members have the right to join it. In accordance with tax rules, they are obliged to pay a tax benefit.
- Recommendation No. 6.12.2: We do not fully comply with the recommendation. Due to the economic situation that the company found itself in the number of ordinary meetings of the audit committee was exceeded by one, but the total number of meetings (eight) was not exceeded.
- Recommendation No. 7.3: The remuneration of the management bodies lies within the limits of the Act Governing the Remuneration of Managers of Companies and are per the Act not subject to the founder's decisions, so HSE does not comply with this recommendation.
- Recommendation No. 9.2.7: The recommendation was not consistently complied with because some recommendations of internal auditors are implemented within extended deadlines.
- Recommendation 10.2: HSE does not comply with the recommendation. The company does not envisage a corporate integrity representative. Some of the envisaged functions of the role are distributed and are not implemented within expert services.

1.1. Report on the Implementation of the Recommendations of the Slovenian National Holding

The company has in its operations, taking into account the company's activity and other specificities, mainly complied sensibly with the Recommendations of the Slovenian National Holding. In February 2016, the Recommendations of the Slovenian National Holding (December 2014) were replaced by new eponymous Recommendations. The company did not implement the following Recommendations of the Slovenian National Holding in 2016 (February 2016):

- We do not follow the Recommendation 3.6. in the part referring to the trading of energy products and related products. The trading-related contracts, which have the nature of transaction-management contracts, e.g. trading-related brokerage contracts, are not publicly reported because they are a business secret.
- We do not follow the Recommendation 3.8. in the part referring to the trading of energy products and related products. For trading, we do not perform public disclosures from this recommendation because the businesses are a business secret.
- Recommendation under Point 4. The 2016 recommendations have been followed, with the exception of 4.2.2. to 4.4.
- The recommendations under Point 5 have not been (entirely) followed because the financial and organisational consolidation of the HSE Group has not been carried out yet; it will be carried out when the conditions for the implementation of EFOM (European Foundation for Quality Management) are met. We partially follow the recommendation via standards (ISO) 9001, ISO 14001, BS OHSAS 18001 and ISO 27001), which are also the basis for self-assessment per the EFQM model.

2. Company Management Bodies

In 2016, HSE was managed by the Slovenian National Holding as the sole shareholder in accordance with the Articles of Association. The management and supervisory bodies are the Management and the Supervisory Boards.

2.1 Founder

The founder has the function and the capacities of an assembly, in accordance with the Articles of Association of HSE, the Companies Act, and the legislation in force. In compliance with Article 526 of the Companies Act, the Founder records his decisions in the decision book. In 2016, the Founder acted in compliance with the competences provided in the Articles of Association, which have been made publicly available (the Agency of the Republic of Slovenia for Public Legal Records and Related Services—AJPES). We cite a few of the key competences:

- adoption of the business policy foundations and the Plan for the Development of the HSE Group and Company for the period of five years, including financial, business, staff, and organisational restructuring, upon a proposal of the Management Board and approval by the Supervisory Board;
- deciding about the use of the balance-sheet profit;
- deciding about the return of subsequent payments;
- deciding about the distribution and expiry of business shares;
- naming and recalling members of the company's Supervisory Board, except those elected by the Works Council;
- deciding about the establishment of companies and the acquisition of majority participation in the capital of other companies on the proposal of the Management Board and the consent of the Supervisory Board;
- deciding about the disposition of stocks and shares in the companies that in the respective decision about the strategy of the management of capital investments of the country are defined as strategic or important investments;
- deciding about the disposition and burdening of business shares/stocks in subsidiaries and associates per the proposal of the Management Board and the consent of the Supervisory Board;
- granting discharge to the Management and Supervisory Boards;
- deciding on the conclusion of contracts and other transactions, with which the company binds to transfer, whether or not for consideration, on another person with one transaction or more related transactions together, at least 3% of the company's property, whereby it is not a transfer according to the provisions of the Companies Act on status changes;
- deciding on changes to the shared capital;
- deciding on status changes and the dissolution of the company;

and other competences further stipulated with the Articles of Association and the respective legislation in force.

2.2 Supervisory Board

The Supervisory Board's competences and decision-making processes, work organisation, and other issues pertaining to its functioning are regulated by the Companies Act, the Articles of Association of HSE, the Rules on the Work of the HSE Supervisory Board, and the Code of the Slovenian National Holding (per the "comply or explain" principle).

The Articles of Association of HSE stipulate the composition, mandate, and competences of the Supervisory Board. Since 5 April 2016, the Supervisory Board has consisted of twelve members, eight members represented the Founder's interests, and four members the interests of the employees (they are appointed and recalled in accordance with the Worker Participation in Management Act). The Supervisory Board's members can be named for a period of four years and can be reappointed after the expiry of their term.

In 2016, the Supervisory Board acted in accordance with the competences stipulated in the Articles of Association of HSE, which has been made publicly available (the Agency of the Republic of Slovenia for Public Legal Records and Related Services—AJPES).

The composition and the functioning of the Supervisory Board are represented in the Supervisory Board's report.

2.2.1 Audit Committee of the HSE Supervisory Board

The Audit Committee was established in accordance with the Companies Act and provides expert support to the Supervisory Board. The Audit Committee's tasks and competences are stipulated by the Companies Act, the Rules on the Work of the Audit Committee of the HSE Supervisory Board, the Plan of Work of the Supervisory Board's Audit Committee, and the Supervisory Board's decisions.

The composition and the functioning of the Audit Committee are represented in the Supervisory Board's report.

2.2.2 Restructuring Committee of the HSE Supervisory Board

The Restructuring Committee was established in accordance with the Companies Act and provides expert support to the Supervisory Board. The tasks and competences of the Restructuring Committee are determined by the Rules on Work of the Commission and the decisions of the Supervisory Board.

The composition and the functioning of the Audit Committee are represented in the Supervisory Board's report.

2.2.3 Marketing and Investments Committee of the HSE Supervisory Board

The Restructuring Committee was established in accordance with the Companies Act and provides expert support to the Supervisory Board. The tasks and competences of the Restructuring Committee are determined by the Rules on Work of the Commission and the decisions of the Supervisory Board.

The composition and the functioning of the Audit Committee are represented in the Supervisory Board's report.

2.2.4 Staff Appointment Committee / Staff Committee of the HSE Supervisory Board

The committee was established in accordance with the Companies Act and provides expert support to the Supervisory Board in the process of selection and appointment of the Management Board. The tasks and competences are determined in the Supervisory Board's decisions.

The composition and the functioning of the Audit Committee in 2016 are represented in the Supervisory Board's report.

2.3 Management Board

In accordance with the Articles of Association of HSE and the Supervisory Board's decision, the company is managed and represented by the Management Board on its own responsibility. From 1 April 2016 to 16 July 2016, the Management Board had three members (general, financial, and technical director). Before and after this period, it had two members (general and financial director) in 2016.

3. Internal Controls and Risk Management in the Company

With the purpose of providing greater transparency, efficiency, and responsible operations, the company has established a functional system of internal controls and risk management via the company's organisational structure, ISO 9001 quality management standard, OHSAS 18001 standard, ISO/IEC 27001 information protection standard, and internal acts of the company with precisely established reported system by individual organisational units. The internal control system is supported with the information technology control system, which, inter alia, ensures appropriate limits and control of the system as well as precise, current, and complete data processing.

Through the internal controls system, we programmatically and systematically use the procedures and methods that with their functioning ensure accuracy, reliability, and completeness of data and information, accurate and fair production of consolidated accounts, prevent and detect system failures, and ensure compliance with laws and other regulations, acts of management bodies, and systemic prescriptions of the company.

With the purpose of the establishment of a comprehensive risk management system in the company and the provision of quality information to the company's Management and Supervisory Boards for the management and supervision of the company, an independent risk management unit and a risk management department are organised at the company. The Risk Management Department ensures the implementation and the establishment and continued functioning of the risk management system and provides operational and coordination support to the Risk Management Committee. The organisation, composition, and method of work of the Committee are defined in the Rules of Work of the HSE Risk Management Committee.

Comprehensive and continuous verification of the regularity and legality, cost effectiveness, and orderliness of operations is ensured by the Internal Audit Department, which is organised as an independent organisational unit. It carries out independent and impartial audit and consulting tasks, with the purpose to increase the benefit and reduce the business risks of the HSE companies.

The implementation, functioning, control, and continuous improvement of the internal control system and the validity and completeness of data is the responsibility of the Management Board, whereas the Audit Committee of the HSE Supervisory Board monitors and assesses the role and the efficiency of the internal audit function in relation to the entire risk management system of the company.

4. Internal Audit Activities

Internal audit carries its mission in compliance with the adopted Rules on the Operation of the HSE Internal Audit. Its main task is independent control of the correctness and efficiency of operations of the HSE companies.

At the HSE holding company internal audit is organised as an independent organisational unit, functionally and organisationally separated from other parts of the holding company, and from the aspect of labour law independently answerable to the holding company's Management Board. Such organisation ensures the autonomy and organisational independence of its operations.

In accordance with the adopted Plan of Work of the Internal Audit Department for 2016, internal audits of individual transactions and various (several) areas of operation at all subsidiaries of the HSE group. Besides this, consulting and other tasks were carried out, in accordance with the adopted plan and the decisions of the Audit Committee and the HSE Supervisory Board.

In the context of the audited fields internal audit has also audited the efficiency of the operation of internal control systems and published recommendations for their establishment and improvement, particularly at the corporate level. In the context of the performed audit operations, attention was also given to the possibility of fraud and the exposure or vulnerability in IT support to operations in all companies of the HSE group and recommendations issued for standardising these areas.

The internal audit's added value was attained through consulting and recommendations proposed after the carrying out of audits, the execution and implementation of which are regularly verified, and on the findings and proposals of a more efficient performance of all issued recommendations, which are regularly reported to the HSE Management Board by the Audit Committee and the Supervisory Board of HSE.

In 2016, the Internal Audit Department also carried out a self-assessment of its functioning. The results showed that the Internal Audit Department has an important role in the improvement of the HSE group/company operations and that the quality of its services is important.

The Internal Audit Department reported and informed about its comprehensive work at the semi-annual and annual levels to the HSE Management Board as well as the Audit Committee and the HSE Supervisory Board.

We, the undersigned, have been notified in advance about the content of the 2016 Annual HSE Group and Company Report's components and thus also with the 2016 Annual Report of the HSE Group and Company. We agree with it and confirm this with our signature.

Ljubljana, 26 April 2017

Stojan Nikolić M.Sc.,
Financial Director of HSE d. o. o.

Matjaž Marovt,
General Director of HSE d. o. o.

Milan Perović,
Chairman of the HSE d. o. o.
Supervisory Board

MANAGEMENT OF THE HSE GROUP

The HSE Group management has undergone several changes in recent years. A key one is that in single-person limited liability companies, management boards have been abolished, thus transferring direct supervision of these companies to the HSE holding company.

With changes to the Articles of Association of DEM, SENG, and TEŠ back in 2014, which included the abolition of their supervisory boards, in 2016, upon shareholders' consents, which must for the conclusion of business in accordance with the Articles of Association be obtained by the companies' directors, HSE continued integrating corporative management activities with the purpose to audit and optimise operations and manage costs and investments in DEM, SENG, and TEŠ. In the framework of corporative management of HSE, communication and coordination activities between the HSE special services and subsidiaries, with the purpose of preliminary coordination of activities of seeking synergy effects of companies particularly within HSE. Since the abolition of supervisory boards in single-person companies, the formal legal management of companies improved.

We are certain that we can improve business operations and subsequently raise the business results of all participants and the reputation of the company and its members in the public only by further improving the management of the company. A good corporate governance system is thus of a special importance and a requisite condition for improvement of governance, good business practice, risk management, optimisation of organisational structure, and improvement of mutual relations in the group, so this area urgently needs further development and conditions for quick adaptation of the HSE group's operational strategy.

In September 2016, the HSE Group implemented new Corporate Governance Rules, which regulate the organisation and management of the HSE Group and Company, the management and supervision of subsidiaries, and defines the HSE Group companies' conduct by individual functional areas.

In the upcoming period (2017–2019), we would like to approach an actual group in homogeneous operations of electricity production and sales, where we will endeavour to bring to the group as much energy value chain as possible from increasing the extent of internal purchase (on the purchase side) to increasing our share of end users (vertical integration to wholesale). The transition to a group management system will be carried out gradually.

TEŠ Unit 6 Investment Monitoring Committee

The Committee was established in November 2009 with the aim of monitoring the investment into TEŠ replacement Unit 6 and of preventing the increase in investment costs as well as the costs of maintaining the existing TEŠ systems. The Committee is composed of four members – three of whom are appointed by HSE, and one by TEŠ. In 2016, the Committee contributed to an improved flow of information and improved transparency and control over the investment which remained within the framework envisaged in the Amended Investment Programme – NIP6. During the start-up tests the Committee also contributed to better coordination between different departments of HSE and TEŠ.

Workers participation in management

Employees in the HSE Group exercise their rights through trade unions, works councils as well as through their elected representatives in the supervisory board.

The companies within the HSE Group have cooperated with trade unions and works councils ever since HSE was established. This provides for balance between different interests and contributes to a wide consensus both in terms of the Group's development plans and the provision of social security for employees of the HSE Group.

Trade unions and their involvement in the companies within the Group

The involvement of the trade union in the companies DEM, SENG, TET – in liquidation and TEŠ is organized within the umbrella Energy Sector Trade Union of Slovenia (SDE).

The following trade unions also operate within the framework of the HSE Group: Independency, Trade Union of Production of Energy Materials of Slovenia and Trade Union of Workers in the Mining and Energy Sector of Slovenia; the last two operate within the corporate system of Velenje Coal Mine (PV).

The SDE Coordination of HSE Group is also active within the framework of SDE Energy Sector Conference and is composed of presidents of trade unions of DEM, SENG, TET – in liquidation and TEŠ. The Coordination also communicates with the Management of HSE as well as with the Directors of individual companies, which allows issues and initiatives to be dealt with promptly. They also cooperate with the Joint works Council of the HSE Group.

Works councils and Joint works councils of the HSE Group
Employees of the companies within the HSE Group participate in the management through the works council of individual company. The HSE Works Council pays special attention to status issues, human resources issues and health and safety at work. It actively monitors the said areas through monitoring the company operations and helping the works councils to be actively involved in the said areas. For this purpose it organises regular sessions, regular meetings with HSE Management, enables the members of the works councils to participate in the meetings of the HSE Supervisory Board, the cooperation with external advisers and professional institutions and various other forms of bringing workers closer together.

Some works councils of the companies within the HSE Group have, on the basis of an Agreement on the Formation of Works Council of Group of Companies, established a Joint Works Council of the HSE Group. Its responsibility is to deal with issues relating to the employees of the group of companies. These responsibilities include: an annual report of the company and HSE Group; a development strategy business policy of the Group; changes in activities within the Group; status changes within the Group; divestiture of individual companies and significant changes in the shareholding structure; common platforms for dealing with individual issues, status and rights of workers, such as: joint methodology for job classification and evaluation, availability of worker's joint assets, education and training policy and health and safety at work. The Joint Works Council of the HSE Group is also responsible for monitoring the implementation of the Workers Participation in Management Act. The Joint Works Council cooperates with the HSE Management in a manner prescribed by this Act and the Participation Agreement, and represents the interests of employees in conjunction with trade unions.

Economic and Social Council was established with the objection of stengthening cooperation between the Management(s), works councils and trade unions of the companies within the HSE Group.

MARKET CONDITIONS

Stable market conditions continued throughout 2016. The greatest uncertainty on the markets was caused by the decision of the British to leave the European Union, which had significant impact on the British Pound compared to other currencies, especially the US dollar. European stock exchanges were also under strain, especially in the banking sector. Compared to the USD, EUR gained almost 5% during the course of the year, however towards the end of the year it was close to its initial value. In addition, 2016 was marked by the presidential election in the United States, sanctions imposed on the Russian Federation, and the migrant crisis in Europe.

The energy products market was marked by a sharp decrease in prices in 2016. A surplus of supply on oil and coal markets first gave rise to a decrease of crude oil prices; consequently, other prices of energy products followed the same trend. However, a decision of the Chinese government in the beginning of 2016 to decrease the production of coal from 330 to 276 days a year reversed the balance from the surplus of coal reserves to a lack of coal reserves. As a result, prices on global markets went up until November 2016, when due to imminent above-average cold winter, the allowed number of mining days was increased to 330 days a year.

Due to high demand at the end of the year, the prices of coal had another reason to go up. Technical issues of some French nuclear power plants and consequently extended times envisaged for overhauls contributed to fears of inability to provide enough electricity; this drove up the prices, especially in France, to reach rates even above 100 EUR/MWh. This had not happened for quite some time. High prices and loss of production had a positive impact on the prices of coal CIF ARA, as the loss was compensated for by thermal power plants. The increase in prices of coal was reflected in the increase in prices of electricity, especially in Germany and consequently also in other parts of Europe.

Due to an increase in coal and natural gas demand, their prices went up in 2016. The increase was partially also a result of the increase in the price of crude oil, which rose throughout 2016. This was largely due to OPEC members and Russia reaching an agreement on cutting oil production. Initially, the prospects were not very promising due to opposition from Iran; however, later they were able to reach an agreement on cutting the production as of 2017 onwards. Consequently, the prices of near supplies also went up.

A relatively mild winter in 2015/2016 contributed to the increase in natural gas inventory in Europe, which mitigated the positive trend of increase in prices. Even though the prices in Europe were still above the prices in USA (parity), the difference between the Asian basin and European basin prices was almost reduced to zero. This was partially also due to a re-start of nuclear reactors in Fukushima, which decreased Japanese demand for liquefied gas, as well as due to increased consumption for electricity production in the last quarter of 2016.

Similarly to the trend of the previous years, the trend of increasing the installed capacity of power plants that produce electricity from renewable resources has continued. Wind power stations are at the forefront of this trend, while the growth trend for solar power plants has lately been decreasing. As a result of large quantities of energy produced from renewable resources and low prices of electricity on the market, the trend of shutting down/preserving both gas and coal powered power plants has continued.

A large number of new production units that exploit renewable resources and cause older conventional sources to be shut down has had a great impact on the dynamics of energy flow movements within networks. In the periods of increased production from renewable resources, there are huge fluctuations within networks which are difficult to control. The increase in production from renewable resources may lead to a less reliable operation of electricity systems; consequently, numerous European markets are implementing activities for the provision of sufficient production capacities or similar mechanisms which would, apart from the energy market, also introduce a power market, and in this manner enable the producers of conventional resources to acquire additional income.

European electricity market

In 2016, German solar power plants with a total installed capacity of 41.6 GW produced approx. 34.6 TWh of solar energy, while wind power plants with a total installed capacity of 48.9 GW produced 77 TWh of electrical energy. Compared to 2015, the total energy produced by solar and wind power plants has not increased. Combined production of solar and wind power plants accounted for 21% of total production, which is more than the share of energy produced by nuclear power plants.

An additional increase in the installed capacities of renewable resources thus caused a decrease in electricity prices on the spot market, as compared to previous years. Consequently, the marginal price is being dictated by those power plants which have the lowest variable costs. In 2016, the marginal price in Germany and Italy was dictated by coal generated power plants and gas generated plants, respectively.

As of the beginning 2016, prices of electricity in continental Europe began to decrease considerably, which was the result of a mild winter and a decrease in prices of oil, gas, coal and emission allowances. In the course of the year, the price of certain energy products went up. However, in the last quarter of 2016, the unavailability of certain nuclear power plants in France played a crucial role translating into higher prices of electricity.

An important event concerning the electricity market in continental Europe which is worth mentioning was the announcement of the Nuclear Safety Authority in France that twelve reactors with an increased carbon levels in evaporators could be restarted only after safety tests. The said tests and delays of re-starts then went on throughout the last quarter of 2016. According to the French transmission system operator, the installed capacity of nuclear power plants in France is 63.26 GW and is provided by 58 active nuclear reactors. 18 out of 58 had increased carbon levels in evaporators and 12 of them were so critical they required safety testing. The unavailability of nuclear power plants contributed to a demand for increased production of energy from gas and older coal generated power plants and this, in turn, caused the increase in the consumption and price of both gas and coal. Consequently, the price of electricity across Europe went up, which also had an impact on the prices in Slovenia and the region.

In 2016, an average price of electricity on the spot market of the Slovenian Electricity Exchange BSP amounted to 35.63 EUR/MWh, which is 14% less than in 2015. The average price on the Hungarian Electricity Exchange HUPX was 35.41 EUR/MWh or 13% less, compared to the previous year. The price on the Hungarian market is formed on the basis of the maximum prices of the Italian market on the West and the Greek market on the South, and on the basis of the minimum price of the Romanian market on the East. The impact of German market on the formation of prices has decreased, and only dictates prices in the period of favourable hydrology. Due to a large proportion of electricity produced from gas-generated power plants, the price in Italy and Greek is higher than the price in Hungary, and the price in Romania is lower than in Hungary, due to high proportion of renewable resources.

Apart from the hydrology conditions, production from renewable resources, in particular wind energy (Romania, Croatia), has also had a growing impact on the prices of electricity in the region. During most of 2016, the flow of electricity went from the SE Europe (Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Hungary, Romania, Bulgaria and Albania) towards Greece. In the last quarter, however, the price in the region was correlated with the price in continental Europe (impact of France) and occasionally, due to poor hydrology, electricity was also imported from Greece.

In the beginning of 2016, the electricity market in SE Europe became richer with two new electricity exchanges. On 11 February and 18 February the CROPEX exchange in Croatia and SEEPEX exchange in Serbia started operating, respectively. Both electricity exchanges enable transactions for a day in advance. At this point nuclear power plants in Hungary are worth mentioning – last year they switched from a 12-month cycle operation to a 15-month cycle operation.

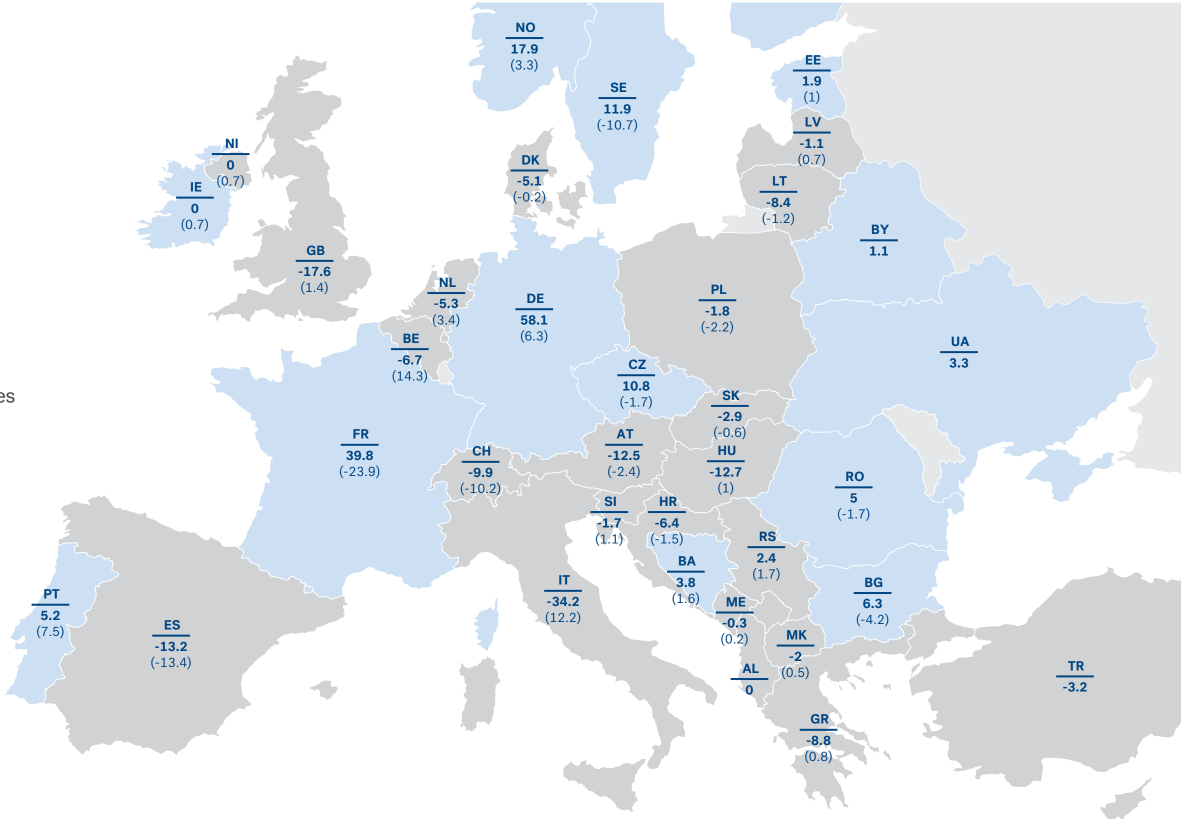
Balance sheet of European energy markets in 2016 and in % expressed difference compared with 2015

Markets with negative energy balance in 2016

Markets with positive energy balance in 2016

Note:
TWh, changes to the percentages in the brackets

Source: ENTSOe



Average annual daily price of European energy markets in 2016 (EUR/MWh) and the difference compared to 2015 (expressed in percentages)

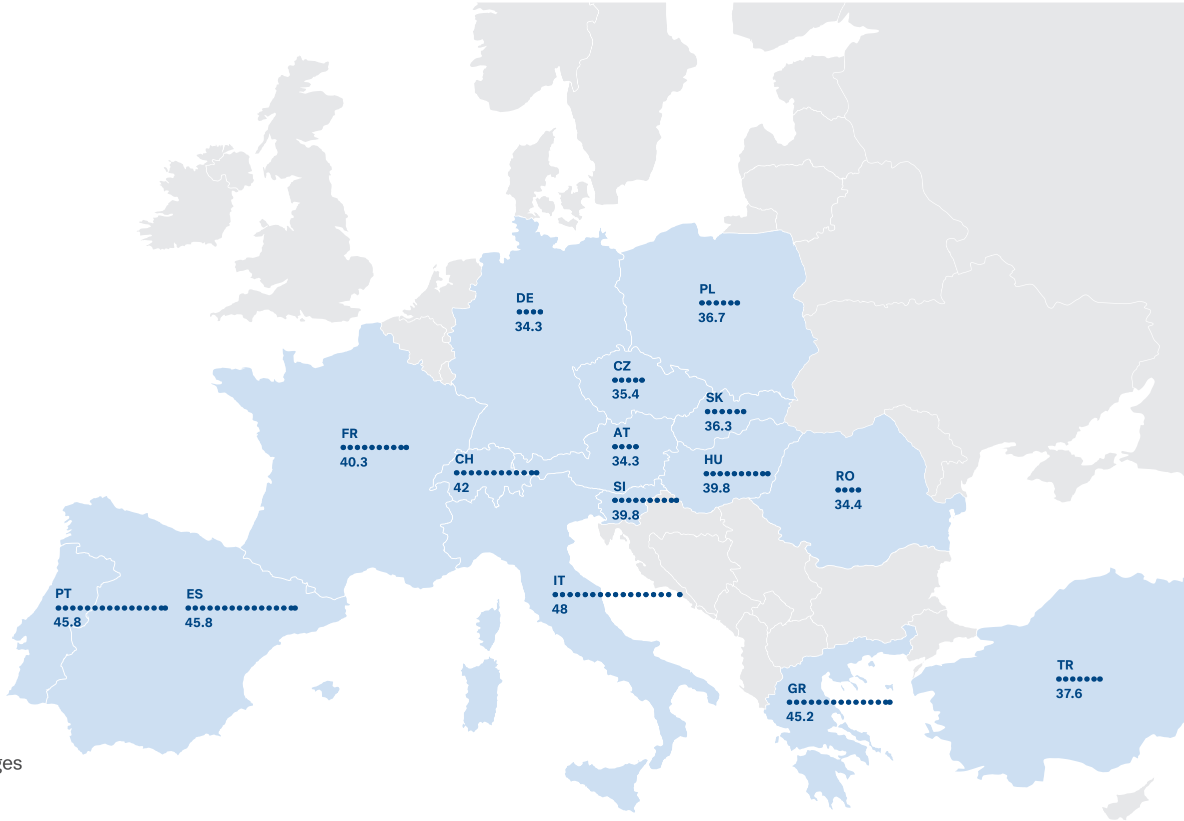
Fall in price from 2015

Rise in price from 2015

Note:
Only markets with electricity exchanges are marked.

Source: Exchanges

Forward payments of base load power at the end of 2016 for supply in 2017 (EUR/MWh)



Source: Exchanges

After the period of stable and significant growth in prices of emission allowances that could be witnessed in 2014 and 2015, the conditions on the emissions market have changed considerably. An average price in 2015 was 7.8 EUR/t, while it decreased to 5.4 EUR/t in 2016. The volatile nature of the price contributed to an increase in trading by 3% on an annual basis.

Regulatory changes which were also important factors in the past still play quite a considerable role on the emissions market. After the introduction of a backloading measure, due to which 900 tonnes of allowances were removed from the trading in the period 2014-2016, and the MSR mechanism, which will have an ever more significant impact on the demand side from 2019, certain changes can be predicted in the future in reference to the fourth period of the European Union Emission Trading Scheme. At the level of European institutions coordination activities are taking place at the moment that envisage various approaches, such as the removal of additional quantities of allowances from the trading system, the increase in a linear reduction factor and changes to the MSR mechanism, which would contribute to a decrease of excess allowances and encourage investments that decrease greenhouse gas emissions into the atmosphere.

Electricity market in Slovenia

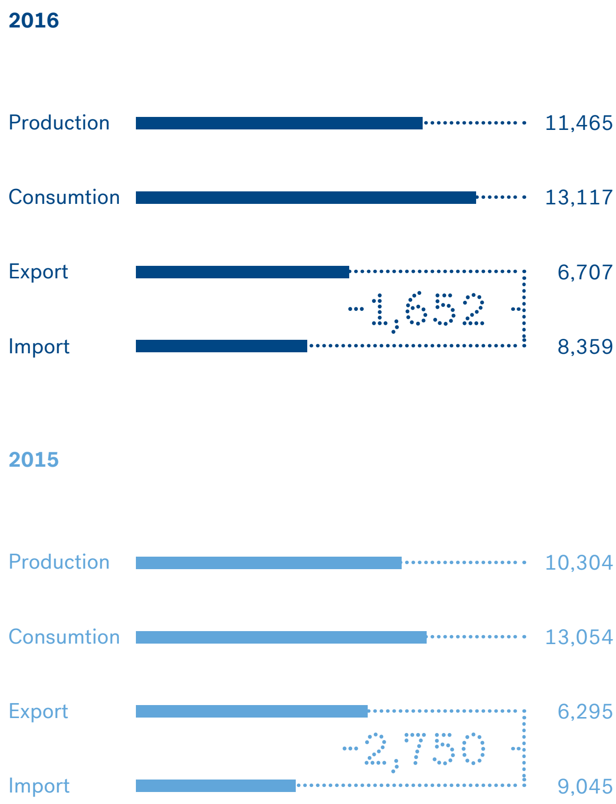
In 2016, Slovenia produced 11.5 TWh of electricity, which is 1.1 TWh (11%) more than in 2015. The increase in production compared to a year before is a result of improved production of hydroelectric and thermal power plants. In 2016, the output of hydroelectric power plants amounted to 4.3 TWh, which is 0.6 TWh more than in 2015. The output of thermal power plants TEŠ, TEB and TE-TOL amounted to 4.4 TWh, which is 16% more than a year previously. In Slovenia, the share of electricity produced in Krško Nuclear Power Plant (NEK) accounted for 2.7 TWh in 2016, which is the same as in 2015.

In 2016, the total consumption of electricity, including PHPP Avče and transmission losses, accounted for 13.0 TWh, which is comparable to the consumption in 2015. In 2016, the energy balance sheet resulted in a negative value of 1.6 TWh. This places Slovenia among net importers of electricity, which increases the risk of price volatility on the BSP exchange due to import dependency.

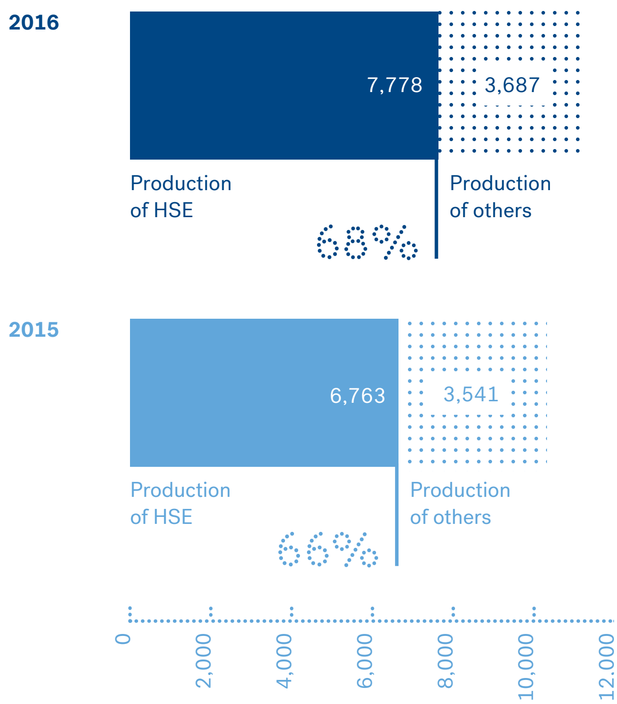
In 2016, average prices in Slovenia amounted to 35.63 EUR/MWh, which is, on an annual basis, 5.78 EUR/MWh less than in 2015. The 2016 annual average price in Hungary, which is a reference value for our region, was 35.41 EUR/MWh (30.79 EUR/MWh in the first half of the year and 39.98 EUR/MWh in the second half of the year), which is 6.43 EUR/MWh more than in Germany (in the first half of the year an average difference between the markets was 5.80 EUR/MWh, while this difference was 7.05 EUR/MWh in the second half of the year).

In July 2016, a Multi Regional Coupling (MRC) project between Austria and Slovenia was launched.

G **Slovenian electricity market in 2016 and 2015 (in GWh)**

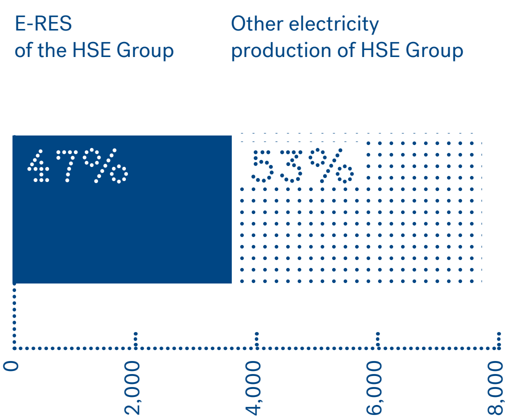


G **Share of electricity produced by HSE Group compared to total electricity output in Slovenia in 2016 and 2015 (in GWh)**

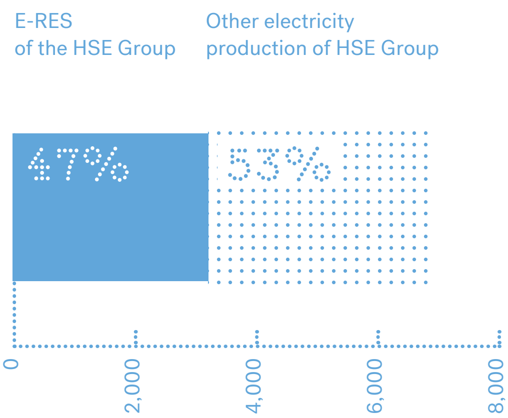


G Proportion of energy produced from renewable resources in the HSE Group

2016

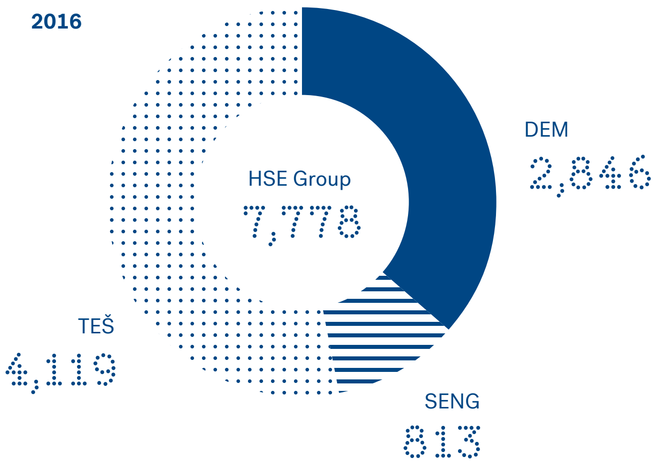


2015

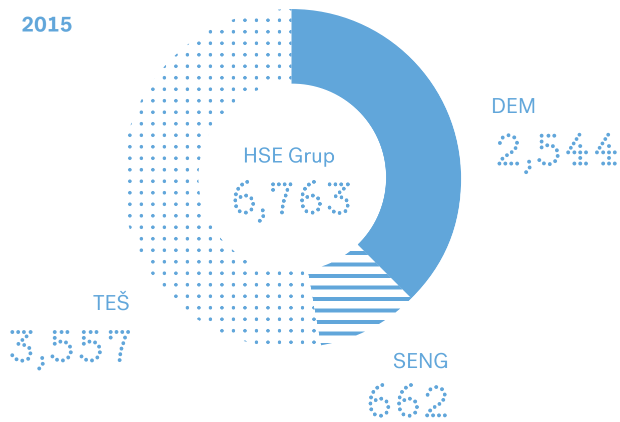


G Threshold power produced in the HSE Group in 2016 and 2015 (in GWh)

2016



2015



Business Performance Analysis of the Group and HSE (in EUR)

Legend:	**2016**	2015

HSE Group

Value of assets in EUR:	**2,156,756,540**	2,233,923,430
Total equity in EUR:	**1,015,220,355**	991,749,078
Net profit or loss in EUR:	**21,660,852**	(480,102,728)
EBITDA in EUR:	**156,451,712**	121,559,817

Production

DEM

Value of assets in EUR:	**495,655,581**	523,229,721
Total equity in EUR:	**481,304,147**	510,769,294
Net profit or loss in EUR:	**14,603,947**	8,671,945
EBITDA in EUR:	**29,054,837**	27,585,177

SENG

Value of assets in EUR:	**252,605,391**	254,005,101
Total equity in EUR:	**208,958,823**	205,889,057
Net profit or loss in EUR:	**9,233,425**	6,172,466
EBITDA in EUR:	**20,184,537**	19,768,461

SRESA

Value of assets in EUR:	**68,570**	76,435
Total equity in EUR:	**68,559**	76,424
Net profit or loss in EUR:	**(7,865)**	(600)
EBITDA in EUR:	**(7,866)**	(607)

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

TET—in liquidation

Value of assets in EUR:	**7,505,287**	7,826,079
Total equity in EUR:	**3,314,768**	(3,098,191)
Net profit or loss in EUR:	**(59,708)**	(623,102)
EBITDA in EUR:	**115,661**	(482,957)

TEŠ

Value of assets in EUR:	**1,089,707,662**	1,119,823,870
Total equity in EUR:	**396,560,385**	215,820,023
Net profit or loss in EUR:	**(47,226,819)**	(459,045,867)
EBITDA in EUR:	**21,443,922**	9,496,018

PV

Value of assets in EUR:	**124,373,114**	123,624,126
Total equity in EUR:	**40,684,680**	40,228,450
Net profit or loss in EUR:	**770,098**	(69,934,023)
EBITDA in EUR:	**14,084,185**	3,416,231

Trading & other activities

HSE

Value of assets in EUR:	**1,299,127,631**	1,206,606,876
Total equity in EUR:	**876,576,884**	829,661,564
Net profit or loss in EUR:	**44,359,794**	(323,117,370)
EBITDA in EUR:	**65,734,932**	53,420,522

HSE Invest

Value of assets in EUR:	**2,762,884**	2,982,012
Total equity in EUR:	**1,792,270**	1,731,435
Net profit or loss in EUR:	**6,598**	428,872
EBITDA in EUR:	**144,635**	651,514

Soenergetika

Value of assets in EUR:	**4,266,680**	4,563,827
Total equity in EUR:	**1,827,295**	1,853,135
Net profit or loss in EUR:	**574,384**	646,289
EBITDA in EUR:	**1,388,895**	1,372,657

International network

HSE BH

Value of assets in EUR:	**1,770,279**	3,298,367
Total equity in EUR:	**583,275**	567,489
Net profit or loss in EUR:	**15,786**	26,497
EBITDA in EUR:	**20,775**	37,092

HSE Adria

Value of assets in EUR:	**1,410,682**	9,959,085
Total equity in EUR:	**1,356,195**	980,106
Net profit or loss in EUR:	**364,053**	290,465
EBITDA in EUR:	**464,353**	365,305

HSE BE

Value of assets in EUR:	**3,117,209**	1,803,904
Total equity in EUR:	**741,510**	710,319
Net profit or loss in EUR:	**45,243**	2,125
EBITDA in EUR:	**40,154**	8,527

HSE Mak Energy

Value of assets in EUR:	**38,724**	75,551
Total equity in EUR:	**32,836**	70,075
Net profit or loss in EUR:	**(37,035)**	(25,129)
EBITDA in EUR:	**(37,042)**	(26,302)

In September 2016, HSE MAK concluded its first trading businesses and until 2016 sold 5.6 GWh of electric power. Despite creating revenue from the sales of electric power, it did not cover all costs, so in the considered period it created a loss in the amount of EUR -37,042.

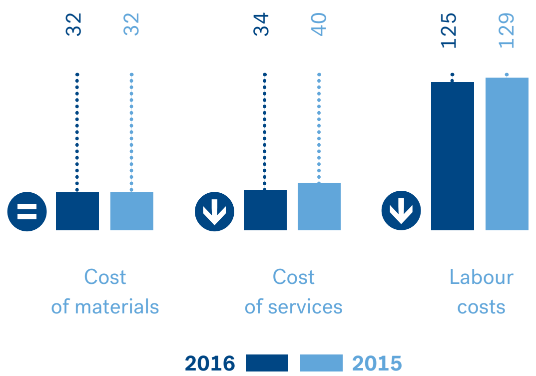
HSE Group

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 operational results. Of great benefit is the option of intraday 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 has endeavoured to place as much electricity on the market as only possible during more expensive hours.

Despite lower prices in 2016, the outcome of electricity trading remains at the same level as the previous year. This is a result of successful sales of our own output and a better outcome of system service sales. The sales structure shows that sales on foreign markets have been increasing. The quantitative sales at the level of HSE Group accounted for 28.3 TWh which is 4% more than a year before; despite the fact that net sales revenue was 4% lower due to lower electricity prices.

In 2016, output increased by 15% compared to 2015, namely 14% in hydroelectrical power plants, as hydrology conditions were below average in 2015, and by 16% in TEŠ, as the replacement TEŠ Unit 6 was available for commercial purposes throughout the year for the first time in 2016.

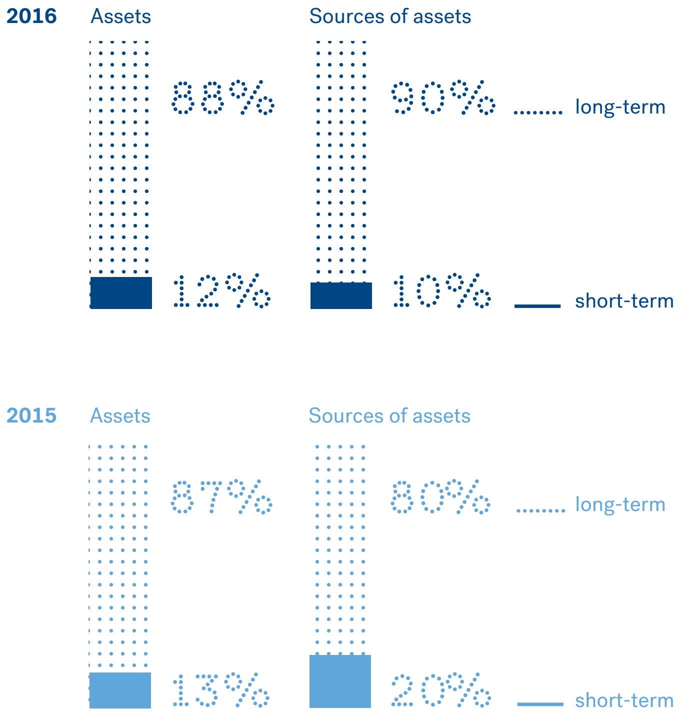
G **Costs of material, services and labour (in million EUR in 2016 and 2015)**



Despite ongoing unfavourable conditions on energy markets, which were reflected in a continuous decrease in prices of electricity, in 2016 the HSE Group took restructuring and streamlining measures and generated net profits to the amount of EUR 21.7 million (as opposed to losses over two previous consecutive years) and by 29% higher EBITDA – compared to 2015. Costs of services were by 14% lower than in 2015 (maintenance costs in particular were lower on account of optimising operations and services in generating products due to a decrease in the scope of operations in the construction activity for foreign markets), and labour costs went down by 4% (an agreement was signed between social partners and the Management of Velenje Coal Mine, a gradual introduction of merging support processes and a decrease in the number of employees). Costs of material were at the same level as in 2015. In 2016, the Velenje Coal Mine changed its accounting policy, namely they no longer included the steel arch supports as an investments item but instead as a material item expense. Without these said costs, in 2016 the costs of material would be 13% lower compared to 2015. Net profits were also influenced by a depreciation expense to the amount of 5% (impairments in 2015), while higher costs of CO_2 allowances (greater output of thermal power plant and greater consumption of coal) and higher financing costs (interest costs of the replacement TEŠ Unit 6 which in 2016 were included among financial expenses, while before that i.e. until the initiation of Unit 6 in the middle of 2015 the interest was capitalised; and the implementation of short-term bridge financing).

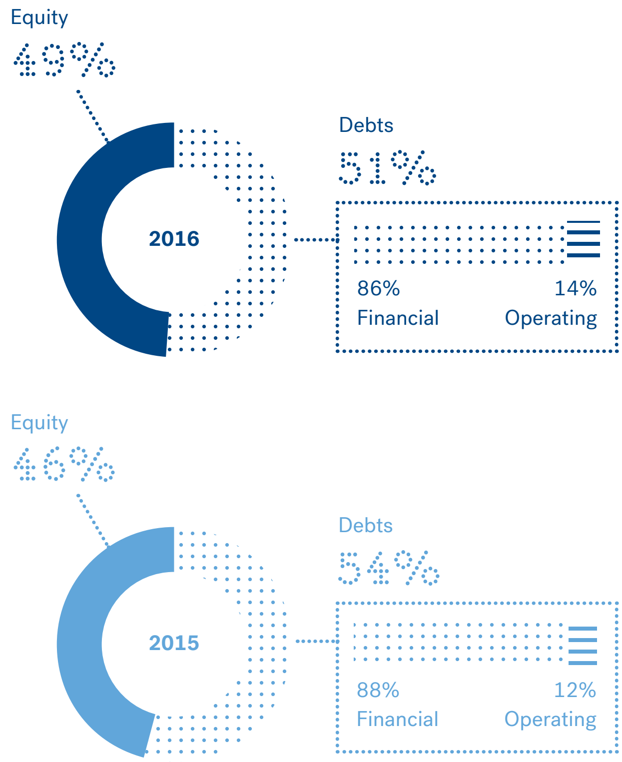
On 31 December 2016, total financial liabilities of HSE Group accounted for EUR 899.6 million and were 11% lower than in 2015. This is mainly the result of regular repayments of the loan in accordance with the loan agreements. At the end of 2016, HSE refinanced short-term loans and secured long-term funds to the amount of EUR 230 million (a long-term loan in the amount of 180 million and long-term revolving loan in the amount of EUR 50 million) of which it drew EUR 180 million until the end of 2016 and repaid in total a short-term bridge loan in the amount of EUR 215 million (EUR 105 million were drawn in December 2015 and EUR 110 million in January 2016). Financial liabilities of the HSE Group are mainly composed of short-term and long-term loans granted by commercial banks. For the purpose of constructing the replacement TEŠ Unit 6 the loan portfolio also comprises two loans granted by the European Investment Bank and European Bank for Reconstruction and Development. Through financial restructuring, the maturity repayment terms of financial liabilities considerably improved in 2016 in both HSE Group and HSE itself.

G Structure of the statement of financial situation of HSE Group as at 31 December 2016 and 31 December 2015



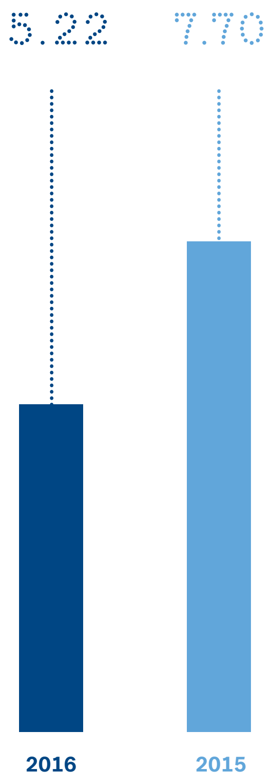
On 31 December 2016, a share of long-term financial liabilities in total financial liabilities of HSE Group accounted for 94% (compared to 71% on 31 December 2015).

G HSE Group's (financial and operating) equity-to-debt ratio as at 31 December 2016 and 31 December 2015



Net financial debt and net financial debt/EBITDA ratio, which compared to 2015 improved considerably, are also indicators of sound operations and a stable financial position. On 31 December 2016, the net financial debt of the HSE Group accounted for EUR 816.1 million and decreased by 13% compared to 2015 (EUR 936.2 million on 31 December 2015). Net financial debt/EBITDA ratio accounted for 5.22 on 31 December 2016 (7.7 on 31 December 2015).

G **Net financial debt/EBITDA ratio on 31 December 2016 and 31 December 2015**



Pursuant to the Financial Operations, Insolvency Proceedings and Compulsory Winding-up Act, the companies within the HSE group took measures and carried out the procedure aimed at remedying insolvency and improving the capital structure. In April 2016, the company HTZ introduced a measure of simplified decrease in share capital and remedied capital inadequacy, and had adequate capital on 31 December 2016. In May 2016, HSE increased the capital in TEŠ by EUR 228.1 million and in this way improved the capital structure of TEŠ. As at 31 December 2016, the companies TET - in liquidation (at the company's shareholding meeting which took place on 17 November 2014 a decision was adopted regarding a simplified decrease in capital and regular liquidation of the company) and Golte lacked adequate capital; however, in February 2017, an investor outside the Group increased the capital in Golte which contributed to an improved capital structure of the company and a decrease of HSE's share therein which now accounted for 17.6%.

Operation and financing indicators of the Group improved; in the end of 2016, the capital of the Groups was 2% higher than in 2015 due to net operating profit.

Small-scale investments with regard to depreciation and changes in the accounting policy of Velenje Coal Mine in relation to separate recording of arch supports led to a situation where total assets of HSE Group were 3% lower at the end of 2016 than at the end of 2015.

Investments in fixed assets of HSE Group were 66% lower than a year before, as in the previous year most investments were made into TEŠ Unit 6. In 2016, the Group invested mainly in output reliability.

The implementation of restructuring and divestiture of unnecessary assets (the activity of the company Gost, along with all the employees was transferred to a partner outside the HSE Group; divestiture of Hotel Barbara and divestiture of Zimzelen old people's home along with employees) are reflected in a smaller number of employees within HSE Group, which is down by 280 as at 31 December 2016 compared to the number of employees on 31 December 2015. The number of employees decreased the most in the company PV – by 170, in TEŠ by 62, in DEM by 29, in TET which is in liquidation by 23 and in HSE Invest by 5.

Company HSE

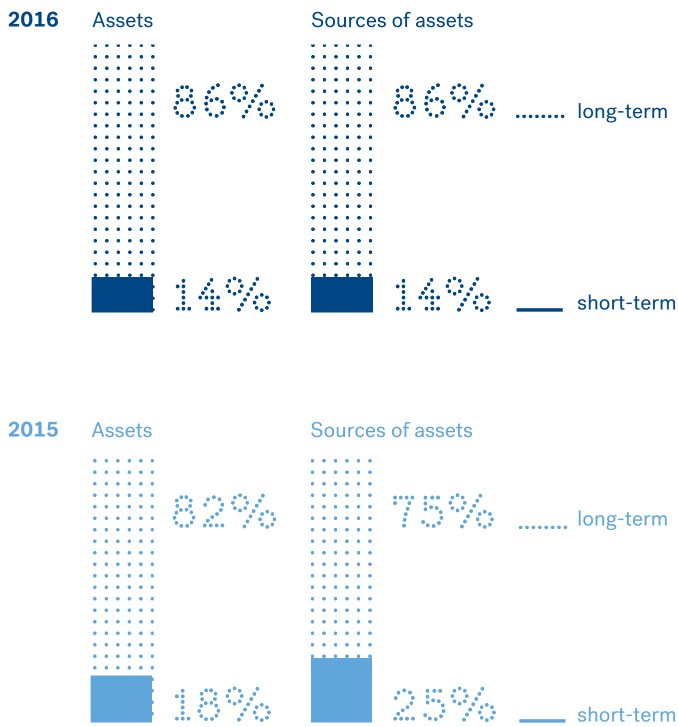
In 2016, the company HSE earned a net profit to the amount of EUR 44.4 million. Successful sales of its own output, additional income from the provision of system services to the amount of EUR 5.9 million and reversal of provisions to the amount of EUR 3 million are the reasons why EBITDA was 23% better than a year before. The net profit and loss account was positively influenced by pay-outs of shares in profits of other companies within the Group to the amount of EUR 50.3 million, while impairment of long-term financial investments to the amount of EUR 49.4 million and higher financial expenses due to loans had a negative impact on the profit and loss account. In 2016, the company realised 29% better EBIT than a year before, which this was due to the aforementioned reasons and lower costs of depreciation by 63% (in 2015 the company HSE made an in-kind contribution in the company PV), and a considerably better profit and loss due to 2015 impairments. Without taking into account long-term financial investments in subsidiaries and financial income on account of pay-outs of shares in profits of the companies the net profit and loss account of 2016 would be 12% higher.

Quantitative sales to the amount of 30.5 TWh is 5% higher than the previous year due to higher sales on foreign markets.

Due to investments in subsidiaries, the company's assets were 8% higher on 31 December 2016, compared to the end of 2015.

Due to positive operations, the capital increased by 6% compared to the end of 2015.

C **Structure of the statement of financial situation of the company HSE as at 31 December 2016 and 31 December 2015**

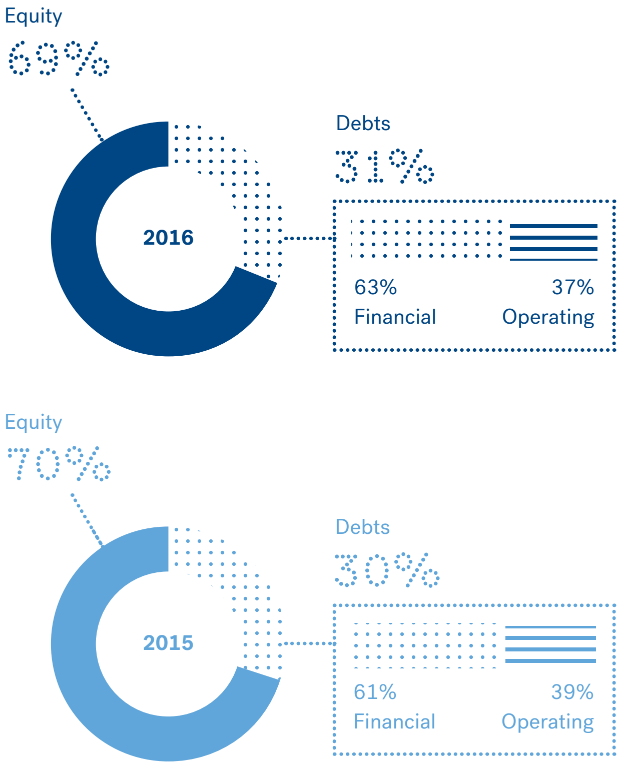


As at 31 December 2016, total indebtedness of the company in the amount of EUR 246.6 million was 15% higher than on 31 December 2015. At the end of 2016, HSE refinanced short-term loans and secured long-term funds to the amount of EUR 230 million (a long-term loan to the amount of EUR 180 million and long-term revolving loan to the amount of EUR 50 million) of which it drew EUR 180 million until the end of 2016 and repaid in total a short-term bridge loan in the amount of EUR 215 million (EUR 105 million were drawn in December 2015 and EUR 110 million in January 2016), and EUR 48 million of short-term loans within HSE Group (EUR 30 million were drawn in 2015 and EUR 18 million were drawn in 2016). By securing long-term resources, the capital structure improved significantly.

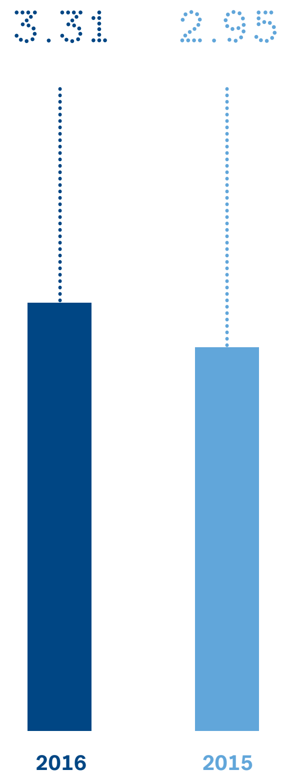
A share of long-term financial liabilities in total liabilities of the company HSE accounted for 96% on 31 December 2016 (31% on 31 December 2015).

On 31 December 2016, the net financial debt of the company amounted to 217.5 million and thus increased by 38%, compared to end of 2015 due to new instances of indebtedness. Net financial debt/EBITDA ratio was 3.31 on 31 December 2016 (2.95 on 31 December 2015).

C **HSE's (financial and operating) equity-to-debt ratio as at 31 December 2016 and 31 December 2015**



C **Net financial debt/EBITDA ratio on 31 December 2016 and 31 December 2015**



SIGNIFICANT EVENTS AFTER THE END OF BUSINESS YEAR 2016

- At the 28th regular meeting of the HSE Supervisory Board, which took place on 11 January 2017, a Business Plan of the HSE Group and HSE for the period 2017-2019 and long-term operations projections for the HSE Group for the period 2017-2030 were adopted.
- On 1 January 2017, the company PV completed the reorganisation of its subsidiary PV Invest through which PV Invest's activities and employees whose main activity is coal mining, were transferred to PV. The activity of urban facilities, along with employees, was transferred to the subsidiary HTZ. The company PV Invest only deals with real estate management.
- In the company SENG, the trade unions of SENG (Trade Union of Energy Sector Workers and the Confederation of New Trade Unions of Slovenia "Independence") and the Management signed an Agreement on the Fulfilment of Obligations Arising out of Employment Relationship.
- In January, HSE enters Serbian electricity market, which was made possible by changes to the applicable legislation.
- Due to Divača transformer station failure, the system operator in charge of the Littoral region, in accordance with system operation instructions of transmission network, on 31 January 2017, declared emergency situation for four hours. During this time the northern Littoral depended mainly on the output of PHPP Avče, whose response to the needs of the system operator was flexible and reliable and prevented the collapse of the northern Littoral 110kV loop.
- On 16 February 2017, during a brief failure of Krško Nuclear Power Plant, the HSE Group power plants produced 9/10 of total electricity produced in Slovenia.
- The general meeting of the company Golte took place on 27 February. With a new shareholder outside the HSE Group, the share capital of the company increased. Following the increase in the share capital of the company Golte, the share of the company PV Invest accounts for 13.77%, the share of the company HTZ accounts for 3.83%, and the company outside the HSE Group became the owner of a 76.66% share of the company Golte.
- In March 2017, the Government of the Republic of Slovenia took its stance towards the winter package proposals (changes to the legal framework for the operation of the electricity and natural gas market at EU level), which will be amended and changed throughout 2017 in the course of negotiations between member states. The winter package proposed reforms that will change the rules of operation in all segments of power market in the European Union and will have a significant impact on the functioning of the Group as well as on its operations after 2020 (new power market design, new rules regarding the power market efficiency, new rules in the field of promoting renewable sources of energy).
- At the meeting which took place on 28 March 2017, the HSE Supervisory Board entered into an agreement with General Director of HSE, Gorazd Skubin, on his resignation and mandate termination. This termination shall enter into force on 28 March 2017. The HSE Supervisory Board continued the meeting on 4 April 2017, when Matjaž Marovt was appointed a new temporary member of the HSE Management and General Director, for the period of 6 months (his mandate shall begin on 19 April 2017).
- Both ELES - the transmission network operator and the Ministry of Infrastructure – the energy policy maker who communicated the measure itself to the European Commission as allowed state aid, have recognised the facilities of the HSE Group, especially TEŠ Unit 6, as significant facilities. Nevertheless, due to public opinion pressure the Government of the Republic of Slovenia removed in February 2017 the priority dispatch measure from the amended Energy Act (EZ-1C). It also notified the European Commission thereof and stopped the process of state aid notification.

RISK MANAGEMENT AT THE LEVEL OF THE HSE GROUP

In achieving the set goals in 2016, the company HSE and the HSE Group faced numerous challenges. However, taking into account the given limitations, most of these were achieved or even exceeded. The system of the overall risk management of the company HSE and the HSE Group has always been regularly updated both at a normative and operative level, and especially at the level of providing highly reliable information from various sources, which serves us as the basis for monitoring, analysing and preparing risk related reports as well as the basis for decisions regarding future operations of HSE and the HSE Group.

In subsidiaries of the HSE Group, the risk management system is established in accordance with the arrangement in the controlling company HSE, the Risk Management Policy of the HSE Group, and by taking into account the size, complexity and business profile of individual companies. With the aim of efficient risk management, there are committees and subcommittees appointed within individual companies whose main role is to control/advise the management bodies/managements in relation to the monitoring, coordinating and assessing the efficiency of the risk management system.

G Risk categories within the HSE Group

↘ decrease; ● neutral; ↗ increase

I. Market risks

I.1	↗	Price risks
I.2		Other market risks

III. Financial risks

III.1	↘	Liquidity risks
III.2	●	Interest risks
III.3	↘	Currency risks
III.4	↗	Credit risks

V. Operative risks

V.1	●	HR risks
V.2	↘	IT-related risks
V.4		Other operative risks

II. Quantity/production risks

II.1	↘	Risks of coal supply interruption
II.2	↗	Risks of production machinery breakdowns
II.3	↘	Hydrology-related risks
II.4		Other quantity/production risks

IV. Strategic and business risks

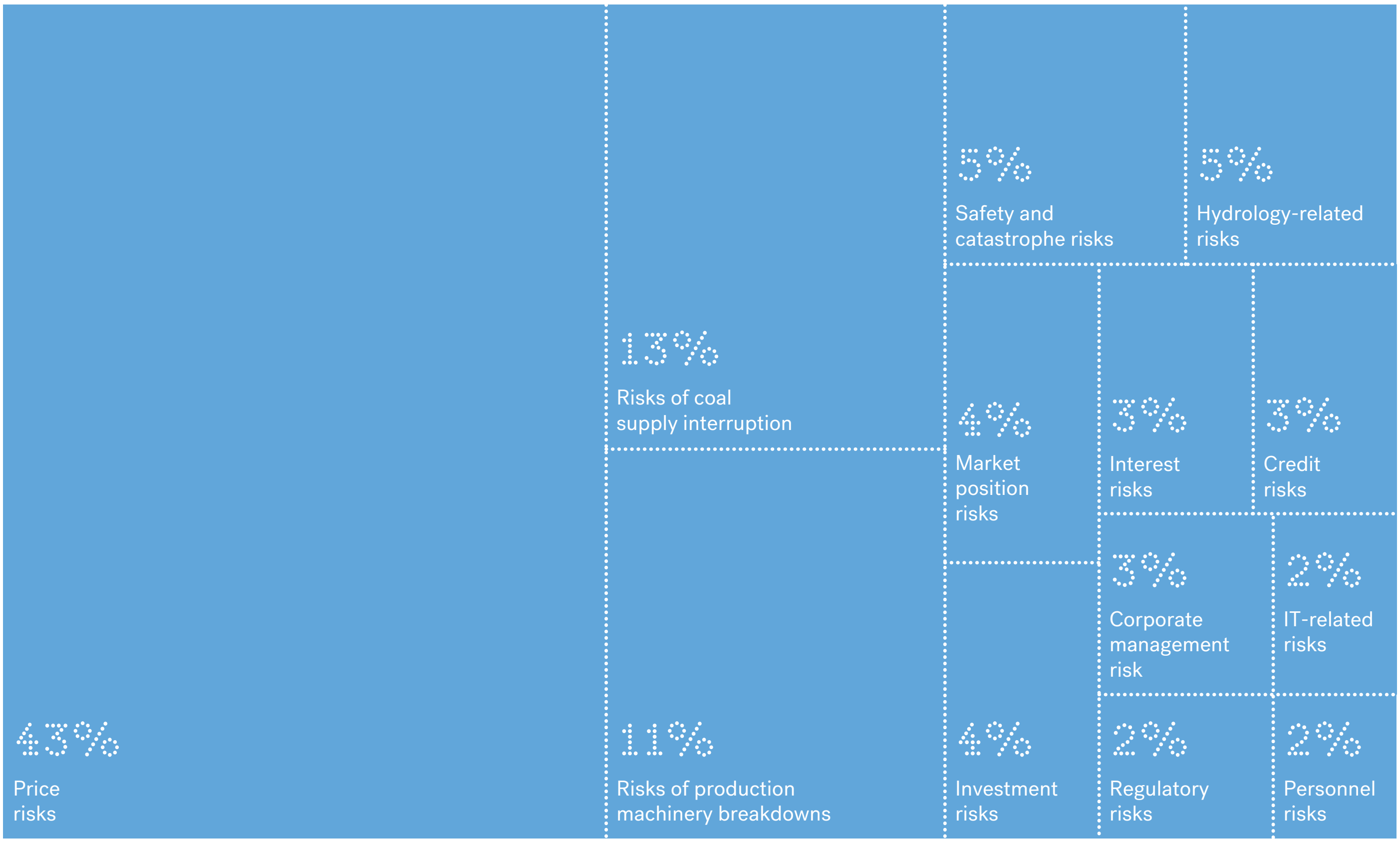
IV.1	↘	Solvency and capital adequacy risk
IV.2	↘	Market position risks
IV.3	↗	Regulatory risk
IV.4	↘	Corporate management risk
IV.5	●	Investment risks
IV.6		Other strategic and business risks

VI. Security risks

VI.1	●	Safety and catastrophe risks
VI.2		Other security risks

Both at the level of the company and the Group, all risks included in the registers of risks of the Group or individual companies are periodically monitored and updated. Summarised bellow are the key risks which constitute the biggest threat to the HSE Group, its strategies, goals, business model and future operations.

G Risk profile of the HSE Group



I. Market risks

Risks to which the HSE Group is exposed most frequently in terms of its operations are exposure to price risks arising from fluctuations of market prices of electricity and market prices of other energy products and raw materials (coal, natural gas, CO_2 emission allowances, oil etc.), which have direct impact on the prices of electricity or the operations of the company HSE and the HSE Group. Price risks are managed within the controlling company HSE. The exposure of the HSE company to electricity prices depends on the company's open position in any given moment. In comparison to the previous year, we estimate that the price risks have increased due to the increased scope of trading and unstable market conditions (see also Market environment). Due to events on the French market in the second half of the year 2016, we faced increased volatility of the trading portfolio in the short term and production portfolio in the medium term. Consequently, in order to provide adequate response to the changed circumstances, we upgraded price risk monitoring and management system, both in the methodological and procedural field. Apart from these activities, in the field of establishing additional limitation in the area of green trading were started in the sense of curbing the loss and protecting the profit at the trading group level. Additional information in relation to the price risk management is available in the accounting report of the company HSE and the accounting report of the HSE Group under chapter Financial instruments and risks.

II. Quantity/production risks

Among quantity/production risks that, according to the exposure, follow price risks, we are most exposed to the risk of coal supply interruption, downtime of production facilities and decreased production from HPPs. Quantity/production risks are managed both at the level of individual subsidiaries within the HSE Group and at the level of the controlling company HSE. The risks affect the operations of individual subsidiaries within the HSE Group and at the level of the controlling company HSE that buy out the majority of the electricity produced by HSE Group.

Risks are mainly the result of technological systems failures, trench collapses, accidents or other disruptions in the extraction of coal, longer draught periods and small stocks of snow in the mountains, expiry of useful life or production facilities, fatigue of materials, overloading and high dynamics of operation, inadequate control over the condition of the equipment and delays in urgent investment maintenance works etc.

Quantity/production risks impact either the lack or surplus of energy sources used in the production of electricity, limitations of the production and failure to achieve the set goals, as well as the inability to provide system solutions. All of this may consequently contribute to a poor operating result and affect the provision of reliable and unhindered electricity production.

In 2016, we recorded fewer trench collapses than in the previous years and especially with much fewer consequences. Improved management of risks associated with interrupted coal supply is also the result of financial stabilisation of the PV Group.

The risk of production facilities downtime was higher as, due to TEŠ's failure to achieve marginal values as per the existing environmental permit, Unit 5 was replaced with less well-maintained and less reliable Unit 4 (an exception was allowed). Apart from this, the production of PHPP Avče was limited due to circumstances in the power system and issues with the generator.

Despite the aforementioned limitations, the electricity production was, at the Group level, above expectations in 2016.

III. Financial risks

Among financial risks we are mostly exposed to liquidity and credit risks while exposure to interest and currency risks is lower. Detailed information concerning the exposure to individual financial risks is available in the accounting report of the company and in the accounting report of the Group under chapter Financial instruments and risks.

Within the framework of liquidity risk management, special attention is paid to risks associated with breaching the covenants in loan contracts. In 2016, the indicators of both the company HSE and the HSE Group were in line with the covenants made in the loan contract. There was only one covenant that the company HSE failed to meet in 2106, however, it was granted a waiver from the bank creditor in time. In December, the company successfully concluded the procedures for long-term financing and was granted a loan in the amount of EUR 180 million from the syndicate of banks and a long-term revolving loan in the amount of EUR 50 million. This amount and combination or resources has enabled us to achieve sustainable liquidity position of the company and the HSE Group in the long term and to create conditions for managing liquidity risk and maintaining adequate liquidity reserve in the vent of unforeseen negative events.

With the aim of managing the exposure to credit risks, the company HSE reinforced its activities and provided IT support for the monitoring of credit risks in the field of electricity trading. In line with conditions on electricity markets and a planned increase in trading quantities of both the company HSE and the HSE Group, and increased presence on the markets of SE Europe, we expect slightly higher levels of risks and exposures, however they are to be within the framework of internally set limits and the limits of manageability.

IV. Strategic and business risks

Strategic and business risks are those where it is likely or possible that certain events will have either a negative or positive effect on the ability to achieve the strategic goals and subsequently also on the value of the company and the HSE Group. Clear organisational structure of functions and committees enables efficient control over strategic and business risks, as well as monitoring of the implementation of short-term, medium-term and long-term goals. Among key strategic and business risks, we are most exposed to insolvency and capital inadequacy risks, market position risks, regulatory risks, corporate management risks and investment risks.

Insolvency and capital adequacy risks are managed as per individual subsidiaries within the HSE Group and in the controlling company HSE through regular monitoring of the companies within the Group pursuant to Article 14 of the Financial Operations, Insolvency Proceedings and Compulsory Winding-up Act and setting up of a unified database and implemention of financial and business plan restructuring as per individual companies with the aim of optimisation and restructuring (in 2016, we implemented divestiture of companies, liquidation of companies, acquisition of companies, and we increased the capital of certain companies, for example).

Market position risks relate mainly to the loss of trust, reputation or the perception of the company HSE and the HSE Groups as unreliable partners by key actors on the market of regular operations, as well as by financial institutions. To confirm the positive trend in terms of operations of the company HSE and the HSE Group, in December we received a long-term credit rating “Ba2” (Moody's) and “BB” (Standard & Poor's). Both were awarded with positive future prospects.

Regulatory risks arise from changes in market rules or legislation in the Slovene and foreign markets where the company HSE and HSE Group operate, and from ambiguous common policies of promoting renewable sources of energy and which affect the business results of both the company HSE and the HSE Group. Regulatory risks are reflected in changes in legislation, 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, etc. In 2016, several new legislative acts were proposed which refer to the operations of the HSE Group. One that could be pointed out is a legislative proposal at the EU level (the so-called "winter package") which will provide important guidelines for the future development of operations of companies in the power sector.

Corporate management risks may be the result of structurally and procedurally undefined relations between different stakeholders in the company HSE and the HSE Group. Consequently, certain relations, procedures and mutual responsibilities have been established between the Management, shareholders and the Supervisory Board and the rest of the Group's bodies. In this way, a parallel structure is provided through which the goals of the company and methods to achieve these goals are formed, as well as the monitoring of operations. This category of risks is important, especially from the point of view of corporate management of the HSE Group, and is managed in the company HSE.

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. Delays of investment maintenance works may cause progressive increases in costs of implementation and unforeseen events such as machinery breakdowns or failures. The risk at the Group level is managed by the company HSE by providing a control mechanism over investments made within the HSE Group, namely with a preliminary risk assessment of individual projects, drawing up a sensitivity analysis, monitoring investment projects under way, providing independent and unbiased assessment of investments, efficient control through expert committee, active control committees, protecting against unfavourable impacts on the yield of investment, timely investment maintenance and adequate selection of needs, and decision making on investment maintenance measures with a long-term view.

V. Operative risks

Among operative risks we identified HR risks and IT risks as being the most significant ones.

HR risks arise from the unavailability of adequately qualified staff for certain specialty fields on the labour market, specificity of the required knowledge, lack of motivational conditions of work, key personnel fluctuations, lack of communication and knowledge transfer, inadequate organisation structure, fatigue, absence and lack of transparency over competences and skills. The company HSE monitors individual indicators of risk in particular at the level of HSE. In 2016, we unified the human resources procedures and laid common foundations in the field of education and training at the level of the HSE Group.

Both the company HSE and the HSE Group may be subject to negative consequences in relation to security IT risks including unauthorised access to intellectual property, energy facilities or other information of significant importance. Interruptions in the functioning of the IT system impact daily operations-related key activities of the company HSE and HSE Group, such as electricity trading and production, where reliability and security of IT systems play a crucial role. After the inventory of business processes in each of the companies and benchmarking of processes had been carried out in 2016, a project of unification of IT support for business processes within the HSE Group was initiated.

VI. Security risks

Security risks arise from unpredictable events in the operating environment which may have a significant impact on the production and operation of companies within the HSE Group (weather related catastrophes, large scale fires, explosions…). The activities carried out at individual company level within the HSE Group in order to manage these risks are: decreasing exposure to risks, decreasing vulnerability of people and property, reasonable management of land and environment, following weather forecasts, regular maintenance and improvements in relation to the preparedness and early warning system, well-prepared instructions and qualified personnel able to act in emergency situations and organisation of teams for managing crisis situations and remedying consequences. In 2016, there were no weather-related catastrophes, large-scale fires or explosions.

DEVELOPMENT STRATEGY OF THE HSE GROUP

2016-2020 Development Plan of the company HSE and the HSE Group was adopted at the 11th regular meeting of the HSE Supervisory Board which took place on 16 November 2015, as well as at the Slovenian Sovereign Holding (SDH) on 28 November 2015. The Development Plant comprises strategic guidelines for the HSE Group.

Business policy of the HSE Group

The mission of the HSE Group is to become the leading provider of a full-scale energy solution in the region while complying with the sustainable development principles, adapting to market conditions and exploiting the synergies within the HSE Group.

The vision of the HSE Group is through the innovation, competence and social responsibility of all employees to implement consolidation of the HSE Group with the aim of increasing the competitive edge on the power markets.

Values of the HSE Group are reflected in the attitudes towards users, social environment, employees, business partners and owners. The core values are:

- professionalism, innovation, responsibility, integrity and cooperation,
- concern 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 efficient energy use and the introduction of renewable energy sources,
- continuous training and motivational working environment for employees,
- optimising secure and stable employment with regard to the demanding business environment,
- efficient operations and generating income for the owners and adapting operations to external market conditions,
- continuous improvements of the management system

Investments in fixed assets

In line with the guidelines from the adopted 2016-2020 Development Plan of the company HSE and the HSE Group investments in fixed assets necessary for providing safe operations have been carried out. With the aim not to halt long-term siting procedures of the already initiated investments in fixed assets, we are carrying out activities for the procurement of project, environmental and other necessary documentation for the projects for planned hydroelectric power plants on Middle Sava, Drava, Soča, Mura and other rivers. Significant 2016 investment in fixed assets activities as per individual companies within the HSE Group are outlined below:

HSE

- **HPP on the Middle Sava River:** in 2014, the Government of the Republic of Slovenia adopted a Decision on the siting of HPP on the Middle Sava River on the basis of two national site plans; both national site plan procedures are currently on hold; parallel activities and related investments for the signing of the concession contract, as well as activities for the preparation of investment and project documentation, and procedures for the siting of HPP, were carried out.
- **Commercial power lines Slovenia-Italy:** project-related activities implemented so far include: situation analysis, examining of the European, Slovene and Italian legislation as well as activities aimed at obtaining the energy permit, exemption status of the European Commission and adequate regulation on national site plan at the Government of the RS for both commercial power lines in December 2016.
- **Investment into reliability of production** upgrading the management centre and investments into the unification and updating of the HSE Group information system.
- **Investments in IT infrastructure:** 2016 was marked by the implementation of unified software solutions of business processes of the companies within the HSE Group and the improvements of the solutions already implemented. We have implemented the planned unified ERP system and in this way supported the supporting systems in the companies within the HSE Group.

In 2016, we increased memory capacities and data transfer rates. We upgraded the control environment which we use to monitor the operation of the system in real time. This enables us to have better control and more possibilities for a timely response.

We implemented a complete upgrade of ORACLE environment, replacing both hardware and software elements as a transition to a new licensing model which would enable us to have a contemporary and highly available data environment in the future.

We care about information security. We have additionally increased the level of auditing over the implementation of IT services and carried out adequate education and training seminars in the field of information security. In this way, we raised the awareness of the importance of information security for safe company operations.

TEŠ:
- **Unit 6:** On 9 June 2016, TEŠ acquired the operating permit for Unit 6 which was issued after the end of a 12-month testing operation, during which the investor proved that the facility meets all environmental and technical conditions prescribed by permits; a temporary take-over of the main power unit from Alstom. As at 19 June 2016, the production capacities of TEŠ Unit 6 were entirely available to TEŠ and its owner.
- **Investments into reliability of production:** eco-technological rehabilitation of the area related to the rehabilitation of sunken areas; reconstruction of high-voltage and low-voltage coal transportation system supply, reconstruction of landfill equipment PB10 etc.

DEM:
- **Small HPP:** water permits for 12 small HPPs were acquired; drawing up of the investment and project documentation is under way.
- **Reconstructions:** reconstruction of Markovci dam; reconstruction of HPP Formin.
- **HPP on Mura River:** HPP Hrastje Mota – the procedure for the national site plan is under way; HPP in the area Ceršak – Sladki vrh – an initiative was filed for the siting of HPP for both Slovenia and Austria.
- **PHPP Kozjak:** only activities for the preservation of the adopted national spatial plan are under way without further procedures for obtaining the construction permit.
- **Wind power station Ojstrica:** after successful measurements during a one-year period and the presentation of the results of the investment project identification document, in May 2016, an initiative was filed with the competent Ministry for the national spatial plan.

SENG:
- **Small HPP Kneža:** in accordance with the time schedule, excavation works and the incorporation of the polyester pipeline into the road structure are being implemented; the public procurement procedures for the construction works for the catchment area and engine room, electric equipment as well as for the turbine and generator, are in their final phase.
- **Investments into reliability of production:** HPP Bača – the implementation of a new connecting point to a 20 kV network, Podselo Dam – rehabilitation of concrete slabs in the barrier, HPP Gradišče – replacement of generator and multiplier.
- **Reconstructions (under way):** the reconstruction of hydromechanic equipment of Podselo Dam, phase II reconstruction of Plave I, reconstruction of RTP Plave.

HSE Invest:
- The implementation of engineering services both within and outside the HSE Group; they are actively seeking possibilities to acquire projects outside the HSE Group; energy inspections; following public tenders; promoting 3D laser scanning; keeping accounting books of companies in the energy sector etc.

PV Group:
- The investments were mainly intended for the construction of pit buildings and for the purchase of equipment for excavation works and preparatory sites. When the investment programme Optimization of PV ventilation system was approved by the review committee, in May 2016 activities for the construction of the ventilation system through the shaft NOP II commenced.

All companies are implementing activities that relate to the divestiture of unnecessary assets and exclude all unnecessary activities that are not related to the main activities or are not in line with the strategy of the HSE Group.

Strategic policies of the HSE Group

The companies within the HSE Group represent an indivisible unit whose component parts complete one another, both as the sources of energy products and in relation to their role on the power markets and ancillary services. The HSE Group has a clear vision of future operations – we follow strategic policies which enable sustainable development and increase the Group's competitive edge through expansion to new markets with new services and investments into renewable sources of energy.

Even though Slovenia has not yet adopted its new energy approach, the commitments of both the national and the European climate and energy policy beyond 2020, which are outlined in the measure of the so-called winter package, are reflected in the plans of the HSE Group. In these commitments the HSE Group sees its new opportunities especially in the field of flexibility in its broader sense, as well as in the field of producing energy from renewable sources, without which adequate flexibility has no contribution to the increase in reliability of electricity supply.

Reliable ancillary services are of crucial importance for a stable power system in the Republic of Slovenia, especially given the fact that more and more electricity is produced from unreliable renewable sources of energy. The HSE Group is the main provider of ancillary services for the transmission system operator ELES, to which it provides almost two-thirds of all required ancillary services in the Republic of Slovenia. With the share of electricity produced from renewable sources of going up, the scope of ancillary services will also become more and more important.

HSE believes that the future lies in the intelligent trans-active connection between end users and producers of electricity with the aim of incorporating a large number of new production units into renewable resources, thus ensuring an increase in reliability without putting any strain on market stakeholders.

The HSE Group also has great potential which is reflected in the offer of various market products that are interesting for transmission network operators and suppliers as well as end users. HSE intends to make the offer even more attractive by entering the retail market and developing new services with/for end users with the aim of exploiting the potential of employees within the HSE Group.

To achieve vertical integration of the HSE Group value chain, a missing link has to be added – the retail market entry. This can be done in two different ways: either by setting up our own trading network in Slovenia and the broader region, or by entering into an ownership or close contractual structure with as many trading companies in Slovenia as possible, provided that these companies are consolidated beforehand.

In view of achieving energy and environmental goals of the EU until 2020 (2030, 2050), we are active in all priority areas of sustainable resource use, which is based on the exploitation of renewable energy sources, the reduction of CO_2 emissions and the provision of an efficient energy supply or the development of new services with/for end users. Development policies included within this framework are as follows:

- greater inclusion and proactive approach in both domestic and international environment in the power sector (active monitoring and participation in the formation of EU energy policy, monitoring and integration into EU projects),
- new investments and the creation of new partnerships for programmes of renewable sources of energy and efficient energy use,
- transition to new technologies in the power sector.

As the largest producer of electricity in the Republic of Slovenia, in total as well as in the field of renewable sources and coal, the HSE Group thus contributes a significant share towards meeting the goals of European as well as national energy policy and the provision of a reliable, competitive and sustainable energy supply.

We are aware in the HSE Group that all changes within the HSE Group are implemented by people and that the final success of the activities envisaged depends particularly on adequate communication among and motivation of our employees.

SUSTAINABLE DEVELOPMENT OF THE HSE GROUP

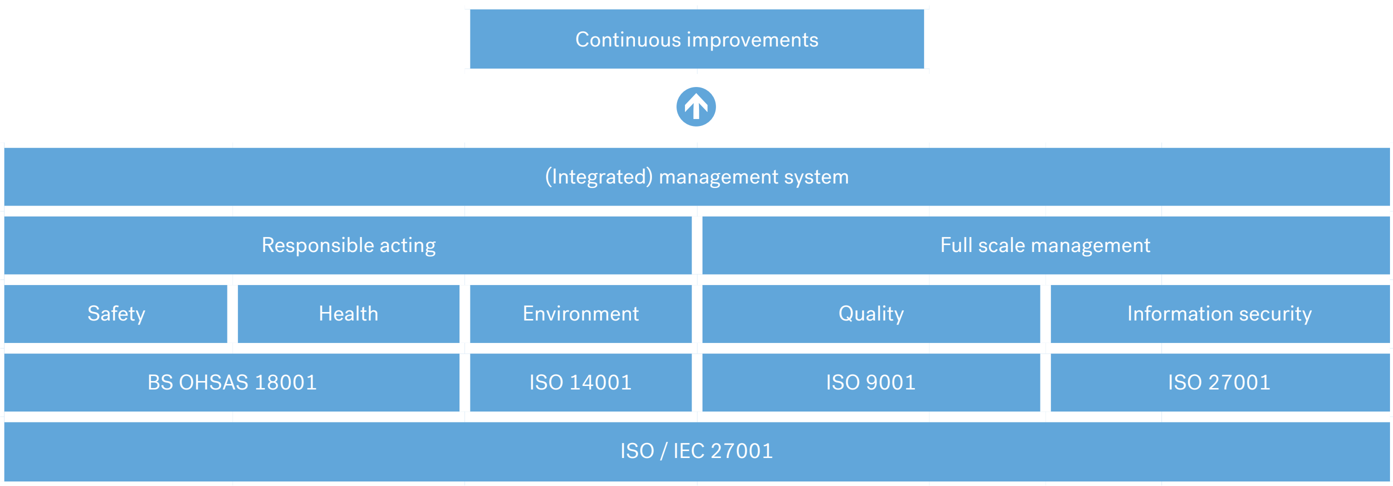
The operations of the HSE Group are intertwined with endeavours for sustainable development. We honour our commitment towards sustainability by being active in the following fields:

- ethical behaviour,
- social justice and
- environmental protection.

We implement the activities in line with international policies and by following the example of some of the most successful European companies in the power sector. The commitment to sustainable development has been a conscious decision of the HSE Group since its establishment. The operation of the Groups is based on the responsibility towards other people and towards the natural and economic environment. The attitude towards 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 nature, people and the operation and has become increasingly important, also from the aspect of growth, costs, margins and the trademark value.

We achieve sustainable development through continuous improvements of the management system which is based on ISO 9001 requirements, and upgraded and expanded with other requirements contained in standards ISO 14001, BS OHSAS 18001 and ISO/IEC 27001. This confirms adequate internal and external assessments. We also reasonably apply the provisions of ISO 26000 in our work. Our common approach is defined in the Rules on the Management System of the HSE Group, which is managed through the Management System Council composed of quality management representatives from all companies within the HSE Group. The Management System is supplemented by Code of Ethics of the HSE Group, as well as by a socially responsible attitude towards society as a whole and all stakeholders.

G **How to achieve sustainable development of integrated management system**



G Certificates obtained by the HSE Group

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

⊗ taking into account compulsory controls due to common safety policy contained in the Rules of the Management System of the HSE Group

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

ISO 9001:	Quality management system ISO
ISO 14001	Environment management system
OHSAS 18001	Occupational health and safety system
ISO 27001	Information security management system
ISO/IEC 17025	General requirements for the competence of testing and calibration laboratories
EE TÜV	Certification for electricity production from renewable sources (electricity production)
EEnew TÜV	Electricity production in line with requirements for new HPP
PoI	Guarantee of origin
DPP	Family-friendly company

The information management and security system is certified in accordance with ISO/IEC 27001:2013. We regularly carry out risk assessment in relation to information sources. All companies within the controlling company HSE have adopted and comply with information protection policies. The basis for successful implementation of the information management and security system is to educate and raise awareness of our employees which we also achieve through e-learning. We provide full-scale protection of personal data in line with EU directives and applicable legislation.

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 considerable resources, in addition to donations and sponsorships, in training and professional development of its employees and the wider social community.

In 2016, our report on the implementation of family-friendly measures in the period between 2013 and 2016 received a positive assessment. In this way we have met the requirements to retain the family-friendly company certificate for the next three-year period (2016-2019). The Reconciliation of Family and Working Life Team has been attempting to actively monitor the implementation of the said measures in daily life, and to introduce such new measures that would contribute to the reconciliation of family and working life in society to the maximum possible extent.

The risks associated with the non-fulfilment of requirements for a sustainable energy policy have been managed by various activities carried out 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 renewable energy sources, the construction of the replacement Unit 6 at TEŠ marks a gradual farewell, both for the state and the Group, to coal-generated production of electricity in Slovenia.

Responsibility towards employees and HR management policy

The responsibility to employees has been defined as one of the key values and strategic orientations in 2016. In 2016, the HSE Group was actively involved in the field of restructuring, both at the level of organisation and at the level of human resources. Basic elements of the HR management policy in 2016 were as follows:

- focus on the professional, career and personal development of members of the organisation by optimising the utilisation 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 organisation represent a key competitive advantage of 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.

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, some of the staff were recruited from the external labour market, which ensured the inflow of new talent, ideas and energies, different views and experience. In the HSE Group we endeavour to enable our employees in both career and personal development. Strategic goals in the field of HR management pave the way towards the implementation of the HSE Group's policy, whose representatives are and will be the employees within the Group.

G Number of the HSE Group employees

Company	31/12/2016	%	31/12/2015	%	IND 16/15
HSE	150	5	142	4	106
DEM	237	8	266	8	89
SENG	122	4	122	4	100
TEŠ	323	10	385	11	84
TET—in liquidation	23	1	46	1	50
PV Group	2,187	70	2,357	70	93
HSE Invest	64	2	69	2	93
HSE BE	2	0	1	0	200
HSE Adria	1	0	1	0	100
HSE BH	1	0	1	0	100
Total	3,110	100	3,390	100	92

G Number of employees as at 31 December 2016 and average number of employees in 2016 by education

	Number of employees on 31/12/2016		Average no. of employees in 2016	
Education class	Controlling company	HSE Group	Controlling company	HSE Group
1		153		158
2		101		103
3		56		62
4	1	1,094	1	1,130
5	12	817	12	851
6/1	17	338	16	347
6/2	31	196	30	203
7	62	270	63	283
8/1	24	72	21	67
8/2	3	13	4	14
Total	150	3,110	147	3,215

Voluntary pension insurance

HSE has had its own programme of voluntary supplementary pension insurance. Through this form of long-term savings scheme on their personal account, we wish to ensure that our employees have an additional source of income and a better quality of life when they retire. We have ultimate respect for elderly workers and we are setting up a system which would enable them to transfer their knowledge and experience to their younger co-workers.

Employees and social community

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, philanthropic, voluntary and sports associations. With the aim of promoting health and good psycho-physical well-being of members, the HSE Group financially supports sports and recreational activities of its employees in the sports societies that offer different activities.

Training and education

Training and education of human resources is a necessary, unavoidable and ongoing process for the company, one that requires careful short-term and long-term planning, since it is directly connected with the development and progress of the individual and the company as such. We are aware that knowledge and skills of the employees are the most important resource for the development, performance and competitiveness of the company. Therefore, we want to provide appropriate development to all of the employees, whilst providing ongoing encouragement to maintain and improve their knowledge, abilities, skills, motivation and loyalty to the organisation.

In 2016, the employees attended a variety of professional training and educational workshops. They actively participated in domestic and foreign conferences, professional consultations, symposiums and forums. Moreover, they participated in international projects, which encourages the exchange of experiences with partners and competitors. We endeavour to make training abroad part of the regular practice for our employees, because we believe this kind of training provides not only new and advanced knowledge, but also an opportunity to experience a different educational approach, create new international relations and improve one's ability to use a foreign language.

Workplace-based learning

Investing into knowledge and development of human resources represents a key to the success of the company and the employees are aware of that – they show great interest in further training and obtaining higher education. The company supports them by co-financing the cost of education and providing them with study leave.

Health and safety at work

We provide a safe working environment for our employees and external contractors. For all of the job positions and technologies, we monitor the risks for the occurrence of accidents and health damage. We periodically assess the risks and maintain them at a suitable level with appropriate health measures. This affects the ongoing improvement of working conditions in the long-term. With different preventive measures, we manage to reduce the opportunities for the occurrence of handicaps and health limitations. The system for managing health and safety at work complies with the standard BS OHSAS 18001:2007 and is included in the integrated management system. Taking care of health of our employees is a joint responsibility of all employees, their managers, professional services and specialists from the field of occupational medicine. Works councils are included in the activities.

Responsibility towards the Natural Environment

From the very beginning of their operations, the HSE Group has followed the planned environmental policy which can be summarised in the following basic points:

- producing electricity with minimal impact on the environment,
- complying with all of the legislative norms and recommendations,
- introducing the best available technologies to decrease the impact on the environment as much as possible,
- encouraging development of renewable energy resources,
- concluding partnership relations with local communities, joint solving of environmental problems and planning sustainable development of electricity production,
- achieving sustainable operations and development of energy capacities,
- regular monitoring of environmental parameters,
- regular maintenance of accumulation pools (removing driftwood and jetsam),
- co-natural management of water infrastructure, and
- planning the protection and saving activities in the event of high waters (taking care of minimising the impact of producing electricity on the environment and protecting inhabitants living next to the water bodies from floods).

All companies from the HSE Group which produce electricity, as well as the controlling company, hold the ISO 9001 international certificate of quality and the ISO 14001 international environmental certificate. By consistently complying with the aforementioned certificates, we ensure the safe and environmentally-friendly production of electricity in all hydropower plant facilities. With environmental rehabilitation, upgrades and modern alternate Unit 6, TEŠ has managed to achieve technological level which is environmentally friendlier, while PV was among the first coalmines in the world to demonstrate integrated and responsible environmental management in accordance with this standard.

Air Emissions

Greater engagement of Unit 6, which uses the most up-to-date technology, has affected the reduction of air emissions in TEŠ.

Compliance

Compliance with the environmental legislation and environmental permits is checked with regular monitoring of air emissions, water emissions, noise levels and assessment of waste.

Responsibility towards the Wider Community

In their operations, the HSE Group consistently complies with the standards of corporate responsibility and environmental protection. Our organisational culture binds us to respect the wider community in which we carry out our operations.

In 2016, the Corporate Responsibility Centre of the HSE Group sponsored and donated to organisations, associations and individuals which need this kind of aid. We have proudly supported some of the biggest sports and cultural events in the country, placing the name and corporate image of the HSC Group into the company of the best. We are present at professional meetings which coincide with our operations, we have participated in projects of national and local importance, as well as supported humanitarian activities of those who are especially in need of aid.

Blue Energy

As the largest Slovenian producer of electricity from renewable energy resources, the HSE Group endeavours to increase the scope of production of electricity from renewable energy resources with minimal intervention and impact on the environment. They strive for rational and efficient use of energy, because they are aware of their responsibility towards the environment in which they operate.

In line with other European states, the field of renewable energy resources has quickly developed in Slovenia. A large part of the Energy Act is aimed at electricity produced from renewable energy resources and, within this framework, the PoI as well. Therefore, the awareness on the importance of electricity from the renewable energy resources has been increasing among both consumers and suppliers of electricity in Slovenia. The European Directive 2009/28/EC prescribes general national objectives for the share of renewable energy resources in the final electricity consumption for 2020 for all member states of the European Union; for Slovenia, the share is 25%.

In terms of quantity, the energy from hydropower plants is the most important source of electricity from renewable energy resource in Slovenia, while the HSE Group is the largest producer of hydro energy in Slovenia. Therefore, the field of renewable energy resources is very important, both for the operations and for future design of corporate image of the company and the HSE Group.

The purpose of the Blue Energy project is to encourage the purchase of energy from renewable energy resources, to create market for this kind of energy and to sell it in Slovenia. With the Blue Energy project, the HSE Group enables consumers in the territory of all of Slovenia to autonomously choose the resources from which the electricity they use is produced. The Blue Energy project includes the hydropower plants of the company, i.e. the HSE Group, which are certified according to the European Energy Certificate System (EECS). In the Republic of Slovenia, electricity produced from renewable energy resources is sold by HSE and selected companies that sell electricity to end customers under the brand name of Blue Energy. The owner of the brand is HSE.

Blue Jan

The patterns of conduct which we develop in our youth remain with us for life. Therefore, it is important to teach children of the importance of responsible treatment of the environment. In accordance with this, the HSE Group has designed the project Blue Jan, which uses the website www.modri-jan.si for target projects and activities in an educational and fun way. They are aimed at educating children of the importance of sustainable development, but especially of renewable energy resources, their energy and environment.

Blue Generation

The project Blue Generation is an upgrade of Blue Jan and is aimed at teenagers, who are at the threshold of adulthood and independence. The objective of the Blue Generation project is to create a movement of young people with different interests and subcultures, who are aware of the future and would like to contribute to positive changes. The website www.modrageneracija.si is interactive and allows each member to add their own content from the field of ecology, environmental protection, renewable energy resources and to comment on them. The structure of the content is adapted to the age group and the topics which interest them. It encourages a positive attitude of teenagers towards the environment.

Efficient Use of Energy

From the beginning of their operations, the HSE Group has endeavoured to promote the use of renewable energy resources and the protection of the environment in which they operate. A constituent of those activities are endeavours to raise awareness of the public on efficient and energy-saving consumption, which is aimed not only at a more economical treatment of the environment, but also to prevent extreme circumstances which can be caused by excessive consumption of electricity.

The trend of development of the HSE Group focuses on the efficient use of energy and renewable energy resources. For more than a decade, this has been implemented through the campaign "You Are Energy, So Be Efficient" and the network of business and social serviceability called Sinergy, which follows the guidance of the European Union and the principles of sustainable development. It is important that, when planning their development, the HSE Group deal with the entrepreneurial, individual and social interests in a balanced manner, which represents the basis of their corporately responsible and sustainable approach.

Activities connected with the obligations of HSE, which arise from the Decree on Energy Savings Requirements, were also carried out in 2016 within the framework of implementing measures in Imerys Ruše. The final report showed that by implementing changes in the technological process, which are described in the Energy Overview, the company managed to realise nearly 2,500 MWh savings in 2015 and an additional 64 MWh for lighting, i.e. a total of 2,540 MWh, which suffices to fulfil our obligations as the liable entity for savings for 2015 and, with the same scope of sales to end liable entities, also for 2016, 2017 and 2018. With the Imerys project, we entered the field of energy services. We proved that in the Group we could also take care of this field, not just of the energy segments.

Ecomobil

Within the framework of encouraging the consumption of electricity produced from renewable energy resources, the HSE Group has set itself an objective that – with regard to the adopted transport policy in the Republic of Slovenia – they would become an energy company which encourages the use of renewable energy resources in transport, in combination with the optimisation of the transport system. In 2011, with the support of the Government Office of the Republic of Slovenia for Climate Change, Ministry of the Economy, Ministry of Infrastructure and the Eco Fund, they started the Ecomobil project, aimed at environmentally-friendly e-mobility as part of the campaign "You Are Energy, So Be Efficient." The hydro companies of the HSE Group have adopted and upgraded it.

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Annual report of the HSE Group and the Company

3 Financial report of the HSE Group

3.1 AUDITOR'S REPORT FOR THE HSE GROUP

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Independent Auditors' Report[i]

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

Opinion

We have audited the consolidated financial statements of the Holding Slovenske elektrarne, d.o.o., Ljubljana and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

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

Other Information

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

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

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

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

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

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb članic, ki so povezane s švicarskim združenjem KPMG International Cooperative ("KPMG International").

TRR: SI 56 2900 0000 1851 102
vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vl.: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556

KPMG

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

Responsibility of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the Audit of Consolidated Financial Statements

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

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

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

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

On behalf of the auditing company

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

Boštjan Mertelj	Barbara Kunc
Certified auditor	*Certified auditor*
	Partner

Ljubljana, 26 April 2017

KPMG Slovenija, d.o.o.
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[i] 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.

3.2 STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management is responsible for the preparation of the consolidated financial statements for each financial year in accordance with the International Financial Reporting Standards, as adopted by the European Union, and the applicable legislation, i.e. in a manner that they represent the true and honest presentation of the operations of the HSE Group.

The management rightfully expects the HSE Group to have available appropriate resources to continue operations in the near future, so the consolidated financial statements are prepared based on the assumption of unlimited duration operations of the HSE Group.

The responsibility of the management for the preparation of consolidated financial statements comprises the following:

- the accounting policies are correctly chosen and consistently applied,
- the assessments and evaluations are reasonable and prudent.

The management is responsible for managing appropriate records, which at any time clearly and accurately represent the financial position of the HSE Group and that the consolidated financial statements are in accordance with the International Financial Reporting Standards. The management is also responsible for protecting the assets of the HSE Group, as well as for protecting against and discovering fraud and other irregularities.

The management confirms that the consolidated financial statements have been prepared in accordance with the provisions of the International Financial Reporting Standards, as adopted by the European Union.

On 26 April 2017, the management adopted the consolidated financial statements of the HSE Group for the business year which ended on 31 December 2016.

Ljubljana, 26 April 2017

Stojan Nikolić, M.Sc.
Financial Director of the HSE d. o. o.

Matjaž Marovt
General Director of the HSE d. o. o.

3.3 INTRODUCTORY NOTES TO THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accounting part of the consolidated financial statements represents the consolidated financial statements with explanations from the HSE Group.

Based on the decision of the Capital Assets Management Agency of the Republic of Slovenia acting in the role of the representative of the founder of 29 November 2010, the HSE Group has been preparing consolidated financial statements and explanations since 1 January 2011, in accordance with the International Financial Reporting Standards, as adopted by the European Union.

The auditing company KPMG Slovenija d. o. o. audited the consolidated financial statements with explanations and prepared a report from an independent auditor which is included at the end of the chapter.

3.4 CONSOLIDATED FINANCIAL STATEMENTS

G 3.4.1 Consolidated Statement of Financial Position

Item in EUR	Explanatory note	31/12/2016	31/12/2015
ASSETS		**2,156,756,540**	2,233,923,431
A. LONG-TERM ASSETS		**1,894,777,546**	1,939,116,779
I. Intangible assets	1	**17,939,235**	20,180,784
II. Property, plant and equipment	2	**1,723,165,059**	1,769,006,910
III. Investment property	3	**7,270,070**	6,703,254
V. Other long-term financial investments and loans	4	**137,723,298**	136,550,516
VI. Long-term operating receivables		**1,670,339**	1,102,917
VII. Other long-term receivables		**1,054,102**	566,301
VIII. Deferred tax assets	5	**5,955,443**	5,006,097
B. SHORT-TERM ASSETS		**261,978,994**	294,806,652
I. Assets included in disposal groups	6	**3,025,674**	12,393,292
II. Inventories	7	**19,143,976**	18,684,680
III. Short-term financial investments and loans	8	**2,951,979**	19,819,239
IV. Short-term operating receivables from clients	9	**117,207,823**	125,545,340
V. Current tax assets	30	**74,980**	6,532,048
VI. Other short-term assets	10	**36,089,168**	32,951,772
VII. Cash and cash equivalents	11	**83,485,394**	78,880,281
CAPITAL AND LIABILITIES		**2,156,756,540**	2,233,923,431
A. CAPITAL	**12**	**1,015,220,355**	991,749,078
I. Called-up capital		**29,558,789**	29,558,789
II. Capital reserves		**561,243,185**	561,243,185
III. Profit reserves		**413,856,350**	413,856,350
IV. Hedging reserves		**1,740,625**	(797,127)
V. Fair value reserves		**(1,028,677)**	(651,136)
VI. Retained earnings		**10,831,386**	(10,774,325)
VII. Translation reserves		**(1,394,932)**	(1,383,607)
VIII. Capital of the owners of non-controlling interests		**413,629**	696,949
B. LONG-TERM LIABILITIES		**921,941,775**	786,957,878
I. Provisions for termination benefits and jubilee premiums	13	**13,553,771**	13,730,236
II. Other provisions	14	**55,838,730**	51,613,813
III. Other long-term liabilities	15	**3,857,674**	4,695,702
IV. Long-term financial liabilities	16	**848,217,543**	716,664,095
V. Long-term operating liabilities		**470,215**	250,130
VI. Deferred tax liability	5	**3,842**	3,902
C. SHORT-TERM LIABILITIES		**219,594,410**	455,216,475
I. Liabilities included in the disposal group	17	**0**	6,322,063
II. Short-term financial liabilities	18	**51,387,437**	298,441,112
III. Short-term operating liabilities to suppliers	19	**107,444,023**	99,152,504
IV. Current tax liabilities	30	**3,533,300**	50,339
V. Other short-term liabilities	20	**57,229,650**	51,250,457

* Explanatory notes to financial statements are a part of financial statement and shall be interpreted in relation to them.

G 3.4.2 Consolidated Profit and Loss Statement

Item in EUR	Explanatory note	2016	2015
1. Net sales	22	**1,179,841,222**	1,224,011,025
3. Capitalised own products	23	**6,806,793**	33,408,479
4. Other operating revenue	24	**19,853,906**	15,403,412
OPERATING REVENUES		**1,206,501,921**	1,272,822,916
2. Change in the value of production supplies and work in progress		**(1,078,257)**	(636,495)
GROSS OPERATING PROFIT		**1,205,423,664**	1,272,186,421
OPERATING EXPENSES		**1,129,634,873**	1,715,747,600
5. Costs of goods, material, and services	25	**859,997,743**	960,389,143
6. Labour costs	26	**124,711,279**	129,488,553
7. Write-downs	27	**80,662,921**	565,120,996
8. Other operating expenses	28	**64,262,930**	60,748,908
OPERATING RESULT		**75,788,791**	(443,561,179)
9. Financial revenue		**146,906**	367,311
10. Financial expenses		**43,127,695**	27,209,418
FINANCIAL RESULT	**29**	**(42,980,789)**	(26,842,107)
11. Share in profit of associated companies and joint ventures		**1,453,270**	1,229,676
PROFIT OR LOSS BEFORE TAX		**34,261,272**	(469,173,610)
TAX	**30**	**12,600,420**	10,929,118
12. Current tax		**13,596,574**	11,007,032
13. Deferred tax		**(996,154)**	(77,914)
NET PROFIT OR LOSS OF THE FINANCIAL YEAR	**31**	**21,660,852**	(480,102,728)
Owner of the mother company		**21,679,040**	(477,880,573)
Non-controlling interest		**(18,188)**	(2,222,155)

* Explanatory notes to financial statements are a part of financial statement and shall be interpreted in relation to them.

G 3.4.3 Consolidated Statement of Other Comprehensive Income

Item in EUR	Explanatory note	2016	2015
Net operating result of the financial year	**31**	**21,660,852**	(480,102,728)
Actuarial profits and losses of programmes with defined salaries of employees	13	**(411,625)**	(517,470)
Items which will later not be transferred into the operating result		**(411,625)**	(517,470)
Net effective portion of changes in fair value of cash flow hedges	12	**2,231,156**	(853,951)
Net effective portion of changes in fair value of cash flow hedges reclasified to profit or loss	12	**306,595**	1,700,735
Change of the reserve for the fair value of financial assets available for sale		**(295)**	(98)
Profits and losses originating from the translation of the economic results of the companies abroad		**(11,320)**	(17,119)
The items that will later be transferred to the operating result		**2,526,136**	829,567
Total comprehensive income of the reporting period		**23,775,363**	(479,790,631)
Owner of the mother company		**23,777,227**	(477,558,509)
Non-controlling interest		**(1,864)**	(2,232,122)

* Explanatory notes to financial statements are a part of financial statement and shall be interpreted in relation to them.

G 3.4.4 Consolidated Statement of Cash Flows

Item in EUR	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss for the period	21,660,852	(480,102,728)
Adjustments for:		
Amortisation of intangible assets	1,071,702	1,311,219
Depreciation of property, plant, and equipment	75,826,482	79,730,899
Amortisation of investment property	282,962	69,901
Impairment of property, plant, and equipment, intangible assets, and investment property	1,641,206	470,044,869
Impairment of other		225,033
Property, plant, and equipment, intangible assets, and investment property write-off	792,025	3,764,942
Write-off of trade receivables	872,041	3,762,867
Write-off of inventories		6,249,777
Losses at the sale of property, plant, equipment, intangible assets, and investment assets	176,503	186,522
Finance income	(146,906)	(367,311)
Finance costs	43,127,695	27,209,418
Share of profit of equty-accounted investees	(1,453,270)	(1,229,676)
Gain on sale of property, plant and equipment	(3,095,215)	(2,177,295)
Reversal of impairment of trade receivables	(199,567)	(153,467)
Tax expenses	12,600,420	10,929,118
Cash generated from operating activities before change in net current assets and taxes	153,156,930	119,454,088
CHANGE IN NET CURRENT ASSETS AND PROVISIONS		
Change in:		
Inventories	(459,296)	793,073
Trade and other receivables	3,472,422	33,176,331
Assets held for sale	2,693,488	(1,245,652)
Trade and other payables	45,038,433	(81,197,007)
Liabilities held for sale	(6,322,063)	(4,131,560)
Provisions	1,751,173	13,595,655
Income tax paid	(3,656,545)	(19,376,592)
Cash from operating activities	195,674,542	61,068,336
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	60,405	140,736
Income from other financing activities	59,852	135,285
Dividends received	165,960	2,960
Proceeds from sale of property, plant, and equipment	13,185,892	11,348,520
Proceeds from sale of intangible assets	18,015	
Proceeds from sale of investment properties	243,688	24,637
Proceeds from sale of other short-term investments		171,892
Proceeds from decrease in short-term loans given		59,609
Proceeds from settlement of derivatives	45,946	68,598
Proceeds from decrease in short-term investments	19,783,729	27,510,872
Proceeds from decrease in long-term other investments	134,459	160
Acquisition of property, plant, and equipment	(34,865,885)	(101,446,968)
Acquisition of intangible assets	(27,934,890)	(20,459,242)
Costs for purchase of intangible property	(289,648)	
Costs for increasing short-term loans		(3,022)
Costs for increasing other short-term financial investments	(2,909,639)	(41,050,407)
Costs for increasing other long-term investments		(296,592)
Costs for settlement of derivatives	(807,323)	
Net cash used in investing activities	(33,109,439)	(123,792,962)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	181,824,179	79,903,030
Proceeds from short-term borrowings	150,871,129	294,000,876
Proceeds from other long-term financial liabilities	3,137,560	574
Payment of interest on borrowings	(34,176,662)	(20,076,212)
Costs for other financial liabilities	(8,409,832)	(7,946,201)
Repayment of long-term borrowings	(171,980,362)	(82,253,702)
Repayment of short-term borrowings	(275,894,758)	(210,309,086)
Repayment of other long-term financial liabilities	(2,972,914)	(4,845)
Repayment for purchase of non-controlling interest	(358,330)	
Dividends paid		(7,700)
Net cash used in financing activities	(157,959,990)	53,306,734
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	78,880,281	88,298,173
Financial result	4,605,113	(9,417,892)
CLOSING BALANCE OF CASH AND ITS EQUIVALENTS	83,485,394	78,880,281

* Explanatory notes to financial statements are a part of financial statement and shall be interpreted in relation to them.

G 3.4.5 Consolidated Statement of Changes in Equity

Item in EUR	CALLED-UP CAPITAL Share capital	CAPITAL RESERVES	PROFIT RESERVES Other profit reserves	HEDGE RESERVES	FAIR VALUE RESERVES	RETAINED OPERATING RESULT Transferred net operating result	RETAINED OPERATING RESULT Net profit or loss of the financial year	TRANSLATION RESERVE	MINOR SHAREHOLDER EQUITY	Total
Situation on 01/01/2015	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 payment									*(7,700)*	*(7,700)*
Other changes in equity						*6,070,871*			*(6,070,871)*	*0*
B.2. Changes of the overall comprehensive revenue	0	0	0	845,212	(491,219)	(14,811)	(477,880,573)	(17,119)	(2,232,121)	(479,790,631)
Entry of the net operations result of the reporting period							(477,880,573)		(2,222,155)	(480,102,728)
Items which will later not be transferred to the operating turnoout	0	0	0	0	(491,121)	(14,811)	0	0	(11,538)	(517,470)
Actuarial profits and losses of programmes with defined salaries of employees					*(491,121)*	*(14,811)*			*(11,538)*	*(517,470)*
Items which will later be transferred to the operating result	0	0	0	845,212	(98)	0	0	(17,119)	(1,572)	(2,554,784)
Net effective portion of changes in fair value of cash flow hedges				*(853,951)*						*(853,951)*
Net effective portion of changes in fair value of cash flow hedges reclasified to profit or loss				*1,699,163*					*1,572*	*1,700,735*
Change of the reserve for the fair value of financial assets available for sale					*(98)*					*(98)*
Profits and losses originating from the translation of the economic results of the companies abroad								*(17,119)*		*(17,119)*
B.3. Changes in the capital	0	0	0	0	0	(24,831,824)	24,831,814	5	(3)	(8)
Distribution of the remaining part of net revenue of the compared reporting period to other components of the capital						*(24,831,824)*	*24,831,824*			*0*
Other changes in the capital							*(10)*	*5*	*(3)*	*(8)*
Situation on 31/12/2015	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
Situation on 01/01/2016	**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**
B.2. Changes of the overall comprehensive revenue	**0**	**0**	**0**	**2,591,992**	**(373,860)**	**(54,384)**	**21,679,040**	**(11,320)**	**(1,864)**	**23,829,604**
Entry of the net operating result of the reporting period							**21,679,040**		**(18,188)**	**21,660,852**
Profits and losses originating from the translation of the economic results of the companies abroad	**0**	**0**	**0**	**0**	**(373,565)**	**(54,384)**	**0**	**0**	**16,324**	**(411,625)**
Actuarial profits and losses of programmes with defined salaries of employees					**(373,565)**	**(54,384)**			**16,324**	**(411,625)**
Items which will later be transfered to the operating turnout	**0**	**0**	**0**	**2,591,992**	**(295)**	**0**	**0**	**(11,320)**	**0**	**2,580,377**
Net effective portion of changes in fair value of cash flow hedges				**2,231,156**						**2,231,156**
Net effective portion of changes in fair value of cash flow hedges reclasified to profit or loss				**360,836**						**360,836**
Change of the reserve for the fair value of financial assets available for sale					**(295)**					**(295)**
Profits and losses originating from the translation of the economic results of the companies abroad								**(11,320)**		**(11,320)**
B.3. Changes in the capital	**0**	**0**	**0**	**(54,241)**	**(3,681)**	**(477,899,519)**	**477,880,574**	**(5)**	**(281,456)**	**(358,330)**
Allocation of the remaining part of the net profit of the reporting period to other components of the capital						**(477,880,572)**	**477,880,574**			**0**
Other changes in the capital				**(54,241)**	**(3,681)**	**(18,947)**		**(5)**	**(281,456)**	**(358,330)**
Situation on 31/12/2016	**29,558,789**	**561,243,185**	**413,856,350**	**1,740,625**	**(1,028,677)**	**(10,847,645)**	**21,679,031**	**(1,394,932)**	**413,629**	**1,015,220,353**

* Explanatory notes to financial statements are a part of financial statement and shall be interpreted in relation to them.

3.5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.5.1 The Reporting Group

The consolidated financial statements for the HSE Group (hereinafter referred to as "the Group") are prepared by the controlling company Holding Slovenske elektrarne d. o. o. (Hereinafter referred to as "the Controlling Company"). The registered address of the Controlling Company is Koprska ulica 92, 1000 Ljubljana, Slovenia. At this address, the consolidated financial statements as part of the annual report of the company and the Group are available.

The consolidated financial statements as of 31 December 2016 presents the operations of the Group and includes the Controlling Company and its dependent companies, as well as the shares in the jointly-controlled companies and the shares in the affiliated companies.

The Group is the largest Slovenian organisation in the field of electrical energy. They are the largest producer of electricity (hydro and thermal production) and retailer with electricity on the wholesale market in Slovenia, as well as a retailer of electricity on the wholesale market in Europe. The Group as a whole also covers the production of primary energy products for the needs of producing electricity in the thermal power plant, which uses coal. All of the production capacities of the Group are located in Slovenia.

The business year of the Group equals the calendar year. Here are the consolidated financial statements for the business year which ended on 31 December 2016.

3.5.1.1 HSE Group as of 31 December 2016

G **Companies Included in the Consolidated Financial Statements of the HSE Group**

Company	% of ownership on 31/12/2016	% of ownership on 31/12/2015	Country of the registered office
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.	100.0%	99.2%	Slovenia
GOST d.o.o.	100.0%	99.2%	Slovenia
HTZ I.P. d.o.o.	100.0%	99.2%	Slovenia
PV Invest d.o.o.	100.0%	99.2%	Slovenia
RGP d.o.o.	100.0%	99.2%	Slovenia
GOLTE d.o.o.	75.4%	74.8%	Slovenia
TET d.o.o. — in liquidation	100.0%	100.0%	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 Energy DOOEL	100.0%	100.0%	Macedonia
HSE ADRIA d.o.o.	100.0%	100.0%	Croatia
HSE BH d.o.o.	100.0%	100.0%	Bosnia and Herzegovina
HSE Balkan Energy d.o.o.	100.0%	100.0%	Serbia

The consolidation of the Premogovnik Velenje Group (hereinafter referred to as the "PV Group") had taken place before the consolidation of the HSE Group. By applying the method of chain consolidation, the consolidated financial statements were first prepared at the level of the dependent company PV and then included into the consolidated financial statements of the Group.

The consolidated annual report of the PV Group can be obtained at the registered address of Premogovnik Velenje d. d., Partizanska cesta 78, 3320 Velenje, Slovenia.

G **Companies Included in the Consolidated Financial Statements of the PV Group**

Company	Country of the registered office
PV d.d.	Slovenia
HTZ I.P. d.o.o.	Slovenia
PV Invest d.o.o.	Slovenia
RGP d.o.o.	Slovenia
GOLTE d.o.o.	Slovenia

G Important Amounts from the Financial Statements of Subsidiaries in 2016

Item in EUR	Assets	Liabilities (excluding capital)	Revenue	Net profit or loss for the financial year	Total equity
TEŠ d.o.o.	1,089,707,662	693,147,277	201,660,837	(47,226,819)	396,560,385
DEM d.o.o.	495,655,581	14,351,434	70,855,087	14,603,947	481,304,147
SENG d.o.o.	252,605,391	43,646,568	42,739,985	9,233,425	208,958,823
PV d.d.	124,373,114	83,688,434	117,523,451	770,098	40,684,680
HTZ I.P. d.o.o.	16,083,013	15,109,556	29,476,594	20,250	973,457
PV Invest d.o.o.	13,537,513	4,658,390	8,461,556	784,786	8,879,123
GOLTE d.o.o.	8,320,347	8,176,356	1,846,320	(74,138)	143,991
TET d.o.o. — in liquidation	7,505,287	4,190,519	3,033,122	(59,708)	3,314,768
RGP d.o.o.	5,501,611	3,688,561	10,872,886	41,840	1,813,050
HSE Balkan Energy d.o.o.	3,117,209	2,375,699	14,789,367	45,243	741,510
HSE Invest d.o.o.	2,762,884	970,614	4,357,426	6,598	1,792,270
HSE BH d.o.o.	1,770,279	1,187,004	14,338,624	15,786	583,275
HSE Adria d.o.o.	1,410,682	54,487	67,623,761	364,053	1,356,195
mHE Lobnica d.o.o.	640,593	5,822	34,501	3,511	634,771
SRESA d.o.o.	68,570	11	1	(7,865)	68,559
ELPROM d.o.o.	56,653	17		(3,365)	56,636
HSE MAK Energy DOOEL	38,724	5,888	238,421	(37,035)	32,836
GOST d.o.o.			1,703,741	36,071	
Total	2,023,155,113	875,256,637	589,555,680	(21,483,322)	1,147,898,476

In 2016, Gost was included in the consolidation for the last time; in the same year they were merged with PV Invest and formally erased from the court register on September 2016.

The subsidiary TET Novi materiali d. o. o. is currently not operating; due to its insignificance, it has not been included into the consolidation on the level of its controlling company or on the level of the Group. The non-inclusion of this company is not important for the true and honest presentation of the operations of the Group.

3.5.1.2 Associated Entities

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Company name	Co-owning company	Country of the registered office	% of ownership	% of ownership of the HSE Group
ERICO d.o.o.	TEŠ d.o.o.	Slovenia	26.0%	49.0%
	PV d.d.	Slovenia	23.0%	
PLP d.o.o.	PV d.d.	Slovenia	26.0%	26.0%
SIPOTEH d.o.o.	PV d.d.	Slovenia	42.0%	42.0%
RCE d.o.o. - in bankruptcy	TEŠ d.o.o.	Slovenia	8.0%	24.5%
	PV d.d.	Slovenia	11.0%	
	HTZ IP d.o.o.	Slovenia	1.0%	
	PV INVEST d.o.o.	Slovenia	4.5%	
FILVOTEH d.o.o.- in liquidation	RCE d.o.o. - in bankruptcy	Slovenia	18.6%	42.6%
	HTZ IP d.o.o.	Slovenia	24.0%	
KARBOTEH d.o.o. - in liquidation	RCE d.o.o. - in bankruptcy	Slovenia	18.6%	42.6%
	PV d.d.	Slovenia	24.0%	
TEHNOVETER d.o.o.- in liquidation	RCE d.o.o. - in bankruptcy	Slovenia	18.6%	42.6%
	PV d.d.	Slovenia	24.0%	
HESS d.o.o.	DEM d.o.o.	Slovenia	30.8%	49.0%
	HSE d.o.o.	Slovenia	15.4%	
	SENG d.o.o.	Slovenia	2.8%	

3.5.1.3 Jointly Controlled Entities

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Data on the jointly controlled entities as of 31 December 2016

Company	Address	Activity	% of ownership	% of voting rights
SOENERGETIKA d.o.o.	Stara cesta 3, 4000 Kranj	heat and electricity production	25%	25%

3.5.1.4 Branches and Representative Office

The Group has two branches abroad, one in Macedonia and one in the Czech Republic, as well as a representation office in Romania. Through their branches, the scope of operations in 2016 was minimal or not carried out at all. The operation of the branches and the representative office are included in the financial statements of the Group.

3.5.2 Basis of Preparation

a) DECLARATION OF CONFORMITY

When preparing the consolidated financial statements on 31 December 2016, the Group took into consideration the following:

- The International Financial Reporting Standards (IFRS), which include the International Accounting Standards (IAS), Explanations from the Standing Interpretations Committee (SIC) and Explanations from the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union,
- The Companies Act,
- The Energy Act,
- The Mining Act,
- Accounting Rules for the Group, and
- other applicable legislation.

b) ACCOUNTING ASSUMPTIONS AND QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

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

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

The effects of transactions and other business events are recognised when they occur and not when they are paid; they are recorded and then reported for the periods to which they refer. Therefore, the consolidated financial statements also include information on liabilities regarding monetary payments in the future, as well as assets which will generate cash in the future.

The financial statements of the Group were prepared by taking into consideration the assumption that the Group would not significantly decrease the scope of its operations, or even cease its operations, and that it shall continue with its operations in the foreseeable future.

The following qualitative characteristics of consolidated financial statements have been taken into account:

- **FAIR REPRESENTATION IN COMPLIANCE WITH THE IFRS:** the consolidated financial statements present fairly the entity's financial position, financial performance and cash flows of the Group.
- **CONSISTENCY OF PRESENTATION:** the presentation and classification of items in the financial statements is equal from one period to another.
- **MATERIALITY AND AGGREGATION:** each material group which comprises similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately, unless they are immaterial.
- **OFFSETTING:** the assets and obligations to the sources of assets, mother revenues and expenditures are offset, unless the standard or the explanation of offsetting requires or allows this.
- **COMPARATIVE INFORMATION:** unless the standard or the explanation permit or require otherwise, for all of the presented amounts in the financial statements comparative information is disclosed in respect of the previous period. Comparative information is included in the narrative and descriptive information when it is relevant for the understanding of financial statements for the relevant period.

The Group uses the same accounting policies for all periods which are presented in the financial statements for 2016.

c) BASIS OF MEASURMENT

The consolidated financial statements are prepared on the basis of original values of balance sheet items for the Group, except for the following assets and liabilities which are shown at the fair value:

- derivative financial instruments, and
- available-for-sale financial assets if the fair value can be determined.

d) FUNCTIONAL AND REPRESENTATIONAL CURRENCY

In this report, the consolidated financial statements are presented in EUR (excluding cents), which represents the functional and representational currency of the Group. Due to rounding up of the value data, insignificant deviations may occur in the sums provided in the tables.

e) USE OF ESTIMATES AND JUDGEMENTS

When preparing the interim consolidated financial statements, the management provided assessments, appraisals and assumptions which affect the use of accounting policies and the disclosed value of assets, liabilities, revenues and expenditures. The actual results may deviate from those assessments.

The important assessments of uncertainty in critical appraisals – which the management prepared during the process of implementing accounting policies and which the most strongly affect the amounts in the financial statements – were prepared with equivalent accounting procedures to those used by the management when preparing the consolidated financial statements on 31 December 2016.

The assessments and assumptions are present at least in the following appraisals:

- the assessment of the useful life of the depreciated assets (explanation No. 1, 2 of the consolidated statement of financial position);
- the testing of impairment of assets (explanation No. 1, 2, 3 of the consolidated statement of financial position);
- the assessment of fair value of derivative financial instruments (explanation No. 12 of the consolidated statement of financial position);
- the assessment of collectability of receivables (disclosure Credit Risk);
- the assessment of net realisable value of inventories (explanation No. 7 of the consolidated statement of financial position);
- the assessment of provisions for termination benefits and jubilee benefits (explanation No. 13 of the consolidated statement of financial position);
- the assessment of other provisions (explanation No. 14 of the consolidated statement of financial position); and
- the assessment of contingent liabilities and assets (explanation No. 21 of the consolidated statement of financial position).

Additional estimates and judgements of the management when preparing the consolidated financial statements on 31 December 2016 include the following:

1. The Controlling Company has the right to repurchase the entire participating interest in HESS sold in 2014 (35.6% and no less), i.e. any time up to 31 December 2019. The same method and manner of assessment shall be used for the repurchase as for the selling of the participating interest.
   In the given market conditions, the current indebtedness of the Group, as well as the realised and planned free cash flow, the Controlling Company does not have available free cash for purchasing the participating interest in HESS; moreover, it is limited in obtaining additional financial resources in the form of increasing indebtedness of the company or the Group. The

strategy of operations of the Controlling Company and the Group is directed into reducing the debt of the Group, reducing investment expenditures for new production facilities and optimisation, as well as rationalisation of business processes of the Group. The Controlling Company does not plan the purchase of the participating interest in HESS until the end of 2019.
By selling the 35.6% participating interest in HESS, the Controlling Company lost the majority control in managing HESS (the Group has 49% voting rights and a minority of members in the Supervisory Board of HESS).

2. The obligation to disassemble the power stations refers only to the replacement TEŠ Unit 6, as it arises from the energy permit for this facility. The obligation to disassemble does not arise from the environmental permits for other production facilities. In the case of hydropower stations, regular maintenance is required during the period of the concession right. For the concession holder, the costs of this assembly are not envisaged after the expiry of the concession period.
3. The Controlling Company concludes the sales and purchasing transactions (except for transactions with derivative financial instruments) in order to trade with electricity, i.e. physical supply. According to the IAS 39, those transactions are not included with the transactions within the scope of financial instruments (IAS 39/5).
4. In the event of realising the test of impairment for assets with unlimited useful life (hydro power plants and good name), 14-year business projections are used for such money-generating units (until 2030), but for the money-generating unit with assets with limited useful life (thermal power plants), the business projections for the entire useful life are used. With the former, the used price projections for price fluctuations of electricity and emission allowances prepared by an external independent institution are limited to a period of 14 years (until 2030), and with the latter to a period of 25 years (until 2041). The reasons for using long-term projections for realising the testing of impairment include: the nature of activity itself which demands long-term investment cycles, adopting investment decisions based on taking into consideration long-term market projections, the existence of long-term projections for price fluctuations of the most important entry data for the realisation of tests of impairment, equal distribution of investments into preserving capacities through the periods of the envisaged operations of energy facilities, as well as adapting the scope of production to the availability of the energy product.
5. The assets and liabilities of TET – in liquidation, which has been bringing regular liquidation since December 2014, are as of 31 December 2016 no longer included among the assets or liabilities for sale due to the extended procedure of liquidating the company. The assets are evaluated according to their liquidation value – due to the specifics of liquidating an energy facility, the final deadline for liquidation is being extended. From the perspective of the Group, these are not important values.

3.5.3 Important Accounting Policies

3.5.3.1 Translation of Foreign Currencies

Transactions in foreign currencies are recalculated into the appropriate functional currency according to the exchange rate of the date of transaction. Cash and liabilities expressed in a foreign currency at the end of the reporting period are recalculated into the appropriate functional currency according to the exchange rate applicable at that time. Positive and negative exchange rates differences represent differences between the consideration value of the functional currency at the beginning of the period, corrected for the amount of effective interest and payments during the period, as well as consideration value in the foreign currency, recalculated according to the exchange rate at the end of the period. Non-cash assets and liabilities expressed in a foreign currency and measured at fair value are recalculated into the appropriate functional currency according to the applicable exchange rate on the date when the amount of the fair value is determined. Exchange rate differences are recognised in the consolidated financial statement by applying the net principle.

When translating the financial statements of the dependent companies abroad whose functional value does not equal the representational value of the Group, the following exchange rates are used:

- assets and liabilities (excluding capital), recalculated with the exchange rate on the date of reporting,
- capital according to the original exchange rate, and
- revenues and expenditures according to the average exchange rate in the reporting year.

3.5.3.2 Basis for Consolidation

The consolidated financial statements include the financial statements of the Controlling Company and of the dependent companies. Dependent companies are those which are controlled by the Group. This means that the Controlling Company has the ability to decide on the financial and business orientations of an individual company in order to obtain benefits from its operations. The financial statements of the dependent companies are included into the consolidated financial statements from the date when the controlling begins and until the date when it ends.

Transactions with owners of the non-controlling interest are treated the same way as transactions with external partners. Profits and losses of owners of the non-controlling interest are presented in the consolidated profit and loss account. The capital of owners of the non-controlling interest in the consolidated statement of financial position is shown separately from other items of capital.

Financial statements of companies from the Group are consolidated into the consolidated financial statements on the basis of full consolidation. Financial statements are combined from one item to another, by summing similar items of assets, debts, capital, revenues and expenditures.

When preparing the consolidated financial statements, the statuses of receivables and liabilities between the companies in the Group, revenues and expenditures, as well as unrealised profits and losses arising from the transactions within the Group, are excluded.

Exchange rate differences from the translation of financial statements of dependent companies (whose function currency is not the same as the presentation currency of the Group) are recognised in the translated reserve of the capital or in the statement of other all-inclusive yield.

3.5.3.3 Intangible Assets

Intangible assets are classified as long-term assets and enable realisation of activities of the Group, but do not exist in any physical form.

Intangible assets include disclosed long-term property rights (including emission allowances), good name and other intangible assets.

An intangible asset is first assessed according to its purchasing value. The purchasing value includes the import or non-returnable purchasing receivables, following the deduction of trade and other discounts, as well as other expenditures which are directly attributable to the preparation of assets for their intended use. The costs of lending which are attributed directly to the purchase of the intangible asset in the preparation (i.e. until the activation of the asset) are recognised as part of the purchasing value of such an asset.

For the intangible assets measured later, the model of the purchasing value is used.

The remaining value of the intangible asset is the assessed amount which the Group would currently receive following the disposal of the asset after the reduction for the assessed costs of the disposal if the intangible asset was old enough and had the status which is expected at the end of its useful life. The Group has no intangible assets for which it would determine the remaining value at the time of purchase.

The good name occurs with the consolidation and represents an excess of the purchasing value above the part of the recipient in the fair value of the obtained recognisable assets, liabilities and conditional liabilities of the dependent company on the date of their acquisition. The good name is recognised as the asset and is reviewed at least once a year due to the impairment. Each impairment is immediately recognised in the consolidated financial statement and is not removed subsequently. Upon disposal of the dependent company, the appropriate amount of the good name is included into establishing the profit or loss at the time of sale and affects the profit and loss account of the Group.

Amortisation is calculated by applying the straight-line amortisation method and taking into consideration the useful period of each individual constituent part of the intangible asset. Amortisation begins to be charged from the purchasing value, once the asset is available for use. The emission allowances are not amortised, where they are purchased for individual years and they may be used in such manner.

G **The estimated useful life**

	2016	2015
Computer software	**2–20 years**	2–20 years
Licensing	**4–10 years**	2–10 years
Other long-term property rights	**4–10 years**	4–10 years
Other intangible assets	**4–10 years**	4–10 years

The useful lives of groups of intangible assets are checked at the end of each business year and adapted if necessary. In the event of extending the useful life, the costs of the calculated amortisation in the business year they are reduced, while in the event of shortening the useful life they are increased. The adaptation of the useful life has to be recalculated in a manner which allows the intangible asset to be finally amortised in the new envisaged useful life. The change of the useful life is treated as a change of the accounting assessment and affects only the period in which the accounting assessment was changed and for each subsequent period in the remaining useful life.

The later cost related to intangible assets are materialised only in cases when they increase future economic benefits which arise from the assets to which the costs refer. All other costs are recognised in the profit and loss account as expenditures as soon as they occur.

An intangible asset is exempted from the books of account upon its disposal and the difference between the net sale value and the book value of the disposed intangible asset is added to other business revenues or write-offs of value.

3.5.3.4 Property, Plant and Equipment

Property, plant and equipment are part of the long-term assets owned by the companies from the Group which are used to carry out activities of the companies.

Property, plant and equipment include land, buildings, production equipment and other equipment, as well as assets in construction and production.

Property, plant and equipment (hereinafter referred to as "the fixed assets") are disclosed at their purchasing value, reduced for the accumulated depreciation and accumulated losses from impairments. The purchasing value includes the costs which could be directly attributed to the acquisition of an individual asset. The purchasing value includes the costs of lending in connection with the acquisition of the fixed asset until its preparation for use and, depending on the type of the fixed asset, also the costs of disassembly.

Parts of plant and equipment which have different useful lives are calculated as individual assets. Replacement parts with larger values are recorded as fixed assets and depreciated in the useful life of the asset for which they were purchased.

The estimated cost of regular reviews and corrections of fixed assets are treated as parts of fixed assets. These are corrections which are usually carried out every three years (in a cyclical manner) and are important in terms of value.

The purchasing value of the fixed assets which was constructed or produced in the Group includes the costs incurred by its construction or production and indirect costs of its construction production which can be attributed thereto.

For the later measurements of property, plant and equipment the model of the purchasing value is used.

The remaining value of the fixed asset is the assessed amount which the Group would at that moment receive following the disposal of the asset, after the reduction for the assessed costs of the disposal if the age of the fixed asset and its status would point to the end of its useful life. The Group has no properties, plant and equipment for which the remaining value would be determined.

Depreciation is calculated by applying the straight-line depreciation method and taking into consideration the useful period of each individual constituent part of the fixed asset. Depreciation begins to be charged from the purchasing value, once the asset is available for use. Land, quarries and assets in construction production are not depreciated.

Assets obtained free of charge are depreciated, but at the same time parts of the long-term deferred revenues (which is equal to the value of the calculated depreciation) is added to other business revenues.

G **The Estimated Useful Life for Property, Plant and Equipment**

	2016	2015
Buildings	**10–70 years**	10–70 years
Parts of buildings	**5–70 years**	5–70 years
Production equipment	**4–50 years**	4–50 years
Parts of production equipment	**5–25 years**	5–25 years
Computer hardware	**2–10 years**	2–10 years
Furniture	**4–10 years**	4–10 years
Small inventory	**3–10 years**	3–10 years
Personal vehicles	**5–10 years**	5–10 years
Other vehicles	**4–10 years**	4–10 years
Other planat and equipment	**2–16 years**	2–16 years

The useful lives of groups of fixed assets are checked at the end of each business year and adapted if necessary. In the event of extending the useful life, the costs of the calculated depreciation in the business year are reduced, while in the event of shortening the useful life they are increased. The adaptation of the useful life has to be recalculated in a manner which allows the fixed asset to be finally depreciated in the new envisaged useful life. The change of the useful life is treated as a change of the accounting assessment and affects only the period in which the accounting assessment was changed and for each subsequent period of the remaining useful life.

The costs of replacing part of the fixed asset are attributed to the book value of this asset if it is possible that future economic benefits which are connected to part of this asset would flow to the company and if the purchasing value could be reliably measured. All other costs (e.g. current maintenance) are recognised in the profit and loss as expenditures as soon as they occur.

Profits and losses which occur at the disposal of the fixed asset are determined as the difference between the net sales value and the book value of the disposed asset and are transferred amongst other business revenues or write-offs of value.

3.5.3.5 Leases

Leases in which the Group assumes all of the important forms of risks and benefits which are connected to the ownership of the assets are treated as a financial lease. Following the initial recognition, the leased asset is disclosed in the amount which is the same to the fair value or, if the latter is lower, the current value of the lowest sum of the rents. Following the initial recognition, the asset is calculated in accordance with the accounting policies which apply to the assets of the same kind and which are owned by the Group. The lowest amount of rents for the financial lease is distributed amongst financial expenditures and reduces the outstanding debt. Financial expenditures are distributed per periods during the period of lease in order to obtain a permanent interest rate for the remaining status of the debt for each period.

Other leases are treated as business leases. Payments arising from the business lease are recognised amongst the revenues in an even manner during the duration of the lease.

3.5.3.6 Long-Term Financial Investments into the Associated Companies and Jointly-Controlled Companies

Investments into the associated companies are those in which the Group has an important influence, but as a rule, the sharing in such companies is 20–50%.

Investments into the jointly-controlled companies are those in which the Group, together with other owners, jointly controls the operations of these companies on the basis of the contractually agreed sharing of control.

Both investments into the associated and jointly controlled companies are disclosed in the consolidated financial statements upon acquisition at their purchasing value, but later on their book value changes also due to the additions as a consequence of using the capital method.

3.5.3.7 Financial Instruments

Financial instruments include the following items:

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

I. Non-Derivative Financial Assets

Non-derivative financial assets of the Group include available-for--sale financial assets, receivables towards customers, loans, cash and cash equivalents.

Recognition of the financial assets is removed once the contractual rights to cash flows from this asset cease, or once the rights to contractual cash flows from the financial asset are transferred, based on the transaction in which all of the risks and benefits from the ownership of the financial asset are transferred.

a) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are those non-derived financial assets which are marked as available for sale or which are not classified as loans and receivables or financial assets at fair value through the profit and loss account.

Available-for-sale financial assets are recognised according to the date of trading.

They are evaluated according to the fair value if the fair value can be established and the profit or losses with evaluation are recognised directly in the other all-inclusive yield or capital, except for losses due to impairment. These are recognised in such manner that possible accumulated loss (which has been previously recognised in the other all-inclusive yield and disclosed in the reserve for the fair value) is transferred to the profit and loss account. The later increase in the fair value of the impaired equity security available for sale is recognised in the reserve for the fair value.

When removing the recognition of the investment, the accumulated profits and losses which are disclosed in the other all-inclusive yield are transferred into the profit and loss account.

If the fair value cannot be reliably measured, because the range of prices of the justified fair value is important and the probability of various estimates cannot be reasonably assessed, the companies from the Group measure the financial asset at purchasing value.

b) LOANS AND RECEIVABLES

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

At their initial recognition, they are disclosed at fair value, increased by direct costs of the transaction. Following the initial recognition, loans and receivables towards the customers are measured at the consideration value and reduced for losses due to impairment. Loans and receivables towards the customers are disclosed in the consolidated financial statements among the financial and operating assets and include the given loans, given deposits and receivables towards customers.

In the book of accounts, loans are recognised according to the date of settlement, while receivables are recognised according to the date of trading.

They are included amongst the short-term assets, except for maturities which exceed 12 months after the date of disclosing the financial position. In such case they are classified among the long-term assets

c) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, bank deposits up to three months and other short-term, quickly redeemable investments with original maturity of three months or less. They are disclosed at the purchasing value. Overdrafts on bank accounts are included amongst the short-term financial abilities.

II. Non-Derivative Financial Liabilities

Non-derivative financial liabilities comprise financial liabilities and obligations towards the suppliers. Non-derivative financial liabilities are initially disclosed at fair value, increased by costs which are directly attributed to the transaction. Following the initial recognition, they are measured at the consideration value by applying the method of applicable interest rate.

Among them, the Group discloses the loans received with interest and other financial liabilities and obligations towards the suppliers.

The loans received are initially recognised on the date of the settlement (payment), while other non-derived financial liabilities are recognised from the date of trading.

Part of the long-term financial liabilities (which are due for payment less than a year after the date of disclosing the financial situation) is disclosed among the short-term financial abilities.

III. Derivative Financial Instruments

Derivative financial instruments (which the Group concludes) correspond to the principles stipulated in IAS 39 – Financial Instruments: Recognition and Measurement.

Derivative financial instruments are used for protecting the exposure of the Group against the risks (price, interest rate and currency). The Group has concluded interest and currency exchanges, as well as standardised deadline contracts for purchasing electricity and emission allowances in upcoming years.

These are financial instruments which do not require any initial financial investment, but their value changes according to changes of interest rates, prices of goods or the exchange rate.

Derivative financial instruments are initially recognised at fair value by applying the net principle, which means that the value of the concluded transaction is not disclosed in the financial statements.

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

The Group uses for classifying the derivative financial instruments as hedging the criteria defined in IAS 39 for hedging, as follows:

- the instrument has to protect from the risk of changing cash flows which can be attributed to the protected risks;
- the efficiency of the hedging (i.e. the level to which the changes in the value of protection against the risk affect a change of the value of the protected item or future transaction) has to be between 80–125%,
- in the event of hedging for cash flows, future transactions which will be hedged have to be very likely to occur;
- there has to be a possibility for reliable measurement of efficiency of hedging;
- hedging has to be supported with appropriate documentation from the very beginning.

Once the derivative financial instrument is determined as hedging in the event of exposure to the changeability of cash flows which can be attributed to an individual risk connected to the recognised asset or liability, or very likely envisaged transactions which can affect the profit and loss account, the successful part of the changes in fair value of the derivative financial instruments is recognised in other all-inclusive yield and disclosed in the reserve for hedging. The successful part of changes of the fair value of the derivative financial instrument is recognised directly in the profit and loss account. It is envisaged that the Group stops calculating hedging if the instrument for hedging no longer meets the criteria for calculating hedging or if the hedging instrument is sold before the risk, cancelled or used. The accumulated profit and loss which is recognised in the other all-inclusive yield remains disclosed in the reserves for hedging until the envisaged transaction does not affect the profit and loss account. If the envisaged transaction can no longer be expected, the amount has to be recognised in the other all-inclusive yield, i.e. recognised directly in the profit and loss account. In other cases the amount recognised in the all-inclusive yield is transferred into the profit and loss account for that period in which the hedged item affects the profit and loss account.

The effects of other derivative financial instruments which are not defined as aimed at hedging in the event of exposure to the changeability of cash flow (or which cannot be attributed to an individual risk connected with the recognised asset or liability) are recognised in the profit and loss account.

When forward purchases and sales for physical supply of electricity are treated as contracts concluded within the framework of ordinary operations of the Group (own use), then they are not part of the scope defined in IAS 39. This is the case when the following conditions are met:

- physical supply is part of such contracts,
- the scope of purchased or sold energy within the framework of contracts corresponds to the operational needs of the Group,
- the contract cannot be treated as options, as defined in the

standard. In the event of contracts for selling electricity, the contract is an equivalent to a fixed forward sale or it can be considered as the selling of capacities.

The Group believes that the transactions where negotiations take place in order to balance the commitments of purchase and sale of electricity are part of their operations and fall outside of the scope of the IAS 39.

3.5.3.8 Inventories

Inventories are evaluated according to the original value or the net realisable value, whichever is lower. The original value comprises the purchase value which consists of the purchase price, import duties and direct costs of the supply. The purchase price is reduced for the discounts obtained. Direct costs of the supply include transport costs, costs of loading, handling and unloading, the costs of tracking goods and other costs which can be attributed directly to the obtained commercial goods or material. Discounts for the purchase price include those which are provided on the invoice, as well as those which are obtained later and which refer to an individual supply.

The value of the finished goods and unfinished production includes the entire production costs in the narrower sense, which include direct costs of the material, direct costs of services, direct costs of labour, direct costs of depreciation and general production costs. General production costs are the costs of material, services, salaries and depreciation, which are calculated within the framework of the production process, but cannot be directly connected with the occurring business effects. Part of the production costs in the total cost (material, services, labour costs and depreciation) is established annually, based on the data from the previous year.

If the prices in the calculation period of the newly supplied unit quantities differ from the prices of unit quantities of the same type in the inventory, the FIFO method is used during the year to reduce those quantities.

The net realisable value is assessed based on the sale price in ordinary operations, reduced for the assessed costs of finishing and the assessed costs of selling. Write-offs of damaged, expired and useless inventories are carried out annually, during the year and by individual items.

At least once a year the evidence on the impairment of inventories is carried out according to the status on the date of producing the annual financial statements. Impairment of the inventory is assessed for each individual type of inventory. Individual types of inventory are classified into groups of inventories with similar characteristics, based on the time component of movement of inventories. When assessing the impairment for an individual group, the criteria for professional assessment are used, as well as the criteria for further use or sale.

3.5.3.9 Impairment of Assets

I. Financial Assets

A financial asset is deemed impaired if there is objective evidence from which it is clear that due to one or several events there has been a decrease of the expected future cash flows arising from this asset and which can be reliably measured.

Objective evidence on the impairment of financial assets may include the following: non-fulfilment or violations from the debtor; deterioration of financial solvency of borrowers; signs that the debtor is heading for bankruptcy; or the disappearance of the operational market for this kind of an instrument.

a) IMPAIRMENT OF RECEIVABLES AND GIVEN LOANS

The Group assesses the evidence on the impairment of receivables on an individual basis.
If it is assessed that the book value of the receivable exceeds its fair value, i.e. collectable value, the receivable is impaired.
Doubtful receivables to others are those which have not been settled within 180 days from their maturity.

Disputed receivables are those which meet one of the following conditions:

- a recovery process has been initiated at the court,
- the decision on initiating the procedure of composition proceedings, liquidation of bankruptcy has been published.

For claims in the initiated bankruptcy proceedings, an allowance of 80% of the outstanding receivable for the disputed receivables in the amount of 20% of the sued amount and for claims in receivership, which is not yet approved, in the amount of 50% of the amount declared in compulsory settlement procedure. Taking into consideration the circumstances and facts in an individual case may change the percentages.

For the final write-off of claims, appropriate documentary evidence is necessary: final decision on compulsory settlement, bankruptcy proceeding, court order or other appropriate document.

In the event all of the actions have been carried out with due diligence to achieve the payment of a certain outstanding receivable and, if due to the amount of the receivable it would be uneconomical for the companies from the Group to initiate a recovery procedure through court, the receivable is written off in in its entirety based on the decision of the management.

The Group assesses evidence on the impairment of loans on an individual basis.

The loss due to the impairment in connection with the financial asset, disclosed at consideration value, is calculated as the difference between the net book value of the asset and the expected future cash flows, discounted in accordance with the original applicable interest rate. The losses are recognised in the profit and loss account

II. Non-Financial Assets

On each date of reporting, companies from the Group check the book value of important non-financial assets in order to establish whether any signs of impairment are present or not. If there are such signs, the replaceable value of the asset is assessed. The assessment of impairment of non-financial assets is carried out once a year before the preparation of the annual accounting report. The impairment of the money-generating unit is recognised when its book value exceeds its replaceable value.

The replaceable value of the asset or the money-generating unit is the value for use or the fair value reduced for the costs of sale, whichever is higher. When determining the value of the assets for use, the expected future cash flows are discounted to their current value by using the discount rate before taxes, which reflects the current market prices of the time value of cash and the risks which are characteristic for the asset. In order to test the impairment, the assets which cannot be tested individually are classified into the smallest possible groups of assets which create cash flows from further use and which are mostly independent of revenues of other assets or groups of assets (money-assets generating unit). To test the impairment of the good name, the money-generating units to which the good name may be added are the subject of a special segment ceiling test. The money-generating units to which the good name is added are collected or merged so that the level on which the impairment is tested reflects the lowest level at which the good name is monitored for purposes of internal reporting.

The impairment is presented in the consolidated profit and loss account. The loss which is recognised with the money-generating unit due to the impairment is classified in a way that first reduces the book value of the good name, distributed to the money-generating unit (or a group of money-generating units) and then to other assets of the money-generating unit (or groups of money-generating units), proportionate to the book value of each asset in the unit.

Companies from the Group may assess the losses due to impairment in past periods at the end of the reporting period and therefore establish whether the loss has been reduced or even eliminated. The loss due to impairment may be eliminated if the change of prices has occurred, based on which the company determines the replaceable value of the asset. A loss due to impairment of the asset is eliminated up to the amount at which the increased book value of the asset does not exceed the book value which was established after the deduction of the depreciation write-off, if in previous years the loss due to impairment had not been recognised for the asset. The loss due to the impairment of the good name is not eliminated.

3.5.3.10 Capital

The share capital and capital reserves represent the cash and non-cash contributions of the owner of the Controlling Company.

On 31 December 2002, the general recalculation allowances for capital (in accordance with the then applicable Slovenian Accounting Standards) included revalorisation of the share capital before 2002. The allowance due to the transition to the new Slovenian Accounting Standards was transferred into the capital reserves.

Other reserves are amounts which were intentionally deferred from profit from the previous years of the Controlling Company. They were created on the basis of the decision of the appropriate management body and supervision.

The hedging reserve represents the amounts of recalculations of derivative financial instruments.

The reserve for the fair value represents the amounts of recalculations for the sale of available financial assets of the Group and the cumulative value of the added actuarial gains and losses arising from the actuarial calculation of reserves for the severance pay upon retirement.

In the deferred profit and loss account, the profit and loss accounts of companies from the Group for the current and previous years are disclosed.

In the translated reserve for the capital, the exchange rate from the recalculations of items in financial statements of companies from the Group which operate abroad are presented, where different reporting currencies are used for reporting.

The capital of the owners of non-controlling interests represents their share in the entire capital of the dependent companies.

3.5.3.11 Provisions for Jubilee Benefits and Retirement Benefits

In accordance with the regulations, collective agreements and internal rules, the companies from the Group undertake to pay the jubilee benefits to employees and severance pay upon their retirement for which the provisions have been created. There are no other retirement liabilities.

Provisions are created in the amount of the assessed future payments for severance pay upon retirement and jubilee benefits, discounted at the end of the business year. The calculation is created for each employee separately and takes into consideration the costs of severance pay upon retirement and the costs of all expected jubilee benefits until retirement. The actuary prepares the calculation for companies from the Group by using the projected unit. The severance payments upon retirement and the payments of jubilee benefits reduce the created provisions.

3.5.3.12 Employee Benefits

The obligation of short-term earnings of the employees are measured without discounting and are disclosed as expenditures when the work of the employee in connection with a particular short-term earning has been carried out. Obligations are disclosed in the amount for which a payment is expected in the form of short-term revenues if the Group has the current legal or indirect commitment for such payments due to the work carried out by an employee in the past, and the liability can be reliably measured.

3.5.3.13 Other Provisions

Provisions are recognised if the Group has legal or indirect commitments due to past events which can be reliably assessed and for which it is likely that with the settlement of the commitment an outflow of factors would be necessary to enable economic benefits.

The value of the provision has to be equal to the current value of expenditures which are expected to be necessary for settling the commitment. Because the provisions aimed for settlement are likely, but not certain liabilities, the amount disclosed as the provision is the best assessment of the expenditures necessary to settle the commitment which existed on the date of the statement of financial position. When assessing the best assessment of the provision, the risks and uncertainties which unavoidably accompany the events and circumstances are taken into consideration.

The provisions are reduced directly for the costs of expenditures for the settlement of which they were created. This means that in the business year this kind of costs and expenditures do not reappear again in the profit and loss account.

The Group has created provisions for the closing works of the remaining excavation in the Velenje coalmine on the basis of the discounted assessment of values of closing works from the document which is annually prepared or updated by an internal working group. When evaluating the costs, the costs connected with the technical and technological aspect of closing (hydrogeological and geomechanical monitoring, the costs of liquidating the coalmine facilities and the costs of ecological restructuring of the surface) with regard to the currently applicable starting points of the excavation are taken into consideration. With the calculation, the current market values for carrying out the defined activities on the basis of the obtained offers for monitoring and ecological restructuring, as well as the assessed cost of the material and work for individual liquidation works are taken into consideration. The starting points are related to the legislative basis, human personnel and financial forecasts, as well as the operational regime of TEŠ.

The provisions are reduced directly for the costs of expenditures for the settlement of which they were created. This means that in the business year these kinds of costs and expenditures do not reappear again in the profit and loss account. The effects of discounting are recognised within the framework of financial expenditures.

In the event the forecasted liabilities do not occur, or if the period of drawing the provisions is extended, the amount of the created provisions is removed for the benefit of business expenditures. Additional creation of provisions is disclosed as part of investments into the coalmine facilities; similar applies to all of the effects on the value of the disclosed provisions which arise from the change of the amount of the used discount rate with discounting of the envisaged amounts of future expenditures for closing the coalmine.

Based on the energy permit from the Ministry of the Economy and the assessment of costs of decommissioning, the Group prepared the costs of decommissioning for removing Unit 6 after the end of its use. The key starting points based on which TEŠ has prepared the assessment of the necessary decommissioning and the assessment of possible revenues arising from the sale of decommissioned materials and equipment are as follows:

- the costs of decommissioning are assessed on the basis of inventory of the built-in quantities and materials. For the decommissioning of each of the materials a specific price is determined by unit;
- for all facilities which have a period of use that is longer than 20 years, the assessed value of the commission and the time of activation is corrected every 5 years,
- it is planned that the process of decommissioning will take 2 to 4 years.
- according to some expert sources, the total costs of decommissioning are between 10 and 15% of the investment value of the constructions.

When planning and managing the decommissioning, it will be necessary to take into consideration the current and future standards, as well as the conditions for these kinds of works (environmental conditions, conditions for protecting health, handling certain materials that might be labelled as dangerous in the future, etc.). Most of these conditions will be determined in the consonants and the building permit at the beginning of decommissioning.

The assessment of the costs of decommissioning is prepared on the basis of the quantity of the built-in materials and the expert assessment of their removal. As support, studies of assessments of the costs for decommissioning certain similar facilities around Europe have been used.

3.5.3.14 Government Grants

All kinds of government grants are initially disclosed in the financial statements as deferred revenues within the framework of other long-term liabilities, i.e. in the moment when there is an acceptable assurance that the Group will receive the grants and will meet the conditions related thereof. Later on, they are recognised in the financial statement among other revenues from operations during the useful period of an individual asset. State grants received to cover the expenditures are recognised as revenues in the periods in which the relevant costs occur that they are supposed to replace.

3.5.3.15 Other Assets and Liabilities

Other assets disclosed include the given advance payments, receivables towards the state in other institutions, receivables to others and long-term and short-term accrued and deferred asset items (non-calculated revenues in deferred costs or expenditures).

Non-calculated revenues are revenues which are taken into consideration in the financial statement even though they have not yet been charged.

Deferred costs or expenditures are the amounts which at the time of their creation do not yet burden the financial statement.

Other assets disclosed include the given advance payments, receivables towards the state and other institutions, receivables and other short-term and long-term accrued and deferred liability items (deferred revenues and costs or expenditures calculated in advance).

Deferred revenues are revenues which will cover the latter in the time when the envisaged revenues occur. They include the received state grants and the grants connected with the assets.

The costs or expenditures, calculated in advance, are the costs which have not yet occurred, but will occur in the future and already affect the profit and loss account.

3.5.3.16 Contingent Liabilities

A contingent liability is:

- a possible liability which arises from past events and whose existence can be confirmed only by the occurrence or non-occurrence of one or several uncertain future events which the Group does not fully control, or
- a current liability arising from past events which is not recognised, because it is unlikely that with the settlement of the commitment an outflow of factors will be necessary to enable economic benefit, or the amount of the commitment cannot be measured reliably enough.

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

3.5.3.17 Revenues

Revenues from sales are recognised at the fair value of the received settlement or receivable from this address, but they are reduced by discounts. Revenues are recognised once the customer has assumed all of the important forms of risks and benefits which are connected with the ownership of the assets, once there is certainty regarding the repayment of the compensation and related costs and once the Group has stopped to make decisions about the sold goods.

The sale of the goods is recognised once the company from the Group has delivered the goods to the customer, the customer has received the goods and the enforceability of past due receivables has been reasonably ensured.

The sale of the services is recognised in the calculation period in which the services are carried out, with regard to the completion of the transaction, assessed on the basis of the service actually carried out as a proportionate part of the services as a whole.

Revenues arising from the calculated default interest and the related receivables are recognised at their occurrence if it is likely that the benefits connected with the transaction will flow into the company. If not, the calculations of default interest are recorded as contingent assets and are recognised in the book of accounts of the company from the Group upon their payment. Recording default interest is treated separately.

Other business expenditures which are connected with business effects include revenues from removing provisions, except in the case of provisions for severance pay upon retirement and jubilee benefits, revenues from drawing deferred revenues, profits from selling fixed assets, removing bad liabilities, compensations and contractual penalties and similar revenues received (e.g. state grants).

Financial revenues comprise revenues from the shares of investments, the interest rate of the given loans and deposits, as well as the profits of affiliated companies. Revenues from the interest rate are recognised upon their occurrence in the amount of the agreed interest rate.

3.5.3.18 Expenses

Expenses are recognised if the reduction of economic benefits in the calculation period is connected with reducing the assets or with increasing the debt and this reduction can be reliably measured. Business expenses are recognised if the costs are no longer deferred in the value of the inventories, products or unfinished production, or once the commercial goods are sold. The costs which cannot be deferred in inventories of products and unfinished production are already recognised as business expenses at the time of their creation.

In the purchase value of the sold goods, we recognise the expenses connected with the sale of electricity and dependent costs of electricity. In the event the Group has more negative than positive exchange rate differences from the operations, the latter are recognised in the purchase value of the sold goods.

The costs of materials are the original costs of the purchased material which are directly used for creating business effects (direct costs of material), as well as the costs of material which do not have such a nature and which are included in the appropriate purpose (functional) groups of indirect business expenditures. The first sub-group includes the costs of raw materials, other materials and purchased parts and half-products whose use can be connected with creating business effects. The second sub-group includes the costs of auxiliary material for maintenance of properties, plant and equipment and small inventory whose useful period does not exceed one year, spare parts for servicing products after the sale, stationery, professional literature and other. The costs of materials include the calculated costs of ullage, spoilage, malfunctions and breakage.

The costs of services are the original costs of the purchased services which are directly necessary for creating business effects (costs of direct services), as well as the costs of services which do not have such a nature and which are included in the appropriate purpose (functional) groups of indirect business expenses. The first group primarily includes the costs of services for manufacturing products, while the second primarily includes the costs of transport services, maintenance services, trade services, advertising services, representation, insurance premiums, payment transactions and other banking services (excluding interest), leases, consulting services, business travel and similar services.

Write-offs of values include the costs of the precision which are connected with consistent transfer values of depreciable intangible assets, properties, plant and equipment and investment properties in the profit and loss account. The write-offs of values also include the write-offs, impairment and losses incurred with the sale of intangible assets and properties, plant and equipment, as well as the impairment of write-offs of business receivables and inventories.

Labour costs are original costs which refer to the calculated salaries and similar amounts in gross amounts, as well as the levies which are calculated from this basis and which are not a constituent of gross amounts. These costs can directly burden the creation of business effects (the costs of direct labour) or they have the nature of indirect costs and are included in the appropriate purpose (functional) groups of indirect costs.

Other business expenses occur in connection with the creation of provisions, levies for environmental protection, concession fees, donations and other levies.

Financial expenses include the costs of borrowing, as well as the related derivative financial instruments and impairment of financial assets. Revenues from interest are recognised upon their occurrence in the amount of the agreed interest rate.

3.5.3.19 Taxation

Taxes include liabilities for current and deferred tax. The current tax is presented in the consolidated profit and loss account. The deferred tax is presented in the consolidated profit and loss account and the consolidated statement of the financial position.

Current tax liabilities are based on the taxable profit for the year. Taxable profit differs from the net profit reported in the consolidated financial statement, because it excludes items of revenues and expenditures which are taxable or deductible in other years, as well as items which have never been taxable or deductible. The obligation of the companies from the Group for the current tax is calculated by applying the tax rates which are applicable on the date of reporting. In the event the liability for the current tax is lower than the advance payments, the receivable for the current tax is disclosed.

The deferred tax is entirely disclosed by using the liability method according to the statement of financial position for temporary differences which occurred during the tax values of assets and liabilities and their book values in the financial statements. The deferred tax is determined by applying tax rates and laws applicable on the date of the consolidated statement of financial position and for which it is expected that they will be used once the deferred receivable for the tax is realised or the deferred liability for the tax is settled.

The deferred receivable for tax is recognised if there is likelihood that in the future a taxable profit will be available from which it would be possible to use temporary differences. It represents the amount of the calculated tax from the corporate tax of deductible temporary differences.

The deferred liability for tax represents the amount of the calculated tax from the corporate tax of deductible temporary differences, which means higher payment of tax in the future.

G **Corporate Tax Rate Per Country**

Country	Applicable tax rate in 2016
Slovenia	17%
Croatia	20%
Serbia	15%
Macedonia	10%
Bosnia and Herzegovina	10%

On 1 January 2017, in Slovenia corporate tax was increased to 19%.

3.5.3.20 Consolidated Statement of Cash Flows

In the consolidated statement of cash flows we present the changes of the status of cash and cash equivalents for the business year for which the statement is prepared. The consolidated statement of cash flows is prepared by using the indirect method and the data from the consolidated statement of financial position, the consolidated financial statements of the Group and the tables showing fluctuations of assets and liabilities.

Cash from the Group includes cash, cash and bank accounts, deposits with agreed maturity date and time deposits for the period up to 3 months.

3.5.3.21 Reporting Segment

In its Annual Report, the Group does not disclose operations per segments. Reporting by segments in annual reports has to be disclosed in groups with ownership or debt instruments which are publicly traded, as well as groups which issue ownership or debt instruments at the public market of instruments

3.5.3.22 New Standards and Interpretations Produced by the IASB and Adopted by the European Union that Have not Yet Entered into Force

The new standards and Interpretations cited in the continuation have not yet entered into force and were not followed in the preparation of annual financial statements for the business year which concluded on 31 December 2016.

- IFRS 9 Financial Instruments (2014): (This applies for annual accounting periods which start on 1 January 2018 and is used retroactively, with some exceptions. The conversion of earlier periods is not required and is allowed if the data are available and without the use of hindsight. Its use prior to this date is allowed.)

This standard substitutes IAS 39 Financial Instruments: recognition and measurement, except that the IAS remains valid in the case of hedging the fair value of the financial assets portfolio or financial liabilities against changes in the interest rate. The group has the power to decide whether to use hedge accounting in compliance with IFRS 9 or the exiting hedge accounting per IAS 39 in any accounting.

Even though the basis of the allowed measurement of financial assets—amortised cost, fair cost through comprehensive income (PVDVD) and fair value through operational result (PVPI)—is similar to MRS 39, the criteria for the determination of adequate measurement differ significantly.

The financial asset shall be measured with amortised cost, when the following conditions are met:

- the assets are managed as per the business model aimed at collecting contractual cash flows, and
- contractual provisions contain precise dates of cash flows which are only payments of the principal and interest from unpaid principal.

Further, the group can irrevocably present subsequent changes of the fair value (including positive and negative currency differences) of the equity instrument which is not intended for trading as a part of the remaining comprehensive income. The subsequent changes mentioned can in no case be reclassified as an operational result.

The debt instruments measured with the fair price through the remaining comprehensive income, interest income, expected credit losses, and positive and negative currency differences are recognised in the operating result in the same way as the assets measured by their amortised cost. Other profits and losses are recognised in the second comprehensive income and are reclassified to the operational result upon derecognition.

In compliance with IFRS, the impairment calculation model replaces the losses incurred model as known by IAS 39, which also takes into account the model of expected credit losses; the latter means that it will be possible to recognise an impairment even before it occurs.

IFRS 9 contains a new general model of accounting hedging, which adjusts hedging to risk management. Various types of risk hedging—fair value, cash flow, and net investments in foreign companies—remain unchanged, but an additional evaluation is needed.

The standard contains new requirements that must be met (continuation and termination of risk hedge accounting) and enables additional types of exposure to be treated as secured items.

Additional extensive disclosures regarding risk management and risk protection activities are required.

The Group envisages that IFRS 9 (2014) will not significantly affect financial statements. Because of the nature of its operations and the type of its financial instrument, the classification and measurement of the company's financial instruments will not change when taking IFRS 9 into account.

- IFRS 15 Revenues from Contracts with Purchasers: (It applies for annual accounting periods which commence on 1 January 2018. Its use prior to this date is allowed.)

Explanations to IFRS 15 Revenue from Contracts with Customers have not yet been confirmed by the European Union, but the latter did confirm IFRS 15 Revenue from Contracts with Foreigners, including the date of entry into force of IFRS 15.

The new standard provides a frame which replaces the existing instructions regarding the recognition of revenue by IFRS. Groups use a five-stage model to decide when exactly and up to which amount to recognise revenue. The new model defines that revenue shall be recognised at the time when the group transfers the supervision of goods and services to a customer, to the amount up to which the group expects that it is entitled. Based on the criteria met, the revenue is recognised:

- after some time and in a manner that depicts the operations of the Groups; or
- at the moment when the goods and services are transferred to the customer.

IFRS 15 also introduces principles binding groups to provide quality and extensive disclosure which give the users of financial statements useful information regarding the type, amount, the temporal aspect and the uncertainty regarding revenue and cash flows originating from contracts with customers.

Even though the original evaluation of a possible impact of IARS 15 on financial statements has not been entirely concluded, the Group envisages that the standard will not significantly influence its financial statements on the day of its first use. The group does not envisage that the choice of time and measurement of its revenue per IFRS 15 will change due to the nature of its business and type of revenue.

- IFRS 16 Leases: (It applies for annual accounting periods starting on 1 January 2019 or later). Its use prior to this date is allowed if the company also uses IFRS 15).

IFRS 16 replaces IAS 17 Leases and Related Interpretations. The standard abolishes the existing model of double counting of leases and instead demands that the group count the majority of leases from the balance sheet with a unified model without discriminating between business and financial lease.

In accordance with IFRS 16, for the lease contract, the contract which gives the right to use a certain asset for a certain period in lieu of payment: for such contracts the new model envisages that the lessee shall recognise the right to use the asset and the liability from the lease. The right to use the asset shall be amortised, whereas the interest rates shall be entered against the liability. The latter causes a concentrated sample of expenses for a larger part of leases, even if the lessee pays regular annual leases.

The new standard introduces numerous limited exceptions, including:

- leases for a period of 12 months or less, without the call option, and
- leases where the relevant asset has a low value (cheap/low-priced leases/“small-ticket” leases).

By implementing the new standard, the accounting of the lease will not be significantly changed for the lessee and the discernment between an operational and financial lease remains in force for the lessee.

The Group envisages that the new standard will not significantly influence financial statements because the Group is not a party to the lease agreement that would be a subject of IFRS 16.

- Amendment to IFRS 2: classification and measurement of share-based payments: (It applies for annual accounting periods which commence on 1 January 2018. It is used retroactively. Its use prior to this date is allowed.)
  The amendment has not yet been confirmed by the European Union.

The amendment details rent-based payments for the following areas:

- effects of mandatory and optional conditions regarding share-based payments, which shall be settled in cash;
- share-based payments with the option of settlement in the event of liability to the source of the retaining tax; and
- changes to the conditions of share-based payments concerning the classification of payments settled in cash as equity-settled payments.

The Group envisages that the new standard will not significantly influence financial statements because the Group is not a party to the lease agreement that would be a subject of IFRS 16.

- Amendment to IFRS 4: use of IFRS 9 Financial Instruments in relation to IFRS 4 Insurance Contracts: (It applies for annual accounting periods starting on 1 January 2012. It is used retroactively.)
  The amendment has not yet been confirmed by the European Union.

The amendment cites questions arising from the implementation of IFRS 9 prior to the planned replacement standard, which is being prepared by the International Accounting Standards Committee for IFRS 4. The amendment introduces two possible solutions. The first is a temporary exception to the use of IFRS 4, on the basis of which the reporting of some insurers shall be postponed. The second solution cites a different approach to the presentation, through which the inconsistency that could arise from the use of IFRS 9 prior to the planned standard on insurance contracts could be mitigated.

The group will use the exemption of the implementation of IFRS 9 and consequently does not envisage an important influence on its accounting standards.

- The amendment to IFRS 10 and IAS 28 Investment in Associates and Joint Ventures: (The date of use has not yet been decided by the International Standard Management Board: its application for earlier dates is allowed).

The amendment explains that for transactions with an associate or a joint venture, part of the recognised income or losses depends on whether the sold or invested asset is a part of the transaction, where:

- the entire profit or loss is recognised when the transaction concluded by the investor and their associate or joint venture includes the transfer of an asset or assets representing the company (no matter whether the asset is located at the subsidiary or not), whereas a partial profit or loss is recognised when the transaction concluded between the investor and their associate or joint venture includes an asset that does not represent the company, even if this asset is located at a subsidiary.

The Group envisages that on the date of its first application the new standard will not significantly influence its financial statements, as the company does not have subsidiaries, associates or joint ventures.

- Amendment to IAS 7: (It applies for annual accounting periods which commence on 1 January 2017. It is used retroactively. Its use prior to this date is allowed.):
  The amendment has not yet been confirmed by the European Union.

The amendment requires additional disclosures which will help the user assess changes in relation to financing, including changes to cash flows and non-monetary changes (e.g. the influence of positive and negative exchange differences, changes at the takeover or loss of control over subsidiaries, changes to the fair value).

The Group envisages that, on the date of its first use, the new standard will not significantly influence its financial statements.

- Amendment to IAS 12: The recognition of receivables for deferred taxes in relation to unrealised losses. (It applies for annual accounting periods which commence on 1 January 2017. It is used retroactively. Its use prior to this date is allowed.)
  The amendment has not yet been confirmed by the European Union.

The amendment details the manner and the time of the accounting of deferred receivables for tax and the manner of the determination of the amount of future taxable revenue for the purpose of recognition of deferred revenue for the tax.

The Group envisages that the new standard will not significantly influence financial statements because the group is already measuring future taxable profits as required by the amendment.

- Changes to IAS 40 Investment Property: (They apply for annual accounting periods starting on 1 January 2018 or later; they shall be used prospectively).
  These provisions have not yet been approved by the European Union.

The changes consolidate the principle from IAS 40 Investment Property regarding transfers to investment properties or from them, so now it stipulates that such transfer should be carried out only if there is a change in the use of an immovable property. In accordance with the changes, the transfer shall be executed when, and only when, there is an actual change in its use—i.e. the asset begins or ends corresponding to the definition of the term investment property, and there is evidence of a change in its use. Only a change of the purpose of the management is not a reason for transfer.

The Group envisages that the interpretation will on the date of its first use not significantly infuence its financial statements because the group does not expect a significant change in its use of investment properties.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration: (It applies for annual accounting periods starting on 1 January 2018 or later).
  These provisions have not yet been approved by the European Union.

The interpretation explains the method of the determination of the date of transaction for the purpose of determining the exchange rate which shall be used at the initial recognition of the asset, expenditure or revenue (or a part of it) related to it at the derecognition of a non-monetary asset or a non-monetary obligation in relation to the added or achieved advance consideration in a foreign currency. In this case, the date of transaction equals the date on which the company first recognises a non-monetary asset or non-monetary liability in relation to a given or received advance.

The Group expects that the interpretation of the day of its first use will not significantly affect its financial statements, as at its initial recognition of non-monetary assets or non-monetary liabilities in relation to given or received advances uses an exchange rate valid on the date of transaction.

Annual improvements

The annual improvement cycle IFRS 2014–2016 was published on 8 December 2016 and introduces changes of two standards and consequent changes of other standards and interpretations, the consequence of which are accounting changes for the purposes of presenting, recognising, or measuring. Changes to IFRS 12 Disclosure of Interests in Other Entities apply for annual accounting periods which begin on 1 January 2017 or later, changes of IAS 28 Financial investments in Associates and Joint Ventures apply for annual accounting periods which begin on 1 January 2018 or later. Its use prior to this date is allowed.

3.5.4 Fair Value Measurement

In relation to the recognition of financial instruments, it is necessary to present their fair value. Fair value is the amount for which an asset could be sold or a liability exchanged between two knowledgeable, willing parties in an arm's length transaction.

In the determination of the fair value of financial instruments, the following hierarchy of fair value determination is followed:

- level 1 comprises quoted (not adjusted) prices on active markets for the same assets or liabilities;
- level 2 comprises inputs other than quoted prices, included within Level 2, which are directly (i.e. as prices) or indirectly (as derived from prices) observable for the asset or liability;
- level 3 are unobservable inputs for the asset or liability.

Quoted prices are used as the basis for the measurement of the fair value of financial instruments. If a financial instrument is not listed on an organised market or the market is assessed as inactive, inputs of levels 2 and 3 are used for the assessment of the fair price of the financial instrument.

3.5.5 Financial Risk Management

The detection of financial risks and their management is defined in the operations part of the annual report.

In the explanatory notes to consolidated financial statements, financial risks are presented in relation to items in consolidated financial statements (the clarification Financial Instruments and Risks), i.e.:

- credit risk,
- liquidity risk,
- foreign exchange risk,
- interest risk,
- price risk.

3.5.6 Notes to Consolidated Financial Statements

3.5.6.1 Consolidated Statement of Financial Position

On 31 December 2016, the Group's assets amount to EUR 2,156,765,540.

G Intangible Assets (1)

Item in EUR	31/12/2016	31/12/2015
Emission allowances	**2,158,664**	4,072,705
Other long-term property rights	**3,393,515**	3,721,023
Goodwill	**12,387,056**	12,387,056
Total	**17,939,235**	20,180,784

Goodwill represents more than a half of all intangible assets, other components of the value are emission allowances and other long--term property rights (mostly software).

G

Movement in 2016 and 2015

Item in EUR	Emission allowances	Other long-term property rights	Goodwill	Other intangible assets	Total
Purchase value on 01/01/2016	**4,072,705**	**15,282,660**	**12,387,056**	**4,980**	**31,747,401**
Acquisitions	**27,172,400**	**656,756**			**27,829,156**
Disposals-write-offs, sales	**(29,086,441)**	**(47,041)**			**(29,133,482)**
Transfers-postings		**114,443**			**114,443**
Exchange differences		**(18)**			**(18)**
Write-offs		**(415,897)**			**(415,897)**
Purchase value on 31/12/2016	**2,158,664**	**15,590,903**	**12,387,056**	**4,980**	**30,141,603**
Written-down value on 01/01/2016		**11,561,637**		**4,980**	**11,566,617**
Disposals-write-offs, sales		**(28,753)**			**(28,753)**
Transfers-postings		**8,709**			**8,709**
Amortisation		**1,071,702**			**1,071,702**
Exchange differences		**(10)**			**(10)**
Write-offs		**(415,897)**			**(415,897)**
Written-down value on 31/12/2016		**12,197,388**	**0**	**4,980**	**12,202,368**
Book value on 01/01/2016	**4,072,705**	**3,721,023**	**12,387,056**	**0**	**20,180,784**
Book value on 31/12/2016	**2,158,664**	**3,393,515**	**12,387,056**	**0**	**17,939,235**
Purchase value on 01/01/2015	5,891,538	15,620,961	12,387,056	6,180	33,905,735
Acquisitions	19,574,523	749,966			20,324,489
Disposals-write-offs, sales	(21,393,356)	(56)			(21,393,412)
Transfers-postings		(20,734)		(1,200)	(21,934)
Exchange differences		(3)			(3)
Write-offs		(1,067,474)			(1,067,474)
Purchase value on 01/01/2015	4,072,705	15,282,660	12,387,056	4,980	31,747,401
Written-down value on 01/01/2015		11,333,266		4,980	11,338,246
Disposals-write-offs, sales		(147)			(147)
Transfers-postings		(79,854)			(79,854)
Amortisation		1,311,218			1,311,218
Exchange differences		(2)			(2)
Impairments		64,630			64,630
Write-offs		(1,067,474)			(1,067,474)
Written-down value on 31/12/2015		11,561,637	0	4,980	11,566,617
Book value on 01/01/2015	5,891,538	4,287,695	12,387,056	1,200	22,567,489
Book value on 31/12/2015	4,072,705	3,721,023	12,387,056	0	20,180,784

The Group purchases emission allowances for the requirements of electricity production in the Group. Until 2012, the Group received the majority of emission allowances required for the production of electric power in the thermal power plant for free, on the basis of the Environmental Protection Act, the Ordinance on the National Plan for the Allocation of Emission Allowances, and the Decision on Emission Allowances. Due to the change of legislation, since 2013 all thermal power plants have had to buy emission allowances on the market. The opening balance regarding emission allowances of the Group is 3,998,600 emission allowances in the value of EUR 4,072,705; in 2016, 3,551,629 allowances in the value of EUR 27,172,400 were bought and 3,625,583 emission allowances in the value of EUR 29,086,441 were sold or used; thus, at the end of 2016, the Group still had 3,924,646 emission allowances, the value of which was EUR 2,158,664.

Among other long-term property rights, licensed software used by the group for informational support has the highest value. In 2016, there were EUR 656,756 of new purchases and EUR 415,897 of write-offs (the written-off software had no book value).

The amortisation of other long-term property rights in 2016 amounted to EUR 1,071,702. In 2016, the useful lives of more important software were reviewed and it was established that the useful lives of some software were not correctly assessed, considering current forecasts for their use. The useful lives of this software were extended, so in 2016, amortisation in the amount of EUR 87,161 was calculated, which is EUR 47,561 less than if the useful lives had not changed.

In 2016, impairments of long-term property rights were not carried out.

On 30 November 2016 the recoverable value of the cash-generating SENG unit, the source of goodwill, was calculated using an internal test. On the basis of projections of the SENG company until 2030, the value in use was calculated with the expected free cash flow method, taking into account the real growth of the cash flow's components.

The calculated value is also based on long-term forecasts of the movement of price markets of electricity, which are prepared by the internationally recognised institution Poyry Management Consulting (the same as for the test impairment on 30 September 2015), except for the first three years (2017-2019), for which the exchange prices of standardised electricity futures on the HUPX exchange were taken into account. The expected annual growth rate of electricity market prices in the period from 2020 to 2030 equals 8.01% (6.41% in 2015), while for the first three years, a drop of market prices of 4.05% (1.57% in 2015) is expected. The expected annual growth rate of the normalised real free cash flow in the conducted test impairment (i.e. from 2030) equals 0%.

The average production of 787 GWh/year has been taken into account. The average production of hydroelectric power stations on the Soča was determined on the basis of statistical data about the average hydrology of the Soča. A decrease in the production of electricity is expected for 2018 (136 GWh decrease) and 2025 (91 GWh decrease), due to the overhauling of the Avče PSPP, and in 2028–2030, due to the expected renovation of the Solkan HPP (9 GWh decrease).

The recoverable value of the cash-generating SENG unit amounted to EUR 414,029,000 on 30 November 2016. It has been established that the recoverable value of the cash-generating unit, which includes its good name, exceeded its book value by EUR 190,700,000 EUR, so there were no reasons to impair its goodwill and other assets of the cash-generating unit. In relation to goodwill valuation on 31 December 2016, given that the test impairment was carried out for the situation that applied on 30 November 2016, the managing company assessed changes to the operational circumstances in the last quarter of the 2016 financial year. It was established that the operational circumstances of the cash-generating unit had not significantly changed in the last month of 2016, which indicated that the goodwill valuation concerning the situation on 31 December did not change given the findings from the situation on 30 November 2016.

The real required rate of return was applied with the evaluation; this rate differs by year, whereby the applied WACC equalled 5.93% for the last month of the 2016 financial year, 5.61% for 2017, and 5.51% for the periods after 2018 (the following real required rates of return were used in the test impairment: 7.62% for the last quarter of 2015, 5.40% for 2016 and 2017, and 5.30% for the periods from 2018). WACC rates differed between years due to its adjustment for the real basis, taking into account expectations on the future inflation rate. The inflation rate is based on UMAR's (Institute of Macroeconomic Analysis and Development) forecasts.

G Sensitivity Analysis—Goodwill Valuation

	Change or surcharge by %		Change in the recoverable amount of the 100% stake in SENG in EUR 000	
Discount rate (WACC)	(0.5)	0.5	44,876	(37,557)
NOPLAT (EBIT—tax)	(10.0)	10.0	(54,683)	58,933
CAPEX	(10.0)	10.0	14,295	(14,295)

In 2016, the companies of the Group did not enter interest rates against the purchase value of intangible assets prior to bringing them to working condition because the intangible assets purchased in 2016 had not been brought to working condition for a long time.

None of the Group's intangible assets have been included in the financial lease. The Group has no pledged intangible assets.

On 31 December 2016, the group had EUR 1,062,466 of contracts concluded for the purchase of intangible assets in future years.

G Property, Plant and Equipment (2)

Item in EUR	31/12/2016	31/12/2015
Land	**25,745,921**	26,613,285
Buildings	**408,828,305**	425,310,245
Production equipment	**1,238,219,483**	1,275,447,159
Other equipment	**27,934,060**	29,265,353
Property, plant and equipment in procurement	**22,437,290**	12,370,868
Total	**1,723,165,059**	1,769,006,910

Most of the Group's companies produce electric energy or raw materials for its production, which requires special equipment; due to the activity, the values of structures are important too. Thus, property, plant, and equipment present the major part of the Group's assets.

G Movement in 2016 and 2015

Item in EUR	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment in procurement	Total
Purchase value on 01/01/2016	**35,868,273**	**1,180,003,258**	**3,173,084,021**	**89,697,587**	**20,440,475**	**4,499,093,614**
Acquisitions	**24,073**			**1,372**	**34,840,440**	**34,865,885**
Disposals	**(1,724,518)**	**(14,758,633)**	**(4,539,868)**	**(636,305)**		**(21,659,324)**
Transfers from investments	**51,102**	**7,197,977**	**14,637,879**	**1,131,982**	**(23,018,940)**	**0**
Transfers–postings	**3,189**		**1,452,475**	**(18,532,737)**	**(1,220,594)**	**(18,297,667)**
Transfer from assets held for sale			**6,674,130**			**6,674,130**
Exchange differences				**(350)**		**(350)**
Write-offs	**(39,446)**	**(619,598)**	**(5,774,481)**	**(456,073)**	**(534,484)**	**(7,424,082)**
Purchase value on 31/12/2016	**34,182,673**	**1,171,823,004**	**3,185,534,156**	**71,205,476**	**30,506,897**	**4,493,252,206**
Written-down value on 01/01/2016	**9,254,988**	**754,693,013**	**1,897,636,862**	**60,432,234**	**8,069,607**	**2,730,086,704**
Disposals	**(1,007,203)**	**(6,867,654)**	**(3,986,167)**	**(472,420)**		**(12,333,444)**
Transfers–postings			**(373,573)**	**(17,929,649)**		**(18,303,222)**
Depreciation	**5,948**	**14,549,203**	**59,742,741**	**1,528,590**		**75,826,482**
Exchange differences				**(333)**		**(333)**
Impairments	**183,019**	**1,239,023**				**1,422,042**
Write-offs		**(618,886)**	**(5,705,190)**	**(287,006)**		**(6,611,082)**
Written-down value on 31/12/2016	**8,436,752**	**762,994,699**	**1,947,314,673**	**43,271,416**	**8,069,607**	**2,770,087,147**
Book value on 01/01/2016	**26,613,285**	**425,310,245**	**1,275,447,159**	**29,265,353**	**12,370,868**	**1,769,006,910**
Book value on 31/12/2016	**25,745,921**	**408,828,305**	**1,238,219,483**	**27,934,060**	**22,437,290**	**1,723,165,059**
Purchase value on 01/01/2015	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	103,262,084	103,292,480
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–postings	(2,272,251)	(18,066,413)	(7,462,217)	(804,462)	(1,899,169)	(30,504,512)
Exchange differences	1	2	(3)	(93)		(93)
Write-offs	(160,464)	(5,202,205)	(4,847,801)	(711,929)	(3,465,595)	(14,387,994)
Purchase value on 31/12/2015	35,868,273	1,180,003,258	3,173,084,021	89,697,587	20,440,475	4,499,093,614
Written-down value on 01/01/2015	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–postings	(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 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)
Written-down value on 31/12/2015	9,254,988	754,693,013	1,897,636,862	60,432,234	8,069,607	2,730,086,704
Book value on 01/01/2015	30,406,678	433,982,417	388,494,137	40,110,441	1,348,273,338	2,241,267,011
Book value on 31/12/2015	26,613,285	425,310,245	1,275,447,159	29,265,353	12,370,868	1,769,006,910

Investments in the renovation of production facilities and the purchase of equipment for the execution of the principal activity in the value of EUR 34,865,885 count among the most important investments in tangible assets in 2016.

An increase in investments includes the costs of the decommissioning of the 6 TEŠ replacement Unit to the value of EUR 1,923,714. On the basis of a technical study and the commitment from its energy authorisation, the costs of decommissioning have been estimated to equal EUR 16,120,000. At the discount rate of 0.990 (30-year German bonds), this value amounts to EUR 11,141,325 on the day of provisioning.

The most important transfers of property, plant, and equipment refer to the transfer of steel arch supports in the PV company, which due to the changed accounting estimate of the useful life of the arch supports, is no longer presented among investments, but among costs of materials.

The write-offs of tangible assets in the book value of EUR 813,000 present new plant and equipment write-offs on the grounds of inutility and dilapidation, and ongoing write-offs of investments for which it was found that, due to various reasons, they will not be realised.

On 30 November 2016, test impairment of immovable property, plant, and equipment was carried at cash-generating units operating at a loss. Among these, the most important cash-generating unit is the unit which includes production of electricity at TEŠ and procurement of the energy product for this production at PV (coal mining). Accredited company valuers valued the recoverable value of assets.

Given the type of assets, the following was considered recoverable value:

- value in use (for the assets used by the company to carry out their principal activities); or
- fair value less the costs of sales (for assets that are not included in the execution of principal activities).

The following assumptions were used in the valuation of assets included in the principal activity of the most important cash-generating unit:

- assessed with the method of current value of expected free cash flows (value in use);
- the assumption of an operating cash-generating unit with its useful life extending until 2054 was used;
- long-term projections of the cash-generating unit's operations until 2030 or long-term projections of TEŠ operations until 2054 were taken into account (strategic starting points regarding the production and sale of coal in 2031–2054);
- The following assumptions were used in long-term projections of the operations of the cash-generating unit:
  - quoted prices of standardised electrical futures and emission allowances futures for 2017–2019 on the HUPX exchange, and long-term forecasts of market price movements of electricity and emission allowances (updated in September 2016), prepared by the internationally recognised institution Poyry Management Consulting (the same as with the 2015 test impairment);
  - the mean annual coal electricity production of coal power plants in the amount of 3.7 TWh in 2017–2030, 2.6 TWh in 2031–2040, and 2.0 TWh in 2041–2054. The annual quantity of the electricity produced at coal power plants was calculated by taking into account the annual quantities of coal mined by PV and the specific coal consumption by Unit. Due to the winding-up of dilapidated coal Units and gradual winding up of the coal mine which is the only source of the primary energy product for the production of electricity by coal power plants, electricity production has been decreasing over the years;
  - the average annual coal production in the amount of 35,422 TJ per year from 2017–2030;
  - gradual fall in the scope of operations from 2030 to 2040 due to the expected gradual winding-up of the coal mine; after 2040, constant coal production in the amount of 19,168 TJ is envisaged;
  - the trend in the movement of costs of services and costs of work adjusted to the scope of operations follows was taken into account;
  - at the end of the projected period, the expenditure for the winding up of the coal mine (costs of the closure of the pit, costs of severance payments) and the revenue due to the release of the working capital and the sale of the remaining tangible assets, which shall be carried out within 10 years (by 2063), in the estimated value of EUR 53,388,000, were taken into account;
  - the value of other revenue (from the provision of systemic services, heat, sales of ash and gypsum) in the amount from EUR 23.9 million in 2017 to EUR 27.4 million in 2054. The increase of other revenue stems from the new contracts already signed for systemic services and planned higher revenue from heat sales;
  - potential revenue from priority dispatching in the next years was not taken into account, as such support measures should first be implemented by other institutions regulating the energy market of the Republic of Slovenia;

- Long-term operations projections, to span from 30 November 2016 to 31 December 2040, in real prices which accounted for projections of the sale prices of electricity and prices of emission allowances forecast by an independent institution were taken into account, while for later periods until 31 December 2054 (when the cessation of operations of the 6 TEŠ replacement Unit and the case of coal mining by PV are expected), projections are based on on 2040 projections and do not include further growth of the normalised free cash flow.

In comparison to test impairment of immovable property, plant, and equipment conducted in 2015, long-term forecasts regarding the movement of market prices of electric power and market prices of emission allowances (presented in the table below) have changed in part.

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	Base	Period	Change in the Price of Electricity	Change in the Price of CO_2 Emission Allowances
2016	**Entry-level prices**	**2017**	**EUR 37.91 per MWh**	**EUR 4.83 per t**
	Futures exchange prices (HUPX)	**2017 - 2019**	**-4.05%**	**1.13%**
	Poyry forecast of prices	**2020 - 2040**	**4.56%**	**11.86%**
	Poyry forecast of prices 2040	**2041 - 2054**		
2015	Entry-level prices	2016	EUR 41.90 per MWh	EUR 8.15 per t
	Futures exchange prices (HUPX)	2016 - 2018	-1.57%	1.46%
	Poyry forecast of prices	2019 - 2040	4.14%	9.43%
	Poyry forecast of prices 2040	2041 - 2054		

- The discount rate reflecting the required rate of return of the entire company's capital (WACC) was used for the most important part of the cash-generating unit, in the nominal value of 7.35%. Because long-term projections are based on real prices, the following discount rate was taken into account with impairments: 6.19% for December 2016, 5.87% for 2017, and 5.77% from 2018 (in the 2015 test impairment, a real discount rate from 2018, equalling 5.48%, was used). WACC rates differed between years due to its adjustment for the real basis, taking into account expectations on the future inflation rate. The inflation rate is based on UMAR's (Institute of Macroeconomic Analysis and Development) forecasts.

Sensitivity Analysis by Individual Categories for the Cash-Generating TEŠ Unit

	Change or surcharge in %		Change of the recoverable amount of property, plant and equipment in EUR 000	
Discount rate (WACC)	(0.5)	0.5	69,572	(63,230)
NOPLAT (EBIT—tax)	(10)	10	(58,322)	58,322
CAPEX	(10)	10	11,312	(11,308)

Sensitivity analysis by individual categories for the Cash-Generating PV Unit

	Change or surcharge in %		Change of the recoverable amount of property, plant and equipment in EUR 000	
Discount rate (WACC)	(0.5)	0.5	4,050	(3,689)
NOPLAT (EBIT—tax)	(10)	10	(1,804)	1,803
CAPEX	(10)	10	10,242	(10,243)

The recoverable value of assets established in the TEŠ impairment test amounts to EUR 1,041,847,420, and amounts to EUR 68,497,000 for PV. Both have exceeded the book value of the assets of these cash-generating units, which means that no additional property impairments of these cash-generating units were needed.

The impairment of the implemented immovable property, which is not involved in principal activities and was valued by the fair value less the costs of the sale, were implemented at PV in the amount of EUR 186,285, and at Golte, additional impairment in the amount of EUR 1,235,757 was implemented.

In relation to immovable property, plant, and equipment valuation on 31 December 2016, given that the test impairment was carried out for the situation of 30 November 2016, the managing company assessed changes of the operational circumstances in the last quarter of the 2016 financial year. It was established that in the last month of the 2016 financial year, circumstances did not significantly change, which showed that the valuation of immovable property, plant, and equipment on 31 December 2016 was not changing in comparison to the situation of 30 November 2016.

In 2016, the useful lives of major assets were reviewed. It was established that the useful lives of some structures and equipment could be extended, which caused a reduction in depreciation. Due to this, in the 2016 financial year the amortisation of such structures and equipment equalled EUR 170,858, which is EUR 163,333 less than the depreciation calculated from their originally estimated useful lives.

The value of other equipment in the Group equals EUR 122,775, while there is no rented immovable property.

Mortgages of the Group on immovable property and equipment to secure loans amount to EUR 106,177,974 of book value (EUR 132,400,251 in 2015), of which EUR 1,294,939 on land, EUR 60,425,839 on structures, and EUR 44,457,196 on production equipment.

At the end of 2016, the Group's concluded contracts for the purchase of immovable property, plant, and equipment amounted to EUR 14,385,010.

Investment Property (3)

Item in EUR	31/12/2016	31/12/2015
Land	**125,562**	101,724
Buildings	**7,144,508**	6,601,529
Total	**7,270,070**	6,703,253

The main part of investment property are apartments. The valuation carried out by an accredited property valuator showed that the fair value of apartments was higher than the book value.

Investment property has been mortgaged in the amount of EUR 6,877,502.

G **Movement in 2016 and 2015**

Item in EUR	Land	Buildings	Total
Purchase value on 01/01/2016	**186,144**	**11,287,835**	**11,473,979**
Acquisitions		**289,648**	**289,648**
Transfers-postings	**50,636**	**2,273,499**	**2,324,135**
Disposals		**(401,516)**	**(401,516)**
Purchase value on 31/12/2016	**236,780**	**13,449,466**	**13,686,246**
Written-downs on 01/01/2016	**84,420**	**4,686,306**	**4,770,726**
Transfers-postings	**6,716**	**1,335,910**	**1,342,626**
Disposals		**(157,828)**	**(157,828)**
Depreciation		**282,962**	**282,962**
Impairment	**20,082**	**157,608**	**177,690**
Written-downs on 31/12/2016	**111,218**	**6,304,958**	**6,416,176**
Book value on 01/01/2016	**101,724**	**6,601,529**	**6,703,253**
Book value on 31/12/2016	**125,562**	**7,144,508**	**7,270,070**
Purchase value on 31/12/2015	0	663,738	663,738
Transfers-postings	186,144	10,661,282	10,847,426
Disposals		(37,185)	(37,185)
Purchase value on 31/12/2015	186,144	11,287,835	11,473,979
Written-downs on 01/01/2015	0	663,738	663,738
Transfers-postings	84,420	3,965,215	4,049,635
Disposals		(12,548)	(12,548)
Depreciation		69,901	69,901
Written-downs on 31/12/2015	84,420	4,686,306	4,770,726
Book value on 01/01/2015	0	0	0
Book vaue on 31/12/2015	101,724	6,601,529	6,703,253

G Other Long-Term Financial Investments and Loans (4)

Item in EUR	31/12/2016	31/12/2015
Long-term financial investments into associated companies	136,946,982	135,777,157
Long-term financial investments into jointly controled entities	456,851	463,255
Long-term financial assets available for sale	139,433	139,788
Other long-term financial investments	14,656	7,191
Long-term financial receivables and loans	165,376	163,125
Total	137,723,298	136,550,516

In 2016, there were no major changes regarding other long-term financial investments and loans; long-term financial investments to associated companies increased for the value of allocation per the equity method.

G Movement of Other Long-Term Financial Investments (Excluding Loans)

Item in EUR	2016	2015
Situation on 01/01	136,467,391	135,331,925
Acquisitions	7,465	(52,863)
Disposals	(134,459)	(21,892)
Transfers, postings	(230,000)	(150,000)
Increase in value	1,451,205	1,282,421
Impairments	(3,680)	(2,200)
Situation on 31/12	137,557,922	136,387,391

a) INVESTMENTS IN ASSOCIATED ENTITIES

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Item in EUR	31/12/2016	31/12/2015
ELDOM d.o.o.		134,459
ERICO d.o.o.	449,280	427,037
PLP d.o.o.	305,227	249,038
SIPOTEH d.o.o.		3,311
HESS d.o.o.	136,192,475	134,963,312
Total	136,946,982	135,777,157

The Group's most important investment in associated entities is the 49% share in the HESS company.

Besides the companies mentioned, the Group discloses investments in Filvoteh—in liquidation, Tehnoveter—in liquidation, and Karboteh—in liquidation, established and impaired in 2014; since 2015 is in the process of liquidation. The co-owner of these companies is RCE, which is bankrupt.

G Movement of Long-Term Financial Investments in Associated Entities

Item in EUR	2016	2015
Situation on 01/01	135,777,157	134,711,253
Sale of ELDOM	(134,459)	
Accrued profits by the equity method	1,307,964	1,168,176
Transfers, postings		(100,072)
SIPOTEH Impairments	(3,680)	(2,200)
Situation on 31/12	136,946,982	135,777,157

Changes in the value of investments in associated entities mainly refers to the attribution per the equity method.

The investment into PV Fairwood was depreciated in 2015, it had been inactive since its establishment in 2012 and so in 2015, a still-running liquidation process was started.

Erico and HESS have been audited; other associated entities have not been audited.

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Details of Associated Entities on 31 December 2016

Company	Address	Activity
ELDOM d.o.o.	Vetrinjska ulica 2, Maribor, Slovenia	real estate management on a fee or contract basis
ERICO d.o.o.	Koroška cesta 58, Velenje, Slovenia	environmental research, monitoring
PLP d.o.o.	Partizanska 78, Velenje, Slovenia	wood activities
SIPOTEH d.o.o.	Partizanska 79, Velenje, Slovenia	production of technological and mining equipment
PV Fairwood — in liquidation	Singapore	coal-mining modernisation
RCE d.o.o. —In bankruptcy	Preloška cesta 1, Velenje, Slovenia	research and development in other natural sciences and technology
FILVOTEH d.o.o.	Cesta Simona Blatnika 18, Velenje, Slovenia	other engineering activities and technical consultancy
TEHNOVETER d.o.o.	Cesta Simona Blatnika 18, Velenje, Slovenia	other engineering activities and technical consultancy
KARBOTEH d.o.o.	Cesta Simona Blatnika 18, Velenje, Slovenia	other engineering activities and technical consultancy
HESS d.o.o.	Cesta bratov Cerjakov 33a, Brežice, Slovenia	hydroelectricity production

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Important Amounts from 2016 Statements of Subsidiaries

Company	Assets	Liabilities (excluding capital)	Revenue	Net operating result of the financial year	Amount of total capital
HESS d.o.o.	354,375,804	77,598,973	1,613,467	2,508,492	276,776,831
SIPOTEH d.o.o.	1,167,033	2,074,149	1,534,760	(793,065)	(907,116)
ERICO d.o.o.	1,942,297	564,723	2,123,137	45,397	1,377,574
PLP d.o.o.	1,692,452	417,283	2,739,402	216,000	1,275,169
TEHNOVETER d.o.o. — in liquidation	121	11		(218)	110
KARBOTEH d.o.o. — in liquidation	1,195	11		(170)	1,184
Filvoteh d.o.o. — in liquidation	186	11	3,775	(5,534)	175
Total	**359,179,088**	**80,655,161**	**8,014,541**	**1,970,902**	**278,523,927**

b) INVESTMENTS IN JOINTLY CONTROLED ENTITIES

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Jointly controled entities	31/12/2016	31/12/2015
SOENERGETIKA d.o.o.	456,851	463,255
Total	**456,851**	463,255

Among the investments in jointly controled entities, a 25% interest in Soenergetika is included.

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Item in EUR	2016	2015
Situation of 01/01	**463,255**	451,683
Appropriation of accrued profits	(150,000)	(150,000)
Accrued profits by the equity method	143,596	161,572
Situation of 31/12	**456,851**	463,255

Important Amounts from 2016 Statements of Jointly Controled Entities

Company	Assets	Liabilities (excluding capital)	Revenue	Net operating result of the financial year	Total
SOENERGETIKA d.o.o.	3,895,850	2,008,101	3,490,602	634,839	1,887,749
Total	3,895,850	2,008,101	3,490,602	634,839	1,887,749

Deferred Tax Assets and Liabilities (5)

The Group disclosed deferred tax assets and liabilities, which in 2016 changed in a part of the impairment of the long-term financial investment to TET d. o. o. — in liquidation.

Deferred Tax Assets

Item in EUR	31/12/2016	31/12/2015
Provisions	459,620	421,873
Impairments	5,472,447	4,380,689
Depreciation	1,095	4,452
Other	22,280	199,083
Total	5,955,442	5,006,097

The 2016 change of deferred tax assets was disclosed in the value of EUR 949,345 and was recognised in the value of EUR 996,154 in the consolidated financial statement, and EUR -46,809 in the capital. The disclosed value recognised in the consolidated statement of the operating outturn also takes into account the effect of a 2017 change in the tax range; HSE represents the majority of the value, in the amount of EUR 499,663.

Deferred Tax Liabilities

Item in EUR	31/12/2016	31/12/2015
Financial assets	3,842	3,902
Total	3,842	3,902

Movement of Deferred Tax Assets

Item in EUR	Provisions	Impairment	Depreciation	Other	Total
Situation on 01/01/2016	421,873	4,380,689	4,452	199,083	5,006,097
To the debit/credit of the operating result	37,747	1,091,758	(3,357)	(129,994)	996,154
To the debit/credit of the second comprehensive income				(46,809)	(46,809)
Situation on 31/12/2016	459,620	5,472,447	1,095	22,280	5,955,442
Situation on 01/01/2015	482,938	4,380,689	7,658	299,850	5,171,135
To the debit/credit of the operating result	(61,065)		(3,206)	142,183	77,912
To the debit/credit of the second comprehensive income				(242,950)	(242,950)
Situation on 31/12/2016	421,873	4,380,689	4,452	199,083	5,006,097

Changes in deferred tax assets from provisions refer to changes in provisions for jubilee benefits, retirement allowances, and changes in other provisions.

A change of deferred tax liabilities due to impairments in 2016 represents an impairment of a long-term financial investment in a subsidiary which entered into liquidation in 2014.

Changes of deferred tax liabilities due to depreciation originate from the established differences between the business and tax deferrals in 2016.

Other changes of deferred tax liabilities mainly refer to changes of deferred tax liabilities due to changes in the fair values of currency swaps and the elimination of the impairment of liabilities.

G Movement of Deferred Tax Liabilities in 2016 and 2015

Item in EUR	Financial assets	Other	Total
Situation on 01/01/2016	**3,902**		**3,902**
To the debit/credit of the second comprehensive income	(60)		(60)
Situation on 31/12/2016	**3,842**	**0**	**3,842**
Situation on 01/01/2015	3,922	93	4,015
To the debit/credit of the operating result		(93)	(93)
To the debit/credit of the second comprehensive income	(20)		(20)
Situation on 31/12/2015	3,902	0	3,902

Assets Included in the Disposal Group (6)

Among the assets included in the disposal group, the group disclosed assets of a company in liquidation and assets intended for sale. In compliance with IFRS 5, due to the extension of the operations of a company in liquidation, it transferred short-term assets from assets for disposal to immovable property, plant, and equipment.

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31/12/2016	Assets included in the disposal group	Assets for sale	Total
DEM d.o.o.		291,208	291,208
TEŠ d.o.o.		201,723	201,723
HTZ d.o.o.		1,740,000	1,740,000
Golte d.o.o.		792,743	792,743
Total	0	3,025,674	3,025,674

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31/12/2015	Assets included in the disposal group	Assets for sale	Total
TET d.o.o. — in liquidation	7,561,174		7,561,174
DEM d.o.o.		3,250	3,250
SENG d.o.o.		63,676	63,676
TEŠ d.o.o.		201,723	201,723
PV d.d.		1,701,793	1,701,793
HTZ d.o.o.		2,087,004	2,087,004
Golte d.o.o.		774,672	774,672
Total	7,561,174	4,832,118	12,393,292

Assets intended for sale in 2016 mainly decreased due to the sale of a hotel structure.

G Inventories (7)

Item in EUR	31/12/2016	31/12/2015
Material	**11,650,700**	9,850,753
Work in progress	**860,731**	1,139,985
Products and merchandise	**6,632,545**	7,693,942
Total	**19,143,976**	18,684,680

The largest value of material inventories represent the inventories of reserve parts and material for maintenance, which are required for quick rectification of deficiencies and thus provision of reliable production operations.

By purpose of use, lands acquired for construction with the aim of a later sale are disclosed among the inventories of work in progress, which were impaired in the amount of EUR 135,759.

Among the inventories of products and merchandise, the majority is represented by coal.

There are no commodities that would be collateralised.

G Inventory Surpluses and Deficits

Item in EUR	31/12/2016	31/12/2015
Surpluses upon supply inventory	**8,251**	17,742
Deficits upon supply inventory	**(17,674)**	(17,239)

Short-term Financial Investments and Loans (8)

Item in EUR	31/12/2016	31/12/2015
Short-term financial receivables and loans to associated entities	147	34,373
Short-term financial receivables and loans to others, excluding interest		1,034
Short-term deposits to others	2,724,802	19,783,832
Total	2,724,949	19,819,239

The reduction of short-term deposits to others in comparison to 2015 mainly refers to a deposit in an amount of EUR 14,250,957 from commitments stipulated in the loan contract with EBRD, intended for the repayment of its annuity.

Short-term Operating Receivables from Clients (9)

Item in EUR	31/12/2016	31/12/2015
Short-term operating receivables and loans to associated entities	640,558	626,607
Short-term operating receivables and loans to joint controlled entities	468	234
Short-term operating receivables from clients	116,566,798	124,918,497
Total	117,207,824	125,545,338

Due to the production of electricity in subsidiaries and its purchase by the managing company, the majority of short-term receivables from purchasers represent receivables from the sales of electricity by the managing company.

Disclosures regarding maturity, design of adjustments of values of receivables from purchasers and insurance are presented in the chapter on the management of financial risks in this report.

Other Short-term Assets (10)

Item in EUR	31/12/2016	31/12/2015
Short-term advances	1,644,636	1,673,527
Short-term operating receivables from national and other institutions	26,026,100	24,654,801
Short-term operating receivables from others	828,780	4,553,905
Accrued revenue	1,534,387	486,352
Deferred charges and expenses	6,055,265	1,583,187
Total	36,089,168	32,951,772

The majority of receivables among other short-term assets are receivables from other state and other institutions where receivables mainly refer to the input value-added tax.

Deferred charges represent transactions related to electricity trading.

Cash and Cash Equivalents (11)

Item in EUR	31/12/2016	31/12/2015
Cash in hand and cheques received	62,824	57,472
Cash on deposit	49,974,690	33,069,184
Deposits redeemable	31,280,108	45,753,625
Deposits of up to 3-month maturity	2,167,772	
Total	83,485,394	78,880,281

In its operations, the Group uses transaction accounts open in Slovenia as well as abroad (particularly the managing company). Deposits redeemable mainly show assets in the form of overnight fixation on the treasury account in the framework of joining financial assets in the group (“cash pooling”).

Capital (12)

Item in EUR	31/12/2016	31/12/2015
Called-up capital	29,558,788	29,558,788
Capital reserves	561,243,183	561,243,183
Other profit reserves	413,856,351	413,856,351
Hedge reserve	1,740,624	(797,127)
Fair value reserve	(1,028,678)	(651,136)
Retained earnings	10,831,392	(10,774,315)
Translation reserve	(1,394,939)	(1,383,617)
Capital of the owners of non-controlling interests	413,631	696,949
Total	1,015,220,352	991,749,076

Capital reserves

Item in EUR	31/12/2016	31/12/2015
Share premium account	561,243,070	561,243,070
Amounts on the basis of reversal of the general revaluation capital adjustment	113	113
Total	561,243,183	561,243,183

The value of tangible assets, capital reserves, and other reserves did not change in 2016.

Other reserves from profit represent a part of transferred profits of the managing company, which were realised until 31 December 2013. From this date, the potential revenues of the management company distributed to other reserves from profit have not been transferred in consolidated statements and are disclosed in the retained operating outturn.

Among the hedge reserves on 31 December 2016 in the value of EUR 1,740,624, the group discloses:

- results of standardised electricity futures in the amount of EUR −94,140;
- results of standardised electricity futures in the amount of EUR −1,689,500;
- fair value of currency swaps in the amount of EUR−43,016.

G Movement of the Hedge Reserve

Item in EUR	Electricity futures	Emission allowance futures	Interest rate swaps	Foreign exchange swaps	Total
Situation on 01/01/2016	**(515,307)**		**(271,851)**	**(63,734)**	**(850,892)**
Provisioning, increase	**1,298,421**	**5,944,070**		**(43,015)**	**7,199,476**
Decrease	**(688,974)**	**(4,254,570)**	**283,284**	**63,733**	**(4,596,527)**
Deferred taxes			**(11,433)**		**(11,433)**
Situation on 31/12/2016	**94,140**	**1,689,500**	**0**	**(43,016)**	**1,740,624**
Situation on 01/01/2015	16,425		(1,621,363)	(37,401)	(1,642,339)
Provisioning, increase	83,658		935,827	(63,734)	955,751
Decrease	(615,390)		467,450	37,401	(110,539)
Situation on 31/12/2015	(515,307)	0	(218,086)	(63,734)	(797,127)

In 2016, the hedge reserve increased by EUR 2,537,751, which is mainly the consequence of increased trading with standardised futures on electricity markets and emission allowances.

Standardised electricity futures were transactions for the purchase of electricity on a foreign market for the period from 2017 to 2018, to secure transactions already concluded for the sales of electricity in the cited period. Standardised emission allowances futures were transactions for the purchase and sales of emission allowances on a foreign market from 2017 to 2020. A cumulatively positive financial effect in the amount of EUR 2,298,947 was achieved at concluded futures from the volatility of electricity price and emission allowances. For this reason, the Group did not include the deferred taxes, as upon the realisation of the transaction it would pay the price that was agreed upon the conclusion of the transaction.

In 2011, the Group entered into currency swaps, the fair value of which was negative at the end of 2015; including deferred taxes, it amounted to EUR −218,086. In 2016, the Group closed interest rate swaps and thus eliminated the fair value and deferred taxes.

In 2016, the Group closed currency swaps with the negative fair value of EUR −63,734 on 31 December 2015, including deferred taxes. In 2016, it concluded new transactions and also partly closed them. The entire change of the fair value is positive and amounts to EUR 20,718; the deferred tax liabilities increased by EUR 3,522. The negative fair value of open currency swaps equalled EUR 53,106 at the end of 2016; the Group wrote EUR 10,090 off of deferred receivables from taxes, so the final situation including taxes is EUR -43,016.

G Movement of the Fair Value Reserve

Item in EUR	Financial assets available for sale	Actuarial gains/losses at retirement allowances	Other	Total
Situation on 01/01/2016	**35,452**	**(729,356)**	**15,027**	**(678,877)**
Provisioning, increase		**21,056**		**21,056**
Decrease	**(295)**	**(430,238)**		**(430,533)**
Transfer to the transferred operating result		**31,936**		**31,936**
Exchange differences	**(2,638)**	**33,843**	**(3,462)**	**27,743**
Situation on 31/12/2016	**32,519**	**(1,072,759)**	**11,565**	**(1,028,675)**
Situation on 01/01/2015	32,912	(208,473)	11,565	(163,996)
Provisioning, increase		(430,670)	(1)	(430,671)
Decrease	(98)	(75,262)		(75,360)
Transfer to the transferred operating result		14,810		14,810
Situation on 31/12/2015	32,814	(699,595)	11,564	(655,217)

At the end of 2016, the Group holds the following in the fair value reserve:

- changes to the values of financial assets available for sale in the amount of EUR 32,519;
- actuarial losses in retirement allowances in the amount of EUR −1,072,761; and
- revaluation of land in the amount of EUR −11,565.

G Retained Earnings or Losses

Item in EUR	2016	2015
Net operating result of the financial year	**21,679,031**	(477,880,573)
Retained earnings	**(10,847,645)**	467,106,258
Total	**10,831,386**	(10,774,315)

At the end of 2016, the Group holds a profit in the amount of EUR 21,679,031. In 2016, the transferred operating outturn decreased by EUR 18,947, due to the acquisition of minority interest in PV and cumulatively reduced by EUR 54,384 for the loss from actuarial calculations for retirement allowances.

The translation reserve equals EUR 1,394,939 and represents exchange differences at the conversion of financial statements of subsidiaries abroad to the presentation currency of the group.

The capital of the owners of non-controlling interests represents the value of minority owners of non-controlling shares in subsidiaries and has been disclosed in the amount of EUR 413,631. The reduction in the equity of non-controlling interests in the amount of EUR 283,318, in comparison to the situation at the end of 2015 in the amount of EUR 696,949, is the consequence of the purchase of the entire minority interest in PV by the managing company in November 2016 and negative operating results in subsidiaries where the owners of non-controlling shares were present, in 2016.

G Non-controlling Interests

	31/12/2016	1-12 / 2016	31/12/2015	1-12 / 2015
Item in EUR	Non-controlling interests	Share of the profit or loss	Non-controlling interests	Share of the profit or loss
PV d.d.			534,897	(2,131,030)
HTZ IP d.o.o.			(103,685)	(35,362)
GOST d.o.o.		295	(51,495)	(1,502)
PV Invest d.o.o.	(17,975)		(31,993)	(2,769)
RGP d.o.o.			(17,144)	(6,577)
GOLTE d.o.o.	(266,056)	(18,216)	(318,000)	(152,891)
HSE Invest d.o.o.	448,068	1,650	432,858	107,218
SRESA d.o.o.	27,424	(3,146)	30,570	(240)
mHE LOBNICA d.o.o.	222,170	1,229	220,941	998
Total	413,631	(18,188)	696,949	(2,222,155)

The balance operating outturn is not established for the group.

G Provisions for Termination Benefits and Jubilee Premiums (13)

Item in EUR	31/12/2016	31/12/2015
Provisions for termination benefits upon retirement	10,292,327	10,568,067
Provisions for jubilee premiums	3,261,443	3,162,169
Total	13,553,770	13,730,236

The group discloses provisions for termination benefits and jubilee premiums, which have been allocated on the basis of the actuarial calculation on 31 December 2016.

Movement of Provisions for Termination Benefits and Jubilee Premiums

Item in EUR	Provisions for termination benefits	Provisions for jubilee premiums	Total
Situation on 01/01/2016	**9,505,034**	**3,162,169**	**12,667,203**
Provisioning-increase	**2,873,287**	**914,448**	**3,787,735**
Decrease-drawdown	**(1,182,465)**	**(507,656)**	**(1,690,121)**
Decrease-reversal	**(903,529)**	**(307,518)**	**(1,211,047)**
Situation on 31/12/2016	**10,292,327**	**3,261,443**	**13,553,770**
Situation on 01/01/2015	10,128,106	3,541,563	13,669,669
Provisioning-increase	1,218,632	472,970	1,691,602
Decrease-drawdown	(778,671)	(852,364)	(1,631,035)
Situation on 31/12/2015	10,568,067	3,162,169	13,730,236

The following was taken into account in the actuarial calculation:

- number of employees on 31 October 2016 (gender, age, overall occupational record, retirement occupational record, mean net and gross payment for the period from August to October 2016);
- the method of the calculation of retirement allowances and jubilee benefits in the Group's companies;
- long-term wage growth in the amount of 1.7% in 2017, 1.8% in 2018, and 2.2% annual from 2019;
- the selected discount interest rate in the amount of 1.2%, and
- the fluctuation of the employees per age classes.

Sensitivity Analysis for Termination Benefits and Jubilee Premiums

	2016				2015			
	Discount rate		**Salary growth**		Discount rate		Salary growth	
Item in EUR	**Decrease by 0.5%**	**Increase by 0.5%**	**Decrease by 0.5%**	**Increase by 0.5%**	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	**197,574**	**(182,528)**	**(179,429)**	**198,082**	240,657	(198,808)	(29,949)	66,761
Provisions for jubilee premiums	**81,661**	**(75,751)**	**(78,226)**	**82,424**	66,559	(59,712)	7,008	(1,322)
Total	**279,235**	**(258,279)**	**(257,655)**	**280,506**	307,216	(258,520)	(22,941)	65,439

Other Provisions (14)

Item in EUR	**31/12/2016**	31/12/2015
For lawsuits	**4,622,163**	4,508,442
For works of closure of coal mining pits	**30,539,052**	28,611,052
For decommissioning	**11,141,325**	8,970,186
For damages	**20,493**	20,493
Other provisions	**9,515,697**	9,503,640
Total	**55,838,730**	51,613,813

The increase of other provisions in comparison to the end of 2015 mainly refers to the increase in provisions for the costs of decommissioning of the 6 TEŠ replacement unit and the formation of provisions for closing works in coal mining pits.

Movement of Other Provisions

Item in EUR	For claims	For works of closure of coalmining pits	For decommis-sioning	For damages	Other provisions	Total
Situation on 01/01/2016	**4,508,442**	**28,611,052**	**8,970,186**	**20,493**	**9,503,640**	**51,613,813**
Provisioning-increase	**4,680,000**	**3,458,000**	**2,171,139**		**4,417,914**	**14,727,053**
Decrease-use	**(806,273)**				**(1,064,607)**	**(1,870,880)**
Decrease-reversal	**(3,760,006)**	**(1,530,000)**			**(3,341,250)**	**(8,631,256)**
Situation on 31/12/2016	**4,622,163**	**30,539,052**	**11,141,325**	**20,493**	**9,515,697**	**55,838,730**
Situation on 01/01/2015	5,080,471	28,993,052		43,293	3,444,439	37,561,255
Provisioning-increase	163,106	317,000	8,970,186		6,635,460	16,085,752
Decrease-use	(675,822)			(22,800)	(406,582)	(1,105,204)
Decrease-reversal	(59,313)	(699,000)			(169,677)	(927,990)
Situation on 31/12/2015	4,508,442	28,611,052	8,970,186	20,493	9,503,640	51,613,813

Provisions for lawsuits were allocated on the basis of the estimation of liability from lawsuits where the group appears as defendant. The allocation refers both to the increase from written statutory rates from part of the amounts of claimed sums. The use from provisions refers to payments after lost lawsuits. The allocated provisions shall be written-off in the event of the success of the defendant. At the end of the year, due to final court decisions, the group wrote off provisions for filed lawsuits.

The estimate of the amount of provisions required for closing works in the coal mine is most exposed to the risk of price changes in environmental remediation and monitoring services, the prices of material and construction services related to pit structures liquidation, change in the discount rate used, and the change of the envisaged period of the use of provisions. The last estimate of provisions was carried out on 31 December 2016, when it was concluded that the amounts must be increased to the total value of EUR 3,458,000.

On the basis of the energy permit and the estimate of costs for the dismantling and removing Unit 6 after the expiry of its useful life, TEŠ additionally allocated EUR 2,171,139.

On 31 December 2016, on the basis of the energy permit and the estimate of costs of dismantling, which was made on the basis of the amount of materials incorporated and expert estimates of their removal, TEŠ additionally allocated EUR 2,171,139. The estimates were supported by studies and costs estimates of the dismantling of some similar structures in Europe.

Other Long-Term Liabilities (15)

Item in EUR	31/12/2016	31/12/2015
Emission allowances	**173,446**	200,193
Other government grants received	**3,684,228**	4,495,509
Total	**3,857,674**	4,695,702

The majority of other long-term liabilities represent national support received, in particular assigned disability benefits, as described in the Vocational Rehabilitation and Employment of Disabled Persons Act. They are used to cover costs defined under this Act.

G Movement of Other Long-term Liabilities

Item in EUR	Emission allowances	Other government grants received	Total
Situation on 01/01/2016	**200,193**	**4,495,509**	**4,695,702**
Acquisitions		**6,235,675**	**6,235,675**
Disposals	**(26,747)**	**(7,046,956)**	**(7,073,703)**
Situation on 31/12/2016	**173,446**	**3,684,228**	**3,857,674**
Situation on 01/01/2015	338,138	7,842,476	8,180,614
Acquistions		11,708,112	11,708,112
Disposals	(137,945)	(9,356,625)	(9,494,570)
Release		(5,698,454)	(5,698,454)
Situation on 31/12/2015	200,193	4,495,509	4,695,702

G Long-term Financial Liabilities (16)

Item in EUR	**31/12/2016**	31/12/2015
Long-term financial liabilities to banks	**845,065,756**	716,626,111
Other long-term financial liabilities	**3,151,787**	37,984
Total	**848,217,543**	716,664,095

Long-term financial liabilities to banks are represented by long-term bank loans. The loans are granted by domestic and foreign banks on fixed or variable rates; depending on the type of loan, maturity, and the time of borrowing on 31 December 2016, they range from 0.11% to 5.20%. Other long-term financial liabilities mainly represent the assignment of the receivables from the creditor bank at Golte to a new creditor.

The principal values of the credits maturing in 2017 were listed with short-term liabilities to banks in the amount of EUR 46,434,820. In 2016, EUR 171,980,362 of long-term loans were paid.

Movement in 2016 and 2015

Item in EUR	Long-term financial liabilities to banks	Other long-term financial liabilities	Total
Situation on 01/01/2016	**716,626,111**	**37,984**	**716,664,095**
Acquisitions	**183,750,000**		**183,750,000**
Transfers to short-term liabilities	**(46,434,820)**	**(22,096)**	**(46,456,916)**
Transfers from short-term liabilities	**1,342,440**	**1,116**	**1,343,556**
Repayments	**(5,319,239)**	**(2,777)**	**(5,322,016)**
Other	**(4,898,735)**	**3,137,560**	**(1,761,175)**
Situation on 31/12/2016	**845,065,757**	**3,151,787**	**848,217,544**
Situation on 01/01/2015	875,587,140	2,034,991	877,622,131
Acquisitions	79,903,030	574	79,903,604
Transfers from short-term liabilities	377,127	1,020	378,147
Transfers to short-term liabilities	(175,585,163)	(82,649)	(175,667,812)
Repayments	(63,656,023)	(4,845)	(63,660,868)
Other		(1,911,107)	(1,911,107)
Situation on 31/12/2015	716,626,111	37,984	716,664,095

In January 2016, the company made early repayment of EUR 110,000,000 of the long-term loan from the European Investment Bank because the validity of the bank guarantee with which the long-term loan was secured had ceased. TEŠ was not able to achieve an extension of the bank guarantee because the creditor banks were not prepared to extend the validity of the guarantee for a period of five years as was demanded by the European Investment Bank, nor did they meet the credit rating criteria of the European Investment Bank. Due to the early repayment of the loan from the European Investment Bank, TEŠ, in accordance with the provisions of the European Bank for Reconstruction and Development, proportionally repaid the long-term investment by the European Bank for Reconstruction and Development in the amount of EUR 37,828,517, which was disclosed by TEŠ in the context of short-term financial liabilities.

In December 2016, HSE took out a long-term loan from the syndicate of domestic and international business banks in the amount of EUR 180,000,000 with maturity until 2021, and ensured itself a long-term revolving loan in the amount of EUR 50,000,000, which on 31 December 2016 was not yet drawn up. By taking this long-term loan, a short-term bridging loan in the amount of EUR 215,000,000 was repaid.

Long-term loans are secured with notes, mortgages, assignment of receivables, collateralisation of accounts, financial assets, and business interests, with the guarantee of the managing company or the guarantee of the Republic of Slovenia.

Maturities by date are disclosed by Liquidity Risk.

Liabilities Included in the Disposal Group (17)

In 2016, liabilities included in the disposal group are no longer shown because the company, which has been in liquidation since 2014, is extending its operations.

Short-term Financial Liabilities (18)

Item in EUR	31/12/2016	31/12/2015
Short-term financial liabilities to banks, excluding interest rates	**50,822,883**	297,415,255
Short-term financial liabilities to banks, including interest rates	**208,541**	464,390
Short-term derivatives	**53,106**	
Other short-term financial liabilities	**302,907**	561,467
Total	**51,387,437**	298,441,112

The principal of short-term financial liabilities are liabilities from bank loans.

Short-term financial liabilities to banks are a part of the group's long-term investments which become due one year after the date of the consolidated statement of the financial position, and short-term investments. The interest rates of short-term investments range from 0.63% to 4.95%.

A reduction of short-term financial liabilities in comparison with the situation at the end of 2015 is the consequence of the repayment of short-term loans and the substitution of short-term loans with long-term ones.

Movement in 2016 and 2015

Item in EUR	Short-term financial liabilities to banks, with short-term financial liabilities without interest	Short-term financial liabilities to banks, with short-term financial liabilities for interest	Short-term derivatives	Other short-term financial liabilities	Total
Situation on 01/01/2016	**297,415,255**	**464,390**	**392,960**	**168,507**	**298,441,112**
Acquisitions	**151,369,226**	**32,506,047**		**6,584,556**	**190,459,829**
Transfer from long-term liabilities	**46,434,820**			**22,096**	**46,456,916**
Transfer to long-term liabilities	**(1,342,440)**			**(1,116)**	**(1,343,556)**
Short-term loan repayments	**(275,894,758)**	**(32,605,027)**		**(6,447,876)**	**(314,948,427)**
Long-term loan repayments	**(166,661,123)**			**(23,260)**	**(166,684,383)**
Other	**(498,097)**	**(156,869)**	**(339,854)**		**(994,054)**
Situation on 31/12/2016	**50,822,883**	**208,541**	**53,106**	**302,907**	**51,387,437**
Situation on 01/01/2015	57,113,108	462,258	45,061	1,154,260	58,774,687
Acquisitions	294,000,876	29,974,655		2,642,108	326,617,639
Transfers from long-term liabilities	175,585,163			24,390	175,609,553
Transfers to long-term liabilities	(377,127)			(1,020)	(378,147)
Short-term loan repayments	(190,733,411)	(29,986,181)		(3,629,031)	(224,348,623)
Long-term loan repayments	(38,173,354)			(22,260)	(38,195,614)
Other		13,658	347,899	60	361,617
Situation on 31/12/2015	297,415,255	464,390	392,960	168,507	298,441,112

Short-term Operating Liabilities to Suppliers (19)

Item in EUR	**31/12/2016**	31/12/2015
Short-term operating liabilities to associated entities	**1,480,440**	1,777,619
Short-term operating liabilities to jointly controlled entities	**73,865**	38,881
Short-term operating liabilities to suppliers	**105,889,721**	97,336,004
Total	**107,444,026**	99,152,504

Disclosures in relation to the maturity of liabilities to suppliers are listed with the liquidity risk.

Other Short-term Liabilities (20)

Item in EUR	**31/12/2016**	31/12/2015
Short-term accrual-based operating liabilities	**572,400**	335,036
Short-term operating liabilities to employees	**17,327,708**	11,889,499
Short-term operating receivables from national and other institutions	**26,165,045**	24,118,336
Short-term operating liabilities to others	**1,648,510**	2,321,944
Short-term deferred revenue	**183,692**	38,368
Short-term costs and provisions and accrued expenses	**11,332,295**	12,547,274
Total	**57,229,650**	51,250,457

Among other short-term liabilities, liabilities to national and other institutions represent almost half of the value, where the majority is tax liability for the added value and the liability from the surrender of emission allowances to the state. Approximately half of other short-term liabilities are liabilities to employees, which in the majority refer to December emoluments paid out in January 2017. Among them, the Group also lists liabilities from unused leave in the amount of

EUR 2,485,594 (EUR 1,571,079 in 2015). Short-term accrued charges represent the charges of accrued interest rates and bank guarantees, compensation costs, and costs related to the purchase of electricity.

G Contingent Liabilities (21)

Item in EUR	31/12/2016	31/12/2015
Performance / deficiency rectification warranties	1,879,213	1,514,808
Other	2,066,317	2,066,317
Total	3,945,530	3,581,125

Performance/deficiency rectification warranties include the Group's warranties to third parties from executed transactions.

Among other contingent liabilities are guarantees or warranties of the Company to third parties and the estimated values of lawsuits, for which it is estimated that the value that the Group loses from them is small.

3.5.6.2 Consolidated Profit ond Loss Statement

G Net Sales (22)

Item in EUR	2016	2015
On the domestic market	**455,189,359**	**552,228,620**
Electricity	433,092,160	523,590,011
Heat	3,886,449	3,024,273
Other products	349,847	126,171
Other commodities and material	1,304,641	5,883,180
Other services	16,556,262	19,604,985
On the foreign markets	**724,651,862**	**671,782,404**
Electricity	716,641,585	652,152,161
Other products	6,081	11,011
Other commodities and material	697,791	506,835
Other services	7,306,405	19,112,397
Total	1,179,841,221	1,224,011,024

The majority of net sales in the amount of EUR 1,179,841,221 is revenue from the sale of electricity by the managing company.

Revenue from heat in the amount of EUR 3,886,449 refers in its entirety to the revenue of TEŠ, which is from producing heat.

Among the sales of other commodities and material in the amount of EUR 2,002,432, the majority is the sale of waste material and the value of the sale of emission allowances.

The revenue from other services in the amount of EUR 23,862,667 was created mainly through electricity-related services (transmission capacities, guarantees of origin etc.), while the rest are construction, mining, and maintenance services, tenancies of immovable property, and other services.

Capitalised Own Products (23)

Capitalised proper products and services in the amount of EUR 6,806,793 mainly refer to:

- hydroelectric power construction and reconstruction engineering, and
- works related to pit objects.

G Other Operating Revenue (24)

Item in EUR	2016	2015
Revenue from reversal of provisions	5,533,250	1,718,552
Drawdown of deferred revenue	6,991,517	9,223,071
Reversal of impairment of receivables	199,568	2,330,762
Revenue from damages and contractual penalties	358,937	368,312
Interests on arrears	155,334	129,784
Revenue from the sale of fixed assets	3,095,215	1,582
Other	3,520,086	1,631,349
Total	19,853,907	15,403,412

Among other operating revenue, the drawing up of deferred revenue represents the largest part and mainly refers to the utilisation of contributions assigned to disabled employees.

An important amount of other operating revenue is revenue from the elimination of provisions for claims and provisions for closing works in the coal mine, revenue from the sale of fixed assets from hotel activity, and sale of non-operating assets and the rest, where the majority is the elimination of the compensation allocated last year for the termination of contracts.

G Costs of goods, material, and services (25)

Item in EUR	2016	2015
Total purchase costs of the goods sold	793,596,357	888,647,041
Costs of materials	32,156,932	32,143,427
Costs of services	34,244,457	39,598,676
Total	859,997,746	960,389,144

G

Item in EUR	2016	2015
Purchase costs of the goods sold	766,081,348	839,478,116
Related costs of the goods sold	27,515,009	49,168,925
Total purchase cost of the goods sold	**793,596,357**	**888,647,041**
Costs of materials	22,573,017	22,754,595
Costs of ancillary materials	2,419,149	2,241,724
Energy costs	1,772,182	1,921,001
Spare parts costs	4,265,666	4,094,312
Small tools costs	299,819	279,529
Stationery	310,750	341,998
Specialised literature	222,975	135,674
Operating expenditure for the canteen	90,336	322,203
Harmonisation of the materials and small tools costs	132,997	
Other	70,041	52,391
Total cost of materials	**32,156,932**	**32,143,427**
Costs of service upon product creation	3,682,992	8,207,227
Costs of transport services	824,242	997,803
Costs of maintenance	8,680,398	9,816,450
Costs of leases	2,073,929	1,554,518
Rental costs	257,203	250,752
Insurance and bank services costs	5,393,073	5,091,555
Intellectual and personal services costs	4,010,888	4,060,364
Research and development costs	200,893	241,140
Trade fair costs, advertising costs, representation costs	626,328	877,427
Costs of natural person services	1,021,461	1,186,618
Municipal services	3,708,831	3,770,265
Costs of mining-related damages	903,043	532,423
Costs of security and surveillance	166,798	299,935
Cleaning costs	341,416	454,032
Coal sorting costs	105,552	
Subscriptions	197,663	226,639
Real estate management	85,729	343,716
Landfills management costs	1,227,986	894,511
Other	736,032	793,302
Total costs of services	**34,244,457**	**39,598,677**
Total	**859,997,746**	**960,389,145**

The purchase value of the commodities sold in the amount of EUR 793,596,357 mainly comprises electricity purchase costs and costs related to this.

Of the materials costs in the amount of EUR 32,156,932, the most important values are the costs of energy products required for the production of electricity (excluding coal costs) and heat and costs of spare parts and maintenance materials.

Of the cost of service in the amount of EUR 34,244,457, the majority comprises the costs of maintenance of the Group's fixed assets, insurance costs, cost of intellectual and personal services, and municipal services. Compared to 2016, the services costs decreased by 13%, in particular due to the reduction of the extent of operations in construction abroad.

Audit Expenses

Item in EUR	2016	2015
Annual report audit	**137,141**	146,356
Other non-audit services	**71,138**	
Total	**208,279**	146,356

In 2016, the Group's financial statements were audited by the KPMG Slovenia audit company, which at the same time also reviewed the accounting information of subsidiaries abroad, which are included in consolidated financial statements, but their financial statements were not audited in their state of residence. Three companies registered abroad were audited by audit companies in their respective countries.

In addition to the audit of the annual report for the financial year 2016, the company paid auditors, in particular KMPG Slovenia, for the investigation of the financial report and the verification of the consistency of the information in its prospect in the procedure of bond issue, in the total amount of EUR 71,138.

Labour Costs (26)

Item in EUR	2016	2015
Salaries	**89,391,108**	96,317,527
Retirement insurance costs	**14,907,276**	14,427,376
Costs of other insurance	**6,529,240**	6,590,422
Other labour costs	**13,883,655**	12,153,228
Total	**124,711,279**	129,488,553

Labour costs include costs of wages and compensation, costs of social security, costs of additional retirement insurance, and other costs of work (workplace meals, travelling to and from work, annual leave, solidarity help, provisions for jubilee benefits and retirement allowance, etc.). Labour costs also include compensation for leave not taken from 2016, which may be used by the employees until 30 June 2017.

Number of Employees and Mean Number of Employees by Education Structure

Education class	On 01/01/2016	On 31/12/2016	Average no. of empl.
1	162	153	158
2	104	101	103
3	68	56	62
4	1,165	1,094	1,130
5	885	817	851
6/1	355	338	347
6/2	209	196	203
7	295	270	283
8/1	61	72	67
8/2	15	13	14
Total	**3,319**	**3,110**	**3,215**

Write-Downs (27)

Item in EUR	2016	2015
Amortisation of intangible assets	**1,071,702**	1,311,219
Depreciation of property, plant, and equipment	**75,826,482**	79,730,899
Depreciation of investment property	**282,962**	69,901
Debt impairment/write-down	**736,282**	3,762,867
Supplies impairment/ write-down	**135,759**	6,249,777
Property, plant, equipment, intangible assets, and investment property impairment	**1,641,206**	470,044,869
Property, plant, and equipment impairment	**792,025**	3,764,942
Property, plant, equipment, and investment property impairment	**176,503**	186,522
Total	**80,662,921**	565,120,996

The bulk of write-down values in 2016 represents the amortisation of properties, plants and equipment and intangible assets. The impact of weakening of fixed assets in 2015, influenced a lower depreciation in 2016.

For the same type of intangible assets and fixed assets, similar depreciation rates are used in the group, while for production equipment used in individual companies such rates are appropriate for the activity carried out by the company.

For fixed assets acquired through government grants or complimentary, depreciation is accounted separately, for the value of the accrued depreciation, deferred revenues are drawn and other operating incomes are demonstrated.

Among the value adjustments of trade receivables, doubtful receivables from operating activities are recognised, which is disclosed in the credit risk in this report.

G Other Operating Expenses (28)

Item in EUR	2016	2015
Provisioning	3,506,071	663,106
Ground exploitation fee	8,351,414	8,759,638
Concessions	12,745,573	11,864,405
Environmental protection expenditure	37,126,651	29,780,096
Grants	242,487	325,695
Other operating expenses	2,290,734	9,355,968
Total	64,262,930	60,748,908

Among operating expenses the most important are environmental protection expenditures (expenses of allowances and water charges), contributions to the country and the concession compensation for the use of building land. The increase in expenditure on environmental protection is affected by the higher cost of allowances (higher thermoelectric production and higher coal consumption).

Financial result (29)

In 2016, the group recorded a negative financial result in the amount of EUR 41,527,519 (the result was also negative in 2015 in the amount of EUR 26,842,107). The reason for the lower financial result lies primarily in higher interest rates for loans, which is explained in detail in continuation.

G Financial Revenues

Item in EUR	2016	2015
Financial revenue from dividends and other share in the profits	15,960	2,960
Financial revenue from loans and deposits	25,145	140,736
Change in the fair value of financial investments through profit or loss	45,949	68,598
Financial revenue from the sale of financial investments	8,421	19,732
Net exchange-rate gains from financing		1,156
Other financial products	51,431	134,129
Total	146,906	367,311

The proportion of positive profit or loss of associates and joint ventures, accounted with the use of the equity method, is recorded in the consolidated income statement in item 11 of this report. The share of profit or loss of associates and joint ventures for the year 2016 amounted to EUR 1,453,270.

G Financial Expenses

Item in EUR	2016	2015
Interest expenditure	33,920,813	20,078,344
Change in the fair value of financial investments through profit or loss	843,541	170,631
Financial expenditure from the sale of financial investments	27,747	
Other financial expenditure	8,335,594	6,960,443
Total	43,127,695	27,209,418

Financial expenses increased by 58% in comparison with the same period last year. The reasons for the increase in financial expenses are as follows: completion of the investment in the replacement Unit 6 TEŠ (during construction, the financing costs were recognised as an investment cost) and higher interest rates on contracts for leased long-term and short-term loans. Financial expenses for interest also take into consideration interest rates of interest rate swaps in the amount of EUR 413,592.

Changes in the fair value of financial assets through profit and loss show losses from trading activities in futures for electricity in the amount of EUR 287,593 and losses from trading activities in futures with emission allowances in the amount of EUR 519,730 of HSE company.

Among other financial expenses were in majority costs of guarantees related to borrowing.

G Tax (30)

Item in EUR	2016	2015
a. Current tax	13,596,574	11,007,032
b. Deferred taxes	(996,154)	(77,914)
Total income tax	12,600,420	10,929,118
Deferred taxes recognised in the capital	(1,283)	56,899

Companies of the group are liable for corporation tax, value-added tax, financial services and excise tax.

For the year 2016, the obligation for payment of corporation tax fell upon five of fourteen companies of the group in Slovenia, and three out of five of the groups companies in other countries. Other companies did not establish a basis for the payment due to tax relief, drawing tax losses and negative operating results.

The current tax liability of the group companies for the year 2015 amounts to EUR 13,596,574, which is approximately 23% more than in 2015. The group's companies current tax at the end of 2016 shows EUR 74,980 against current tax assets and EUR 3,533,300 against current tax liabilities.

Deferred taxes relate to deferred tax assets recognised in the amount of probable profits against which tax can be offset in the future. Deferred tax assets are reduced by an amount which is no more likely to be realised, or tax deductible expenses. Expenditure has been included in the tax statements for the current year. Among deferred taxes, the Group recorded deferred tax assets in the amount of EUR 5,955,443 and EUR 3,842 in deferred tax liabilities. Detailed disclosure of deferred tax assets and liabilities are disclosed in Note 4 of the consolidated statement of financial position.

At the end of 2016 the group companies have unused tax losses in the amount of EUR 789,527,951, for which they did not create deferred tax assets.

In determining the current tax base, incomes and expenses, determined in accordance with the IFRS, were corrected in terms of increase and reduction of the tax base, as shown in the table below.

G Calculation of Effective Tax Rate

Item in EUR	2016	2015
Pre-tax operating result	**34,641,689**	(470,725,587)
Taxes calculated at the applicable tax rate	**5,902,839**	(80,012,725)
Income taxes reducing the assessment base	**(1,014,329)**	(313,440)
Taxes from deductible expenses	**(825,633)**	(589,338)
Taxes from the expenses reducing the basis of assessment	**(202,499)**	(292,456)
Taxes from non-deductible expenses	**955,567**	2,795,934
Taxes from other changes in the tax balance sheet	**465,855**	9,113
Tax effects of unrecognised deferred tax losses	**8,314,775**	89,407,944
Tax levied	**13,596,574**	11,007,032
Deferred taxes	**(996,154)**	(77,914)
Total taxes	**12,600,420**	10,929,118
Effective tax rate	**36.37%**	-2.32%

G Net Profit or Loss (31)

Item in EUR	2016	2015
Gross operating profit	**1,205,423,664**	1,272,186,421
Operating result	**75,788,791**	(443,561,179)
Financial result	**(42,980,789)**	(26,942,179)
Pre-tax operating result	**34,261,272**	(469,173,610)
Net operating result of the financial year	**21,660,852**	(480,102,728)

In 2016 the HSE Group generated a net profit in the amount of EUR 21,660,852, while in 2015 it operated at a loss, due to asset impairments.

3.5.6.3 Related Companies

Data on Operations Between Related Companies

Item in EUR	Sales	Purchases	Loans granted on 31/12/2016	Other receivables	Other liabilities on 31/12/2016
Associated entities	2,836,581	9,848,308	147	640,558	1,480,905
Jointly controlled entities	145,690	550,751		468	73,865
Total	**2,982,271**	**10,399,059**	**147**	**641,026**	**1,554,770**

The Group operated with related parties based on sale/purchase contracts. The turnover of all transactions (excluding VAT) including financial revenues is recorded between sales and purchases. Most of the transactions with associated companies relate to the purchase of electricity from the company HESS and attribution of profits to this company.

Among the most important transactions with related parties, we highlight the following:

- transactions with associates and jointly controlled companies and
- transactions with companies directly or indirectly owned by the Republic of Slovenia (more than 50% ownership), which in terms of the size of the transaction are important for the group (revenues and expenses in the period of 2016 exceed EUR 2 million), with the exception of banks where all transactions are disclosed. Transactions relate mostly to electricity trading and the funding of the HSE Group.

The parent company is 100% owned by the Republic of Slovenia. In 2016 dividends were not paid.

Transactions with the Republic of Slovenia and with the Legal Persons that are Directly Owned by the Republic of Slovenia

Counterparty	Receivables outstanding on 31/12/2016	Liabilities outstanding on 31/12/2016	Revenues 01-12/2016	Expenses 01-12/2016
ELES d.o.o.	2,973,658	425,394	25,060,578	2,496,420
BORZEN d.o.o.	1,514	266,138	795,246	5,641,771
ELEKTRO PRIMORSKA d.d.			80,292	
PETROL d.d.	7,750,794	7,528,458	64,633,767	56,775,518
GEN ENERGIJA d.o.o.	350,054	13,630	4,639,856	119,382
STELKOM d.o.o.		55,013		542,211
E3 d.o.o.	5,075,480	20,381	42,103,081	1,817,447
GEN-I d.o.o.	207,265	400,493	45,696,021	41,247,274
BSP d.d.	124,586	178,188	52,138,163	17,978,388
ELEKTRO ENERGIJA d.o.o.	2,539,197	1,658,104	22,737,504	16,046,172
ECE d.o.o.	11,187,108	356,733	103,434,390	2,008,230
ELEKTRO MARIBOR ENERGIJA PLUS d.o.o.	5,514,411	55,469	48,187,980	866,907
Energy companies—total	**35,724,066**	**10,958,002**	**409,506,879**	**145,539,721**
TALUM d.d.	1,903,094		18,381,032	
Aluminium production	**1,903,094**	**0**	**18,381,032**	**0**
NLB d.d.		15,704,122	62	76,548
SID d.d.		53,818,182		1,423,445
Banks—total	**0**	**69,522,304**	**62**	**1,499,992**
Total	**37,627,160**	**80,480,305**	**427,887,972**	**147,039,713**

3.5.6.4 Remunerations

Remunerations of managers and employees who are not subject to the tariff part of the collective agreement include:

- gross remunerations that are included in the income tax return notice,
- other benefits (food, transport, daily allowance, untaxed part of jubilee benefits) and
- premiums for voluntary supplementary pension insurance.

Remunerations of Supervisory Board members include gross attendance fees of all members (change of the members of the Supervisory Board during the year) and travel expenses for carrying out the function in Supervisory Boards and their committees.

Board members and managerial staff, employees that are not subject to the tariff part of collective agreements and the members of the supervisory boards of group companies did not receive profit shares from the Assembly, nor did companies granted advances, new loans or guarantees in 2016 by HSE Group companies.

G **Remunerations in 2016 and 2015**

Item in EUR	Salary	Other emoluments	Bonuses	Reimbursement	Meeting expenses	Total
Members of the Management Board	**1,093,850**	**98,692**	**34,943**	**25,690**	**6,349**	**1,259,524**
Members of the Supervisory Board and of the Supervisory Board's committees		**268,022**	**3,291**	**8,946**	**268,022**	**280,259**
Employees for whom the tariff part of the collective agreement does not apply	**1,272,190**	**61,280**	**41,268**	**22,157**		**1,396,895**
Total 2016	**2,366,040**	**427,994**	**79,502**	**56,793**	**274,371**	**2,936,678**
Members of the Management Board	1,183,336	34,869	31,562	26,451		1,276,218
Members of the Supervisory Board and of the Supervisory Board committees		174,805	166	4,739		179,710
Employees for whom the tariff part of the collective agreement does not apply	2,064,265	336,504	40,140	35,944		2,476,853
Total 2015	3,247,601	546,178	71,868	67,134		3,932,781

G **Remunerations of the Management Board Members of group companies in 2016**

Item in EUR	Company	Gross salary	Other emoluments	Bonuses	Reimbursement	Gross meeting expenses	Total
Blaž Košorok	HSE	88,521	63,723	715	1,122		154,081
Stojan Nikolić	HSE	128,599	3,610	5,852	1,761	6,349	146,171
Gorazd Skubin	HSE	48,714	4,978	3,463	856		58,011
Viljem Pozeb	DEM	111,909	3,620	3,227	1,650		120,406
Marjan Pintar	SENG	107,865	3,620	4,361	1,765		117,611
Arman Koritnik	TEŠ	107,816	3,686	6,827	133		118,462
Ludvik Golob	PV	94,848	3,415	2,708	2,121		103,092
Mojca Letnik	PV	90,106	2,398	315	1,359		94,178
Marjan Hudej	RGP	60,366	2,586	1,733	1,450		66,135
Sandi Ritlop	HSE Invest	103,196	1,271	5,666	1,604		111,737
Ernest Kovač	GOLTE	39,780	801		5,626		46,207
Suzana Koželjnik	HTZ	57,854	2,586	37	1,306		61,783
Janez Rošer	PV Invest	54,276	2,398	39	4,937		61,650
Total		**1,093,850**	**98,692**	**34,943**	**25,690**	**6,349**	**1,259,524**

G Remunerations of the Supervisory Board Members of group companies in 2016

Item in EUR	Company	Gross meeting expenses	Travel expenses	Bonuses	Total
Drago Potočnik	GOLTE	2,440			2,440
Janko Lukner	GOLTE	458			458
Tina Blazinšek	GOLTE	760			760
Sonja Krk	GOLTE	1,324			1,324
Lidija Gregorn	GOLTE	363			363
Boštjan Jančar	HSE	16,564	366	211	17,141
Boštjan Markoli	HSE	20,070	153	221	20,444
Jernej Otič	HSE	16,378	1,365	211	17,954
Črt Slokan	HSE	16,102	1,289	211	17,602
Drago Štefe	HSE	17,240	336	211	17,787
Miloš Pantoš	HSE	18,873	21	211	19,105
Milan Perović	HSE	13,284	201	208	13,693
Viktor Vračar	HSE	9,911	140	208	10,259
Matjaž Marovt	HSE	9,911	452	208	10,571
Barbara Gorjup	HSE	10,186	34	208	10,428
Damjan Lipušček	HSE	10,187	592	208	10,987
Vanja Živanić Jovanović	HSE	10,186		208	10,394
Drago Polak	HSE Invest	1,815		26	1,841
Irena Šlemic	HSE Invest	1,287		1	1,288
Alida Rejec	HSE Invest	1,815		26	1,841
Andrej Tumpej	HSE Invest	1,815		26	1,841
Katja Rejec	HSE Invest	1,815		26	1,841
Gregor Cenc	HSE Invest	1,815		26	1,841
Ivan Zagožen	HSE Invest	1,073		26	1,099
Stojan Nikolić	PV	6,349		209	6,558
Danilo Rednjak	PV	1,980		200	2,180
Bojan Brcar	PV	2,112		10	2,122
Uroš Podobnik	PV	1,716		200	1,916
Total		197,829	4,949	3,300	206,078

G Remunerations of Members of Audit Committees of Supervisory Boards in 2016

Item in EUR	Company	Gross meeting expenses	Travel	Total
Boštjan Jančar	HSE	4,365		4,365
Boštjan Markoli	HSE	4,783	13	4,796
Barbara Gorjup	HSE	3,204	23	3,227
Darinka Virant	HSE	7,481	621	8,102
Damir Rakela	HSE	7,481	72	7,553
Maja Zaman Groff	HSE	5,989	37	6,026
Total		33,303	766	34,069

Remunerations of Members of the Staff Nomination Committee of the Supervisory Board in 2016

Item in EUR	Company	Gross meeting expenses	Travel expenses	Total
Jernej Otič	HSE	2,167	124	2,291
Črt Slokan	HSE	2,167	129	2,296
Miloš Pantoš	HSE	2,854	126	2,980
Total		7,188	379	7,567

Staff - Nomination Commission was operational until 13 May 2016. After the dismissal of the Personnel - Nomination Committee, on 13 May 2016 the Supervisory Board called the Personnel Committee of the Supervisory Board of the HSE and employee representative with the decision of the Workers' Council of 16 May 2016, whose benefits are shown in the table below:

Remunerations of Members of Nomination Commission of Supervisory Boards in 2016

Item in EUR	Company	Gross meeting expenses	Travel expenses	Total
Jernej Otič	HSE	2,393	172	2,565
Črt Slokan	HSE	2,393	387	2,780
Milan Perović	HSE	3,171	40	3,211
Matjaž Marovt	HSE	2,393	238	2,631
Total		10,350	837	11,187

Remunerations of Members of the Reconstruction Committee in 2016

Item in EUR	Company	Gross meeting expenses	Travel expenses	Total
Miloš Pantoš	HSE	2,180	8	2,188
Viktor Vračar	HSE	3,437	14	3,451
Matjaž Marovt	HSE	2,657	396	3,053
Vanja Živanić Jovanović	HSE	2,437		2,437
Total		10,711	418	11,129

Remunerations of Members of the Marketing and Investments Committee in 2016

Item in EUR	Company	Gross meeting expenses	Travel expenses	Total
Boštjan Markoli	HSE	1,541	239	1,780
Drago Štefe	HSE	1,966	327	2,293
Miloš Pantoš	HSE	2,202	357	2,559
Viktor Vračar	HSE	1,981	244	2,225
Damjan Lipušček	HSE	1,981	430	2,411
Total		9,671	1,597	11,268

3.5.6.5 Financial Instruments and Risks

This section is related to the chapter Financial Risk Management and the chapter on financial risks in the operations part.

3.5.6.5.1 Credit Risk

More than 97% of net revenues from group sales refers to the activity of electricity trading; that is why the major part of the activities for managing credit risk is concentrated in the parent company. The HSE manages credit risk in accordance with the procedures described in the section Credit Risks in the Financial Report of the company, which describes the structure of current assets of the company and its management. HSE, that buys the bulk of production from its subsidiaries and production units of the group, meets its obligations under the terms of contracts for the purchase of electricity that HSE concludes annually with production subsidiaries. Electricity is then sold on the market, which means that the HSE is most exposed to credit risk. The credit risks of subsidiaries are controlled in accordance with internal policies and procedures of the individual subsidiary.

Group companies manage credit risk with scrutiny and discretion in choosing their business partners prior to their approval, regular monitoring of each individual business partner after their approval and a conservative approach by setting restrictions on the volume of business with an individual business partner.

Trade receivables are secured by bank guarantees, corporate guarantees, by pledging claims arising from contracts for management of current transaction accounts, deposits, bills of exchange and promissory notes. Group companies have insured approximately 79% of short-term trade receivables, which represent the majority of all group claims.

In the context of credit risk to banks and financial institutions, the group regularly monitors information on the operations of the banks with which it cooperates. The risk is further managed through diversification of the deposit of funds at individual banks, investing funds for current operating in the short term and concluding transactions to hedge against currency and interest rate risk on the basis of standardised ISDA contracts.

In the event of late payment, customers in Slovenia and abroad are charged with default interest as agreed in the contract.

G Long-term Receivables by Maturity on 31 December 2016 and on 31 December 2015

	MATURITY			
Item in EUR	Up to 2 years after the SFP date	From 3 to 5 years after the SFP date	More than 5 years after the SFP date	Total
Long-term deposits to others	**132,109**	**16,925**	**16,342**	**165,376**
Long-term operating liabilities to associated companies	**145,000**	**141,756**		**286,756**
Long-term operating liabilities to purchasers	**75,872**	**817,219**		**893,091**
Long-term advances	**11,367**	**29,440**	**27,439**	**68,246**
Long-term operating receivables from others	**85,327**	**1,862**	**623,612**	**710,801**
Total 31/12/2016	**449,675**	**1,007,202**	**667,393**	**2,124,270**
Long-term deposits to others	16,439	119,959	26,727	163,125
Long-term operating receivables from others	166,894			166,894
Long-term operating receivables to purchasers	155,335	165,386		320,721
Long-term advances	9,147	27,440	36,586	73,173
Long-term operating receivables from others	4,789	3,894	535,689	544,372
Total 31/12/2015	352,604	316,679	599,002	1,268,285

G Short-term Operations and Financial Receivables by Maturity on 31 December 2016 and on 31 December 2015

	MATURITY						
Item in EUR	not due	due up to 3 months (90 days)	due after 3 to 6 months (91 to 180 days)	due after 6 to 9 months (181 to 270 days)	due after 9 to 12 months (271 to 360 days)	due after more than one year (361 days or more)	Total
Short-term operating receivables from associated companies	**665,837**	**30,413**	**25,587**	**25,193**	**23,189**	**165,773**	**935,992**
Short-term operating receivables from jointly-managed companies	**468**						**468**
Short-term operating receivables from purchasers	**115,091,222**	**504,986**	**44,804**	**39,546**	**745,294**	**6,738,569**	**123,164,421**
Short-term advances	**1,644,637**					**206,731**	**1,851,368**
Short-term operating receivables from state and other institutions	**26,026,100**						**26,026,100**
Short-term operating receivables	**828,780**					**895,088**	**1,723,868**
Short-term financial receivables and loans to associated companies				**31,160**			**31,160**
Short-term financial receivables and loans to others						**10,097**	**10,097**
Short-term deposits to others	**2,558,633**	**7,450**	**5,000**		**36,609**	**117,110**	**2,724,802**
Total 31/12/2016	**146,815,676**	**542,849**	**75,391**	**95,899**	**805,092**	**8,133,368**	**156,468,275**
Short-term operating receivables from associated companies	293,897	109,320	112,471	82,534	63,307	123,010	784,539
Short-term operating receivables from jointly-managed companies	234						234
Short-term operating receivables from foreigners	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 from state and other institutions	24,654,801						24,654,801
Short-term operating receivables from othersr	4,373,902					1,033,690	5,407,592
Short-term operating receivables and loans to associated companies	35,462						35,462
Short-term financial receivables and loans to others	26,131						26,131
Short-term deposits to others	19,406,754	312		13,493	292,681	70,592	19,783,832
Total 31/12/2015	170,855,671	4,451,583	790,243	514,776	617,054	7,009,929	184,239,256

G Allowance for Impairment for Long-Term Maturities

Item in EUR	2016	2015
Situation on 01/01/2016	**2,243**	0
Recovered written-off receivables	**(444)**	
Design of values of receivables	**286,756**	2,243
Situation on 31/12/2016	**288,555**	2,243

G Allowance for Impairment for Short-Term Maturities and Loans

Item in EUR	2016	2015
Situation on 01/01/2016	**26,186**	0
Recovered written-off receivables	**(17,612)**	
Design of the value of receivables	**32,536**	26,186
Situation on 31/12/2016	**41,110**	26,186

G Allowance for Impairment for Short-Term Maturities

Item in EUR	2016	2015
Situation on 01/01	**7,967,763**	4,739,586
Recovered written-off receivables	**(351,186)**	(153,467)
Design of adjustments to the values of receivables	**463,223**	3,526,339
Definitive write-off of receivables	**(84,924)**	(146,199)
Situation on 31/12	**7,994,876**	7,966,259

At the end of 2016 the group formed EUR 7,994,876 of allowances for doubtful and short-term receivables.

Adjusting the value of current short-term receivables in 2016 mostly applies to claims incurred by the Group companies to construction companies in the total amount of EUR 463,223.

In 2016 the Group's credit risk group was adequately controlled, and all activities were carried out in accordance with the applicable policies and regulations related to the management of credit risks.

The value of the pledged claims for loans on 31 December 2016 amounts to EUR 43,917,425.

3.5.6.5.2 Liquidity Risk

Liquidity risk or insufficient solvency risk is the risk associated with the lack of available financial resources and the inability of the group to meets its obligations in due time. From the point of view of liquidity risk, for the group 2016 was extremely demanding and activities in the area of liquidity risk management were very intense.

The Group's liquidity is promptly and thoroughly monitored on the way to implementing a policy of regular planning of cash flows and liquidity management, in accordance with which the liquidity situation and cash flows are monitored on a daily, monthly and annual basis.

Liquidity risk or solvency risk in 2016 is estimated as adequately managed and maintains the good reputation of the Group as a result of successful operations, the ongoing maturity matching of assets and liabilities, consistent recovery of overdue receivables, liquidity reserves, the availability of adequate credit lines and the possibility of permanent generating of cash flows from the business.

In the context of the management of liquidity risks, we pay special attention to the risks associated with the breach of the financial covenants in agreements on borrowing. Indicators of the company and the HSE Group were in accordance with the commitments in contracts on borrowing in 2016. HSE slightly deviated from the given financial covenants in only one financial indicator, for which the bank lenders received an advance waiver of the infringement in good time. In December, the company successfully completed the procedures for long-term funding and was granted an EUR 180 million long-term loan with the bank syndicate and EUR 50 million long-term revolving loan. With such amounts and combination of resources, we have achieved a sustainable liquidity position of the company and the HSE Group in the long term and created the conditions for liquidity risk management and the maintenance of adequate liquidity reserves in the case of unforeseen events.

In comparison with 2015, the liquidity reserve of the group has increased, consisting of unused but approved credit lines and available cash and is intended for managing cash flows and significantly reducing the liquidity risk of the company and the HSE Group.

Liquidity risk management is monitored by individual categories of business groups, namely:

LIQUIDITY RISK MANAGEMENT FROM OPERATIONS, which is tightly associated with credit risk. Liquidity risk from operations is controlled mainly by harmonising payment deadlines of receivables and liabilities arising from the core activity - trading with electricity, as well as payment deadlines of other obligations in such a way that the companies in the group settle their trade payables on time. The objective measures of liquidity risk management from operation are designed to provide optimal solvency for settling current liabilities of the group companies both in normal as well as critical and unforeseeable circumstances that arise from trading with electricity, transmission capacity, CO_2 emissions certificates and forward contracts that require an appropriate level of liquidity reserves to ensure stability of daily operations and trading. The measures include monitoring of trade payables, as well as the extension of payment deadlines and arrangements for payment delay, selective implementation of trade payables. Liquidity risk from operation in 2016 is estimated as adequately controlled.

INVESTMENT-RELATED LIQUIDITY RISK, which is closely associated with investment risks. Management of liquidity risk in investing represents the provision of financing investments in line with the investment programmes in a way that sufficient funds, foreseen in the financial perspectives, are provided in good time in order to avoid delays in projects implementation. Liquidity risk arising from investing activities is also reflected in the inflows - the implementation of divestment, which is carried out with the purpose of optimisation of operations in the framework of the group companies. Liquidity risk in investing in 2016 is estimated as adequately controlled.

LIQUIDITY RISK MANAGEMENT FROM FINANCING is a risk associated with the provision of sufficient financial resources for the purpose of operating and the group's investment, which includes an active approach to financial markets, acquisitions of sufficient short-term loans and credit lines as well as long-term funding for the purpose of settlement of liabilities of the group's companies operation and investment on time, while respecting commitments made under loan agreements with commercial banks. The group has also established cash management in the form of borrowing between companies in the group: the basic source of financing for short-term deficits of the subsidiaries is the excess of available cash funds of other companies in the group, where the optimisation of liquidity of individual companies is carried out and the synergistic effects of the group as a whole are used. Liquidity risk arising from financing was adequately managed in 2016, because the group has managed to provide a sufficient amount of credit and guarantee lines for smooth operation. In addition, in 2016 the group successfully restructured the financial resources of the HSE by taking out EUR 180 million of long-term syndicated loans and EUR 50 million of long-term revolving loans, ensuring financial stability and adequate structure of funding sources in the longer term. By providing long-term funding, in December 2016 rating agencies Moody's and Standard & Poor's assigned a long-term credit rating of "Ba2 stable" (Moody's) and "BB positive" (Standard & Poor's), both with a stable future outlook.

The maturity of long-term and short-term liabilities by maturity of the group is shown in the tables below.

G Long-term Operating and Financial Liabilities by Maturity on 31 December 2016

	MATURITY			
Item in EUR	Up to 2 years after the SFP date	From 3 to 5 years after the SFP date	More than 5 years after the SFP date	Total
Long-term financial liabilities to banks	**68,364,159**	**299,955,444**	**476,746,153**	**845,065,756**
Other long-term financial liabilities	**10,650**	**3,578**	**3,137,559**	**3,151,787**
Long-term operating liabilities to associated companies			**465**	**465**
Long-term operating liabilities to suppliers	**19,612**	**22,892**	**252,276**	**294,780**
Long-term operating liabilities on the basis of advances		**3,000**	**5,758**	**8,758**
Other long-term operating liabilities	**33,302**	**3,059**	**129,851**	**166,212**
Total 31/12/2016	**68,427,723**	**299,987,973**	**480,272,062**	**848,687,758**
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 to associated companies	1,972			1,972
Long-term operating liabilities to suppliers	99,990	21,423		121,413
Long-term operating liabilities on the basis of advances		1,350	5,759	7,109
Other long-term operating liabilities	954	1,430	117,252	119,636
Total 31/12/2015	47,425,369	183,873,184	485,615,672	716,914,225

At year end the group shows overdue short-term obligations in the bulk of the company's group PV.

G Short-term Operating and Financial Receivables by Maturity on 31 December 2016 and 31 December 2015

		MATURITY					
Item in EUR	Not due	due after up to 3 months (90 days)	due after 3 to 6 months (91 to 180 days)	due after 6 to 9 months (181 to 270 days)	due after 9 to 12 months (271 to 360 days)	due after more than one year (361 days or more)	Total
Short-term operating liabilities to associated enteties	**1,361,242**	**119,193**				**5**	**1,480,440**
Short-term operating liabilities to jointly controled enteties	**73,865**						**73,865**
Short-term operating liabilities to suppliers	**103,824,520**	**1,872,211**	**27,378**	**23,378**	**11,500**	**130,733**	**105,889,720**
Short-term operating liabilities on the basis of advances	**572,400**						**572,400**
Short-term operating liabilities to employees	**17,327,708**						**17,327,708**
Short-term operating liabilities to state and other companies	**26,165,045**						**26,165,045**
Other short-term operating liabilities	**1,624,826**	**23,684**					**1,648,510**
Short-term financial liabilities to banks	**51,031,424**						**51,031,424**
Short-term derivatives	**53,106**						**53,106**
Total 31/12/2016	**202,332,367**	**2,016,179**	**28,469**	**24,469**	**12,903**	**130,738**	**204,545,125**
Short-term financial liabilities to associated enteties	1,478,826	298,323				470	1,777,619
Short-term operating liabilities to jointly controled enteties	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 on the basis of advances	335,036						335,036
Short-term operating liabilities to employees	11,889,499						11,889,499
Short-term operating liabilities to state and other institutions	24,118,336						24,118,336
Other short-term operating liabilities	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
Total 31/12/2015	432,995,596	2,314,925	385,908	229,981	148,275	183,743	436,258,428

Exposure to liquidity risk arising from financial liabilities to banks on 31 December 2016 is shown in the table below. The amounts in the table are not discounted and include contractual provisional interest. The group has sufficient financial resources to repay liabilities to banks, which shall be due in 2017. The source is incomes from operations, while the group has a liquidity reserve in the form of cash and long-term revolving credit.

Liquidity Risk Exposure Arising from Financial Liabilities to Banks

Item in EUR	EXPECTED CASH FLOWS					Total
	up to 2 months after the SFP date	from 2 to 12 months after the SFP date	from 1 to 2 years after the SFP date	from 2 to 5 years after the SFP date	more than 5 years after the SFP date	
Financial liabilities to banks without interest rate hedging						
short-term loans	3,699,547	198,131				3,897,678
long-term loans	2,294,738	72,955,775	97,531,921	406,547,180	532,354,481	1,111,684,095
Total	**5,994,285**	**73,153,906**	**97,531,921**	**406,547,180**	**532,354,481**	**1,115,581,773**

3.5.5.5.3 Foreign Exchange Risk

The group's exposure to foreign exchange risk is low, because the majority of inflows and outflows are in the domestic currency the euro.

The foreign exchange risk of the group was adequately controlled in 2016. The group manages foreign exchange risk in accordance with the Rules on management of foreign exchange risk. The parent company is primarily faced with the exchange rate risk for electricity trade in foreign currencies on foreign markets, where exposure is protected through the use of derivatives as needed.

Foreign exchange risk is also present in the operations of subsidiaries located in South-Eastern Europe, but the exposure to exchange rate risk in this respect is minimal, since the operation of subsidiaries located in South-Eastern Europe represents a small portion compared to the group's total range.

As other currencies in transactions are present to a lesser extent, the group does not prepare a sensitivity analysis to change exchange rates of other currencies, as the change in these rates would not have any significant impact on the group's profit.

For conversion of items in the consolidated financial statements, the following exchange rates were used:

Foreign Exchange Rate

Country	Currency code	**Closing exchange rate in EUR for 2016**	Closing exchange rate in EUR for 2015
Bosnia and Herzegovina	BAM	**1.9558**	1.9558
Croatia	HRK	**7.5597**	7.6380
Macedonia	MKD	**61.8000**	61.5550
Serbia	RSD	**123.6000**	121.2300
Hungary	HUF	**309.8300**	315.9800

G Exposure to Risks of Changes in Foreign Exchange Rates on 31 December 2016 and on 31 December 2015

Item in EUR	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	**155,376**		**10,000**	**165,376**
Long-term operating receivables	**1,387,870**		**282,469**	**1,670,339**
Short-term financial receivables and loans	**2,656,707**		**68,242**	**2,724,949**
Short-term operating receivables	**144,271,160**		**1,665,883**	**145,937,043**
Long-term financial liabilities	**(848,217,543)**			**(848,217,543)**
Long-term operating liabilities	**(470,215)**			**(470,215)**
Short-term financial liabilities	**(51,885,559)**			**(51,885,559)**
Short-term operating liabilities	**(149,381,259)**	**(332,608)**	**(958,232)**	**(150,672,099)**
Net exposure of the SFP exposition 31/12/2016	**(901,483,463)**	**(332,608)**	**1,068,362**	**(900,747,709)**
Long-term financial receivables and loans	153,125			163,125
Long-term operating receivables	917,889			1,102,917
Short-term financial receivables and loans	19,798,628			19,819,239
Short-term operating receivables	156,423,938		3,627	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	(135,050,251)	(275,042)	(918,670)	(136,246,242)
Net exposure of the SFP exposition 31/12/2015	(973,112,008)	(275,042)	(915,043)	(974,088,728)

G Currency Swaps Conclude by Maturity on 31.12.

Item in EUR	31/12/2016	31/12/2015
Contracts for currency swaps by maturity — up to 12 months	**4,199,619**	8,301,076
Total	**4,199,619**	8,301,076

G Currency Swap Effect

Item in EUR	2016	2015
Unrealised losses from efficient transactions	**(53,016)**	(76,788)
Realised gains from efficient transactions	**65,851**	39,597
Realised gains from efficient transactions	**(13,095)**	(28,799)

3.5.6.5.4 Interest Rate Risk

The group manages the interest rate risk in accordance with the Rules regarding the management of interest rate risk, that define and determine the policy of interest rate risk management of the group companies. In 2016 interest rate risk was adequately managed, because the aim was to limit and reduce the risk associated with changes in interest rates and in this way stabilise cash flows.

On December 31 2016 there were approximately EUR 502.7 million (56%) of all long-term loans granted with a fixed interest rate.

Interest rate risk is regularly monitored and reported by the group's companies. In connection with this, the developments in the money market, movements in interest rates and the value of transactions and interest rate hedging are constantly monitored so that the individual companies adopt appropriate strategies to hedge the interest rate risk.

G Concluded Contracts for Interest Rates

Item in EUR	31/12/2016	31/12/2015
from 1 to 5 years		56,400,189
Total	-	56,400,189

G Effect of Interest Rate Changes

Item in EUR	2016	2015
Unrealised losses of efficient transactions		(316,172)
Realised losses of efficient transactions	(413,592)	(1,711,533)

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE-RATE INSTRUMENTS

Changes in interest rates by 50 basis points (b. p.) on the reporting day would increase (decrease) the group's net profit in the amounts shown below. The analysis, which was prepared in the same way for both years, assumes that all other variables, in particular foreign currency rates, remain unchanged. When calculating the assets/liabilities at variable interest, rates are reduced for the total amount of transactions of interest rate swaps (IRS). Due to a low interest rate for a loan from the European Investment Bank, taking into account the reduction in interest rates for the 50 b. p. we would get a negative rate, therefore in this case, we used the lowest reduced rate possible - e.g. 0.01%. The consequence is a different result in the change of interest rates of +/- 50 b. p.

G Financial instruments with Variable Interest Rate

	Net operating result 2016		Net operating result 2015	
Item in EUR	Increase by 50bt	Decrease by 50bt	Increase by 50bt	Decrease by 50bt
Financial assets	(337)	337	18,920	(18,920)
Financial liabilities	(1,203,293)	460,378	(1,145,025)	605,541

3.5.6.5.5 Price Risk

Price risk is monitored and managed by the group through a combination of methods, VaR (Value-at-Risk) and stop-loss mechanism. Price risk arise from fluctuations in market prices for electricity and market prices of other energy sources (coal, gas, oil, etc.) which have direct impact on electricity prices or the group's operation. Also, the group is exposed to fluctuations in the price of allowances, that are required as a result of the operation of thermal power plants in the group.

The Group's exposure to electricity prices depends on the openness of the overall position of the company at a given moment. A closed position means that the purchase and sale transactions coincide in quantity, way of delivery and delivery time and that the company is not exposed to fluctuations in market prices for electricity. An open position means that the purchase and sale transactions do not coincide in quantity, manner of delivery and delivery time and that the company is exposed to fluctuations in market prices.

Given that the group operates in various countries, it is necessary to take into account the net positions and electricity prices in various countries and regional markets and their correlations. The impact of price risk on the group's operations can be quantified on the basis of key variables:

- group market position in individual markets at the given moment of delivery,
- volatility of prices in individual markets at the given moment of supply, and
- correlation of prices between individual markets at the given moment of delivery.

These variables are included in the calculation of VaR parameter (Value-at-Risk), which is the main indicator of the group's exposure to price fluctuations and indirectly to quantitative risks (through market positions). The Group monitors 5 day VaR with a 95% confidence interval. The parameter represents the size of the potential loss of value of the trading portfolio in five days that in 95% of normal market movements would not be exceeded given the market prices, correlations and volatility due to the quantitative position of the group. The main parameter of control risk market position presents VaR value for all trading transactions in all stages of the supply and must not exceed EUR 25 million. In 2016, the average value amounted to EUR 0.9 million, and the highest daily value of EUR 1.9 million.

When measuring the total exposure in 2016, a mechanism for measuring and limiting the exposure for each trading group was established. For the higher responsiveness of the parameter VaR on current events, the methodology for calculating volatility changed, that in accordance with the current situation, gives greater weight to the last trading days of each period. Emissions trading outside the need for the purchase for own production has not been implemented since November 2016.

The Group manages and controls price risks through the following activities and methods:

- daily monitoring of market positions on a group level as well as parent company by countries and by individual groups of transactions, which have similar purpose or meaning. In the event that at any given time the position exceeds the amount permitted by the regulations, it shall be corrected accordingly (the conclusion of the purchase or sale transaction);
- daily market activities - concluding counter transactions with the same amount in the same market or by purchasing derivative financial instruments with financial settlement (forward contracts), depending on the type of trading business;
- daily monitoring and analysis of energy prices and a forecast of the expected changes in energy prices in different markets;
- daily monitoring of market activity in the emission allowances market;
- monitoring of investment decisions in the energy sector in European Union and growth of leading countries;
- daily monitoring and analysis of the value of the parameter VaR and MtM (Mark-to-Market) by individual groups of business that have similar purpose, considering the limits or levels of VaR value, as written in the regulations;
- daily monitoring of the cover value used for hedging price fluctuations of transactions with the purpose of creating added value and minimising the risk of loss in accordance with the principle of good management;
- weekly reviews of the situation, prices and developments in the electricity market;
- two-week reviews of the group's exposure risks by individual groups of transactions with similar significance and an overview of the situation on the oil and coal markets

The impact of downtime is estimated on the basis of "stress test" analysis. The effects of seasonal fluctuations in hydrological conditions are estimated based on historical data and current environmental data.

The sale of electricity and the purchase of CO_2 emission allowances from own production is regulated based on the strategy of sales of own production and purchase allowances to meet the needs of its own production group. The mechanism is established in order to spread the price risk over a longer trading period. The period of sales in the future is subjected to market liquidity. Procedures associated with the implementation of the sales strategy of own production is constantly monitored and evaluated at least every two weeks in the context of groups meeting for the sale of own production. The parent company reduces the risk associated with the price of electricity to the partial sale volumes of its own production and purchases of emission allowances in the energy markets for the years ahead.

3.5.6.5.6 Capital Management

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Item in EUR	31/12/2016	31/12/2015
Long-term financial liabilities	**848,217,543**	716,664,095
Short-term financial liabilities	**51,387,437**	298,441,112
Total financial liabilities	**899,604,980**	1,015,105,207
Capital	**1,015,220,352**	991,749,076
Financial liabilities/Capital	**0.89**	1.02
Cash and cash equivalents	**83,485,394**	78,880,281
Net financial liability	**816,119,586**	936,224,926
Net debt/Capital	**0.80**	0.94

The indicator that shows the relationship between the group's debt and equity is lower at the end of 2016 compared to the end of 2015. The reason for the improvement was lower indebtedness of the HSE Group to repay loans, higher cash balances and capital due to operating with net profit.

The Group carries out a number of measures to optimise and rationalise operations, which are reflected in lower maintenance costs and labour. Processes of sale of commercially unviable assets are in order, but some effects will be visible in the coming years.

3.5.6.6 Fair Values

The Group estimates that the book value of financial instruments is a reasonable approximation for their fair value, except for derivatives, which are recorded at fair value.

G Book Values and Fair Amounts of Financial Instruments

	31/12/2016		31/12/2015	
Item in EUR	Book value	Fair value	Book value	Fair value
Non-derivative financial assets at the fair value	**154,089**	**154,089**	146,979	146,979
Financial assets available for sale	154,089	154,089	146,979	146,979
Non-derivative financial assets at amortised cost	**233,980,427**	**0**	256,393,133	0
Financial liabilities	3,117,355		19,982,364	
Operating and other liabilities	147,377,678		157,530,488	
Cash	83,485,394		78,880,281	
Total	**234,134,516**	**154,089**	256,540,112	146,979
Derivative financial assets at the fair value	**53,106**	**53,106**	392,960	392,960
Derivative financial instruments (liabilities)	53,106	53,106	392,960	392,960
Non-derivative financial liabilities at the amortised cost	**1,060,574,594**	**0**	1,163,851,702	0
Bank loans	896,097,180		1,014,505,756	
Other financial liabilities	3,454,694		206,491	
Financial liabilities and other liabilities	161,022,720		149,139,455	
Total	**1,060,627,700**	**53,106**	1,164,244,662	392,960

G Financial Assets by Fair Value due to Hierarchy

Item in EUR	31/12/2016	31/12/2015
Financial liabilities at the first-level fair value	34,934	27,824
Financial liabilities at the second-level fair value	53,106	392,960
Financial liabilities at the third-level fair value	346,185	119,155
Total financial liabilities at a fair value	**346,185**	119,155

The majority of financial assets at fair value on the first level are represented by financial assets for sale–shares of Triglav SENG in the amount of EUR 27,469, financial assets at fair value on the second level represent unrealised loss of effective transactions of foreign exchange swaps, and financial assets at fair value on the third level represent assets available for sale: TET– in liquidation in the amount of EUR 227,030 and the HSE in the amount of EUR 111,500.

3.5.6.7 Events after the Reporting Date

For the purposes of disclosure in the context of the Group's consolidated financial statements for 2016, we highlight the following:

- On 27 February 2017, the Golte Assembly was held; with the entry of a new shareholder, the company Sicom Invest, the share capital of the company Golte has increased. HTZ share of the increased Golte capital is 3.83% and Sicom Invest became 76.66% owner of the Golte.
- On 28 February 2017, the contract on resignation (cession) of claims to the Sicom Invest for claims against the Golte and using part of the subordinated loan to create capital reserves for the purpose of covering the loss for 2016 of the Golte was signed.
- On 8 March 2017, TEŠ received the consent to the starting price of thermal energy for district heating from the Energy Agency.
- Based on the final report on the monitoring of TGP emissions for 2016, TEŠ with its production of electricity and heat, emitted 4,148,697 tons of CO_2 into the environment. At the end of April, to settle the charges for environmental pollution in accordance with the provisions of the Environmental Protection Act, the company gave 4,148,697 emission coupons (one coupon/tonne CO_2). To settle the charges, the company will use 26,747 free allowances and 4,121,950 emission allowances that it bought from HSE in March.

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Annual report of the HSE Group and the Company

4 Financial report of the HSE Company

4.1 AUDITOR'S REPORT ON THE HSE COMPANY

KPMG

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Independent Auditors' Report[i]

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

Report on the Audit of separate Financial Statements

Opinion

We have audited the separate financial statements of the Holding Slovenske elektrarne, d.o.o., Ljubljana ("the Company") which comprise the separate statement of financial position as of 31 December 2016, the separate statement of profit or loss, the separate statement of other comprehensive income, the separate statement of cash flows, and the separate statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give true and fair view of the separate financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

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

Other Information

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

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

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

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

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

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

Responsibility of Management and Those Charged with Governance for the Separate Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of Separate Financial Statements

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

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

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

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

KPMG

Report on Other Legal and Regulatory Requirements

The Company disclosed the financial statements by activity with notes in the section *Additional disclosures based on the Energy Act*, which include the statement of financial position by activity as at 31 December 2016, the income statement by activity, and the statement of cash flows by activity for the year then ended.

Company's management is responsible for keeping separate accounting records by activity and applying criteria defined in the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act (ZPFOLERD-1) and in compliance with provisions of the Energy Act (EZ-1).

Our responsibility is to examine the adequacy of criteria and accuracy of their use as required under the provisions of ZPFOLERD-1 and whether the Company observed the provisions of the Energy Act in view of disclosures in the financial statements by activity.

Based on procedures carried out during the audit of financial statements, we herewith report that the Company disclosed the financial statements by activity and that it appropriately applied the criteria during the compilation of these statements.

On behalf of the auditing company

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

Boštjan Mertelj	Barbara Kunc
Certified auditor	*Certified auditor*
	Partner

KPMG Slovenija, d.o.o.
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Ljubljana, 24 April 2017

[i] 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 for the preparation of the financial statements for each financial year in accordance with International Financial Reporting Standards, as adopted by the European Union and the applicable legislation, i.e. in manner that they represent the true and honest presentation of the operations of the company HSE d. o. o.

The management rightfully expects the company HSE to have available appropriate resources to continue operations in the near future, so the consolidated financial statements are prepared based on the assumption of unlimited duration operations of the company HSE.

The responsibility of the management for the preparation of financial statements includes the following:

- the accounting policies are correctly chosen and consistently applied,
- the assessments and evaluations are reasonable and prudent.

The management is responsible for keeping proper accounting records which at any time demonstrate with reasonable accuracy the financial position of the company and ensure that the financial statements are in accordance with IFRS. Management is also responsible for the protection of property and to prevent and detect any fraud and other irregularities.

The management confirms that the financial statements are prepared in accordance with IFRS with no reservation concerning their application.

The financial accounts of Holding Slovenske elektrarne d. o. o. for the financial year that ended on 31 December 2016, were accepted by the management on 26 April 2017.

Ljubljana, 26 April 2017

Stojan Nikolić M.Sc.
Finance director HSE d. o. o.

Matjaž Marovt
General director HSE d. o. o.

4.3 INTRODUCTORY NOTES TO THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial report of HSE represents the financial statements with notes.

Based on the decision of the Agency for the Management of Capital Investments of the Republic of Slovenia as the representative of the founder on 29 November 2010, since 1 January 2011 the company has prepared its financial statements and notes in accordance with IFRS, as adopted by the European Union.

The auditing company KPMG Slovenija audited the financial statements with notes and an independent auditor prepared the report, which is included at the beginning of the chapter.

4.4 FINANCIAL STATEMENTS

C 4.4.1 Statement of Financial Position

Item in EUR	Explanatory note	31/12/2016	31/12/2015
ASSETS		**1,299,127,631**	1,206,606,876
A. LONG-TERM ASSETS		**1,122,483,001**	991,425,551
I. Intangible assets	1	27,433,759	21,237,138
II. Property, plant and equipment	2	11,753,592	11,820,636
IV. Long-term financial investments into subsidiaries	3	1,011,774,647	826,253,551
V. Other long-term financial investments and loans	4	65,387,750	126,994,860
VI. Long-term operating receivables		623,612	535,689
VIII. Deferred tax assets	5	5,509,641	4,583,677
B. SHORT-TERM ASSETS		**176,644,630**	215,181,325
II. Inventories		0	841
III. Short-term financial investments and loans	6	1,906,300	7,779,330
IV. Short-term operating receivables from clients	7	117,156,618	121,486,101
V. Current tax assets	25	0	6,358,863
VI. Other short-term assets	8	28,630,265	22,399,259
VII. Cash and cash equivalents	9	28,951,447	57,156,931
CAPITAL AND LIABILITIES		**1,299,127,631**	1,206,606,876
A. CAPITAL	**10**	**876,576,885**	829,661,564
I. Called-up capital		29,558,789	29,558,789
II. Capital reserves		561,243,185	561,243,185
III. Profit reserves		562,744,824	562,744,824
IV. Hedging reserves		1,740,624	(737,288)
V. Fair value reserves		20,527	(30,296)
VI. Retained earnings		(278,731,064)	(323,117,650)
B. LONG-TERM LIABILITIES		**237,146,081**	71,321,476
I. Provisions for termination benefits and jubilee premiums	11	738,319	751,048
II. Other provisions	12	0	3,030,191
IV. Long-term financial liabilities	13	236,407,762	67,539,830
V. Long-term operating liabilities		0	407
C. SHORT-TERM LIABILITIES		**185,404,665**	305,623,836
II. Short-term financial liabilities	14	10,001,806	147,028,449
III. Short-term operating liabilities to suppliers	15	125,884,296	122,698,081
IV. Current tax liabilities	25	1,469,487	0
V. Other short-term liabilities	16	48,049,076	35,897,306

* Explanatory notes to financial statements are a part of the financial statement and shall be interpreted in relation to them.

C 4.4.2 Profit and Loss Statement

Item in EUR	Explanatory note	2016	2015
1. Net sales	18	**1,234,432,724**	1,303,117,500
4. Other operating revenue	19	**3,984,747**	533,013
OPERATING REVENUES		**1,238,417,471**	1,303,650,513
GROSS OPERATING PROFIT		**1,238,417,471**	1,303,650,513
OPERATING EXPENSES		**1,173,448,200**	1,253,398,195
5. Costs of goods, material, and services	20	**1,164,178,503**	1,242,235,877
6. Labour costs	21	**8,142,656**	7,427,240
7. Write-downs	22	**765,661**	3,168,204
8. Other operating expenses		**361,380**	566,874
OPERATING RESULT		**64,969,271**	50,252,318
9. Financial revenue	23	**55,271,244**	21,122,674
10. Financial expenses	24	**67,813,283**	386,382,773
FINANCIAL RESULT		**(12,542,039)**	(365,260,099)
PROFIT OR LOSS BEFORE TAX		**52,427,232**	(315,007,781)
TAX	**25**	**8,067,438**	8,109,589
12. Current tax		**9,028,778**	8,246,499
13. Deferred tax		**(961,340)**	(136,910)
NET OPERATING RESULT OF THE FINANCIAL YEAR	**26**	**44,359,794**	(323,117,370)
Owner of the mother company		**44,359,794**	(323,117,370)
Non-controlling interest			

* Explanatory notes to financial statements are a part of financial statement and shall be interpreted in relation to them.

C 4.4.3 Statement of Other Compressive Income

Item in EUR	Explanatory note	2016	2015
Net operating results of the financial year	**26**	**44,359,794**	(323,117,370)
Actuarial profits and losses of programmes with defined salaries of employees		**77,615**	(24,215)
Items which will later not be transferred into the operating result		**77,615**	(24,215)
Net effective portion of changes in fair value of cash flow hedges	10	**2,340,133**	(776,099)
Net effective portion of changes in fair value of cash flow hedges reclasified to profit or loss	10	**137,779**	1,153,861
The items that will later be transferred to the operating result		**2,477,912**	377,762
Total comprehensive income of the reporting period		**46,915,321**	(322,763,823)
Owner of the mother company		**46,915,321**	(322,763,823)
Non-controlling interest			

* Explanatory notes to financial statements are a part of financial statement and shall be interpreted in relation to them.

C 4.4.4 Statement of Cash Flow

Item in EUR	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss for the period	44,359,794	(323,117,370)
Adjustments for:		
Amortisation of intangible assets	280,470	301,271
Depreciation of property, plant, and equipment	477,249	1,761,453
Write-off of property, plant, and equipment		92
Write-off of trade receivables	6,162	1,105,388
Reversal of impairment of receivables	(861,648)	
Share in sales of immovable property, plant, and equipment	1,779	
Finance income	(55,271,244)	(21,122,674)
Finance costs	67,813,283	386,382,773
Gain of sale of property, plant, and equipment	(13,041)	(91,524)
Tax expenses	8,067,438	8,109,589
Cash generated from operating activities before change in net current assets and taxes	64,860,242	53,328,998
Change in net current assets and provisions		
Change in:		
Inventories	841	(841)
Trade and other receivables	(1,106,623)	38,680,783
Trade and other payables	17,636,931	(1,468,573)
Provisions	(2,992,504)	(481,853)
Income tax paid	(1,200,428)	(16,005,618)
Cash from operating activities	77,198,459	74,052,896
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,318,763	3,073,685
Income from other financing activities	1,913,483	2,175,192
Dividends received	50,321,770	16,107,683
Proceeds from sale of property, plant, and equipment	19,833	93,880
Proceeds from sale of intangible assets	21,129,420	22,723,523
Proceeds from disposals (liquidation/sale) of dependent companies		171,591
Proceeds from decrease in short-term loans given	860,000	840,000
Proceeds from decrease of issued long-term loans	225,020,307	
Proceeds from settlement of derivatives	45,946	68,598
Proceeds from decrease in other short-term investments	5,005,036	563,393
Acquisition of property, plant, and equipment	(419,529)	(150,730)
Acquisition of intangible assets	(27,606,510)	(19,817,295)
Acquisition of subsidiaries	(234,893,734)	(34,000,000)
Costs for increasing of short-term loans	(800,000)	
Costs for increasing of long-term loans	(162,933,713)	(84,828,094)
Costs for increasing other short-term investments		(82,439,000)
Costs for settlement of derivatives	(807,323)	(54,383)
Net cash used in investing activities	(119,826,251)	(175,471,957)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	178,074,179	73,303,030
Proceeds from short-term borrowings	132,503,496	285,000,000
Proceeds from other long-term financial liabilities		574
Payment of interest on borrowings	(11,154,510)	(5,478,226)
Costs for other financial liabilities	(6,297,045)	(2,948,961)
Repayment of long-term borrowings	(10,922,090)	(69,653,686)
Repayment of short-term borrowings	(267,778,944)	(150,000,000)
Repayment of other long-term financial liabilities	(2,778)	(4,034)
Net cash used in financing activities	14,422,308	130,218,697
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	57,156,931	28,360,621
Exchange differences on cash		(3,326)
Financial result	(28,205,484)	28,799,636
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	28,951,447	57,156,931

* Explanatory notes to financial statements are a part of financial statement and shall be interpreted in relation to them.

C 4.4.5 Statement of Changes of Equity

Item in EUR	CALLED-UP CAPITAL Share capital	CAPITAL RESERVES	PROFIT RESERVES Other profit reserves	HEDGE RESERVES	FAIR VALUE RESERVES	RETAINED OPERATING RESULT Transferred net operating result	RETAINED OPERATING RESULT Net profit or loss of the financial year	Total
Situation on 01/01/2015	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.Changes of the overall comprehensive revenue	0	0	0	377,762	(23,934)	(281)	(323,117,370)	(325,071,545)
Type of net operating result of the reporting period							(323,117,370)	(323,117,370)
Entry of the net operations result of the reporting period	0	0	0	0	(23,934)	(281)	0	(24,215)
Actuarial profits and losses of programmes with defined salaries of employees					*(23,934)*	*(281)*		*(24,215)*
Items which will later be transferred to the operating result	0	0	0	377,762	0	0	0	(1,929,960)
Net effective portion of changes in fair value of cash flow hedges				*(776,099)*				*(776,099)*
Net effective portion of changes in fair value of cahs flow hedges reclasified to profit or loss				*1,153,861*				*1,153,861*
B.3. Changes in the capital	0	0	78,476,895	0	0	(8,065,312)	(70,411,583)	0
Distribution of a part of the net result to other components of capital upon decision of the management and supervisory bodies			*78,476,895*			*(8,065,312)*	*(70,411,583)*	*0*
Situation on 31/12/2015	29,558,789	561,243,185	562,744,824	(737,288)	(30,295)	(281)	(323,117,371)	829,661,563
Situation on 01/01/2016	**29,558,789**	**561,243,185**	**562,744,824**	**(737,288)**	**(30,296)**	**(281)**	**(323,117,370)**	**829,661,563**
B.2. Changes of the overall comprehensive revenue	**0**	**0**	**0**	**2,477,912**	**50,823**	**26,792**	**44,359,794**	**46,915,321**
Entry of the net operating result of the reporting period							**44,359,794**	**44,359,794**
Items which will later not be transferred to the operating result	**0**	**0**	**0**	**0**	**50,823**	**26,792**	**0**	**77,615**
Actuarial incomes and losses of programmes with certain employee earnings abroad					**50,823**	**26,792**		**77,615**
Items which will later be transferred to the operating result	**0**	**0**	**0**	**2,477,912**	**0**	**0**	**0**	**2,477,912**
Net efficient part of the change in the fair value of instruments hedging from cash flow volatility				**2,340,133**				**2,340,133**
Net efficient part of the change in the fair volume of instruments hedging from cash flow volatiliy, transferred to the operating result				**137,779**				**137,779**
B.3. Changes in the capital	**0**	**0**	**0**	**0**	**0**	**(278,757,576)**	**278,757,576**	**0**
Allocation of the remaining part of the net profit of the reporting period to other components of the capital						**(323,117,370)**	**323,117,370**	**0**
Settlement of losses as the deductible component of capital						**44,359,794**	**(44,359,794)**	**0**
Situation on 31/12/2016	**29,558,789**	**561,243,185**	**562,744,824**	**1,740,624**	**20,527**	**(278,731,065)**	**0**	**876,576,884**
Balance profits / balance losses						**(278,731,065)**		**(278,731,065)**

* Explanatory notes to financial statements are a part of financial statement and shall be interpreted in relation to them

4.5 NOTES TO THE FINANCIAL STATEMENTS OF HSE D. O. O.

4.5.1 Reporting Entity

Holding Slovenske elektrarne (hereinafter: the company) is a company registered with headquarters in Slovenia and is the controlling company of the HSE Group. The registered address is Koprska 92, 1000 Ljubljana. The main activity of the company is trading in electricity.

The financial year coincides with the calendar year. In continuation, there are separate financial statements of the company for the year that ended on 31 December 2016.

4.5.2 Basis of Preparation

a) STATEMENT OF COMPLIANCE

In the preparation of the financial statements on December 31 2016, the company took into account the following:

- IFRS that includes International Accounting Standards (IAS), notes of the Standing Interpretations Committee (SIC), International Financial Reporting Standards (IFRS) and notes, International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union,
- Companies Act,
- Energy Act,
- Company Taxation Act,
- Rules on the Implementation of the Company Taxation Act and its implementing regulations
- Rules on Accounting of the company,
- other relevant legislation.

b) ACCOUNTING ASSUMPTIONS AND QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

The financial statements were prepared taking into account the fundamental accounting assumptions:

- the accruals principle and
- on-going concern basis.

The effects of transactions and other events are recognised when incurred and not when they are paid, and are recorded and reported for the periods to which they relate. Thus, the financial statements also include information concerning obligations related to cash payments in the future, as well as the means that will bring cash in the future.

The financial statements of the company are prepared under the assumption that the company will not significantly shrink the size of its business or eliminate it, and will continue operating in the foreseeable future.

The following qualitative characteristics of financial statements are taken into account:

- **FAIR PRESENTATION AND COMPLIANCE WITH IFRS:** financial statements fairly present financial position, financial performance and company's cash flows.
- **CONSISTENCY OF PRESENTATION:** the presentation and classification of items in the financial statements is the same from period to period.
- **MATERIALITY AND AGGREGATION:** each crucial group, made up of similar items is separately presented in the financial statement. Items of different nature or function are presented separately, unless they are immaterial.
- **OFFSETTING:** neither assets and liabilities nor income and expenses are offset unless the standard or interpretation requires or permits the offsetting.
- **COMPARATIVE INFORMATION:** unless a standard or an interpretation permits or requires otherwise, all amounts reported in the financial statements disclose comparative information for the previous period. Comparative information has been included in narrative and descriptive information when this is necessary for the understanding of the financial statements of the current period. The Company uses the same accounting policies for all periods presented in the 2016 financial statements.

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 REPRESENTATIONAL CURRENCY

The financial statements in this report are presented in euro (EUR) without cents, which is also the functional and presentational currency of the company. Due to rounding up, there may be insignificant deviations in the sums in the tables.

e) USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires that management makes certain estimates and assumptions that affect the reported amounts of assets and liabilities, income and outcome and disclosure of contingent assets and liabilities during the reporting period.

Estimates and assumptions are based on historical experience and other factors, which under the circumstances are considered to be justified, on the basis of which judgments about carrying values of assets and liabilities are expressed. Since the estimates and assumptions are subject to subjective judgment and a certain degree of uncertainty, actual results could differ from those estimated. Estimates are regularly reviewed. Changes in accounting estimates are recognised in the period in which the estimates are revised if the change affects only that period or, in the period of change and future periods, if the change affects future periods.

Assessments and assumptions that are present in the following judgments:

- assessment of useful lives of leased assets (Note 1, 2 of the Statement of financial position)
- assessment test of assets (Note 1, 2 and 3 of the Statement of financial position)
- assessment of the fair value of derivative financial instruments (Note 10 of Statement of financial position)
- assessment of the liquid amount of receivables (disclosure Credit risk)
- assessment of provisions for jubilee and retirement benefits (Note 11 Statement of financial position)
- assessment of other reservations (Note 12 Statement of financial position), and
- assessment of contingent liabilities and assets (Note 17 Statement of financial position)

Further assessments of management in preparing the financial statements on 31 December 2016 are as follows:

1. The company has the right to re-purchase the entire interest in the company HESS sold in 2014 (35.6% and not less) at any time until 31 December 2019. In the case of repurchase, the same method of valuation is used as in the sale of the business share.
   In the current market conditions, the current indebtedness of the HSE Group, and realised and planned free cash flow, the company does not possess available funds for the purchase of the stake in HESS. In addition, the company is limited in obtaining additional financial resources in the form of increasing indebtedness of the Company or the HSE Group. The strategy of the company and the HSE Group is focused on deleveraging the HSE, reducing capital expenditure in new production facilities and optimising business processes and streamlining the production processes of the HSE Group. The company did not plan to purchase its stake in HESS until the end of 2019.
   By selling its 35.6% of interest in HESS, the company lost the majority of control over the management of the company HESS (HSE Group has the minority of the members in the HESS Supervisory Board).
2. The company makes its transactions of sale and purchase of electricity (excluding transactions in derivatives) with the goal of trading with electricity. This is therefore physical delivery. These transactions under IAS 39 are not considered as transactions within financial instruments (IAS 39/5).
3. In the case of the impairment test for a cash-generating unit with assets for limited useful life (TEŠ), business projections for its entire service life are used. The used price projections of changes in the prices of electricity and emission allowances, prepared by an independent external institution, shall be limited to a period of 25 years. Reasons for the use of long-term projections in the implementation of the impairment test are: the nature of the activity which requires long-term investment cycles, making investment decisions based on a consideration of longer-term market projections, the existence of long-term projections of price movements of the most important input data for tests of impairment, uneven distribution of investments in the preservation of the capacity through the period of foreseen operations of power plants and adjustments of production scope of energy products.

4.5.3 Branches and Representative Offices

The company has a branch in the Czech Republic and a representative office in Romania. In 2016 the company did not carry out transactions through its subsidiary, whereas trading of electricity was transferred to the company itself. Operations of the branch and representative are included in the financial statements.

4.5.4 Important Accounting Policies

The financial statements have been prepared on the basis of the accounting policies presented below. These accounting policies have been applied to both years presented, unless stated otherwise. Where necessary, the comparative data was adjusted in order to conform with the presentation in the current year.

4.5.4.1 Translation of Foreign Currencies

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

Monetary assets and liabilities denominated in foreign currency at the end of reporting date are translated to the functional currency at the current exchange rate.

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

Exchange differences are recognised in the income statement on a net basis.

4.5.4.2 Intangible Assets

Intangible assets are long-term assets that enable the performance of the company, while physically not existing. Among the company's intangible assets are the long-term property rights and allowances for the purpose of electricity production in the HSE Group. Allowances for trade are shown in the inventories.

The intangible asset is initially recognised at purchase cost. The purchase cost includes costs that are directly attributable to the acquisition of intangible assets. The company did not finance the purchases of intangible assets by loans, so the cost does not include borrowing costs.

For subsequent measurement of intangible assets the cost model is used.

The company has no intangible assets for which it would determine a certain residual value at purchase.

Amortisation is calculated on a straight line basis over the useful life of each of (part of) the intangible assets. Amortisation begins from the purchase cost when the asset is available for use. Emission allowances are not depreciated as they are purchased for individual years and used in that way.

Amortisation methods and the useful lives of intangible assets are reviewed at each financial year end and adjusted if necessary. In the event of an extended useful life, the amortisation costs accrued in the fiscal year are reduced, and in the case of shortening of the useful life they increase. Adjustment of the useful life should be recalculated so that the intangible asset can be amortised in the new estimated useful life. The change in useful life is treated as a change in accounting assessment and affects only the period in which the accounting assessment is revised and each subsequent period in the remaining useful life.

C **The estimated useful lifes for individual intangible assets are as follows:**

	2016	2015
Computer software	**2-20 years**	2-20 years

Subsequent costs on intangible assets are capitalised only when they increase the future economic benefits arising from the asset to which the costs relate. All other costs are recognised in profit or loss as expenses as soon as they occur.

4.5.4.3 Property, Plants and Equipment

Property, plants and equipment are long-term assets owned by the company, which are used to execute the operations of the company. Property, plants and equipment include buildings, production equipment, other equipment and assets under construction.

Property, plants and equipment (hereinafter referred to as fixed assets) are stated at purchase cost, reduced by accumulated depreciation. Purchase cost includes expenditure that is directly attributable to the acquisition of the asset. Parts of plants and equipment that have different useful lives are accounted as separate assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, this is until the activation of assets, are recognised as part of the cost of that asset. The company had no borrowing for the acquisition of fixed assets, so that borrowing costs and assets under construction are non-attributed.

For subsequent measurement of fixed assets the purchase cost model is used.

The company has no fixed assets for which it would determine a certain residual value at purchase.

Depreciation is calculated on a straight line basis over the useful life of each of (part of) the fixed assets. Depreciation begins from the purchase cost when the asset is available for use. Assets under construction are not depreciated.

C **The estimated useful life for individual fixed assets are as follows:**

	2016	2015
Buildings	**50 years**	50 years
Production equipment	**25 years**	25 years
Computer hardware	**2–5 years**	2–5 years
Furniture	**10 years**	10 years
Small inventory	**3–5 years**	3–5 years
Personal vehicles	**5 years**	5 years
Other plant and equipment	**3–10 years**	3–10 years

Depreciation methods and the useful lives of assets are reviewed at the end of each financial year and are adjusted as necessary. In the case of extension of useful life the company makes a reduction, whereas in the case of shortening the useful life, the company increases already accrued depreciation expense in the current financial year. Adjustment of the useful life should be recalculated so that the asset will be depreciated in a new estimated useful life. Change in useful life is treated as a change in accounting assessment and affects only the period in which the accounting assessment was revised and each subsequent period in the remaining useful life.

The cost of replacing part of the fixed assets is attributable to the book value of this item if it is probable that future economic benefits associated with the part will flow to the company and if the cost could be measured reliably. All other costs (e.g. current maintenance) are recognised in profit or loss as expenses as soon as they occur.

Gains and losses arising from the disposal of fixed assets are determined as the difference between the net sales value and the carrying value of the disposed asset and are included in other operating income or write-downs.

4.5.4.4 Leases

Leases where the company substantially assumes all the risks and rewards of ownership are classified as finance leases. After the initial recognition, the leased agent is shown in an amount which is equal to the fair value, or if this is lower, the present value of the minimum lease payments. After initial recognition, the asset is accounted for in accordance with the accounting policies that apply to the same type of assets that the company owns.

Other leases are treated as operating leases. For these leases, the rent is recorded as an expense in the income statement on a straight-line basis.

4.5.4.5 Long term Financial Investments in Subsidiaries

Investments in subsidiaries are those in which the company has a dominant influence and for this group of companies consists of the consolidated financial statements.

In the financial statements, the investments in subsidiaries are carried out on purchase cost. Additional investments in subsidiaries increase the cost of investment.

The company recognises income from investments during the period when the decision on payment of profit shares is adopted.

Any indications of impairment of investments in subsidiaries are determined on an annual basis. In the event that there is objective evidence that there has been an impairment loss, the amount of the loss is measured as the difference between the book value and the recoverable value (the higher of fair value, reduced by the cost sell and value in use) and is recognised as a financial expense.

In the event of the liquidation of a subsidiary, the difference between the book value and the liquidation value of the investment is recorded under financial revenue or expenditure.

In the event of a sale of a share in a subsidiary, the difference between the book value and the contractual value of the investment is recorded under financial revenue or expenditure.

4.5.4.6 Investments in Associates and Jointly-Controlled Companies

Investments in associate companies are those in which the company has significant influence, its share in these companies' ranges between 20% and 50%.

Investments in jointly controlled entities are those in which the company controls the operation of the company in conjunction with the other owners, based on the contractually agreed sharing of control.

Investments, associate, and joint ventures in financial statements are recorded at purchase value.

4.5.4.7 Financial Instruments

Financial instruments include the following items:

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

I. Non-derivate Financial Assets

Non-derivative financial assets include investments, trade receivables, loans, cash and cash equivalents.

Financial assets are derecognised when the contractual rights to the cash flows from the asset are transferred or when the contractual rights to the cash flow from the financial asset in the transaction in which all the risks and rewards of ownership of financial assets are transferred.

a) 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. Among them, the company has disclosed investments in companies where it has less than 20% and the share of investment in the institution.

Available-for-Sale financial assets are recognised on the trade date.

They are measured at fair value, if this is possible to determine, gains or losses are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income are transferred to profit or loss.

If the fair value cannot be measured reliably because the range of reasonable fair value estimates is significant, and the probabilities of the various estimates can be assessed, the Company measures a financial asset carried at purchase cost.

b) LOANS AND RECEIVABLES

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

They are initially measured at fair value, increased by directly attributable transaction costs. After initial recognition, loans and receivables are measured at amortised cost and reduced by impairment losses. Loans and receivables in the statement of financial position are shown as financial and operating assets and cover loans with interests and receivables.

Loans are recognised in the books after the settlement date (payment), and accounts receivable after the trade date.

Current assets are included, except for maturities higher than 12 months after the date of the statement of financial position. In this case, they are classified as long-term assets.

c) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank deposits up to three months and other short-term liquid investments with original maturities of three months or less. They are measured at purchase cost. Overdrafts on bank accounts are included in short-term financial obligations.

II. Non-derivate Financial Liabilities

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

Among them, the company shows borrowings with interests and payables.

Borrowings are initially recognised at their settlement date (payment), payable on the date of the transaction.

Some of the long-term financial liabilities that fall due in less than one year after the date of the statement of financial position are shown under current financial liabilities.

III. Derivative Financial Instruments

Derivative financial instruments that are concluded by the Company comply with the principles set out in IAS 39–Financial Instruments: Recognition and Measurement.

Derivatives are used to hedge the Company's exposure against risk (price, interest rate and currency). The Company has entered into foreign exchange swaps and futures contracts for the purchase of electricity and emission allowances in the coming years.

These are financial instruments that do not require initial investments, their value changes due to changes in interest rates, commodity prices or exchange rate.

Derivative financial instruments are initially recognised at fair value, namely the net principle, which means that the mere value of the concluded transaction is not disclosed in the financial statements.

After initial recognition, derivative financial instruments are measured at fair value, and changes are treated differently depending on whether the derivative qualifies for hedge accounting or not.

The company uses the classification of derivatives as hedging criteria defined in IAS 39, as follows

- the instrument must hedge changes in cash flows that is attributable to the hedged risk;
- effectiveness of hedging (degree to which changes in the value of hedging impact on the change in value of the hedged item or future transaction) must be between 80% and 125%;
- in the event of hedging against cash flows future transactions that must be hedged will be highly probable;
- It must be possible to reliably measure the efficiency of risk hedging;
- hedge must be supported by appropriate documentation from the beginning.

When a derivative instrument is designated as a hedge in the case of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in fair value of the derivative is recognised in other comprehensive income and presented in the reserve for hedging. Any ineffective portion of changes in fair value of derivative financial instrument is recognised directly in profit or loss. The Company discontinues hedge accounting if the instrument to hedge no longer meets the criteria for hedge, if the instrument to hedge is sold, terminated or exercised. The cumulative gain or loss previously recognised in other comprehensive income remains recorded in the reserve for hedging until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, the amount is recognised in other comprehensive income and immediately in profit or loss. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss for the same period in which the hedged item affects profit or loss.

Effects of other derivative financial instruments not designated as hedging in the case of exposure to variability in cash flows not attributable to a particular risk associated with a recognised asset or liability, are recognised in profit or loss.

When forward purchases and sales for physical delivery of electricity treated as contracts are concluded in the normal course of business groups (own use), then they do not fall within the scope defined in IAS 39. This occurs in the case when the following conditions are met:

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

The Company believes that the transaction, which is currently under negotiation with a view to balancing the commitments of purchase and sale of electricity, are part of its business and are outside the scope of IAS 39.

4.5.4.8 Impairment of Assets

I. Financial Assets

A financial asset is considered to be impaired if there is objective evidence from which it is evident that one or more events that led to a decrease in expected future cash flows of that asset that can be reliably measured.

Objective evidence of impairment of financial assets can be default or delinquency by a debtor; signs that the debtor will enter bankruptcy.

a) IMPAIRMENT OF RECEIVABLES AND GIVEN LOANS
The Company considers evidence of impairment for receivables individually.

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

Doubtful receivables from others prove to those who are not settled within 180 days from the due date.

As doubtful debts are those that meet one of the following conditions:

- the court began legal proceedings of recovery,
- the decision on the initiation of compulsory settlement, liquidation or bankruptcy is published.

For claims in bankruptcy proceedings, an allowance of 80% of outstanding receivables, for disputed receivables in the amount of 20% of the claimed amount, and for claims in receivership, which is not yet approved, in the amount of 50% of the amount declared in receivership. Taking into account the circumstances and facts of the individual case, the % may change.

For definitive write-offs is necessary substantiating documents, the final decision on compulsory settlement, bankruptcy, a court decision or other documents.

In the event all actions have been carried out with due diligence to achieve the repayment of certain outstanding claims and in the event that, due to the amount of claims it would be uneconomical for the company to go in the recovery process through the court, the claim in whole is finally written down, based on the decision of the management.

The Company weights the evidence of impairment for loans for each loan individually.

An impairment loss in respect of a financial asset measured at realisable value is calculated as the difference between the carrying amount and the estimated future cash flows, discounted at the original effective interest rate. Losses are recognised as operating expenses in the income statement.

b) IMPAIRMENT OF AVAILABLE FOR SALE FINANCIAL ASSETS
Impairment losses on financial assets available for sale are recognised in such a way that any cumulative loss previously recognised in other comprehensive income, and presented in the fair value reserve is transferred to profit or loss. Any subsequent increase in the fair value of an impaired financial assets available for sale are recognised in other comprehensive income.

II. Non-Financial Assets

The Company at each reporting date, verifies carrying amounts of significant non-financial assets to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is assessed.

The recoverable amount of an asset or cash-generating unit is value in use or fair value, reduced by the costs of sell, whichever is higher. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash flows from future use that are largely independent of the cash inflows from other assets or groups of assets (cash-generating unit).

Impairment of assets or cash-generating unit is recognised in the case of his/her carrying amount exceeds its recoverable amount. Impairment losses are recognised as operating expenses in the income statement.

4.5.4.9 Capital

The total capital of the company is its liability towards its owners which falls due if the company stops operation, whereby the amount of capital is adjusted for the time value of net assets achievable. It is defined by the amounts invested by owners and the amounts generated during operation that belong to the owners. It reduces the loss from operations and distributions to owners, increased by the profit generated in the period.

Basic capital and capital reserves represent cash and real contributions of the owner.

General equity revaluation adjustments on 31 December 2002 in accordance with the then applicable Slovenian Accounting Standards include the revaluation of the share capital prior to 2002. Because of the transition to the new Slovenian Accounting Standards, the correction was transferred to capital reserves. The amount can only be used to increase share capital.

Other reserves are deliberately retained earnings from previous years. They are designed on the basis of a decision of the appropriate authority or the control of the owner.

Reserve for hedging represents the amount of revaluation of derivative financial instruments.

The fair value reserve are recognised actuarial gains or losses from liabilities to employees for retirement.

The retained profit or loss is recognised even undistributed profit for the current year.

4.5.4.10 Provisions for Jubilee Benefits and Retirement Benefits

In accordance with legal regulations, collective agreement and internal regulations, the Company is obliged to pay jubilee bonuses and severance pay upon retirement, for which provisions are formed. Other pension liabilities do not exist.

Provisions are made in the amount of estimated future payments for severance and jubilee benefits discounted at the end of the financial year. The calculation is made for each employee in such a way that takes into account the cost of retirement benefits and the costs of all expected jubilee benefits until retirement. The actuary prepares the calculation using the projected unit. Severance pay upon retirement and jubilee benefits in the current year reduce the formed provisions.

4.5.4.11 Employee Benefits

Commitments of short-term employee benefits are measured on an undiscounted basis and are shown as expenses when an employee's work is carried out in connection with definite short-term benefit. Liabilities are recognised for the amount expected to be paid in the form of short-term benefits, the Company has a present legal or constructive obligation to make such payments as a result of the previous work done by the employee and the obligation can be measured reliably.

4.5.4.12 Other Provisions

Provisions are recognised if due to a past event a company has legal or constructive obligations that can be estimated reliably, and if it is likely to be required to settle the obligation through an outflow of resources in the form of economic benefits.

The value of the reservation must be equal to the present value of the expenditures that are expected to be required to settle the obligation. Since the provisions are intended to cover probable but not finished liabilities, the amount recognised as a provision is the best estimate of the expenditure, required to settle the obligation existing at the balance sheet date. Risks and uncertainties that inevitably surround events and circumstances are used to determine the best estimates for provisions.

Provisions are reduced directly for costs and expenses for which they were created. This means that in the financial year or such costs no longer appear in the income statement.

4.5.4.13 Other Assets and Liabilities

Among other assets, advances, receivables from state and other institutions and short-term deferred costs (deferred charges and accrued income) are recorded. Deferred expenses are amounts that do not yet charge the income statement. Unbilled revenues are revenues that are reflected in the income statement, although not yet been charged.

Among other liabilities advances received, liabilities to employees, state institutions and other long-term and short-term accruals (accrued expenses and deferred revenues) are recorded. Accrued expenses are amounts that have not yet occurred, but will in the future and are currently affecting profit or loss. Deferred revenues are revenues that will cover estimated expenses in a period longer than one year.

4.5.4.14 Contingent Liabilities

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not controlled by the company as a whole, or
- a present obligation that arises from past events but is not recognised because it is unlikely that the settlement of liabilities will require an outflow of resources in the form of economic benefits or the amount of the obligation cannot be measured with sufficient reliability.

Among the contingent liabilities the Company includes sureties and parental guarantees.

4.5.4.15 Revenues

Revenue from sales is recognised at the fair value of the consideration received receivable, reduced by discounts. Revenue is recognised when the buyer has assumed all significant risks and rewards of ownership are retained, when there is certainty about the payment and the associated costs and when the company ceases to decide on sold products.

Sales of goods are recognised when the company delivers the goods, the customer accepts the goods, and collectability of the related receivable is reasonably assured. In the event that the company has more positive than negative exchange rate differences from operating activities, this proves the net proceeds from the sale of goods on a net basis.

Sales of services are recognised in the accounting period in which the services are rendered or in respect of the completion of the transaction, estimated on the basis of the actual service provided as a proportion of total services.

Other operating revenues associated with products and services, interest income from advances given, late interest income, gains on sales of fixed assets, received compensations and contractual penalties and similar income.

Revenues from the accrued default interest and related receivables are recognised when incurred, if it is probable that the economic benefits associated with the transaction will flow to the company. Otherwise, the accounts of default interest are recorded as contingent assets and accounts of the company are recognised upon payment. Recording of interest will be made individually.

Financial income includes income from shares in investments (dividends), interest on loans and deposits and revenues from loans parental guarantees.

4.5.4.16 Expenses

Expenses are recognised if the decrease in economic benefits during the accounting period is associated with decreases in assets or increases in liabilities and this decrease can be reliably measured.

Operating expenses are recognised when merchandise is sold.

The cost of sold goods discloses expenses related to the sale of electricity, emission allowances for trading and their dependent costs. In the event that the company has more negative than positive exchange rate differences from operating activities, this reverts to the cost of goods sold.

Costs of services are original cost of purchased materials, namely the costs of protective equipment, small tools whose useful life do not exceed one year, energy products, office supplies, technical literature and other material.

Cost of materials for the original cost of purchased services, namely services for maintenance of computer programs, buildings and equipment, advertising services, entertainment, insurance premiums, payment and other banking services (excluding interest), lease advisory services, missions and similar services.

Among the write-downs are recorded depreciation costs associated with the consistent transfer of depreciable intangible assets and property, plant and equipment in profit or loss. The write-downs recorded write-downs and losses on disposal of intangible assets and property, plant and equipment and write-downs of trade receivables.

Labour costs are historical costs related to accrued wages and similar amounts into gross amounts, as well as the duties charged on that basis and are not part of gross amounts.

Other operating expenses are incurred in connection with the creation of reserves, donations and other charges.

Finance expenses comprise interest expense on borrowings, including related derivative financial instruments and impairment losses on financial assets and liquidation of subsidiaries. Interest expenses are recognised when incurred in the amount of the agreed rate.

4.5.4.17 Taxation

Taxes include current tax and deferred tax. Current tax is recognised in the income statement. Deferred tax is recognised in the income statement and statement of financial position.

Current tax liabilities are based on the taxable base for the business year. Taxable tax base differs from the profit reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates enacted at the reporting date. The liability for current tax is reduced by income tax prepayments during the year.

Deferred income tax is provided using the liability method under Statement of Financial Position for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates in effect at the balance sheet date and which are expected to be applied when the deferred tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognised when it is probable that future taxable profits are available from which the temporary differences can be used. It represents the amount of corporation tax charged from deductible temporary differences.

In 2016 the valid corporation tax rate was 17%, although in 2017 this changed to 19% in accordance with applicable tax laws.

4.5.4.18 Statement of Cash Flows

The cash flow statement shows changes in cash and cash equivalents for the fiscal year for which it is prepared. The cash flow statement is prepared using the indirect method based on data of the statement of financial position and income statement in accordance with IFRS.

Monetary assets is money in bank accounts, deposits and deposits linked to three months.

4.5.4.19 Segment Reporting

The company's annual report does not disclose operations by segments. Segment reporting in annual reports must be disclosed with debt or equity instruments that are publicly traded and companies that issue equity or debt instruments on the public markets.

4.5.4.20 New Standards and Interpretations Produced by IASB and Adopted by the European Union, that Have not Yet Entered into Force

New standards and interpretations listed below, are not yet in force and have not been taken into account during the preparation of annual financial statements for the year that ended on 31 December 2016:

- IFRS 9 Financial Instruments (2014): (valid for annual accounting periods beginning on 1 January 2018, used retrospectively, except in exceptional circumstances. The conversion of earlier periods is not necessary and is permitted as long as the information is available and without use of knowledge. The application before this date is permitted.)

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement, with the exception that IAS 39 remains in force in the event of hedging the fair value of the portfolio of financial assets or financial liabilities against interest rate risk. The Group has the option to decide on the use of hedge accounting in accordance with IFRS 9 or existing hedge accounting under IAS 39 in all accounting cases.

Although the foundation of the allowable measurement of financial assets - amortised cost, fair value through other comprehensive income and fair value through profit or loss – is similar to IAS 39, the criteria for determining the appropriate measurement vary significantly.

The financial asset is measured after amortised cost when the following conditions are met:

- assets are held as a business model, which is designed to collect contractual cash flows; and
- contractual provisions include the exact dates of cash flows that are solely payments of principal and interest on the unpaid principal.

Furthermore, the Group can present the subsequent changes in fair value (including positive and negative exchange rate differences) of the capital instrument, which is not intended for trading, irrevocably within other comprehensive income. In no case can these subsequent changes be reclassified to profit or loss.

Debt instruments that are measured at fair value through other comprehensive income, interest income, expected credit loss and the positive and negative exchange differences, are recognised in profit or loss in the same way as assets measured at amortised cost. Other profits and losses are recognised in other comprehensive income and reclassified to profit or loss.

Model calculation of impairment in accordance with IFRS 9 replaces the model of incurred losses, as IAS 39 knows it, which includes a model of expected credit losses; the latter means that the impairment will be recognised, even before the loss will be incurred.

IFRS 9 contains a new general model of hedge accounting that is more adopted to risk management. Different types of relationships hedging - fair value, cash flow and net investments in foreign companies - remain unchanged, but further assessment is needed.

The standard contains new requirements that need to be met (continuation and stop of hedge accounting) and allows additional types of exposures that are treated as the hedged item.

Additional extensive disclosures in respect of risk management and hedging activities are required.

The Group anticipates that IFRS 9 (2014) will not have a significant effect on the financial statements. Classification and measurement of the company's financial instruments that are subject to IFRS 9 will not change due to the nature of its operations and the types of financial instruments.

- IFRS 15 Revenue from contracts with customers: (valid for annual periods beginning on 1 January 2018. Application before that date is permitted.)

Notes to the IFRS 15 Revenue from contracts with customers have not yet been approved by the European Union; but the latter confirmed IFRS 15 Revenue from contracts with foreigners, including the effective date of IFRS 15.

The new standard provides a framework that replaces existing guidance for revenue recognition under IFRS. Groups use a five-step model to determine exactly when to recognise revenue and to what level. The new model determines that the revenue is recognised when the Company transfers the control of goods and services to the customer in the amount up to which the Company expects to be eligible. In view of the criteria, the revenue is recognised:
- over time and in a way that shows the operations of the Company; or
- when the goods and services are transferred to the buyer.

IFRS 15 also establishes principles that bind the Company to ensure quality and extensive disclosures and provides users of financial statements with useful information regarding the type, amount, time frame and uncertainty of revenue and cash flows arising from contracts with customers.

Although the initial estimate of the potential impact of IFRS 15 on its financial statements to the Company has not yet been fully completed, the Company anticipates that the standard at the date of first use will not have any significant effect on its financial statements. The Company does not foresee that the timing and measurement of its earnings under IFRS 15 will changed due to the nature of its operations and types of income.

- IFRS 16 Leases (valid for annual accounting periods beginning on 1 January 2019 or later. Earlier application is permitted if the company applies IFRS 15)
  The amendment has not yet been approved by the European Union.

IFRS 16 supersedes IAS 17 Leases and the related notes. Standard eliminates the existing model of dual accounting for leases and instead demands that a single model accounts for the majority of the leases in the balance sheet without distinguishing between the business and financial leasing.

According to IFRS 16, the contract of lease is considered a contract that gives the right to use certain assets for a certain period of time in return for payment. The new model for such an agreement stipulates that the tenant shall recognise the right to use the assets and liabilities of the lease. The right to use the asset is depreciated; the interest is credited to the liabilities. This leads to concentrated sample of cost for most leases, even if the tenant pays fixed annual rents.

The new standard for tenants introduces a number of limited exceptions, including:
- leases for a period of 12 months or less, with no purchase option, and
- leases, wherein the asset has low level value (low-cost leases, "small-ticket" leases).

With the introduction of the new accounting standard, the lease for the lessor will not significantly change, and distinction between the business and financial leasing remains in force.

The Company anticipates that the new standard at the date of first use will not have significant effect on the financial statements, as the Group is not party of the lease, which would be subject to the provisions of IFRS 16.

- Amendment to IFRS 2: Classification and measurement of share-based payments (valid for annual periods beginning on 1 January 2018. It shall apply retrospectively. Earlier application is permitted.)
  The amendment has not yet been approved by the European Union.

The amendment defines more precisely the share-based payments in the following areas:
- effects of mandatory and optional conditions due to measurement of share-based payments that are settled in cash;
- share-based payments with a settlement option in case of obligations of withholding tax; and
- changes in the conditions of share-based payments relating to the classification of payments settled in cash into payments settled with equity.

The Company anticipates that the new standard at the date of first use will not have any significant effect on its financial statements as the Group does not enter into transactions that are paid in shares

- Amendments to IFRS 4: Application of IFRS 9 Financial Instruments in connection with IFRS 4 Insurance Contracts: (Applicable for annual periods beginning on 1 January 2021. It shall apply retrospectively.)
  The amendment has not yet been approved by the European Union.

The amendment addresses the issues arising from the implementation of IFRS 9 before the scheduled replacement standards that the Governing Board of the International Accounting Standards is preparing for IFRS 4. The amendment introduces two possible solutions. First is a temporary exception for the use of IFRS 9 where some insurers postpone the application. Second solution indicates a different approach to the presentation, through which the volatility that may arise from the application of IFRS 9 prior to the planned standard on insurance contracts would mitigate.

The Company will apply the exemption adopts IFRS 9 and, consequently, does not foresee a significant impact on its financial statements.

- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets among investors and its affiliated companies or joint ventures: (Day of use has not been fixed by the Administrative Board of the International Accounting Standards. Application before the date of application is permitted.).

The amendment clarifies that the transactions with affiliated companies or joint ventures the amount of recognised gains or losses depends on whether the asset is sold or made part of the transaction where:
- total profit or loss is recognised when the transaction is concluded between the applicant and its affiliated companies or joint ventures involving the transfer of asset, or assets that represent the company (irrespective of whether the asset is located in a branch or not), while partial profits or losses are recognised when the transaction that is concluded between the applicant and its affiliated companies or joint ventures covers the asset that does not represent the company, even if this asset is located in the branch.

The Company anticipates that the new standard at the date of first use will not have any significant effect on its financial statements because the company has no subsidiaries, associates or joint ventures.

- Amendment to IAS 7: (valid for annual periods beginning on 1 January 2017. It shall apply retrospectively. Earlier application is permitted.)
  The amendment has not yet been approved by the European Union.

The amendment requires additional disclosures that will help users to evaluate the changes in financial liabilities, including changes in cash flows and changes in non-monetary (e.g. The impact of positive and negative exchange rate differences, changes in the acquisition or loss of control over subsidiaries, changes in fair value).

The Company anticipates that the new standard at the date of first use will not have a significant effect on its financial statements.

- Amendment to IAS 12: Recognition of deferred taxes in relation to unrealised losses: (valid for annual periods beginning on 1 January 2017. It shall apply retrospectively. Earlier application is permitted.)
  The amendment has not yet been approved by the European Union.

The amendment specifies in detail how and when, in certain cases accounted for deferred tax assets and how to determine the amount of future taxable income for the purpose of assessing the recognition of deferred tax assets.

The Company anticipates that the new standard at the date of first use will not have a significant effect on its financial statements, as the Group has custom future taxable profits in the manner required by the amendment.

- Amendments to IAS 40 Investment Property: (effective for annual periods beginning on 1 January 2018 or later; used for the future).
  These provisions have not yet been approved by the European Union.

Amendments strength the principle set out in IAS 40 Investment Property concerning the transfer of investment property, so that it now stipulates that such a transfer is made only if there is a change in the use of property. In accordance with changes, the transfer is made only when there is a real change in use – i.e. asset starts or ceases to meet the definition of an investment property and there is evidence about a change of use. A mere change of purpose of management is not the reason for the transfer.

The Group anticipates that changes on the date of the first use will not have any significant impact on its financial statements because the Company does not expect significant changes in usage of investment property.

- IFRIC 22 Transactions in foreign currencies and advances: (valid for annual periods beginning on 1 January 2018 or later)
  These provisions have not yet been approved by the European Union.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate that is applied upon initial recognition of the related asset, expense or income (or its part) on derecognition of non-monetary assets or non-monetary obligations in relation to a given or received advance in foreign currency. In this case, the transaction date is the date on which the company first recognised a non-cash asset or a non-monetary obligation in relation to a given or received advance.

The Company anticipates that clarification on the day of first use will not have any significant impact on its financial statements, as upon initial recognition of non-cash or non-cash obligations in respect of given or received advances, the Group uses the exchange rate in effect on the transaction date.

ANNUAL IMPROVEMENTS

The cycle of annual improvements IFRS 2014–2016 was published on 8 December 2016 and introduces changes to two standards and consequential amendments to other standards and interpretations, which result in accounting changes for presentation purposes, recognition or measurement. Amendments IFRS 12 Disclosure of Interests in Other Entities are effective for annual periods beginning on 1 January 2017 or later. Amendments to IAS 28 Investments in associates and joint ventures are subject to annual periods beginning on 1 January 2018 or later. Earlier application is permitted.

4.5.5 Fair Value Measurment

In connection with the dissemination and disclosure of financial instruments, presentation of their fair value is required. Fair value is the amount at which it is possible to sell an asset or liability exchanged between knowledgeable, willing parties in an arm's length transaction.

In determining the fair value of financial instruments, the following hierarchy levels of fair value in taken into account:

- first level comprises quoted prices (unadjusted) in active markets for identical assets or liabilities
- second level includes inputs other than quoted prices included within level directly (i.e. as prices) or indirectly (i.e. as derived from prices) for the asset or liability,third level includes inputs for the asset or liability that are not based on observable market data.

Quoted prices are used as a basis for determining the fair value of financial instruments. If a financial instrument is not quoted on a regulated market or the market is considered as inactive, it uses inputs of second and third level for determining the fair value of a financial instrument.

To designate the fair value of interest rate swaps and currency swaps, the data sent to the Company by the bank with which it has concluded an individual swap shall be used. The values shall be checked by the Company.

4.5.6 Financial Risk Management

The perception of financial risks and their management is defined in the business part of annual report.

In the notes to the consolidated financial statements, the financial risks are presented in connection with the items in the consolidated financial statements (Notes to financial instruments and risk), namely:

- credit risk,
- liquidity risk,
- foreign exchange risk,
- interest rate risk
- price risk.

4.5.7 Notes to the Financial Statements

4.5.7.1 Statement of Financial Position

C Intangible Assets (1)

Item in EUR	31/12/2016	31/12/2015
Emission allowances	25,557,569	19,514,588
Other long-term property rights	1,876,190	1,722,550
Total	27,433,759	21,237,138

Among intangible assets there are emission allowances for the purpose of electricity production in the HSE Group and software.

C **Movement in 2016 and 2015**

Item in EUR	Emission allowances	Other long-term property rights	Total
Purchase value on 01/01/2016	**19,514,588**	**6,218,652**	**25,733,240**
Acquisitions	**27,172,400**	**434,110**	**27,606,510**
Disposals – write-offs, sales	**(21,129,419)**	**(1)**	**(21,129,420)**
Write-offs		**(1,147)**	**(1,147)**
Purchase value on 31/12/2016	**25,557,569**	**6,651,615**	**32,209,184**
Written-down value 01/01/2016		**4,496,102**	**4,496,102**
Amortisation		**280,470**	**280,470**
Write-offs		**(1,147)**	**(1,147)**
Written-down value 31/12/2016		**4,775,425**	**4,775,425**
Book value on 01/01/2016	**19,514,588**	**1,722,550**	**21,237,138**
Book value on 31/12/2016	**25,557,569**	**1,876,190**	**27,433,759**
Purchase value on 01/01/2015	22,731,810	5,908,833	28,640,643
Acquisitions	19,506,393	310,902	19,817,295
Disposals – write-offs, sales	(22,723,615)	0	(22,723,615)
Write-offs		(1,083)	(1,083)
Purchase value on 31/12/2015	19,514,588	6,218,652	25,733,240
Written-down value on 01/01/2015		4,195,914	4,195,914
Amortisation		301,271	301,271
Write-off		(1,083)	(1,083)
Written-down value on 31/12/2015		4,496,102	4,496,102
Book value on 01/01/2015	22,731,810	1,712,919	24,444,729
Book value on 31/12/2015	19,514,588	1,722,550	21,237,138

The Company records intangible assets allowances for the purposes of covering the needs of its own electricity production subsidiaries TEŠ and TET– in liquidation. In the past years, TEŠ and TET– in liquidation received the majority of allowances for electricity production free of charge from the state, however, in 2013, the system changed. Since then, the two companies TEŠ and TET– in liquidation of all the allowances bought on the market. In 2011 an Agreement of management of portfolio allowances was signed, which shows that the company manages the allowances of subsidiaries. The company purchased the necessary number of allowances several years in advance (depending on the quantities of electricity sold for this period). The number of the allowances that the company TEŠ and TET– in liquidation need for the current year is established early in the next year, so also the sale and transfer of the allowances to the company TEŠ and TET– in liquidation is carried out in the next year. All effects of sales are accounted in the operating result for the current year.

At the beginning of 2016 the company had 3,691,035 allowances in order to satisfy the needs of its own electricity production subsidiaries. For this purpose in 2016 the company bought 4,060,000 million and sold 3,983,727 allowances. The stock on 31 December 2016 amounted to 3,767,308 allowances. The company shows EUR 422,273 of profit in 2016 under this title.

In 2016 useful lives of major software were revised and it was found out that, for some software useful life is not appropriate, given due to the current expectations about the usability of these assets. This software has extended useful lives, so the amortisation in 2016 amounted to EUR 87,161, which is EUR 47,561 less than if the useful life did not change.

On 31 December 2016, the company had EUR 1,062,466 undertakings for the acquisition of software and implementation of SAP4, upgrades of SAP CRM phase II, new system for electronic document management, introduction of a single home base production infrastructure and software upgrades of the Centre for the analysis of defects and events.

There are no flags or other restrictions of ownership on intangible assets.

C Property, Plant and Equipment (2)

Item in EUR	**31/12/2016**	31/12/2015
Buildings	**1,294,589**	1,329,587
Production equipment	**96,528**	101,608
Other equipment	**972,307**	1,072,145
Property, plant and equipment in procurement	**9,390,168**	9,317,296
Total	**11,753,592**	11,820,636

The buildings include a portion of the company's premises in Ljubljana. The Company has the remaining part of the business premises in Ljubljana, premises in Sostanj, Maribor and Nova Gorica in lease.

Among the production equipment, a solar power plant is shown.

Among other machinery and equipment, the Company shows software equipment.

C Movement in 2016 and 2015

Item in EUR	Buildings	Production equipment	Other equipment	Property, plant and equipment in procurement	Total
Purchase value on 01/01/2016	**1,733,285**	**127,009**	**8,606,751**	**9,317,296**	**19,784,341**
Acquisitions				**419,529**	**419,529**
Disposals			**(87,371)**		**(87,371)**
Transfers from investments			**346,657**	**(346,657)**	**0**
Write-offs			**(78,272)**		**(78,272)**
Purchase value on 31/12/2016	**1,733,285**	**127,009**	**8,787,765**	**9,390,168**	**20,038,227**
Written-down value on 01/01/2016	**403,698**	**25,401**	**7,534,606**		**7,963,705**
Disposals			**(78,800)**		**(78,800)**
Depreciation	**34,998**	**5,080**	**437,172**		**477,250**
Write-offs			**(77,520)**		**(77,520)**
Written-down value on 31/12/2016	**438,696**	**30,481**	**7,815,458**	**0**	**8,284,635**
Book value on 01/01/2016	**1,329,587**	**101,608**	**1,072,145**	**9,317,296**	**11,820,636**
Book value on 31/12/2016	**1,294,589**	**96,528**	**972,307**	**9,390,168**	**11,753,592**
Purchase value on 01/01/2015	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
Exchange differences	1	(1)	1		1
Write-offs			(458,669)		(458,669)
Purchase value on 31/12/2015	1,733,285	127,009	8,606,751	9,317,296	19,784,341
Written-down value on 01/01/2015	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)
Written-down value on 31/12/2015	403,698	25,401	7,534,606	0	7,963,705
Book value on 01/01/2015	1,364,584	106,689	24,179,742	9,296,312	34,947,327
Book value on 31/12/2015	1,329,587	101,608	1,072,145	9,317,296	11,820,636

The bulk of the Company's property, plant and equipment under construction demonstrates an investment in hydroelectric power plants on the middle Sava river in the amount of EUR 9,336,396. This relates to the preparation of pre-investment, investment and other documents necessary for the procedure of placing hydroelectric power plants in the area. In 2016, the investment for power plants on the middle Sava increased by EUR 19,100. Due to the difficult situation on the electricity market as well as the HSE Group, the project's activities are limited to prevent lengthy procedures of siting from stopping. For the realisation of investments in hydroelectric power plants on the middle Sava, the company SRESA was founded in 2011. It is anticipated that, due the exploitation of the hydroelectric potential on the Sava River, investments would be made in the company. All documents so far prepared and professional basis are prepared so that they do not become outdated and that the new investor could use them as a basis for further activities. All of the above confirms that, despite the slowdown in investment due to the current circumstances, the latter is quite likely not compromised, and there are no reasons for the impairment of investments on 31 December 2016. An appraisal that confirms the status of investments on 30 September 2016 was also made in 2016.

In 2016 useful lives of major equipment were reviewed that found out that the useful life was extended, which resulted in a decrease in the accrued depreciation. Due to the extension of the useful life of the equipment in the 2016, the depreciation in the amount of EUR 170,858 was charged, which is EUR 163,330 less than the depreciation calculated according to the originally specified useful life.

The Company has no mortgages on property, plant and equipment and has a financial leasing for equipment in the amount of EUR 491. On 31 December 2016 the company had EUR 270,336 of commitments for the acquisition of other equipment and studies for making spatial plan for commercial waters Slovenia–Italy.

The company did not carry out impairment inspections of plant and equipment in 2016, due to the fact that the useful life of important equipment does not exceed five years. The company also examined the reasons for the possible impairment of the value of business premises, in comparing to the market value at the end of 2016 in relation to the carrying amount. They found that the differences between the carrying and the market values were not so important that they would indicate the need to review the reasons for impairment.

The bulk of the company's assets represent long-term investments in subsidiaries. Among them there are disclosed investments in companies in which the company has directly or indirectly a majority stake through other owners, and for this group of companies makes consolidated financial statements.

C Investments in Subsidaries (3)

Item in EUR	31/12/2016	31/12/2015
DEM d.o.o.	**387,058,979**	387,058,979
SENG d.o.o.	**152,692,249**	152,692,249
TEŠ d.o.o.	**424,080,000**	242,232,000
TET d.o.o. — in liquidation	**3,314,769**	1
PV d.d.	**42,989,329**	42,631,000
HSE Invest d.o.o.	**80,000**	80,000
SRESA d.o.o.	**60,000**	60,000
HSE Balkan Energy d.o.o.	**856,000**	856,001
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	**1,011,774,647**	826,253,551

C Information on Subsidaries

Company	Address	Country	Activity	Ownership (%)	Voting rights (%)
DEM d.o.o.	Obrežna ulica 170, 2000 Maribor	Slovenia	Hydropower production	100.0%	100.0%
SENG d.o.o.	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Hydropower production	100.0%	100.0%
TEŠ d.o.o.	Cesta Lole Ribarja 18, 3325 Šoštanj	Slovenia	Thermal power production	100.0%	100.0%
PV d.d.	Partizanska 78, 3320 Velenje	Slovenia	Extraction of brown coal and lignite	100.0%	100.0%
TET d.o.o. — in liquidation	Ob železnici 27, 1420 Trbovlje	Slovenia	Thermal power production	100.0%	100.0%
HSE Invest d.o.o.	Obrežna ulica 170 a, 2000 Maribor	Slovenia	Other technical design and consulting	25.0%	25.0%
HSE Balkan Energy d.o.o.	Bulevar Mihaila Pupina 117, Beograd	Serbia	Electricity trading	100.0%	100.0%
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	Hydropower production	60.0%	60.0%

Important Values from Statements of Subsidaries in 2016

Item in EUR	Assets	Liabilities (excluding capital)	Revenue	Net operating result of the financial year	Total capital
TEŠ d.o.o.	1,089,707,662	693,147,277	201,660,837	(47,226,819)	396,560,385
DEM d.o.o.	495,655,581	14,351,434	70,855,087	14,603,947	481,304,147
SENG d.o.o.	252,605,391	43,646,568	42,739,985	9,233,425	208,958,823
PV d.d.	124,373,114	83,688,434	117,523,451	770,098	40,684,680
TET d.o.o. — in liquidation	7,505,287	4,190,519	3,033,122	(59,708)	3,314,768
HSE Balkan Energy d.o.o.	3,117,209	2,375,699	14,789,367	45,243	741,510
HSE Invest d.o.o.	2,762,884	970,614	4,357,426	6,598	1,792,270
HSE BH d.o.o.	1,770,279	1,187,004	14,338,624	15,786	583,275
HSE Adria d.o.o.	1,410,682	54,487	67,623,761	364,053	1,356,195
mHE Lobnica d.o.o.	640,593	5,822	34,501	3,511	634,771
SRESA d.o.o.	68,570	11	1	(7,865)	68,559
HSE MAK Energy DOOEL	38,724	5,888	238,421	(37,035)	32,836
Total	**1,979,655,976**	**843,623,757**	**537,194,583**	**(22,288,766)**	**1,136,032,219**

Changes of Long-Term Financial Investments to Subsidaries

Item in EUR	2016
Capitalisation TEŠ d.o.o.	**228,062,740**
Redemption of a minority shareholding in PV d.d.	**358,329**
Recapitalisation of TET d.o.o. — in liquidation	**6,472,665**
Impairment of TEŠ d.o.o.	**(46,214,740)**
Impairment of TET d.o.o. — in liquidation	**(3,157,898)**
Total	**185,521,096**

Movement of Long-Term Financial Investments to Subsidaries

Item in EUR	2016	2015
Purchase price on 01/01	**1,402,319,671**	1,082,192,616
Acquisitions	**234,893,734**	320,156,744
Disposals		(29,689)
Purchase price on 31/12	**1,637,213,405**	1,402,319,671
Write-downs on 01/01	**(576,066,120)**	(198,108,098)
Impairment	**(49,372,638)**	(377,958,022)
Write-downs on 31/12	**(625,438,758)**	(576,066,120)
Book value on 01/01	**826,253,551**	884,084,518
Book value on 01/01	**1,011,774,647**	826,253,551

On 31 May 2016, the Company recapitalised TEŠ in the amount of EUR 228,062,740. It is a conversion of long-term receivables with interest, that the company held toTEŠ on 31 March 2016. The capital increase was carried out on the basis of positive tests from a private investor of international institution.

The company on 21 October 2016 recapitalised PV in the amount of EUR 358,329 with the payment of a cash compensation for minority of shareholders for 607,337 pieces of ordinary registered shares of PV, which represents EUR 0.59 per share. Recapitalisation was carried out on the basis of positive tests from a private investor and the decision of the court.

On 14 October 2016, the Company carried out a capitalisation of TET - in liquidation in the amount of EUR 300,000 (in cash) for the purpose of repayment of the obligation of a judicial decision (environmental lawsuit).

The second capitalisation of TET– in liquidation was carried out on 18 October 2016 in the amount of EUR 6,172,665 (contribution in kind) for the purpose of repayment of the obligation to DEM and HSE (it was an acquisition of receivables under a credit agreement between DEM and TET– in liquidation amounting to EUR 5,167,939 and the conversion of short-term receivables in the amount of EUR 1,004,726 that the HSE disclosed to the TET– in liquidation on 18 October 2016).

None of its subsidiaries or comparable companies is listed on a stock exchange, so the reasons for potential impairment could not be determined on the basis of market prices. Possible reasons for impairment by comparing the difference between the carrying value of long-term investments of the company with a pro rata portion of the carrying value of the total equity of subsidiaries were been verified. The book value of the total equity of subsidiaries are higher or equal to the carrying amount of long-term investments in a particular company in all subsidiaries and investments for impairment of TEŠ and TET– in liquidation. For TEŠ and the PV Group, asset impairment evaluations were carried out by accredited business valuators; following this, impairments were carried out at some of these companies.

On 31 December 2016 the company's financial expenses also undermined the long-term investment in the TET– in liquidation in the amount of EUR 3,157,898.37.

TET– in liquidation began regular liquidation proceedings on 16 December 2016. On the basis of the liquidation value recorded in the books of the TET– in liquidation on 31 December 2016 reports the value of capital in the amount of EUR 3,314,768. In business plan for TET– in liquidation for years 2017 and the added years 2018 and 2019, the TET– in liquidation does not show losses.

Due to the above, it was necessary to align the value of long-term investments and capital appreciation in the acounts of TET– in liquidation to the value of long-term investment in TET– in liquidation on 31 December 2016 should there be a question of impairment.

For the share in the PV Company, the valuation for the accounting purposes of carrying out an asset impairment evaluation was carried out on 30 November 2016 by the accredited business valuators of the Slovenian Auditing Institute. The Report on the Value of the PV Company on 30 November 2016 shows that when the 100% share in the PV Company is used, the value amounts to EUR 58,503,000, so the long-term financial investment in the PV Company was not impaired.

The assessment did not take into account the following assumptions:

- value in use (for the funds that companies use to carry out basic activities)
- long-term projections of operating Company until 2054 were taken into account
- The valuations of assets that are involved in basic activities, the most important cash-generating units until 2030 and strategic points of view for the period 2031–2054 are based on the following assumptions:
    - estimated annual production of coal in the amount of 35,422 TJ per year in the period 2017–2030
    - gradual decline in business volume from 2030 to 2040 due to the expected gradual closure of the mine. After 2040 a constant production of coal in the amount of 19,168 TJ per year is foreseen;
    - scope of mine operations and adapted trend of costs for services and labour costs;
    - selling price of coal in the amount of EUR 2.75/GJ during the entire period is taken into account;
    - at the end of the projection period expenditure for the closure of the mine (costs of closing pits, severance costs) are taken into account and income from the release of working capital and the sale of other fixed assets that should be implemented within a period of 10 years (until 2063) in the estimated amount of EUR 53,388,000;
    - the values of investments in subsidiaries and associates (recoverable amount based on value in use), loans granted to subsidiaries and the value of redundant, non-operational real estate (market value reduced to costs of sell) in a total amount of EUR 34,439,000 are taken into account;
- a discount rate that reflects the required rate of return of the entire share capital (WACC) and in the nominal value of 7.69% was used. Since long-term projections are prepared in real prices, the impairment of the following real discount rate was taken into account: 6.52% for December 2016; 6.21% in 2017 and 6.10% from 2018 onwards (in the impairment test from 2015 a real discount rate from 2018 onwards in the amount of 6.12% was used). Differentiation of rates of WACC between years derives from the adjustment of these on a real basis, taking into account expectations about future inflation rate. The inflation rate is based on forecasts of UMAR.

C Sensitivity Analysis fot the Valuation of Invetment in the PV company

100% share in PV	Change or surcharge (%)		Change of the recoverable amount of the investment in EUR 000	
Discount rate (WACC)	(0.5)	0.5	4,050	(3,689)
NOPLAT (EBIT—tax)	(5)	5	(1,804)	1,803
CAPEX	(5.0)	5.0	10,242	(10,243)

The stake in TEŠ on 30 November 2016 a performance for accounting purposes of impairment testing took place, as the recoverable amount of the account was used the value in use. The appraisal was made by a certified appraiser of the Slovenian Institute of Auditors. From reports on the value of TEŠ on the day of 30 November 2016, it is indicated that the recoverable value amounts to EUR 424,080,000 and is lower than the carrying value of the investment company. On this basis, the investment in TEŠ was impaired in the amount of EUR 46,214,740.

The assessment took in account the following criteria:

- value is estimated using the present value of expected free cash flows (value in use);
- operating units of an on-going concern was used;
- long-term projections of operating cash-generating units are based on the following assumptions:
    - market prices of standardised forward contracts for electricity and emission allowances on the exchange HUPX for the period 2017–2019, and from 2020 onwards long-term forecasts of changes in market prices of electricity and emission allowances (updated in September 2016), which are prepared by the internationally recognised institution Pöyry Management consulting (same as for tests of impairments in 2015);
    - average annual production of electricity from coal-fired power plants of 3.7 TWh over the period 2017–2030, 2.6 TWh over the period from 2031 to 2040 and 2.0 TWh over the period 2041–2054. The annual amount of electricity produced from coal-fired power plants is calculated on the basis of the annual quantities of coal mined in PV and specific consumption of coal by Units. Electricity production decreases with age, due to the closure of obsolete coal Units and gradual closure of the mine, which is the only source of primary energy to produce electricity from coal-fired power plants;
    - value of other revenues (revenues from the provision of ancillary services, thermal energy, revenues from the sale of ash and gypsum) in the amount of EUR 23.9 million in 2017 to EUR 27.3 million in 2054. Increase of other income that arises from previously signed new contracts for ancillary services and planned higher revenues from sales of thermal energy;
    - any income from preferential dispatch in the coming years was not taken into account, since such support measures were supposed to have been introduced previously by other institutions that regulate the energy market in the Republic of Slovenia.
- long-term business projections from 2020 until 2040 in real prices and considering the projected sales price of electricity and the price of allowances according to forecasts by independent institutions were taken into account. For a further period until 31 December 2054 (when the replacement Unit 6 TEŠ ceased to operate and PV cease in coal mining), the projections are based on projections from 2040 and does not include further growth in normalised free cash flow;
- a discount rate that reflects the required rate of return of the entire share capital (WACC) and in the nominal value of 7.35% was used. Since long-term projections are prepared in real prices, the impairment of the following real discount rate was taken into account: 6.19% for December 2016; 5.87% in 2017 and 5.77% from 2018 onwards (in the impairment test from 2015 a real discount rate from 2018 onwards in the amount of 5.48% was used). Differentiation of rates of WACC between years derives from the adjustment of these on a real basis, taking into account expectations about future inflation rate. The inflation rate is based on forecasts of UMAR.
- the used electricity and emission allowances price projections in long-term forecasts used for the impairment test are the following:

C Change of Prices of Electricity and Emission Allowances

	Base	Period	Change in the price of electricity	Change in the price of CO_2 emission allowances
2016	**Entry-level prices**	**2017**	**EUR 37.91 per MWh**	**EUR 4.83 per t**
	Quoted prices for standardised forward contracts (HUPX)	**2017 - 2019**	**-4.05%**	**1.13%**
	Poyry forecast of prices	**2020 - 2040**	**4.56%**	**11.86%**
	Poyry forecast of prices for 2040	**2041 - 2054**		
2015	Entry-level prices	2016	EUR 41.90 per MWh	EUR 8.15 per t
	Quoted prices for standardised forward contracts (HUPX)	2016 - 2018	-1.57%	1.46%
	Poyry forecast of prices	2019 - 2040	4.14%	9.43%
	Poyry forecast of prices for 2040	2041 - 2054		

Sensitivity Analysis for the Valuation of Investment in the Company TEŠ

100% share in PV	Change or surcharge in %		Change of the recoverable amount of the investment in EUR 000	
Discount rate (WACC)	(0.5)	0.5	69,572	(63,230)
NOPLAT (EBIT—tax)	(10)	10	(58,322)	58,323
CAPEX	(10)	10	11,313	(11,308)

Other Long-Term Financial Investments and Loans (4)

Item in EUR	31/12/2016	31/12/2015
Long-term financial investments into associated companies	40,513,942	40,513,942
Long-term financial investments into jointly controlled entities	255,000	255,000
Long-term financial assets available for sale	111,000	111,000
Other long-term financial investments	500	500
Long-term financial receivables and loans	24,507,308	86,114,418
Total	**65,387,750**	126,994,860

Among other long-term investments the largest proportion represent long-term investment in an associated companies and long-term loans with interest, to the companies in the group.

Movement of Other Long-Term Financial Investments and Loans

Item in EUR	Long-term financial investments into associated companies	Long-term financial investments into jointly controlled entities	Long-term assets available for sale	Other long-term financial investments	Long-term financial loans to companies in the group	Total
Situation on 01/01/2016	**40,513,942**	**255,000**	**111,000**	**500**	**86,114,418**	**126,994,860**
Acquisitions					**166,276,816**	**166,276,816**
Repayments					**(227,883,926)**	**(227,883,926)**
Situation on 31/12/2016	**40,513,942**	**255,000**	**111,000**	**500**	**24,507,308**	**65,387,750**
Situation on 01/01/2015	40,513,942	255,000	111,000	500	0	40,880,442
Acquisitions					86,114,418	86,114,418
Situation on 31/12/2015	40,513,942	255,000	111,000	500	86,114,418	126,994,860

a) LONG-TERM FINANCIAL INVESTMENTS IN ASSOCIATED ENTITIES

In 2016 there were no changes in investments in associated entities.

Important Values from Statements on Associated Entities in 2016

Company	Assets	Liabilities (excluding capital)	Revenue	Net operating profit of the financial year	Total capital
HESS d.o.o.	354,201,833	77,636,916	14,568,657	2,453,330	276,564,917
Total	**354,201,833**	**77,636,916**	**14,568,657**	**2,453,330**	**276,564,917**

C Information on Associated Entities on 31 December 2016

Company	Address	Activity	Ownership
HESS d.o.o.	Cesta bratov Cerjakov 33a, 8250 Brežice	hydropower production	15.4%

b) LONG-TERM INVESTMENTS IN JOINTLY CONTROLED ENTITIES

Among investments in jointly controlled entities, a 25% stake in the company Soenergetika in the amount of EUR 255,000 is disclosed. There were no changes in 2016.

C Important Values from Statements on Jointly Controlled Entities in 2016

Company	Assets	Liabilities (excluding capital)	Revenue	Net operating profit of the financial year	Total capital
SOENERGETIKA d.o.o.	3,895,850	2,008,101	3,490,602	634,839	1,887,749
Total	**3,895,850**	**2,008,101**	**3,490,602**	**634,839**	**1,887,749**

C Information about Jointly Controlled Entities on 31 December 2016

Company	Address	Activity	Ownership (%)	Votingrights (%)
SOENERGETIKA d.o.o.	Stara cesta 3, 4000 Kranj	heat and electricity production	25%	25%

c) OTHER LONG-TERM FINANCIAL INVESTMENTS

Among other long-term investments, the investment to the company Stelkom (12.13% interest) in the amount of EUR 111,000 is disclosed and entered into the Institute of CO NOT in the amount of EUR 500. In 2016 there were no changes.

d) LONG-TERM LOANS TO GROUP COMPANIES

C Long-term financial receivables and loans

Item in EUR	31/12/2016	31/12/2015
Long-term financial receivables from and loans to others without interest	**22,741,499**	84,828,094
Long-term financial receivables and loans to others with interest	**1,765,809**	1,286,324
Total	**24,507,308**	86,114,418

Among long-term financial receivables and loans to companies in the Group, the company is disclosing long-term loans and accrued interest to group companies. The principal of the PV amounts to EUR 6,100,000 million and of TEŠ to EUR 16,641,499. Interest rate on loans is determined in accordance with the transfer pricing methodology and ranges from 4.00% to 4.20%. The loan to PV is secured by bills. Maturing loans to be paid by TEŠ is in 2026 and 2029, while the maturity of the loan by PV is in 2022.

C Deferred Tax Assets (5)

Item in EUR	31/12/2016	31/12/2015
Provisions	**70,141**	67,208
Impairments	**5,416,125**	4,324,367
Depreciation	**1,095**	4,452
Other	**22,280**	187,650
Total	**5,509,641**	4,583,677

Deferred tax assets amounts to EUR 5,509,641 and are calculated at 19% tax rate that will apply from 2017. They were formed from the expenses that affect profit or loss of each year, but are not fully or partially tax deductible in this year (provisions for jubilee awards and retirement benefits, the business depreciation over tax recognised impairment of investments and receivables). They are formed from the fair value of derivative financial instruments recorded in the reserve for hedging and do not affect profit or loss.

Movement of Deferred Tax Assets

Item in EUR	Provisions	Impairment	Depreciation	Other	Total
Situation on 01/01/2016	**67,208**	**4,324,367**	**4,452**	**187,650**	**4,583,677**
To the debit/credit of the operating result	**2,933**	**1,091,758**	**(3,357)**	**(129,994)**	**961,340**
To the profit debit/credit of the second comprehensive income				**(35,376)**	**(35,376)**
Situation on 31/12/2016	**70,141**	**5,416,125**	**1,095**	**22,280**	**5,509,641**
Situation on 01/01/2015	69,276	4,324,367	7,658	231,748	4,633,049
To the debit/credit of the operating result	(2,068)		(3,206)	142,183	136,909
To the profit debit/credit of the second comprehensive income				(186,281)	(186,281)
Situation on 31/12/2015	67,208	4,324,367	4,452	187,650	4,583,677

The change in deferred tax assets in 2016 amounted to EUR 925,964; the amount of EUR 961,340 was recognised in the income statement and the amount of EUR -35,376 in the statement of financial position.

Short-Term Financial Receivables and Loans (6)

Item in EUR	31/12/2016	31/12/2015
Short-term financial receivables to companies in the Group	**1,082,566**	1,912,311
Short-term financial loans to companies in the Group	**800,000**	860,000
Short-term financial receivables for interest to companies in the Group	**23,734**	2,191
Short-term deposits to others		5,004,828
Total	**1,906,300**	7,779,330

Short-term receivables from group companies in the amount of EUR 1,082,566 represent claims on guarantees and guarantees to group companies.

A short-term loan was granted to the company RGP on 31 December 2016 in the amount of EUR 800,000 with a maturity of up to 31 December 2017. The interest rate of the approved short-term loan was determined in accordance with the transfer pricing methodology and is moving in the amount of 3.00%. The loan is secured by bills.

Movement of Short-Term Financial Receiavables and Loans

Item in EUR	2016	2015
Situation on 01/01	**7,779,330**	193,014,788
Acquisitions	**2,291,213**	85,900,729
Other	**(189,342)**	
Repayments	**(7,974,901)**	(271,136,188)
Situation on 31/12	**1,906,300**	7,779,329

On 31 December 2016, there were no grounds for impairment of short-term financial receivables and loans.

Short-Term Receivables from Clinets (7)

Item in EUR	31/12/2016	31/12/2015
Short-term financial receivables to companies in the Group	**6,327,153**	10,642,155
Short-term operating receivables from and loans to associated entities	**10,249**	13,057
Short-term operating receivables from and loans to jointly controled entities	**468**	234
Short-term operating receivables from clients	**110,818,748**	110,830,655
Total	**117,156,618**	121,486,101

Short-term receivables from group companies in the amount of EUR 6,327,153 represent receivables for electricity sold, given advance for purchase of electricity and receivables for services (trade, finance function, IT function, etc.).

Short-Term Receivables from Groups Companies

Item in EUR	Country	31/12/2016	31/12/2015
DEM d.o.o.	Slovenia	**11,716**	13,907
SENG d.o.o.	Slovenia	**2,686,717**	1,516,230
TEŠ d.o.o.	Slovenia	**42,743**	161,264
TET d.o.o. — in liquidation	Slovenia	**32,597**	119,032
PV d.d.	Slovenia	**633,268**	522,806
HSE Balkan Energy d.o.o.	Serbia	**2,268,892**	888,390
HSE Adria d.o.o.	Croatia	**9,222**	7,381,129
HSE MAK Energy DOOEL	Macedonia	**2,330**	2,097
HSE BH d.o.o.	Bosnia and Herzegovina	**639,668**	37,300
Total		**6,327,153**	10,642,155

Short-term receivables in the amount of EUR 110,818,748 consists mostly of receivables from sale of electricity in Slovenia and abroad.

The value of the pledged receivables for a loan on 31 December 2016 amounts to EUR 36,068,369.

Other Short-Term Assets (8)

Item in EUR	31/12/2016	31/12/2015
Short-term advances	**507,653**	231,909
Short-term operating receivables from national and other institutions	**20,702,996**	16,839,270
Short-term operating receivables from others	**352,752**	3,666,430
Accrued revenue	**1,456,834**	662,769
Deferred charges and expenses	**5,610,030**	998,881
Total	**28,630,265**	22,399,259

The majority of other short-term operating receivables represent short-term receivables from government and other institutions in the amount of EUR 20,702,996 related to receivables for input value-added tax. The largest part of this amount represent the received invoices for electrical energy from abroad, with a principle of self-taxation where the right to deduct VAT is acquired on the day when the received invoice was issued.

The majority of short-term accrued revenue and deferred costs represent transactions related to trading with electricity.

Cash and Cash Equivalents (9)

Item in EUR	31/12/2016	31/12/2015
Cash on deposit	**21,677,527**	16,736,393
Deposits redeemable	**5,106,148**	40,420,538
Deposits of up to 3-month maturity	**2,167,772**	
Total	**28,951,447**	57,156,931

For the purpose of carrying out activities, the company has opened accounts at home and abroad, on which there was over EUR 21,677,527 money assets at the end of the year (the bulk of money assets is in Slovenian accounts).

On the 31 of December 2016 the company had no approved limits on bank accounts.

Capital (10)

Item in EUR	31/12/2016	31/12/2015
Called-up capital	**29,558,789**	29,558,789
Capital reserves	**561,243,185**	561,243,185
Other profit reserves	**562,744,824**	562,744,824
Hedge reserve	**1,740,624**	(737,288)
Fair value reserve	**20,527**	(30,296)
Retained earnings	**(278,731,064)**	(323,117,650)
Total	**876,576,885**	829,661,564

C Capital Reserves

Item in EUR	31/12/2016	31/12/2015
Share premium account	561,243,072	561,243,072
Amounts on the basis of the reversal of the general revaluation capital adjustment	113	113
Total	561,243,185	561,243,185

The value of share capital, capital reserves and other reserves from profit did not change in 2016.

The Company among reserves for hedging in the amount of EUR 1,740,624 on 31 December 2016 shows:

- results of standardised forward contracts for electricity (forward contracts) amounting to EUR 94,140
- results of standardised forward contracts for emission allowances (forward contracts) amounting to EUR 1,689,500,
- fair value of currency swaps amounting to EUR – 43,016.

C Movement of the Hedge Reserve

Item in EUR	Electricity futures	Emission allowance futures	Interest rate swaps	Foreign exchage swaps	Total
Situation on 01/01/2016	**(515,307)**		**(158,247)**	**(63,734)**	**(737,288)**
Provisioning, increase	**1,298,421**	**5,944,070**		**(43,015)**	**7,199,476**
Decrease	**(688,974)**	**(4,254,570)**	**158,247**	**63,733**	**(4,721,564)**
Situation on 31/12/2016	**94,140**	**1,689,500**	**0**	**(43,016)**	**1,740,624**
Situation on 01/01/2015	16,425		(1,094,074)	(37,401)	(1,115,050)
Provisioning, increase	83,658		1,127,502	(76,788)	1,134,372
Decrease	(615,390)			45,061	(570,329)
Deferred taxes			(191,675)	5,394	(186,281)
Situation on 31/12/2015	(515,307)	0	(158,247)	(63,734)	(737,288)

The hedge reserve increased to EUR 2,477,912 in 2016, which is mostly the result of increased trade with standardised forward contracts in electricity markets and emission allowances.

In the case of standardised forward contracts for electricity, it is about the conclusion of transactions for the purchase of electricity on foreign exchange for the period from 2017 to 2018, with which the Company protected the concluded transactions for the sale of electricity in the same period. In the case of standardised forward contracts for emission allowances, it is about concluded transactions for purchases and sales of emission allowances in foreign exchange for the period from 2017 to 2020. Due to fluctuations in energy prices and the prices of allowances on the stock exchange, a cumulative positive financial impact in the amount of EUR 2,298,947 was reached in 2016. According to this, the Company did not account for deferred taxes, whereas the realisation of the transaction price was agreed upon the conclusion of the transaction.

The Company in 2011 entered into interest rate swaps, whose fair value was negative at the end of 2015; considered deferred taxes it amounted to EUR -158,247. The Company closed the 2016 interest rate swap transactions, eliminated fair value, and deferred taxes.

In 2016, the Company did not take out any new interest rate insurance policies.

In 2016, the Company closed exchange swaps with a negative fair value on 31 December 2015, including deferred taxes, equalled

EUR −63,734. In 2016, it concluded new transactions and also partly closed some of them. The entire change of the fair value is positive and amounts to EUR 20,718, while deferred tax liabilities increased by EUR 3,522. The negative fair value of open exchange swaps amounted to EUR 53,106 at the end of 2016, of which the company paid EUR 10,090 of deferred tax liabilities, so the final situation, deferred tax included, was EUR -43,016.

C Movement of the Fair Value Reserve

Item in EUR	Actuarial gains/losses from retirement allowances	Total
Situation on 01/01/2016	**(30,296)**	**(30,296)**
Provisioning, increase	**77,615**	**77,615**
Transfer to the transferred operating result	**(26,792)**	**(26,792)**
Situation on 31/12/2016	**20,527**	**20,527**
Situation on 01/01/2015	(6,362)	(6,362)
Decrease	(24,214)	(24,214)
Transfer to the transferred operating result	280	280
Situation on 31/12/2015	(30,296)	(30,296)

As a part of the fair value provision in a total amount of EUR 20,527 at the end of 2016, the company is listing the actuarial gains arising from accrued liabilities to employees for severance pay at retirement. The actuarial loss was in 2016 reduced for EUR 77,615. From the actuarial calculation, the retained earnings were increased by EUR 26,762 due to the elimination of severance pay.

C Retained Earnings or Losses

Item in EUR	2016	2015
Net operating result of the financial year		(323,117,370)
Retained earnings	**(278,731,064)**	(280)
Total	**(278,731,064)**	(323,117,650)

At the end of the year the company shows a negative retained profit, which consists of net income in 2016 amounting to EUR 44,359,794, decreased by the negative retained profit from 2015, adjusted for the drawdowns of reservations for retirement allowances in 2016 in the amount of EUR 26,792.

The total capital of the company was in 2016 increased by EUR 46,915,321, namely:

- net profit of the current year in amount of EUR 44,359,794,
- retained net profit in the amount of EUR 26,792,
- change in the reserve for hedging in the amount of EUR 2,477,912 and
- change in the fair value reserve in the amount of EUR 50,823.

C Accumulated Sheet Profit or Loss

Item in EUR	2016	2015
Net operating result of the financial year	**44,359,794**	(323,117,370)
Transfer of profits / transfer of losses	**(323,090,858)**	(280)
Total	**(278,731,064)**	(323,117,650)

C Provisions for Termination Benefits and Jubilee Premiums (11)

Item in EUR	31/12/2016	31/12/2015
Provisions for termination benefits upon retirement	**549,712**	550,947
Provisions for jubilee premiums	**188,607**	200,101
Total	**738,319**	751,048

The Company disclosed provisions for termination benefits and jubilee premiums in the amount of EUR 738,319, which are designed on the basis of an actuarial calculation on 31 December 2016.

The actuarial calculation took into account:

- number of employees on 1 October 2016 (gender, age, overall and pension qualifying period, average net and gross earnings for the period July-October 2016),
- method for calculating retirement allowances and jubilee benefits in the group companies,
- average salary growth of 0.5% in 2016, 2017 and 2018, and 2.0% per year from 2019 onwards,
- chosen discount interest rate of 1.2%,
- employees function due to age category.

Movement in Provisions for Termination and Jubilee Premiums

Item in EUR	Provisions for severance payments	Provisions for jubilee premiums	Total
Situation on 01/01/2016	**550,947**	**200,101**	**751,048**
Provisioning-increase	**76,379**	**36,568**	**112,947**
Decrease-drawdown		**(29,540)**	**(29,540)**
Decrease-reversal	**(77,615)**	**(18,522)**	**(96,137)**
Situation on 31/12/016	**549,711**	**188,607**	**738,318**
Situation on 01/01/2015	537,553	206,847	744,400
Provisioning-increase	37,083	15,652	52,735
Decrease-drawdown	(23,689)	(22,398)	(46,087)
Situation on 31/12/2015	550,947	200,101	751,048

Sensitivity Analysis for Termination Benefits and Jubilee Premiums

		Discount rate		Salary growth	
	Item in EUR	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
2016	**Provisions for termination benefits upon retirement**	**39,067**	**(35,145)**	**(35,729)**	**38,537**
	Provisions for jubilee premiums	**7,239**	**(6,750)**	**(6,891)**	**7,138**
	Total	**46,306**	**(41,895)**	**(42,620)**	**45,675**
2015	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

Other Provisions (12)

Item in EUR	31/12/2016	31/12/2015
For lawsuits		3,030,191
Total	**0**	3,030,191

Among other provisions, at the end of the year the Company eliminated provisions filed in the court based on the final court decisions.

Movement of Other Provisions

Item in EUR	For lawsuits	Total
Situation on 01/01/2016	**3,030,191**	**3,030,191**
Provisioning - reversal	**(3,030,191)**	**(3,030,191)**
Situation on 31/12/2016	**0**	**0**
Situation on 01/01/2015	3,542,907	3,542,907
Provisioning - increase	163,106	163,106
Decrease - drawdown	(675,822)	(675,822)
Situation on 31/12/2015	3,030,191	3,030,191

Other Long-Term Liabilities (13)

Item in EUR	31/12/2016	31/12/2015
Long-term financial liabilities to banks	**236,407,512**	67,536,803
Other long-term financial liabilities	**250**	3,027
Total	**236,407,762**	67,539,830

The Company shows among long-term liabilities to banks in long-term financial loans in total amount of EUR 238,333,333, reduced for the costs of long-term deferred credit approval. Among other long-term liabilities in the amount of EUR 250, valuation of assets acquired through financial leasing is shown.

The values of the received loan principals due for payment in 2017 are shown under short-term liabilities to banks in the amount of EUR 9,203,469. In the year 2016 a long-term loans in the amount of EUR 10,922,090 were paid back.

C Movement in 2016 and 2015

Item in EUR	Long-term financial liabilities to banks	Long-term derived financial instruments	Other long-term financial liabilities	Total
Situation on 01/01/2016	**67,536,803**		**3,027**	**67,539,830**
Acquisitions	**180,000,000**			**180,000,000**
Transfers from long-term liabilities	**(9,203,469)**			**(9,203,469)**
Repayments			**(2,777)**	**(2,777)**
Other	**(1,925,821)**			**(1,925,821)**
Situation on 31/12/2016	**236,407,512**	**0**	**250**	**236,407,762**
Situation on 01/01/2015	63,458,893	1,318,161	6,487	63,465,380
Acquisitions	73,303,030		574	73,303,604
Transfers from short-term liabilities				0
Transfers to short-term liabilities	(10,922,090)			(10,922,090)
Repayments	(58,303,030)		(4,034)	(58,307,064)
Other		(1,318,161)		0
Situation on 31/12/2015	67,536,803	0	3,027	67,539,830

In December 2016 the company obtained a loan in the amount of EUR 180,000,000 through the union of domestic and international commercial banks, with a maturity until the end of 2021, which is secured by a guarantee of subsidiaries and bills. In 2016 the company was also assured of a long-term revolving loan amounting to EUR 50,000,000 which was not drawn by December 31 2016.

Loans are subject to interest at a variable rate based on the 3-month and 6-month Euribor, which in the case of the negative Euribor equals 0 and a mark-up of which ranges between 1.15% and 3.50%.

Overdue installments of principal and interest are paid on time by the company.

The interest rate risks are managed by the company in accordance with the Rules on the management of interest rate risk of the HSE Group, which defines and determines the policy of interest rate risk management of companies in HSE Group. The objective of interest rate risk management is to limit and reduce the risk associated with changes in interest rates and in this way to stabilise cash flows. In 2016 the company concluded an interest rate swap. In 2016 the Company did not enter into new interest rate hedges.

A more detailed disclosure is includedin the section on interest rate risk.

C Short-Term Financial Liabilities (14)

Item in EUR	31/12/2016	31/12/2015
Short-term financial liabilities to the companies in the Group excluding interest	**925,208**	30,702,534
Short-term financial liabilities to companies in the Group including interest	**9,100**	76,438
Short-term financial liabilities to banks excluding interest	**8,705,347**	115,922,090
Short-term financial liabilities to banks including interest	**79,492**	22,944
Short-term derivatives	**53,106**	267,447
Other short-term financial liabilities	**229,553**	36,996
Total	**10,001,806**	147,028,449

The decrease in short-term financial liabilities in comparison with the end of 2015 is the result of replacing the short-term loans with long-term loans taken out at domestic and international syndicate of commercial banks.

The majority of short-term financial liabilities represents the short-term part of principals of long-term loans, which mature in 2017, and amount to EUR 9,203,469, and will decrease through short-term deferred costs of credit approval.

Movement in 2016 and 2015

Item in EUR	Short-term financial liabilities to the companies in the Group excluding interest	Short-term financial liabilities to the companies in the Group including interest	Short-term financial liabilities to banks, of which short-term financial liabilities excluding interest	Short-term financial liabilities to banks, of which short-term financial liabilities including interest	Short-term derivatives	Other short-term financial liabilities	Total
Situation on 01/01/2016	**30,702,534**	**76,438**	**115,922,090**	**22,944**	**267,447**	**36,996**	**147,028,449**
Acquisition	**23,001,618**	**963,051**	**110,000,000**	**10,618,779**		**3,817,361**	**148,400,809**
Transfers from other liabilities			**9,203,469**				**9,203,469**
Repayments	**(52,778,944)**	**(1,030,389)**	**(215,000,000)**	**(10,562,231)**		**(3,624,804)**	**(282,996,368)**
Long-term repayments			**(10,922,090)**				**(10,922,090)**
Other			**(498,122)**		**(214,341)**		**(712,463)**
Situation on 31/12/2016	**925,208**	**9,100**	**8,705,347**	**79,492**	**53,106**	**229,553**	**10,001,806**
Situation on 01/01/2015	0	949	11,350,656	43,614	45,061	148,635	11,588,915
Acquisition	61,377,205	75,489	225,000,000	4,686,405		2,641,074	293,704,684
Transfers from long-term liabilities			10,922,090				10,922,090
Short-term 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
Situation on 31/12/2015	30,778,023	76,438	115,922,090	22,944	267,447	36,996	147,028,449

Short-term Liabilities to Suppliers (15)

Item in EUR	**31/12/2016**	31/12/2015
Short-term operating liabilities to the companies in the Group	**42,703,735**	51,385,891
Short-term operating liabilities to associated entities	**1,071,327**	1,029,610
Short-term operating liabilities to jointly controled entities	**73,865**	38,881
Short-term operating liabilities to suppliers	**82,035,369**	70,243,699
Total	**125,884,296**	122,698,081

Among short-term operating liabilities to group companies in the amount of EUR 42,703,735, the company mostly includes liabilities for electricity purchased from subsidiaries.

Among short-term operating liabilities to suppliers, the company mostly includes liabilities for electricity purchased in Slovenia and abroad.

Short-term Operating Liabilities to Group Companies

Item in EUR	Country	31/12/2016	31/12/2015
DEM d.o.o.	Slovenia	**9,521,782**	9,109,758
mHE Lobnica d.o.o.	Slovenia	**2,490**	1,315
SENG d.o.o.	Slovenia	**7,375,818**	7,084,405
TEŠ d.o.o.	Slovenia	**24,019,089**	25,799,218
TET d.o.o. — in liquidation	Slovenia	**150,042**	228,552
PV d.d.	Slovenia	**17,762**	23,026
HTZ I.P. d.o.o.	Slovenia	**7,272**	2,356
HSE Invest d.o.o.	Slovenia	**18,930**	40,517
HSE Balkan Energy d.o.o.	Serbia	**1,219,267**	767,959
HSE Adria d.o.o.	Croatia	**17,466**	8,328,785
HSE BH d.o.o.	Bosnia and Herzegovina	**353,817**	
Total		**42,703,735**	51,385,891

Other Short-Term Liabilities (16)

Item in EUR	31/12/2016	31/12/2015
Short-term accrual-based operating liabilities	**523,800**	32,300
Short-term operating liabilities to employees	**951,523**	889,668
Short-term operating receivables from national and other institutions	**15,526,752**	14,245,233
Short-term operating liabilities to others	**14,323**	12,740
Short-term deferred revenue	**20,832**	
Short-term costs and provisions and accrued expenses	**31,011,846**	20,717,365
Total	**48,049,076**	35,897,306

Other current liabilities mostly consist of liabilities to government and other institutions as well as accrued costs and expenses.

Short-term liabilities to state and other institutions represent obligations with regard to value-added tax, obligation for excise duty, liability for December contributions on wages and contributions of other remuneration from employment which must be paid by the employer. The highest obligation of the Company is disclosed by the value-added tax. It is related to the electricity bills received from abroad, where a system of self-taxation is in force, and where the right to deduct VAT is acquired on the day on which the received invoice was issued. The greater part of December's electricity supply was invoiced in January 2017, and it will be included in calculation of value-added tax in the calculation of January 2017.

Accrued expenses are expenses that relate to 2016 and are included in the income statement, in 2016 the company did not yet receive the invoice or accounts for those. The majority of costs represent the purchase of electricity for 2016 from TEŠ in the amount of EUR 28,903,047. Other are deviations from schedules for the month of December 2016 and interest on loans taken out for which the company has not yet received the accounts in 2016.

Contingent Liabilities (17)

Item in EUR	31/12/2016	31/12/2015
Guarantees given and parental guarantees for subsidiaries in Slovenia	**162,199,708**	241,415,368
Bank guarantees for subsidiaries in Slovenia	**3,964,601**	4,060,321
Guarantees given and parental guarantees for subsidiaries abroad	**4,602,292**	8,904,078
Guarantees given to others	**11,409,058**	33,878,807
Total	**182,175,659**	288,258,574

Among the contingent liabilities the company shows the values of sureties and parental guarantees.

Among given guarantees to others, an evaluation of potential liabilities of the project of replacement Unit 6 in the amount of EUR 11,409,058 is shown. This is about a commitment of the company in the loan agreement concluded between the TEŠ and the EBRD that, in the case of a cost increase in the replacement Unit 6 project, company will provide additional resources to company TEŠ for the payment of all liabilities.

Guarantees and Parental Guarantees to Subsidiaries in Slovenia

Beneficiary	Debtor	Type of guarantee	Validity	Contingent liability on 31/12/2016	Contingent liability on 31/12/2015
EIB/ bank consortium**	TEŠ	Bank guarantee collateral	For the duration of the validity of the contract		88,000,000
EBRD**	TEŠ	Bank guarantee collateral	For the duration of the validity of the contract	**151,314,286**	151,314,286
Unicredit banka d.d.	TEŠ	Short-term credit guarantee	31/12/2017	**10,000,000**	
NLB d.d.	RGP	Bank guarantee collaterals	For the duration of the validity of the contract	**430,526**	2,101,082
Petrol d.d.	HSE	Liability guarantee of PV, TEŠ, SENG, and DEM to Petrol d.d.	31/12/2020	**354,896**	
Geoplin d.o.o.	TEŠ	Affidavit of guarantee	30/01/2017	**100,000**	
Total				**162,199,708**	241,415,368

* The unrealised contractual value from the contracts concluded is disclosed as the contingent liability (excluding VAT). - ** The principal of the received loan is disclosed as the contingent liability.

Sureties and parental guarantees have decreased compared with 2015, due to the repayment of loans from the European Investment Bank, for which a bank guarantee is no longer needed, which was secured by a surety company.

The Company is not aware of any circumstances that could give rise to any liability in this respect.

4.5.7.2 Economic Profit and Loss Statement

Net Sales (18)

Item in EUR	2016	2015
On the domestic market	**447,122,699**	569,244,554
Electricity	**445,090,991**	566,225,455
Other commodities and material	**422,273**	167,993
Other services	**1,609,435**	2,851,106
On the foreign markets	**787,310,025**	733,872,946
Electricity	**779,733,578**	714,574,818
Other commodities and material	**482,215**	474,721
Other services	**7,094,232**	18,823,407
Total	**1,234,432,724**	1,303,117,500

The company mainly creates net sales by selling electricity. The amount of revenue from this represents 99.2% of all net sales.

The income from commodities (at home and abroad) is represented by the net sales of emission allowances.

The company created revenue mainly from services with services related to sales of electricity (transmission capacities, fee for allocation of transmission capacities, guarantees of origin), services for subsidiary and other companies, and rents.

Other Operating Revenue (19)

Item in EUR	2016	2015
Revenue from reversal of provisions	**3,030,190**	
Reversal of impairment of receivables	**861,649**	91,524
Revenue from damages and contractual penalties	**8,829**	6,067
Interests on arrears	**70,628**	435,155
Revenue from sales of fixed assets	**13,041**	
Other	**410**	267
Total	**3,984,747**	533,013

The largest values of other operating revenue are revenue from the reversal of provisions for lawsuits.

Costs of Goods, Material, and Services (20)

Item in EUR	2016	2015
Purchase costs of the goods sold	**1,129,895,301**	1,187,593,033
Related costs of the goods sold	**27,422,176**	49,513,628
Total purchase costs of the goods sold	**1,157,317,477**	1,237,106,661
Energy costs	**41,962**	47,279
Small tools costs	**4,184**	555
Stationery	**33,311**	35,634
Specialised literature	**185,314**	72,609
Other	**13,881**	11,989
Total costs of materials	**278,652**	168,066
Costs of maintenance	**1,943,327**	1,596,634
Costs of leases	**1,149,522**	556,781
Insurance and bank services costs	**856,176**	759,987
Intellectual and personal services costs	**1,627,538**	1,025,185
Trade fair costs, advertising costs, representation costs	**312,215**	455,090
Costs of natural person services	**280,036**	187,388
Other	**413,560**	380,085
Total costs of services	**6,582,374**	4,961,150
Total	**1,164,178,503**	1,242,235,877

The purchase value of the sold commodities, which represents 99% of all operating expenditure, comprises electricity purchase costs and the costs related to this.

To the costs of materials, the costs of specialised literature, fuel, and office material contribute the largest share.

The largest share of the costs of services represent the costs of computer hardware and software maintenance, costs of renting premises, costs of insurance and bank services and costs of intellectual services.

Audit Expenses

Item in EUR	2016	2015
Annual report audit	**13,900**	14,100
Other non-audit services	**71,138**	
Total	**85,038**	14,100

In addition to the audit of the annual report for the 2016 financial year, the company paid KMPG Slovenija for the audit of the financial report and verification of the consistency of the information in its prospectus upon the procedure of bond issue, in the total amount of EUR 71,138.

Labour Costs (21)

Item in EUR	2016	2015
Salaries	**6,167,466**	5,717,740
Retirement insurance costs	**832,431**	756,008
Costs of other insurance	**457,827**	420,115
Other labour costs	**684,932**	533,377
Total	**8,142,656**	7,427,240

Labour costs comprise costs of salaries and emoluments, including benefits paid by the employer's labour costs, which also include compensation for leave not taken from 2016, which may be used by the employees until 30 June 2017.

Number of Employees and Mean Number of Employees by Education Structure

Education class	On 01/01/2016	On 31/12/2016	Average no. of empl.
4	1	1	1
5	12	12	12
6/1	15	17	16
6/2	29	31	30
7	64	62	63
8/1	18	24	21
8/2	4	3	4
Total	**143**	**150**	**147**

Write-downs(22)

Item in EUR	2016	2015
Amortisation of intangible assets	**280,470**	301,272
Depreciation of property, plant, and equipment	**477,250**	1,761,453
Debt Impairment/write-off	**6,162**	1,105,387
Property, plant, and equipment impairment		92
Property, plant, equipment, and investment property impairment	**1,779**	
Total	**765,661**	3,168,204

Listed among write-offs are asset depreciation, write-offs of receivables, and loss of equipment write-offs. Depreciation is lower than in 2015 because in 2015 equipment depreciation was accounted for and was given as a contribution in-kind to subsidiaries.

Write-offs of receivables comprise the write-off of receivables from the Italian tax authority, the return of which cannot be reliably predicted.

Financial Revenue (23)

Item in EUR	2016	2015
Financial revenue from dividends and other share in the profits	**50,321,770**	16,107,683
Financial revenue from loans and deposits	**3,819,790**	2,884,083
Change in the fair value of financial investments through profit or loss	**45,946**	68,598
Financial revenue from the sale of financial investments		141,902
Other financial products	**1,083,738**	1,920,408
Total	**55,271,244**	21,122,674

In 2016, the company presented financial revenue in the amount of EUR 55,271,244.

Financial revenue from shares lists paid out dividends of the DEM and SENG subsidiaries in the total amount of EUR 50,171,770 and of the joint venture Soenergetika in the amount of EUR 150,000.

Financial revenue from loans and deposits granted mainly comprises accrued interest for the loans given to the companies in the Group.

There was a change in the fair value of financial investments through the operating result, comprising profits from future contracts for trading electricity in the amount of EUR 39,746 and future contracts for trading emission allowances in the amount of EUR 6,200.

Among other financial instruments, the company's revenue mainly stems from parental guarantees given to companies in the Group.

Financial Expenses (24)

Item in EUR	2016	2015
Interest expenditure	**11,143,720**	5,533,045
Change in the fair value of financial investments through profit or loss	**807,323**	54,383
Financial expenditure from the sale of financial investments	**49,372,638**	377,958,023
Other financial expenditure	**6,489,602**	2,837,322
Total	**67,813,283**	386,382,773

Financial expenses for interest, amounting to EUR 11,143,720, comprise accrued interest of EUR 9,990,134, an interest rate swap in the amount of EUR 190,535 and accrued interest from received short-term loans to companies in the HSE Group in the amount of EUR 963,050. Higher financial expenses for interest payments in comparison to 2015 are a consequence of higher short-term borrowing in 2016.

A change in the fair value of financial investments through the operating result in the amount of EUR 807,323 stems from losses from trading forward electricity contracts in the amount of EUR 287,593 and losses from trading forward emission allowances contracts in the amount of EUR 519,730. Financial expenses from the impairment of financial losses were impairments of long-term financial investments in TET—in liquidation in the amount of EUR 3,157,898 and TEŠ in the amount of EUR 46,214,740.

Other financial expenses in the amount of EUR 6,489,602 were expenses due to a warranty of DEM and SENG, expenses of the withholding tax for foreign loans, expenses in relation to taking long-term loans and expenses from bonds.

Tax (25)

Item in EUR	2016	2015
a. Current tax	**9,028,778**	8,246,499
b. Deferred taxes	**(961,340)**	(136,910)
Total income taxes	**8,067,438**	8,109,589
Deferred taxes recognised in the capital	**10,090**	45,466

The company is a taxable person as per the Value Added Tax Act, the Excise Duty Act, the Financial Services Tax Act, and the Corporate Income Tax Act. The Czech subsidiary of the company is liable for corporation tax.

In accordance with the Corporate Income Tax Act, the tax due for 2016 shall be paid at a rate of 17% from the tax basis determined in the Company's tax returns, while the tax rate for 2017 is being changed to 19%.

The current tax of the company for 2016 equals EUR 9,028,778. On the basis of tax returns, the current tax due for 2015 amounts to EUR 8,246,499. At the end of 2016, the company shows liabilities of EUR 1,469,487.

Under deferred taxes, it shows deferred tax assets. Allocation and drawdown per value are shown in the disclosure of deferred tax assets (explanatory note 5 in the statement of financial position).

In determining the current tax base, incomes and expenses established in accordance with IFRS were amended in the sense of raising or lowering the tax basis, which is shown in the table below.

Calculation of Effective Tax Rate

Item in EUR	2016	2015
Pre-tax operating result	**52,427,232**	(315,007,781)
Taxes calculated at the applicable tax rate	**8,912,629**	(53,551,323)
Taxes from the revenues reducing the basis of assessment	**(8,704,521)**	(2,761,257)
Taxes from deductible expenses	**(96,610)**	(77,205)
Taxes from the expenses reducing the basis of assessment	**(6,060)**	(6,086)
Taxes from non-deductible expenses	**8,488,551**	64,513,076
Taxes from other changes in the tax balance sheet	**434,789**	129,294
Tax levied	**9,028,778**	8,246,499
Deferred taxes	**(961,340)**	(136,910)
Total taxes	**8,067,438**	8,109,589
Effective tax rate	**15.39%**	-2.57%

On 31 December 2016, deductible temporary differences equalled EUR 499,196,791; these originated from impairment of financial investments in subsidiaries; the company did not establish deferred tax liabilities related to this. As per IAS 12–Income taxes, deferred tax liabilities shall only be recognised if it is likely that temporary differences will be reversed in the foreseeable future. As the Company does not plan to dispose of these investments, it did not establish deferred tax liabilities related to this.

Net Profit or Loss (26)

Item in EUR	2016	2015
Gross operating profit	**1,238,417,471**	1,303,650,513
Operating result	**64,969,271**	50,252,318
Financial result	**(12,542,039)**	(365,260,099)
Pre-tax operating result	**52,427,232**	(315,007,781)
Net operating result of the financial year	**44,359,794**	(323,117,370)

The Company concluded 2016 with a net result of EUR 44,359,794. Without impairment of investments in TEŠ and TET—in liquidation, the Company could conclude 2016 with a net profit of EUR 93,732,432.

4.5.7.3 Related Companies

The sales and purchases columns show the turnover of all transactions (excluding VAT) between the Company and the associated companies in 2016. Granted loans and loans taken out show the situation at the end of 2016 (principal plus interest). The income from granted parental guarantees in 2016 is shown separately in a net value (excluding VAT). The values of parental guarantees are disclosed at Contingent liabilities and Contingent assets (the explanatory note 17 in the statement of financial position).

The situation of outstanding receivables from associated persons is disclosed in the chapter Short-term operating receivables from purchasers; the status of outstanding operating liabilities is disclosed in the chapter Short-term operating liabilities to suppliers.

C Details about Related Companies for 2016

Item in EUR	Sales	Purchases	Granted loans including interest	Raised loans includig interest	Income on guarantees issued
DEM d.o.o.	48,095	68,497,217		110,000	
mHE Lobnica d.o.o.		13,555			
SENG d.o.o.	9,766,620	42,210,381		824,308	
TEŠ d.o.o.	4,129,071	194,032,858	19,433,725		1,026,417
TET d.o.o.–in liquidation	986,916	1,817,186			
PV d.d.	3,281,451	165,024	6,121,700		
HTZ I.P. d.o.o.		28,801			
RGP d.o.o.	25,527		819,183		18,259
GOLTE d.o.o.		2,415			
HSE Invest d.o.o.		105,556			
HSE Balkan Energy d.o.o.	9,209,328	10,352,449	35,750		35,750
HSE Adria d.o.o.	57,138,645	63,736,858	3,250		3,250
HSE MAK Energy DOOEL	3,641	88,583			
HSE BH d.o.o.	951,420	3,107,919			
Total	**85,540,714**	**384,158,802**	**26,413,608**	**934,308**	**1,083,676**

Sale prices and purchase prices for services were determined on the basis of the applicable internal price list of the HSE Group companies; lease prices and sale prices are determined on the basis of comparable free prices; purchase prices of electricity are determined according to a cost-plus method, or the purchase prices achieved on the market.

The Company is 100% owned by the Republic of Slovenia. In 2016, the Company concluded no transactions with the Government of the Republic of Slovenia. In 2016, the Company paid no dividend to the owner.

Transactions with the Republic of Slovenia and with Legal Persons that are Directly Owned by the Republic of Slovenia

Counterparty	Receivables outstanding on 31/12/2016	Liabilities outstanding on 31/12/2016	Revenues 01/12/2016	Expenses 01/12/2016
ELES d.o.o.	2,973,658	425,394	25,060,578	2,496,420
BORZEN d.o.o.	1,514	266,138	795,246	5,641,771
ELEKTRO PRIMORSKA d.d.			80,292	
PETROL d.d.	7,750,794	7,528,458	64,633,767	56,775,518
GEN ENERGIJA d.o.o.	350,054	13,630	4,639,856	119,382
STELKOM d.o.o.		55,013		542,211
E3 d.o.o.	5,075,480	20,381	42,103,081	1,817,447
GEN-I d.o.o.	207,265	400,493	45,696,021	41,247,274
BSP d.d.	124,586	178,188	52,138,163	17,978,388
ELEKTRO ENERGIJA d.o.o.	2,539,197	1,658,104	22,737,504	16,046,172
ECE d.o.o.	11,187,108	356,733	103,434,390	2,008,230
ELEKTRO MARIBOR ENERGIJA PLUS d.o.o.	5,514,411	55,469	48,187,980	866,907
Energy companies—total	**35,724,066**	**10,958,002**	**409,506,879**	**145,539,721**
TALUM d.d.	1,903,094		18,381,032	
Aluminium production	**1,903,094**		**18,381,032**	
NLB d.d.		15,009,677	62	417,698
SID d.d.		53,818,182		1,423,445
Banks—total		**68,827,859**	**62**	**1,841,143**
Total	**37,627,160**	**79,785,860**	**427,887,972**	**147,380,864**

The table shows transactions with legal persons that are directly or indirectly owned by the Republic of Slovenia (more than 50% ownership) and are important for the company due to the volume of transactions (income or expenses in 2016 exceed EUR 2 million), except for banks, where all transactions have been disclosed. Other operations with companies, ministries, agencies, and other legal persons, where the Republic of Slovenia is a major or minor owner, are insignificant from the aspect of reporting.

4.5.7.4 Operating Lease

The company leases business premises, garages, parking spaces, server racks, and secure system computer space.

The table below shows liabilities related to operating lease (the company as the lessor)—minimum lease payments:

Operating leases

Item in EUR	**31/12/2016**	31/12/2015
Less than one year	325,366	296,133
Total	**325,366**	296,133

The leasing costs equalled EUR 1,149,522 in 2016.

4.5.7.5 Remunerations

Remunerations of managers and of employees for whom the tariff part of the collective agreement does not apply includes:

- gross remuneration contained in the notification of tax return;
- other remuneration (meals, travel, subsistence);
- savings-pension contributions.

The remuneration of the members of the Supervisory Board contains gross meeting expenses of all members, including travel expenses for exercising their functions in the Supervisory Board and the Supervisory Board's committees.

In 2016, the Company did not approve advances, loans, and guarantees to these groups of persons. In 2016, the Company had no claim against the Management and Supervisory Boards members.

Among short-term operating debts, liabilities for December salaries to members of the Management Board and the employees for whom the tariff part of the collective agreement does not apply, and for December meeting expenses to the members of the Supervisory Board and the members of the committees of the Supervisory Board.

C Remunerations in 2016 and 2015

Item in EUR	Salary	Other emoluments	Bonuses	Reimbursement	Meeting expenses	Total
Members of the Management Board	**265,834**	**72,311**	**10,030**	**3,739**	**6,559**	**358,473**
Members of the Supervisory Board and of the Supervisory Board's committees		**237,739**	**2,505**	**8,946**	**237,739**	**249,190**
Empoyees for whom the tarrif part of the collective agreement does not apply	**344,004**	**11,281**	**12,862**	**6,479**		**374,626**
Total 2016	**609,838**	**321,331**	**25,397**	**19,164**	**244,298**	**982,289**
Members of the Management Board	273,784	6,938	8,374	3,497	3,860	296,453
Members of the Supevisory Board and the Supervisory Board's committees			102	4,668	136,057	140,827
Members for whom the tarrif part of the collective agreement does not apply	719,406	22,853	7,441	16,220		765,920
Total 2015	993,190	29,791	15,917	24,385	139,917	1,203,200

C Remunerations of the Management Board Members in 2016

Item in EUR	Gross salary	Other emoluments	Bonuses	Reimbursement	Gross meeting expenses	Total
Blaž Košorok	88,521	63,723	715	1,122		154,081
Stojan Nikolić	128,599	3,610	5,852	1,761	6,559	146,381
Gorazd Skubin	48,714	4,978	3,463	856		58,011
Total	**265,834**	**72,311**	**10,030**	**3,739**	**6,559**	**358,473**

For Stojan Nikolić, member of the Supervisory Board, the meeting expenses that he had received as a member of the PV Supervisory Board have also been taken into account.

C Remunerations of the Supervisory Board Members in 2016

Item in EUR	Gross meeting expenses	Travel expenses	Bonuses	Total
Boštjan Jančar	16,564	366	211	17,141
Boštjan Markoli	17,694	153	211	18,058
Jernej Otič	16,378	1,365	211	17,954
Črt Slokan	16,102	1,289	211	17,602
Drago Štefe	17,240	336	211	17,787
Miloš Pantoš	18,873	21	211	19,105
Milan Perović	13,284	201	208	13,693
Viktor Vračar	9,911	140	208	10,259
Matjaž Marovt	9,911	452	208	10,571
Barbara Gorjup	10,186	34	208	10,428
Damjan Lipušček	10,187	592	208	10,987
Vanja Živanić Jovanović	10,186		208	10,394
Total	**166,516**	**4,949**	**2,514**	**173,979**

* According to the SDH Code (March 2016)—disclosure of remuneration of external members.

Remunerations of Members of Audit Committees of Supervisory Boards in 2016

Item in EUR	Gross meeting expenses	Travel expenses	Total
Boštjan Jančar	4,365		4,365
Boštjan Markoli	4,783	13	4,796
Barbara Gorjup	3,204	23	3,227
Darinka Virant	7,481	621	8,102
Damir Rakela	7,481	72	7,553
Maja Zaman Groff	5,989	37	6,026
Total	**33,303**	**766**	**34,069**

Remunerations of Members of the Staff Nomination Committee of the Supervisory Board in 2016

Item in EUR	Gross meeting expenses	Travel expenses	Total
Jernej Otič	2,167	124	2,291
Črt Slokan	2,167	129	2,296
Miloš Pantoš	2,854	126	2,980
Total	**7,188**	**379**	**7,567**

Remuneration of the Supervisory Board's Staff Committee members in 2016

Item in EUR	Gross meeting expenses	Travel expenses	Total
Jernej Otič	2,393	172	2,565
Črt Slokan	2,393	387	2,780
Milan Perović	3,171	40	3,211
Matjaž Marovt	2,393	238	2,631
Total	**10,350**	**837**	**11,187**

Remunerations of Members of the Restructuring Committee in 2016

Item in EUR	Gross meeting expenses	Travel expenses	Total
Miloš Pantoš	2,180	8	2,188
Viktor Vračar	3,437	14	3,451
Matjaž Marovt	2,657	396	3,053
Vanja Živanić Jovanović	2,437		2,437
Total	**10,711**	**418**	**11,129**

Remunerations Memebers of the Marketing and Investments Committee in 2016

Item in EUR	Gross meeting expenses	Travel expenses	Total
Boštjan Markoli	1,541	239	1,780
Drago Štefe	1,966	327	2,293
Miloš Pantoš	2,202	357	2,559
Viktor Vračar	1,981	244	2,225
Damjan Lipušček	1,981	430	2,411
Total	**9,671**	**1,597**	**11,268**

4.5.7.6 Financial Instruments and Risks

This chapter relates to the chapter Management of Financial Risks of the Financial Statement and the chapter on financial risks in the operating part.

4.5.7.6.1 Credit Risk

The major part of activities where the company meets credit risk stems in particular from the activity of electricity trading. Most of the partners with whom we conclude contractual relations in this field are companies with high credit rating. All activities for the management of credit risks are carried out in accordance with the Policy of Risk Management at the Company and the Policy of Procurement and Maintenance of the Partner Status at the Company, which details procedures and due diligence in the selection of partners. We decided on the type of business relation with partners on the basis of previous analyses of the partner's credit rating, which in continuation determine a possible extent and time horizon of operations, elements of contractual relation, and in particular the required extent of additional insurance in the form of bank and corporative guarantees, received advances, and other suitable forms of insurance.

We monitor the credit risk as well as our credit exposure to individual partners on a daily basis. An important measure of reducing credit risk is conclusion of contractual terms, i.e. general and umbrella agreements (e.g. EFET), which stipulate monthly financial set-offs of claims and liabilities, as well as offsetting as wide a set of mutual claims and liabilities in the case of a premature termination of agreement due to possible partner insolvency.

From the aspect of managing credit risk to banks and other financial institution, the company regularly monitors data on the operations of the financial institutions with which it cooperates. The risk is additionally managed through diversification of asset deposition at individual banks, investment of cash for short-term operating and conclusion of insurance contracts against currency and interest rate risks on the basis of standardised ISDA contracts.

The maximum exposure of the company to the credit risk of short-term operating and financial claims represent the book value by individual items of short-term receivables, reduced for financial insurance.

Credit Risk Estimate on 31 December 2016

Item in EUR	Receivables	Secured receivables	Non-secured receivables	LGD*
Short-term receivables from companies in the Group	6,327,153	4,946,603	1,380,550	8,149
Short-term receivables from associated entities	10,249	10,249		4
Short-term receivables from jointly controled entities	468	468		117
Short-term receivables from clients	110,821,093	94,301,679	16,519,414	483,956
Total	**117,158,964**	**99,259,000**	**17,899,963**	**492,226**

* LGD—internal calculation of potential loss in the event of default

In the credit risk estimate, we considered the probability of a failure to meet contractual obligations regarding the partner's obligor grade, the class of insurance received, and his issuer's obligor grade.

The risk impact is assessed aggregately, taking into account the probability of non-payment on the basis of the partner's obligor grade, and amounts to 0.42% of the value of all claims per the situation on 31 December 2016.

The unsecured part of claims is the sum of parts of sale to partners to an open account within the scope of certain credit limits. In accordance with the valid policy of credit risk management, sale to an open account is only possible within the scope of credit limit to partners in consideration of their financial strength and risk. Of non-insured risks, the risks to partners ranking in higher obligor's classes and to partners belonging to a highly regulated activity, often predominate in state ownership (e.g. system service providers).

The probability of a loss in an individual credit class is determined on the basis of theoretical models and transitional matrices of credit agencies. Insured claims also bear some risk of default corresponding to the obligor's grade, and the company monitors both with the assessment of value due to a possible loss from the default. Receivables from partners are protected with bank guarantees, corporate guarantees, pledging claims arising from contracts on the management of transaction accounts, deposits, and promissory notes.

In 2016, with rare exceptions our partners regularly settled their liabilities.

In the case of a delay of payment, the purchasers in Slovenia and abroad are charged with contractually agreed late payment interests.

The share of claims of the Company to purchasers in Slovenia decreased from the previous financial year and on 31 December 2016 represents 35% of all claims to purchasers.

At the end of 2016, the company presents EUR 824,309 of dubious claims, i.e. claims arising from sales of electricity to Korlea invest a.s., established in 2012 in the amount of EUR 824,309. In 2015, the Company established a claim from sales of emission allowances to TET– in liquidation in the amount of EUR 861,648. In 2016, the Company partly recovered the claim against TET– in liquidation, and transferred the difference through conversion to the company's recapitalisation. It did not establish new adjustments in 2016.

Movement of Value Adjustment of Short-Term Operating Receivables

Item in EUR	2016	2015
Situation on 01/01	**1,685,957**	849,584
Recovered written-off receivables	(861,648)	
Allocation of adjustments to values of receivables		1,105,388
Final write-off of receivables		(269,015)
Situation on 31/12	**824,309**	1,685,957

Long-Term Receivables by Maturity on 31 December 2016 and on 31 December 2015

	MATURITY			
Item in EUR	Up to 2 years after the SFP date	From 3 to 5 years after the SFP date	More than 5 years after the SFP date	Total
Long-term financial receivables from and loans to companies in the Group	**1,250,000**	**3,000,000**	**18,491,499**	**22,741,499**
Long-term financial receivables from and loans to companies in the Group with interest			**1,765,809**	**1,765,809**
Long-term operating receivables from others			**623,612**	**623,612**
Total 31/12/2016	**1,250,000**	**3,000,000**	**20,880,920**	**25,130,920**
Long-term financial receivables from and loans to companies in the Group			86,114,418	86,114,418
Long-term operating receivables from others	535,689			535,689
Total 31/12/2015	535,689	0	86,114,418	86,650,107

Short-Term Operating and Financial Receivables by Maturity on 31 December 2016 and on 31 December 2015

	MATURITY			
Item in EUR	Not due	After up to 3 months (90 days)	After more than one year (361 days or more)	Total
Short-term operating receivables from companies in the Group	**6,137,746**	**189,407**		**6,327,153**
Short-term operating receivables from associated companies	**10,249**			**10,249**
Short-term operating receivables from joint ventures	**468**			**468**
Short-term operating receivables from purchasers	**110,525,203**	**18,776**	**1,099,078**	**111,643,057**
Short-term advances	**507,653**			**507,653**
Short-term operating receivables from state and other institutions	**20,702,996**			**20,702,996**
Short-term operating receivables from others	**352,752**			**352,752**
Short-term financial receivables from companies in the Group	**1,882,566**			**1,882,566**
Short-term financial receivables from companies in the Group at an interest rate	**23,734**			**23,734**
Total 31/12/2016	**140,143,367**	**208,183**	**1,099,078**	**141,450,628**
Short-term operating receivable from companies in the Group	10,639,535	864,268		11,503,803
Short-term operating receivables from associated companies	13,057			13,057
Short-term operating receivables from joint ventures	234			234
Short-term operating receivables from purchasers	106,554,109	4,001,776	1,099,079	111,654,964
Short-term advances	231,909			231,909
Short-term operating receivables from state and other institutions	16,839,270			16,839,270
Short-tem operating receivables from others	3,666,430			3,666,430
Short-term financial receivables from and loans to companies in the Group	2,774,502			2,774,502
Short-term depostits to others	5,004,828			5,004,828
Total 31/12/2015	145,723,874	4,866,044	1,099,079	151,688,997

The majority of receivables due at the end of 2016 refer to invoices issued for electricity and were already settled by the production of this report.

4.5.7.6.2 Liquidity Risk

In 2016, the HSE Group and Company carried out intensive activities for the management of the liquidity risk. Due to established mutual relations from the selling and trading of electricity and coal, as well as providing financial resources related to investment in Unit 6, the management of the liquidity of the company and group are tightly interwoven.

To manage the liquidity risk, the policy of regular planning of cash flows and management of the group's liquidity and the HSE Group is carried out, in accordance with which the liquidity situation and cash flows are regularly monitored on the daily, monthly, and annual levels. In 2016, the company also paid a lot of attention to the preparation of cash flows, as only successful planning of cash funds enabled optimum management of liquidity, including the timely forecasting of potential liquidity surpluses or deficits. The risk of short-term payment capability was successfully reduced by the Company by regularly harmonising the maturity of receivables and liabilities and consistent recovery of receivables.

Within the scope of the management of liquidity risks, we also pay special attention to risks related to breaches of financial commitments in borrowing contracts. In 2016, the indices of the HSE Group and Company were aligned with commitments in borrowing contracts. The HSE company moved from a given financial commitment only in one financial index, regarding which it received an advance waiver of violation in good time. In December, the Company successfully completed long-term financing procedures and secured EUR 180 million of a long-term loan from the banking syndicate and a long-term revolving loan of EUR 50 million. With such an amount and combination of resources, we achieved a sustainable long-term liquidity situation of the HSE Company and Group and established the conditions for the management of the liquidity risk and the maintenance of the appropriate liquidity reserve in the event of the occurrence of unforeseen negative events.

At the end of the year, the liquidity reserve of the company comprising unused but approved credit lines and available cash assets equalled EUR 78,951,447 and was intended to manage cash flows and significantly lower the liquidity risk of the HSE Group and Company.

On 31 December 2016, all due short-term liabilities of the company were settled.

The maturity of long-term operating and financial liabilities of the company in the coming years is shown in the tables below. A part of the long-term liabilities which becomes due in a period of one year is shown among short-term financial liabilities.

C Long-term Operating and Financial Liabilities on 31 December 2016 and on 31 December 2015

	MATURITY			
Item in EUR	Up to 2 years after the SFP date	From 3 to 5 years after the SFP date	More than 5 years after the SFP date	Total
Long-term financial liabilities to banks	**16,510,827**	**188,502,746**	**31,393,939**	**236,407,512**
Other long-term financial liabilities	**250**			**250**
Total 31/12/2016	**16,511,077**	**188,502,746**	**31,393,939**	**236,407,762**
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 operating liabilities to suppliers	407			407
Total 31/12/2015	9,206,903	22,454,545	35,878,789	67,540,237

The liquidity risk exposure due to financial liabilities to bans on 31 December 2016 is shown in the table below. Amounts in the table are not discounted and include contractually envisaged interest rates and costs of insurance.

C Liquidity Risk Exposure arising from Financial Liabilities to Banks

Item in EUR	EXPECTED CASH FLOWS Up to 2 months after the SFP date	From 2 to 12 months after the SFP date	From 1 to 2 years after the SFP date	From 2 to 5 years after the SFP date	More than 5 years after the SFP date	Total
Financial liabilities to banks without interest rate hedging						
Long-term loans	(1,898,461)	(19,389,488)	(29,237,712)	(215,899,569)	(34,366,916)	(300,792,146)
Total	**(1,898,461)**	**(19,389,488)**	**(29,237,712)**	**(215,899,569)**	**(34,366,916)**	**(300,792,146)**

At the end of 2015, the Company was able to secure a short-term bridging loan of EUR 215,000,000 from an international commercial bank consortium until the acquisition of a long-term resource, which was drawn down at the end of 2015 in the amount of EUR 105,000,000, and the difference in January 2016.

In 2016, the company ensured additional liquidity also in the frame of "cash-management" of the HSE Group from free cash assets of DEM in the amount of EUR 38,000,000 and SENG in the amount of EUR 10,000,000. Loans from subsidiaries were fully repaid up to the end of 2016, mostly by offsetting with the payment of the balance profit to DEM and SENG.

To ensure an appropriate structure of the financing resources, the company intensively carried out activities to acquire a long-term resource in 2016. Amortising schedules of loans by the European Investment Bank and the European Bank for Reconstruction and Development acquired for an investment in Unit 6 of the leased TEŠ represent an important liquidity load for the Group, particularly from 2017, when the repayments of principals for both loans start. This was one of the reasons for the company to consider issuing bonds, which, due to tight electricity market conditions would relieve outflows for the repayment of principal for a few years. Due to the excessive expectations of investors and somewhat lower liquidity requirements stemming from successful restructuring of the entire HES Group, the company eventually decided to take out a long-term loan, combined with a long-term framework "revolving" loan, which at a time of negative interest rates on deposits and the management of the liquidity risk was most favourable. At the end of 2016, the company signed a contract with a syndicate of domestic and international commercial banks for a long-term loan of EUR 180,000,000 for a period of five years, with a two-year moratorium on the repayment of the principle and a long-term revolving principal in the amount of EUR 40,000,000 for a period of three years. In addition, it signed a contract for a long-term revolving loan of EUR 10,000,000 for a period of three years with a domestic commercial bank.

By taking a long-term loan, the Company successfully restructured financial resources, optimised its maturity, and secured an adequate long-term liquidity margin. On the basis of secured long-term financing, the rating agencies Moody's and Standard&Poor's assigned the company a long-term credit rating "Ba2 stable" (Moody) and "BB" (Standard&Poor's), both with a stable future outlook, which are a measure of credibility and financial stability of the company and represent an additional confirmation that the company is adequately managing the liquidity risk.

With centralised planning of cash flows, implemented measures of debt restructuring and optimising, provision of an adequate liquidity cushion, active attitude towards financial markets, and in 2016 the acquisition of a good credit rating, the liquidity of the company was controlled and secured and the liquidity risk was adequately managed.

4.5.7.6.3 Foreign Exchange Risk

The foreign exchange risk is the risk in the framework of foreign currency transactions and is bound to the changes of the movement of foreign exchange rates. In operations, the foreign exchange risk is minor, as the majority of inflows and outflows take place in the domestic currency euro. In 2016, the company was exposed to some other currencies (HUF, TRY, RON) in the context of electricity trading, where if required it protected against exposure by using derivatives.

Other currencies have a minimum presence in the Company's operations, and the company thus does not analyse sensitivity to currency changes, as the currency change would have no important impact on the operating result.

Foreign exchange risk is regularly measured; its management is regularly reported. In relation to the above, events on the cash markets, movements in exchange rates, and values of concluded exchange hedging transactions are also regularly monitored.

To convert the Company's assets and liabilities on 31 December 2016, the following exchange rates were used:

C Rates

Country	Currency code	**Closing exchange rate in EUR for 2016**	Closing exchange rate in EUR for 2015
Czech Republic	CZK	**27.0210**	27.0230
Hungary	HUF	**309.8300**	315.9800
Romania	RON	**4.5390**	4.5240
United States	USD	**1.0541**	1.0887
United Kingdom	GBP	**0.8562**	0.7340
Bulgaria	BGN	**1.9558**	1.9558
Turkey	TRY	**3.7072**	3.1765
Croatia	HRK	**7.5597**	7.6380
Serbia	RSD	**123.6000**	121.2300
Macedonia	MKD	**61.8000**	61.5550

C Exposure to Risks of Change in Foreign Exchange Rates on 31 December 2016 and on 31 December 2015

Item in EUR	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	**24,507,308**			**24,507,308**
Long-term operating receivables	**341,143**		**282,469**	**623,612**
Short-term financial receivables and loans	**1,906,300**			**1,906,300**
Short-term operating receivables	**137,743,395**		**976,624**	**138,720,019**
Long-term financial liabilities	**(236,407,762)**			**(236,407,762)**
Short-term financial liabilities	**(10,001,806)**			**(10,001,806)**
Short-term operating liabilities	**(140,679,695)**	**(332,608)**	**(1,518,088)**	**(142,530,391)**
Net exposure of the SFP 31/12/2016	**(222,591,117)**	**(332,608)**	**(258,995)**	**(223,182,720)**
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	(136,325,099)	(275,042)	(917,577)	(137,517,718)
Net exposure of the SFP 31/21/2015	(114,427,444)	(275,042)	(730,771)	(115,433,257)

Currency Swaps Concluded by Maturity on 31 December 2016

Item in EUR	2016	2015
Concluded contracts for interest rate swaps relating to purchase of HUF- up to 12 months	4,199,619	6,298,210
Concluded contracts for interest rate swaps relating to purchase of CZK- up to 12 months		2,002,866
Total	4,199,619	8,301,076

Currency Swap Effect

Item in EUR	2016	2015
Unrealised losses of effective transactions	(53,106)	(76,788)
Realised profit of effective transactions	65,851	39,597
Realised losses of effective transactions	(13,095)	(28,799)

4.5.7.6.4 Interest Rate Risk

The company is exposed to the interest rate risk, as it has financial liabilities towards banks related to the variable interest rate (3 or 6-month Euribor). The exposure to interest rate risk poses an unfavourable movement (rise) to the variable interest rate.

The Company is managing the interest rate risk adequately by regularly monitoring its interest rate exposure through the policy of interest risk management, in the context of which it monitors cash market development, interest rate movement, and the movement of the prices of derivatives, with the aim of proposing measures of interest rate hedging in good time. The Euribor rate remains at a historically low level and throughout 2016 was in negative and continued to decrease. The decision on interest rate hedging is based on the forecast of interest rate movement and its impact on the volume of its expenditure from financing. In 2016, the company's interest rate exchange transaction finished. In 2016, the company did not enter any new interest rate insurance. Namely, the company has concluded loan agreements for long-term loans, according to the reasoning that the variable interest rate equals zero if Euribor is negative (i.e. zero floor) and it is exposed to an increase of Euribor in a positive range. Given the cash market situation and the forecasts of interest rate movement, interest rate hedging would additionally increase the cost of financing.

Interest rate risk is continuously monitored; its management is continuously reported.

Concluded Contracts for Interest Rates

Item in EUR	31/12/2016	31/12/2015
From 1 to 5 years		39,393,939
Total	0	39,393,939

Effects of Interest Rate Changes

Item in EUR	2016	2015
Unrealised losses of effective transactions		(190,659)
Realised losses of effective transactions	(190,535)	(1,164,659)

ANALYSIS OF THE CASH FLOW SENSITIVITY OF VARIABLE INTEREST RATE INSTRUMENTS

The change of the variable interest rate by 50 base points on the day of reporting would increase (reduce) the net operating result for the value listed below. The analysis assumes that all variables, in particular the exchange rates, remain unchanged. In the calculation, the receivables/liabilities at a variable interest rate are reduced by the entire volume of concluded interest rate swaps (IRSs). Due to negative values of market interest rates of Euribor in 2016, we used in our analysis only a charge/increase of +0.50 b. p. With the loans concluded at the Euribor "zero floor", we took into account a charge of +0.50 b. p. per the mean value of Euribor in 2016 (the mean value of the 3-month Euribor: −0.265%; mean value of the 6-month Euribor: −0.165%).

	Net operating result 2016		Net operating result 2015	
Item in EUR	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial liabilities	(742,915)	n.c.	(622,851)	83,367

Fixed rates are agreed for financial assets, thus a sensitivity analysis for this part has not been carried out.

4.5.7.6.5 Price Risk

ELECTRICITY FUTURES

The company manages price risks on the basis of the adopted Strategy and the Market Risk Management Rules, through which it ensures long-term electricity trading and thus the use of favourable market opportunities which ensure better operations of the company and further increases of the market share on the electricity markets, and at the same time defines the criteria of price risk measurement and the Company's exposure limits for these risks.

One of the forms of long-term electricity trading are also futures, which have two basic purposes, i.e. position trading and price risk hedging.

The company trades futures with the aim of securing long-term positions from price risks. At sales or purchases of electricity with a physical supply after 2016 (operation via the OTC market, bilateral contract conclusion), at the same time the Company also concludes a future with a counter-position quantity and the same maturity. This way, the Company financially fixes the revenue from a sale or purchase transaction, which means that e.g. a loss from the purchase of futures is compensated with profit from the physical contract for sales of electricity. On this basis, the Company held EUR 2,814,150 futures of futures, which were concluded back before 2016. The disclosures of these businesses are in the explanatory note 10 in the statement of financial position.

The purchase or sale of a future with the purpose of position trading in the period of open position increases the price exposure of the company, which was concluded with the purpose of creating profit from electricity price volatility. The price exposure is reduced only in the event of a conclusion of a counter-position contract. The disclosures of these transactions are contained in the explanatory note 10 of the statement of financial position. At the end of year, the company held 2,989,464 outstanding futures for the purpose of trading.

C Concluded Purchase Futures with the Purpose of Hedging

Item in EUR	31/12/2016	31/12/2015
For electricity—purchase hedging	2,814,150	2,814,150
Total	2,814,150	2,814,150

C Concluded Purchase Futures with the Purpose of Trading

Item in EUR	31/12/2016	31/12/2015
For electricity—trading—purpose purchase	2,989,464	
Total	2,989,464	0

EMISSION ALLOWANCES

In the field of emission allowance, the company is implementing the strategy of sales of own production and purchase of own production with the purpose of providing long-term stable revenue from electricity sales. The basis for the implementation of the strategy of sales of own production is the expected electricity production of subsidiary companies. Thus, the company is already now selling electricity of subsidiaries for several years ahead, while the main objective of the strategy is to maximise profit and provide stable revenue from electricity sales.

Slovenia as a member of the European Union and a signatory of the Kyoto Protocol has also committed to reducing CO_2 emissions. The largest burden of CO_2 emissions are energy companies or the companies that use fossil fuels (coal gas, masut, ELKO, etc.). The cost of CO_2 emissions in the first (2005–2007) and second (2008–2012) trading period was not significant because the production companies mentioned covered a major part of CO_2 emissions with gratuitously received emission allowances allocated by the state. In 2013, changes were introduced in the emission allowance allocation in the third trading period, as thermal power plants are required to fully cover all CO_2 emissions by purchasing emission allowance on the free market. Through this, the operating costs of power plants increased, but so did the risk of a change of the market value of emission allowance by any sale of electricity from the production companies mentioned without concurrent purchase of emission allowances considering the increase of the CO_2/MWh emission factor. This applies for the TEŠ and TET—in liquidation subsidiaries.

The company decided as early as in 2011 to partly hedge against risks of the change of the price of CO_2 allowances with the adoption of the Strategy of emission allowances trading for the period of 2013–2020 and the Decision on the Purchase of Emission Allowance for the Requirements of Proper Production after 2012, from which it arose that following a sale of its own electricity production by TEŠ and TET– in liquidation, the company would have to purchase a certain quantity of emission allowances within a certain period. Consequently, the Agreements on the Management of Portfolio Emission Allowances were concluded with the subsidiaries TEŠ and TET—in liquidation, from which it arose that the company managed emission allowances of both dependent societies and ensures an adequate quantity of allowances to cover liabilities to the state. The strategy of emission allowance trading was updated in 2013 and merged with the strategy of sales of own production in the form of the Strategy and the Rules on Sales of Own Production and the Purchase of Emission Allowances of CO_2 for the requirements of own production.

In 2016, the company concluded futures for the purchase and sale of emission allowances from insurance and trading activity and at the end of 2016 held EUR 11,293,450 of contracts for purchase hedging and the sales of emission allowances.

C Concluded Purchase Forwards with the Purpose of Hedging

Item in EUR	31/12/2016	31/12/2015
For emission allowances—purchase hedging	9,223,600	
For emission allowances—sales hedging	2,069,850	
Total	11,293,450	0

C **Concluded Purchase Forwards with the Purpose of Sales**

Item in EUR	31/12/2016	31/12/2015
For emission allowances—trading—purpose purchase		1,636,250
Total	**0**	1,636,250

4.5.7.7 Capital Management

C

Item in EUR	31/12/2016	31/12/2015
Long-term financial liabilities	**236,407,762**	67,539,830
Short-term financial liabilities	**10,001,806**	147,028,449
Total financial liabilities	**246,409,568**	214,568,279
Capital	**876,576,885**	829,661,564
Financial liabilities/Capital	**0.28**	0.26
Cash and cash equivalents	**28,951,447**	57,156,931
Net financial liability	**217,458,121**	157,411,348
Net debt/Capital	**0.25**	0.19

The main purpose of capital management is to ensure the best credit rating and capital adequacy possible for the purposes of the financing of transactions and investments. An adequate volume of capital provides the company with the trust of creditors, partners, and potential investors, and provides for further development of the company's activities.

The company monitors the capital's movement by using the leverage index calculated by dividing net financial obligations with the entire amount of capital. The company already includes loans received and other financial liabilities reduced for monetary assets among net liabilities.

The index shows the ratio between the company's indebtedness and the capital. At the end of 2016, the index is slightly higher than at the end of 2015. At the end of 2016, the company was able to procure a long-term resource in the bank syndicate, which includes domestic and international commercial banks. With the received long-term loan, the company settled the 2015 long-term bridging loan.

4.5.7.8 Fair Values

The company estimates that the book value is a reasonable approximation for its financial instruments, except for derived financial instruments, the value of which are recorded by the fair value.

C

	31/12/2016		31/12/2015	
Item in EUR	Book value	Fair value	Book value	Fair value
Non-derivative financial assets at the fair value	**111,500**	**111,500**	111,500	111,500
Financial assets available for sale	111,500	111,500	111,500	111,500
Non-derivative financial assets at amortised cost	**194,708,686**	**0**	293,810,078	0
Financial liabilities	26,413,608		93,893,748	
Operating and other liabilities	139,343,631		142,759,399	
Cash assets	28,951,447		57,156,931	
Total	**194,820,186**	**111,500**	293,921,578	111,500
Derivative financial assets at the fair value	**53,106**	**53,106**	267,447	267,447
Derivative financial instruments (liabilities)	53,106	53,106	267,447	267,447
Non-derivative financial liabilities at amortised cost	**390,717,543**	**0**	351,818,958	0
Bank loans	245,192,351		183,481,837	
Other financial liabilities	1,155,011		30,818,995	
Financial liabilities and other liabilities	144,370,181		137,518,126	
Total	**390,770,649**	**53,106**	352,086,405	267,447

C **Financial Assets by Fair Value Due to the Hierarchy**

Item in EUR	31/12/2016	31/12/2015
Financial liabilities at the fair value of the level 3	111,500	111,500
Financial liabilities at the fair value of the level 2	53,106	267,447

4.5.8 Events after the Reporting Date

Since the date of the statement of financial position, there were no events at the company that would affect the values in financial statements of the company for 2016 and the disclosures related to this. For the purposes of disclosure, we present the following major events by the date of the statement of financial position.

- On 28 March 2017, the HSE Supervisory Board concluded an agreement with the HSE Director-General on his resignation and the termination of his mandate. This entered into force on 28 March 2017. The HSE Supervisory Board continued the session on 4 April 2017, when he named Matjaž Marovt a new temporary HSE Management Board's member (with effect from 19 April 2017).

4.5.9 Additional Disclosures as per the Energy Act

In 2011, the company commenced producing electricity at its Velenje Solar Power Plant. From 2013 to 2015, it also traded gas. In compliance with the provisions of the Energy Act, the company must separately monitor the activity of gas trading (in 2016, it did not carry out gas trading) and the activity of solar power production at the Solar Power Plant.

The statement of operating result for electricity production has thus been drawn up in accordance with the following rules:

- the net operating revenue items include a record of the value of invoices issued to the purchasers of electric energy at the solar power plant;
- materials and services costs include a record of the value of costs related to maintenance and operation of the solar plant;
- amortisation costs present the amortisation of the solar power plant;
- current tax is the corporation tax on the basis of the operating results of the activity.

C **Profit and Loss Statement for 2016 (Energy Act)**

Item in EUR	Electricity trading	Solar electricity production	Gas trading	Total
OPERATING REVENUE	**1,238,398,237**	**19,233**	**0**	**1,238,417,470**
1. Net sales	1,234,413,490	19,233		1,234,432,723
4. Other operating revenue	3,984,747			3,984,747
GROSS OPERATING PROFIT	**1,238,398,237**	**19,233**	**0**	**1,238,417,470**
OPERATING EXPENSES	**1,173,438,012**	**10,187**	**0**	**1,173,448,199**
5. Costs of goods, material, and services	1,164,173,395	5,107		1,164,178,502
6. Labour costs	8,142,656			8,142,656
7. Write-offs	760,581	5,080		765,661
8. Other operating expenses	361,380			361,380
OPERATING RESULT	**64,960,225**	**9,046**	**0**	**64,969,271**
9. Financial revenue	55,271,244			55,271,244
10. Financial expenses	67,813,283			67,813,283
FINANCIAL RESULT	**(12,542,039)**	**0**		**(12,542,039)**
PROFIT OR LOSS BEFORE TAX	**52,418,186**	**9,046**	**0**	**52,427,232**
TAX	**8,065,900**	**1,538**	**0**	**8,067,438**
11. Current tax	9,027,240	1,538		9,028,778
12. Deferred tax	(961,340)			(961,340)
NET OPERATING RESULT OF THE FINANCIAL YEAR	**44,352,286**	**7,508**	**0**	**44,359,794**
Majority owner	44,352,286	7,508		44,359,794

The statement of financial position regarding production of solar power at the solar power plant was drawn up in accordance with the following rules:

- the property, plant, and equipment table of the disclosure of production equipment shows the book value of the solar power plant;
- short-term operating receivables present receivables from the purchasers of electricity and the input value-added tax;
- the capital presents the operating results of an individual activity and the difference of active and passive items of the statement of financial position;
- short-term operating liabilities present liabilities to suppliers for the solar plant operation and maintenance and the output value-added tax.

C Statement of Financial Position on 31 December 2016 (Energy Act)

Item in EUR	Electricity trading	Solar electricity production	Gas trading	Total
ASSETS	**1,298,910,407**	**177,606**	**39,618**	**1,299,127,631**
A. LONG-TERM ASSETS	**1,122,386,472**	**96,529**	**0**	**1,122,483,001**
I. Intangible assets	27,433,759			27,433,759
II. Property, plant and equipment	11,657,063	96,529		11,753,592
IV. Long-term financial investments into subsidiaries	1,011,774,647			1,011,774,647
V. Other long-term financial investments and loans	65,387,750			65,387,750
VI. Long-term operating receivables	623,612			623,612
VIII. Deferrred tax assets	5,509,641			5,509,641
B. SHORT-TERM ASSETS	**176,523,935**	**81,077**	**39,618**	**176,644,630**
III. Short-term financial liabilities	1,906,300			1,906,300
IV. Short-term operating receivables from clients	117,154,993	1,625		117,156,618
VI. Other short-term assets	28,630,265			28,630,265
VII. Cash and cash equivalents	28,832,377	79,452	39,618	28,951,447
CAPITAL AND LIABILITIES	**1,298,910,407**	**177,606**	**39,618**	**1,299,127,631**
A. CAPITAL	**876,360,411**	**176,856**	**39,618**	**876,576,885**
I. Called-up capital	29,412,444	146,345		29,558,789
II. Capital reserves	561,243,185			561,243,185
III. Profit reserves	562,744,824			562,744,824
IV. Hedging reserves	1,740,624			1,740,624
V. Fair value reserves	20,527			20,527
VI. Retained earnings	(278,801,193)	30,511	39,618	(278,731,064)
B. LONG-TERM LIABILITIES	**237,146,080**	**0**	**0**	**237,146,080**
I. Provisions for termination benefits and jubilee premiums	738,318			738,318
IV. Long-term financial liabilities	236,407,762			236,407,762
C. SHORT-TERM LIABILITIES	**185,403,916**	**750**	**0**	**185,404,666**
II. Short-term operating liabilities to suppliers	125,883,546	750		125,884,296
III. Short-term financial liabilities	10,001,807			10,001,807
IV. Current tax liabilities	1,469,487			1,469,487
V. Other short-term liabilities	48,049,076			48,049,076

C Statement of Cash Flows (Energy Act)

Item in EUR	Electricity trading	Solar electricity production	Gas trading	Total
OPERATING FINANCIAL FLOWS				
Net result	44,352,286	7,508		44,359,794
Adjustments for:				
Depreciation of intangible assets	280,470			280,470
Depreciation of property, plant, and equipment	472,169	5,080		477,249
Write-downs of operating receivables	6,162			6,162
Reversal of write-downs	(861,648)			(861,648)
Losses on sales of immovable property, plant, and equipment	1,779			1,779
Financial income	(55,271,244)			(55,271,244)
Financial expenses	67,813,283			67,813,283
Share in sales of immovable property, plant, and equipment	(13,041)			(13,041)
Taxes	8,065,900	1,538		8,067,438
Operating profit prior to changes in net short-term assets and taxes	**64,846,116**	**14,126**	**0**	**64,860,242**
Changes in net short-term assets and provisions				
Change in:				
Supplies	841			841
Operating receivables from purchasers and other assets	(1,107,349)	726		(1,106,623)
Operating liabilities to suppliers and other liabilities	17,637,204	(273)		17,636,931
Provisions	(2,992,504)			(2,992,504)
Taxes paid from the revenue	(1,198,890)	(1,538)		(1,200,428)
Operating financial assets	**77,185,418**	**13,041**	**0**	**77,198,459**
INVESTMENT FINANCIAL FLOWS				
Interest rates received	3,318,763			3,318,763
Cash receipts from other financing	1,913,483			1,913,483
Dividends received	50,321,770			50,321,770
Cash receipts from sales of immovable property, plant, and equipment	19,833			19,833
Cash receipts from sales of intangible assets	21,129,420			21,129,420
Cash receipts from decrease of issued short-term loans	860,000			860,000
Cash receipts from decrease of issued long-term loans	225,020,307			225,020,307
Cash receipts from settlement of derivatives	45,946			45,946
Cash receipts from decrease of other short-term financial investments	5,005,036			5,005,036
Expenditure on purchase of property, plant, and equipment	(419,529)			(419,529)
Expenditure on purchase of intangible assets	(27,606,510)			(27,606,510)
Expenditure on purchase of subsidiaries	(234,893,734)			(234,893,734)
Expenditure on increase of given short-term loans	(800,000)			(800,000)
Expenditure on increase of given long-term loans	(162,933,713)			(162,933,713)
Expenditure on settlement of derivatives	(807,323)			(807,323)
Investment financial assets	**(119,826,251)**	**0**	**0**	**(119,826,251)**
FINANCING FINANCIAL FLOWS				
Cash receipts from received long-term loans	178,074,179			178,074,179
Cash receipts from received short-term loans	132,503,496			132,503,496
Expenditure on credit interest rates	(11,154,510)			(11,154,510)
Expenditure on other financial liabilities	(6,297,045)			(6,297,045)
Expenditure on repayment of long-term loans	(10,922,090)			(10,922,090)
Expenditure on repayment of short-term loans	(267,778,944)			(267,778,944)
Expenditure on repayment of other long-term financial liabilities	(2,778)			(2,778)
Monetary assets from financing	**14,422,308**	**0**	**0**	**14,422,308**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	**57,053,900**	**66,413**	**36,618**	**57,156,931**
Financial result of the period	**(28,218,525)**	**13,041**	**0**	**(28,205,484)**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**28,835,377**	**79,452**	**36,618**	**28,951,447**

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AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
BLB	Bayerische Landesbank
PSPP	Pump storage power plant
VAT	Value-added tax
DEM	Dravske elektrarne Maribor d. o. o.
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation, and amortisation
EE	Electricity
EECS	European energy certificate system
ELES	ELES d. o. o., systemic operator of the electrical power transmission system
E-OVE	Electrical power from renewable resources
EUR	Euro
EZ, EA	Energy Act
HE, HP	Hydropower Plant
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 harmony of technology and knowledge, sheltered workshop, d. o. o. Velenje
ISO	International Organization for Standardization
IT	Information technology
SE	South-east
mHE	Small hydropower plant
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
SB	Supervisory Board
OHSAS	Occupational Health and Safety Assessment Series
IFRSIS	International Financial Reporting Standards Interpretations Committee
PV	Premogovnik Velenje, Velenje Coal Mine
FVTOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
AC	Audit Committee
SDE	Trade Union of Energy Sector Workers of Slovenia
SDH	Slovenian Sovereign Holding d. d.
SENG	Soške elektrarne Nova Gorica d. o. o.
SID	Slovenian Auditing Institute
SIC	Standing Interpretations Committee
TEB	Termoelektrarna Brestanica d. o. o.
TEŠ	Termoelektrarna Šoštanj d. o. o.
TET—in liquidation	Termoelektrarna Trbovlje d. o. o. in liquidationi
UMAR	Institute of Macroeconomic Analysis and Development of the Republic of Slovenia
IASB	International Accounting Standards Board
USD	United States dollar
WACC	Weighted average cost of capital
ZGD	Companies Act
ZSDH	Slovenian National Holding Act

2016

The turnover year

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