Annual Report 2017

of the HSE Group and the Company

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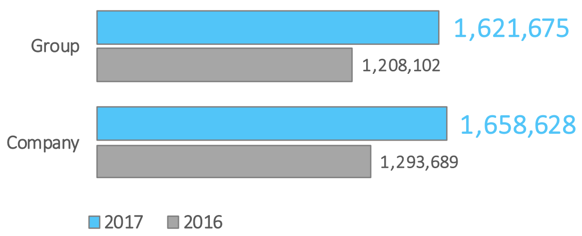
1 Introduction

1.1 Operational highlights of the HSE Group

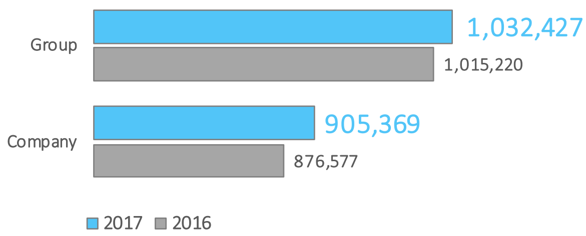
	Unit of measure	HSE GROUP 2017	HSE GROUP 2016	HSE COMPANY 2017	HSE COMPANY 2016
Sales revenue	in 000 EUR	1,587,760	1,179,841	1,610,688	1,234,433
Net profit or loss	in 000 EUR	7,710	21,661	19,738	44,360
Revenue	in 000 EUR	1,621,675	1,208,102	1,658,628	1,293,689
EBIT = Operating profit or loss	in 000 EUR	53,224	75,789	47,462	64,969
EBITDA = (EBIT + Write-downs in value)	in 000 EUR	135,360	156,452	48,306	65,735
Assets	in 000 EUR	2,132,482	2,156,757	1,321,085	1,299,128
Equity	in 000 EUR	1,032,427	1,015,220	905,369	876,577
Indebtedness to banks	in 000 EUR	851,175	896,097	236,468	245,192
Total indebtedness	in 000 EUR	851,439	899,605	236,622	246,410
Investments	in 000 EUR	49,209	33,510	1,747	854
Electricity produced	GWh	7,034	7,778	7,034	7,778
Electricity sold	GWh	36,987	28,344	37,799	30,483
NUMBER OF EMPLOYEES					
End of the year		3,093	3,110	174	150
Average*		3,102	3,250	162	146
RATIOS					
Equity financinga rate		48.41	47.07	68.53	67.47
Long-term financing rate		88.18	89.82	85.20	85.73
Operating fixed assets rate		79.78	80.73	2.97	3.02
Long-term investment rate		87.05	87.58	84.68	85.98
Equity to operating fixed assets		0.61	0.58	23.06	22.37
Immediate solvency ratio		0.30	0.39	0.15	0.17
Quick ratio		0.94	1.06	0.99	0.91
Current ratio		1.09	1.19	1.03	0.95
Operating efficiency ratio		1.03	1.07	1.03	1.06
Net return on equity ratio (ROE)		0.8%	2.2%	2.2%	5.2%
Return on assets (ROA)		0.4%	1.0%	1.5%	3.5%
Added value	in 000 EUR	255,239	282,241	58,204	73,878
Value added per employee	in 000 EUR	82	87	359	506
Debt / Equity ratio		0.82	0.89	0.26	0.28
Total financial debt / EBITDA		6.29	5.75	4.90	3.75
EBITDA / Financial expenses for borrowings		4.86	4.61	6.05	5.90
Total financial liabilities / Assets		0.40	0.42	0.18	0.19
Net financial debt / EBITDA		5.83	5.22	4.35	3.31

* The average-related calculation is based on the average balance of employees as at 31 December.

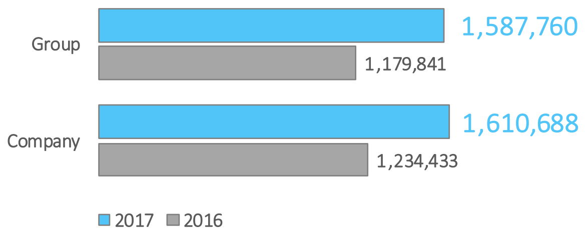
Total revenue in EUR thousand



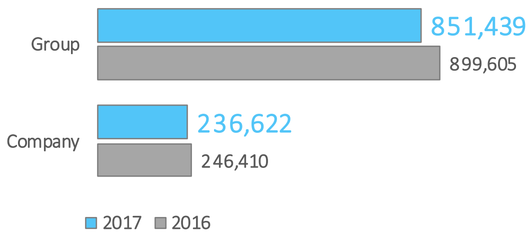
Equity in EUR thousand



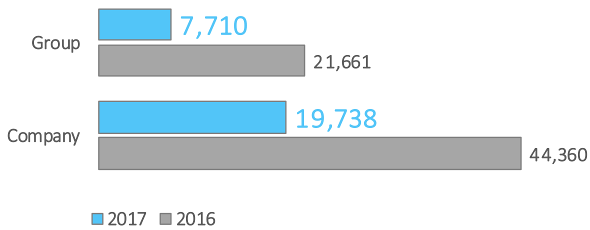
Revenue from the sale in EUR thousand



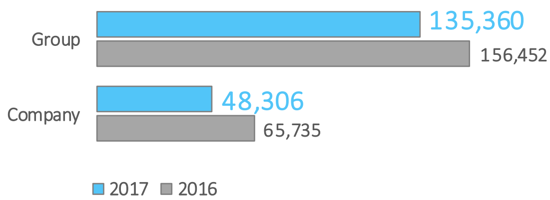
Total financial liabilities in EUR thousand



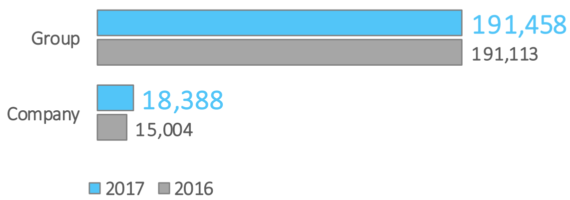
Net profit or loss in EUR thousand



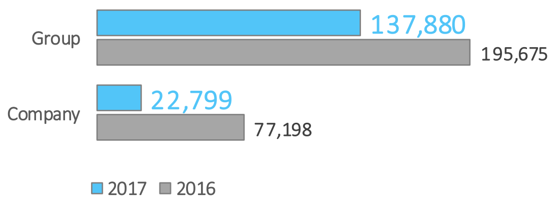
EBITDA = EBIT + write-downs in EUR thousand



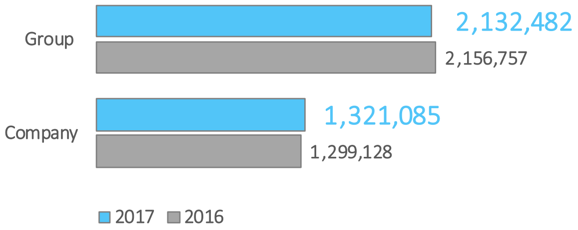
Costs of material, employee benefits and services in EUR thousand



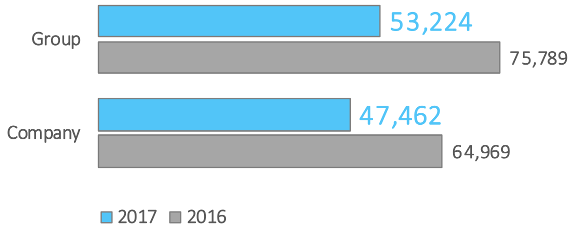
Cash flows from operationg activities in EUR thousand



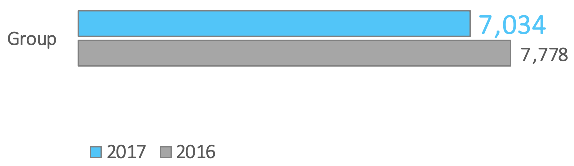
Assets in EUR thousand



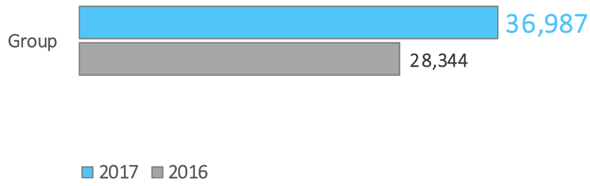
EBIT in EUR thousand



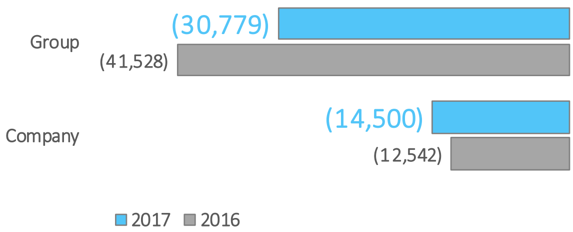
Production of companies in the HSE Group in GWh



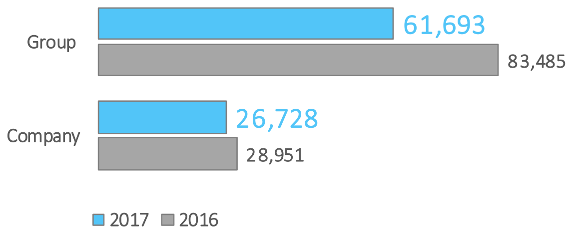
Electricity sold in GWh



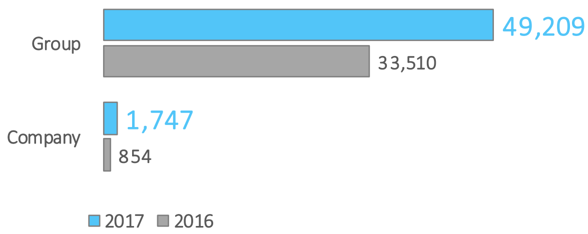
Financial result in EUR thousand



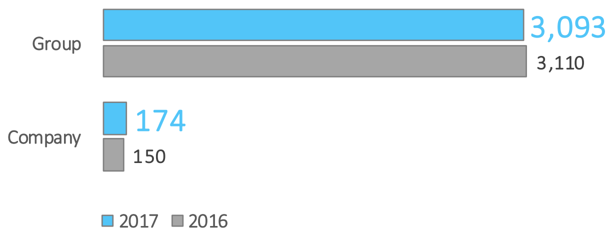
Cash in EUR thousand



Investments in EUR thousand



Employees



1.2 Letter of the Management Board

The year 2017: in the sign of water and market

It is said that changes are the driving force of the development. Due to continuous changes none of the activities and its business success are constant all the time. This holds true also for the production and sales of electricity that were marked by the circumstances that differed from the usual ones in the previous year.

Two factors had the most significant impact on the operations of the HSE Group in 2017. The first one was related to the unfavourable hydrological conditions that lasted for the greater part of the year and which resulted in the lowest production of hydro power plants in the last ten years. And the second factor was associated with our flexibility and responsiveness in the sales and marketing of electricity in the European market. The effects of the latter factor were evident in the improvement of competitiveness of the HSE Group in the domestic and European markets as well as in the higher operating income that could not fully mitigate the loss in profit due to the unfavourable hydrological conditions. In 2017, revenue from sales was generated in the amount of EUR 1.6 billion and profits in the amount of EUR 7.7 million. In spite of the demanding conditions we managed to reduce the indebtedness by EUR 48 million.

In 2017, 7 TWh of electricity was produced, of which 44% by the hydro power plants and 56% by the thermal power plant. Although the production was by 10% lower than in the previous year, the HSE Group justified the position of the largest domestic producer of electricity holding a 64% share in the total electricity production in Slovenia. By holding an almost 80% share in the structure of energy production from renewable sources in Slovenia we retained the leading position in this field. It is interesting and worth mentioning that Soške elektrarne Nova Gorica celebrated the 70th anniversary of its operations in 2017, what all the members of the Group are proud of.

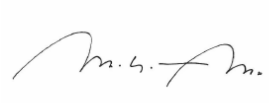
In 2017 the HSE Group increased the scope of electricity trading. It was sold to nineteen countries and 37 TWh of electricity was sold, which was an increase of 30% when compared to the previous year and the revenue was exceeded by 35%.

Favourable electricity prices in the markets had a considerable impact on the increased value of trading. Their increase was mainly the result of the growing needs for electricity that were created by the cold weather in winter and lower electricity production in hydro power plants as a result of drought throughout the year and all over Europe. Due to the lack of electricity we expanded our presence in SE Europe, mainly in Bosnia and Herzegovina, Serbia, Greece and Albania. In 2017, our main markets remained Hungary, Slovenia, Germany and Italy, where over 30 TWh of electricity was sold or more than 80% of total production.

The increasing of prices marked the last quarter of 2017 after some years of decreasing electricity prices. We took the advantage of the situation and throughout the year exploited the excellent operation of Unit 6 of Termoelektrarna Šoštanj and the entire thermal power plant. In Slovenia and the region the thermal power plant in Šoštanj maintained the balance due to lower production of hydro power plants and the increased demand. As early as on 12 January 2017 Unit 6, Unit 4 and the gas unit of the thermal power plant reached the highest daily production so far. The electricity produced in the amount of 18.6 GWh was by 7.5 GWh or 67% higher than the daily average.

This Annual Report presents a detailed summary of the activities performed by the HSE Group and its subsidiaries with more than 3,000 employees. They delivered tangible results reflecting the professional attitude of all the employees working in the dynamic conditions that strongly marked the previous year. The old saying of the Greek philosopher Heraclitus is "All is flux – nothing stays still." This means that everything constantly changes, which applies also to us and our activity. And it remains vital that we cautiously responded to the dynamic changes in the electricity production and sales with the aim of achieving the best results for all stakeholders – for the owner, business partners and the employees.

Ljubljana, 3 April 2018



Matjaž Marovt, Managing Director of HSE

Stojan Nikolić M.Sc., Finance Director of HSE

1.3 Report of the Supervisory Board

Pursuant to the provisions of Article 282 of the Companies Act (ZGD-1), and the provisions of Article 14 of the Articles of Association of a limited liability company – Holding Slovenske elektrarne d.o.o. (HSE) the Supervisory Board of Holding Slovenske elektrarne d.o.o. informs the founder about the following issues presented in this report:

- the manner and scope of verification of the management and operations of the HSE Company during the financial year 2017,
- the opinion on the work of the Management Board of HSE in 2017,
- the opinion on the operations of HSE in 2017,
- the verification and approval of the Annual Report of the HSE Group and Company for the year 2017 including the opinion about the auditor's report and auditor's management letter,
- the report on the verification of the proposal by the Management Board on the use of accumulated profit.

The following representatives of capital acted in the Supervisory Board in 2017: Milan Perović (Chairman of the Supervisory Board), Boštjan Markoli, PhD (Vice-Chairman), Viktor Vračar, PhD, Barbara Gorjup, M.Sc., Matjaž Marovt (until 19 April 2017), Miloš Pantoš, PhD, Drago Štefe, M.Sc. (until 1 September 2017), Vesna Cukrov (since 2 September 2017) Črt Slokan (until 6 March 2017) and employee representatives Boštjan Jančar, Jernej Otič, Damjan Lipuščěk and Vanja Živanić Jovanović (until 8 September 2017).

Detailed data about the beginning and end of terms of offices of the representatives are presented in the corporate governance statement as well as the memberships in the committees (relating to the term of office of a function performed).

1.3.1 The manner and scope of verification ot the management and operations of the HSE Company during the financial year 2017

The HSE Supervisory Board held 12 meetings in 2017, of which 10 were regular ones, one irregular and one by correspondence.

In March 2017 the Supervisory Board appointed Matjaž Marovt the interim managing director of the Company as at 15 April 2017 and regulated the relations with the then Managing Director Gorazd Skubin on 28 March 2017. As at 2 August 2017, Matjaž Marovt was appointed for a full 4-year term of office.

The HSE Supervisory Board was regularly informed about the operating results of the HSE Group and the Company and the implementation of resolutions of the Supervisory Board, discussed the legal transactions and the issues of subsidiaries, for which a prior consent of the Supervisory Board had to be obtained under the Articles of Association, the legal transactions between the companies HSE and PV that needed the approval of the Supervisory Board in accordance with the Slovenian Sovereign Holding Act (ZSDH-1) and other business and strategically important areas that have a significant impact on the medium-term and long-term interests of the HSE Group and the Company. On a regular basis the Management Board informed the HSE Supervisory Board about the operation of TEŠ Unit 6 and Unit 5, the development of the vertical integration project, the operations of the HSE Group and the Company and the reports on the implementation of the measures for optimisation and streamlining of operations, liquidity, borrowing, receivables, reports on risk management in the HSE Group, covenants of HSE or other companies within the HSE Group under bank agreements and the implementation of decisions of the only member. The HSE Supervisory

Board was also informed about the problems of priority dispatching and personnel reorganisation of the HSE Group and the action plan of restructuring (or optimisation and streamlining of operations of the HSE Group and the Company).

The Supervisory Board HSE discussed the investment programme – investments in Unit 5 in the Thermal power plant Šoštanj. It was kept to date with the liquidation procedure of the company TET d.o.o. – in liquidation and gave consent to the decision of the Management Board in the role of the sole member in the company, the continuation of TET d.o.o. and closure of the liquidation procedure, consent to the decision-taking in the role of the sole member relating to the changes in equity and gave also consent to the transfer of some business functions from TET d.o.o. to HSE d.o.o. It also granted consent to the decision-making in the general meeting of a subsidiary on the status change of Premogovnik Velenje d.o.o. It agreed with the increase in capital of TEŠ d.o.o.

In the reported period the HSE Supervisory Board provided several consents to obtaining borrowings of the HSE Company and TEŠ and to furnishing collaterals and guarantees to subsidiaries. In May 2017 it gave consent to the amending Business Plan of the HSE Company and the Group for the year 2017. It appointed the new head of the Internal Audit Service. A consent was also given to the Business plan of the HSE Group and the Company for the year 2018 including an additional plan for the years 2019 and 2020. It approved the 2016 Annual Report of the HSE Group and the Company. On the basis of the opinion of the HSE Supervisory Board Audit Committee it proposed to the founder that KPMG Slovenija should be appointed the auditor of the financial statements of the HSE Group and the Company for 2017. It confirmed the working plan of the Internal Audit Service for 2017, took note of the audits of this service, the Report on the work of the Internal Audit Service and key activities of the Management Board in 2017.

It dealt with the problems of the companies RGP d.o.o. and HSE Invest d.o.o. and was informed about the presentation of activities for signing the concession agreement for the construction of a hydro power plant on the Middle Sava River. It formulated a proposal for the appointment of the Supervisory Board of HSE d.o.o. upon the expiry of the term of office to be submitted to the founder.

In scope of the supervision function the HSE Supervisory Board collected answers to the additionally posed questions that supplemented the material for the Supervisory Board meetings. In 2017, the HSE Supervisory Board increasingly focused its activities on the supervision of the liquidity position and borrowings of the HSE Company and the Group, whereby it paid special attention to the monitoring of the situation in the PV companies and TEŠ. The HSE Supervisory Board considered it acted to the benefit of the Company on the basis of the information and reports submitted by the Management Board, within the framework of its powers and competence that are laid down by law and the Articles of Association.

At the beginning of 2018 the Supervisory Board conducted a self-evaluation and an analysis and took appropriate decisions. In case of conflict of interest when making decisions the Supervisory Board members are always excluded from voting. The SB regularly discussed the final reports of the committee in accordance with the Rules on the “whistleblowing” system for detection of fraud.

1.3.2 Operation of the HSE Supervisory Board Audit Committee

In 2017, the Audit Committee of the Supervisory Board of HSE d.o.o. operated in the following composition: Barbara Gorjup, M.Sc., Chairperson (Master of science / ISCED 7/2), Boštjan Markoli, PhD (PhD / ISCED 8), Maja Zaman Groff, PhD external member (PhD / ISCED 8), Boštjan Jančar (M.Sc. / ISCED 7/1).

The HSE Supervisory Board Audit Committee held eight regular and two irregular meetings in 2017, where all the members of the Audit Committee were present .The Supervisory Board members who were not members of the Audit Committee were informed about the work of the Audit Committee in a manner that enabled an insight into the minutes of the meetings and the Chairperson of the audit committee regularly reported at the Supervisory Board meetings on the work and findings of the Audit Committee. The Audit Committee addressed the issues in accordance with the Companies Act, Recommendations for work of audit committees, Rules of Procedure concerning the work of the audit committee for 2017, the adopted working plan of the HSE Supervisory Board Audit Committee and the decisions of the Supervisory Board.

At all the meetings the Audit Committee took note of the assessments of the interim operations of the HSE Company and the Group and paid undivided attention to the financial and accounting data, liquidity, borrowings and meeting covenants to banks. It reviewed the annual report in the field of risk management of the HSE Company and the Group for the year 2016 and regularly monitored the periodic reports on risk management.

In 2017 the Audit Committee was informed about the annual report of the internal audit service for 2016, its plan of activities for 2017. Throughout the year it regularly took notice of the interim reports on the work of the internal audit service and the reports on the implementation of its recommendations. It participated in the selection of the new head of the internal audit service and reviewed the working plan of the internal audit service for 2018.

The Audit Committee held several meetings with the auditors of KPMG Slovenija d.o.o. in 2017 that took place at the pre-audit stage and during the audit of the financial statements. At the meetings it was informed about the course of the audit and the key findings of the pre-audit / audit of the financial statements of HSE Company and the Group. It reviewed the unaudited and audited 2016 Annual Report of the HSE Company and the Group including the opinion of the independent auditor. It prepared the report on its work in the year 2016 with the assessment of the annual report of the HSE Company and the Group for 2016. It was also kept up to date with the findings and recommendations stated in the management letter that the audit firm prepared and those of the response reports.

It actively participated in the process of proposing the auditor of the financial statements of the HSE Company and the Group for the year 2017 and submitted the proposal for the auditor to the Supervisory Board; the proposal remained unchanged over the previous year so that the Supervisory Board could propose it to the founder. The implemented procedure was based on the agreement on regulating mutual relations concerning the selection of the procedure for the selection of the audit firm for the audit of the financial statements for 2017 that was concluded with all the subsidiaries in the HSE Group and on the basis of which the demand was made. The audit firm KPMG Slovenija d.o.o. that was appointed in the Shareholders Meeting signed an independence statement, which the Audit Committee monitored on a quarterly basis and verified through the reporting system. In 2017, KPMG Slovenija d.o.o. performed also authorised non-audit services for the HSE Company and the Group in a very limited scope and did not perform any unauthorised ones. Its objectivity and independence were not jeopardised in the opinion of the Audit Committee. The Audit Committee discussed also the contract for the audit of the annual report of the HSE Company and the Group for 2017.

The Audit Committee was also informed about the starting points and the business plan of the HSE Group and the Company for 2018 and the planned risks of the HSE Group and the Company for the business plan for 2018. The Audit Committee adopted the action plan of the Audit Committee for 2018 and conducted a self-evaluation of its work for the previous year and thus established the foundations of its work in the following year.

1.3.3 Operation of the HSE Supervisory Board Personnel Committee

In 2017, the permanent HSE Supervisory Board Personnel Committee operated and held three regular meetings with the aim of offering professional assistance to the Supervisory Board while managing the procedure for the selection and appointment of the interim director general and the director general with a full term of office that were completed in 2017.

1.3.4 Operation of the HSE Supervisory Board Restructuring Committee

In 2017, the permanent HSE Supervisory Board Restructuring Committee operated and held four regular meetings. The Committee acted as the expert support to the Supervisory Board in the field of restructuring. It discussed the issues in accordance with the Rules of Procedure and the decisions of the HSE Supervisory Board.

1.3.5 Operation ot the HSE Supervisory Bord Marketing and Investment Committee

In 2017, the permanent HSE Supervisory Board Marketing and Investment Committee operated and held three regular meetings, one irregular and one meeting by correspondence. The Committee acted as the export support to the Supervisory Board in the field of marketing and investments, it discussed the issues in accordance with the Rules of Procedures and the decisions of the Supervisory Board.

1.3.6 Opinion on the work of the Management Board in 2017

In compliance with the legislation and good practice the HSE Supervisory Board closely supervised the management and operations of the HSE Group and the Company.

The Management Board members participated in the meetings of the HSE Supervisory Board and they extensively reported on each item in cooperation with the heads of other professional services of the HSE Company and answered the questions additionally posed by the Supervisory Board members. Regular communications between the Management Board and the Chairman of the Supervisory Board were maintained also outside the meetings of the Supervisory Board.

The HSE professional services organised meetings, introduced current technical improvements and provided administrative and organisational support to the HSE Supervisory Board.

The Supervisory Board regularly monitored and evaluated the work of the Management Board, when it discussed the periodic operating results, compared the operations of the HSE Group and the Company with the previous periods and the objectives of the plan and was informed about the reports of external experts on individual companies of the HSE Group. The Management Board carefully operated and strove for the best results of the HSE Company and the Group and cooperated with the Supervisory Board well.

1.3.7 Opinion on the operation of the Company in 2017

In 2017, the HSE Company generated net profit in the amount of EUR 19.7 million, which was a decrease of 56% over the year 2016. The reason was the electricity production that was lower by 10% when compared to the previous year, i.e. in hydro power plants by 17%, thermal power plants by 4%, and the Avče pumped storage power plant produced 2% less electricity. The lack in production quantities was replaced by the performance of trading activities, mostly in the field of intraday trading. The sales quantities were higher by 24%, the revenue generated through the sale was higher by 30%, and EBITDA and the operating profit were lower by 27%. The financial result went down by 16% due to lower finance income from loans. The payment of profit-sharing in the amount of EUR 41.2 million (in 2016 EUR 503. million) and a positive effect of forward contract sales from trading in the amount of EUR 3.5 million had a positive impact on the net profit or loss of 2017. A negative impact was caused by the impairment of investments in the amount of EUR 48.5 million (in 2016 in the amount of EUR 49.4 million).

As at 31 December 2017, the assets were higher by 2%, mainly due to higher current operating receivables due from foreign subsidiaries, increased trading, the equity was higher by 3%, the total indebtedness was lower by 4% due to the repayment of loans and the investments went up by 105%, which was mainly due to the investments in business information technology.

1.3.8 Verification and confirmation of the Annual Report of the HSE Company and the Group for the year 2017 including the opinion on the auditors' report and auditor's management letter

Pursuant to Article 272, paragraph 3 of the Companies Act (ZGD-1) the HSE Management Board submitted the Annual Report of the HSE Group and the Company for 2017 including the auditor's report immediately after the preparation and issue of the auditor's report for 2017 and the Supervisory Board discussed it at its 40th regular meeting of 13 April 2018.

The auditing of the 2017 Annual Report of the HSE Group and the Company was conducted by the audit firm KPMG Slovenija that issued an unqualified opinion on the financial statements of the HSE Group and the Company.

The HSE Supervisory Board Audit Committee discussed the audited Annual Report of the HSE Group and the Company for 2017 in its 33rd regular meeting of 13 April 2018 and established that the annual report was prepared timely, compiled clearly, transparently and in accordance with the provisions of the Companies Act (ZGD-1), the applicable 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 comment on the 2017 Annual Report of the HSE Group and the Company. It proposed it to the Supervisory Board that should take a decision on the confirmation of the 2017 Annual Report of the HSE Group and the Company in accordance with Article 282 of the Companies Act.

On the basis of the auditor's opinion, the position of the HSE Supervisory Board Audit Committee, the data and disclosures in the 2017 Annual Report of the HSE Group and the Company the HSE Supervisory Board estimated that the auditor carried out the work professionally and in compliance with the applicable legislation and business practice and that the Annual Report was in all material aspects prepared in line with the requirements of the Companies Act (ZGD-1) and that the financial statements in all material aspects true and fairly presented the financial position of the HSE Group and the Company as at 31 December 2017 and their income statement and the statement of cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union. The Supervisory Board had no comment on the auditor's report. It had no other comments on the 2017 Annual Report of the HSE Group and the Company either that would keep anyone from taking a decision on its confirmation. Therefore the HSE Supervisory Board confirmed the 2017 Annual Report of the HSE Group and the Company in accordance with Article 282, paragraph 3 of the Companies Act (ZGD-1). This Report was adopted early, i.e. before the expiry of a month period from the date when the Company's Management Board submitted the 2017 Annual Report to the HSE Supervisory Board.

1.3.9 Report on the verification of the proposal of the Management Board for the use of the accumulated profit

In accordance with the audited data HSE d.o.o. generated net profit in the amount of EUR 19,737,615 in the financial year 2017. Under Article 230, paragraphs 1 and 2 of the Companies Act HSE used net profit for covering retained loss of the year 2015.

Ljubljana, 13. April 2018

Milan Perović

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

2 Management report

2.1 Chronology of important events in the HSE Group in 2017

1

- Completion of restructuring of PV Invest (subsidiary of PV). The main activity of PV Invest remain only real estate management.
- The HSE Supervisory Board adopts the Business plan of the HSE Group and the Company for the period 2017-2019 and long-term projections of operations in the HSE Group for the period 2017-2030.
- The agreement on the fulfilment of obligations from employment relationships by the Management Board of SENG and the trade unions of SENG (Trade Union of Energy Sector Workers of Slovenia and Confederation of new trade unions of Slovenia – Independence (KNSS) is signed.
- The HSE controlling company enters the Serbian electricity market, which is made possible due to the changes in the applicable legislation. In the Serbian market the HSE Group is represented through the HSE parent company and a subsidiary - HSE Balkan Energy.
- The PSPP Avče (SENG) responds to the needs of ELES as the system operator in a flexible and reliable manner due to the RTP Divača transformer failure and thus prevents the collapse of the Northern Primorska 110 kV loop.

2

- During a short-term outage of the Krško Nuclear Power Plant the HSE Group generates 90% of total electricity produced in Slovenia.
- Entry of a new member into the Golte company (a subsidiary of PV) that becomes the owner of 76.66% of the company. Golte is no longer a member of the HSE Group.

3

- TEŠ obtains the consent of the Energy Agency to the starting price of heat for district heating. The highest recognised average heat price amounts to EUR 17.25/MWh exclusive of VAT.
- The HSE Supervisory Board concludes an agreement on withdrawal and termination of the term of office with the Director General of HSE Gorazd Skubin. The Finance

Director Stojan Nikolić, M.Sc. independently represents the HSE Company until the beginning of the term of office of the new Management Board member.

- TET – in liquidation obtains a decision of the Slovenian Environment Agency on the reduced amount of financial guarantee relating to the closing of the Prapretno landfill that now amounts to EUR 235 thousand and concludes a court settlement associated with a recourse action with Steklarna Hrastnik.

4

- The HSE Supervisory Board appoints Matjaž Marovt the HSE new interim Management Board member, Director General for a period of six months.
- Transition to the new SAP business information system and the new document system (eDMS) is carried out in HSE, DEM, SENG, TEŠ and HSE Invest.
- The hydro power plant chain on the Soča (SENG) provides local supply and isolated operation of the 110 kV Primorska loop due to the maintenance and disconnection of the DV 110 kV Ajdovščina - Divača 1.2 on the ELES transmission network.
- TEŠ concludes a court settlement in the mediation process with Komunalno podjetje Velenje and concludes a civil action relating to the termination of agreement on the heat supply to Komunalno podjetje Velenje.

5

- The continuation of restructuring of the HSE Group: transition of the business process of informatics from TEŠ to HSE, winding-up of the HSE Invest business unit in Nova Gorica.
- The HSE Supervisory Board adopts an amending Business plan of the HSE Group and the Company for 2017 - 2019 with long-term operating projections of the HSE Group for the period 2017 - 2030.
- Signing of the Annex between TET - in liquidation, the RS Agency for Commodity Reserves and HSE, which determines further five-year storing of oil derivatives in Trbovlje.
- A joint consultation with the Works Council of the PV employees, Joint Works Council of the

HSE Group employees and representatives of both trade unions in PV was organised with the aim of discussing the status change of the PV from the joint stock company to a limited liability company. A decision is taken after the consultation that the Supervisory Board should be maintained in the PV Company.

- PV becomes 100% owner of Sipoteh.

6

- The HSE Supervisory Board gives consent to the taking of a decision on status change of PV from the joint stock company to a limited liability company.
- The HSE Supervisory Board gives consent to the amendments to the Article of Association of limited liability companies - DEM, SENG and TEŠ.
- The companies TEŠ and PV sign an agreement for the sale of a share in the Erico company.

7

- A relief is obtained from the European Investment Bank for the operation of Unit 4 till 31 December 2017; in December it was extended to 30 June 2018.
- The Chairperson of the Management Board of the Slovenian Sovereign Holding Lidia Glavina and the Director of the Energy Sector in the Slovenian Sovereign Holding Venčeslav Radi pay a visit to the HSE Company where they are informed about the current situation in the HSE Group in the field of electricity production and its marketing as well as performance of ancillary services, the course of the planned vertical integration and joining of business functions and processes and the achieved and planned streamlining of operating costs in the HSE Group.
- The Slovenian Sovereign Holding is informed about the 2016 Annual Report of the HSE Group and the Company. It grants discharge to the Management Board of HSE for the financial year 2016, discharge to the HSE Supervisory Board for 2016 and appoints KPMG Slovenija the auditor of the financial statements of the HSE Group and the Company for 2017.
- **HSE, Elektro Celje, Elektro Gorenjska and Elektro Primorska sign a letter of intent on connecting the trading companies of ECE and E 3 within the HSE energy pillar.**

- Conclusion of the agreement with ELES on the redistribution of production power on the DEM facilities for the needs of the support to the 110 kV network during the infrastructure renovation on the transmission network in Northern Slovenia.

8

- The new Collective Agreement of the power industry of Slovenia is applicable. Among others, it brings a lower number of paid days free of work and jubilee benefits and eliminates a salary escalation and Christmas allowance.
- The HSE Supervisory Board appoints Matjaž Marovt Managing Director of HSE with a four year term of office.
- The PV joint stock company is transformed into a limited liability company by the new Articles of Association. The new PV Supervisory Board includes the representatives of the HSE Management Board and an employee representative.
- The Slovenian Sovereign Holding adopts the new Articles of Association of the HSE Company. Significant changes in the Articles concern the review and supervision of the Management Board's work and the number of the HSE Supervisory Board members. In accordance with the new Articles the new HSE Supervisory Board consists of nine and not of twelve members, of which six represent the interests of the founder and three the interests of the employees.

9

- The Slovenian Sovereign Holding appoints Vesna Cukrov a new member of the HSE Supervisory Board for a period of four years. Ms Cukrov replaces Drago Štefe, M.Sc. in the HSE Supervisory Board due to the early expiry of the term of office based on the withdrawal statement and expiry of the two-month period of notice.
- The HSE Management Board appoints Andrej Trumpej the new Managing Director of DEM for a period of four years.
- Opening of the new power plant Brežice (HESS - the HSE Group is 49% owner of HESS).

10

- The Minister of Infrastructure Peter Gašperšič, PhD and his co-workers visit PV, where they are informed about the plan of financial and business restructuring of the company.
- PV refinances long-term loans in the amount of EUR 10 million. It thus extends the loan maturity and obtains a more favourable interest rate.

11

- DEM receives a certificate from ELES as the system transmission network operator that the generating units of HE Mariborski otok are the first ones in Slovenia that are able to perform the primary frequency regulation in accordance with the new regulations.
- PV continues the disinvestment of assets unnecessary for business and signs an agreement for the sale of the Vila Široko settlement in Šoštanj and the land plots.
- The HSE Supervisory Board adopts the Business plan of the HSE Group and the Company for the year 2018 with the additional plan for the years 2019 and 2020.
- SENG celebrates the 70th anniversary of operations.
- PV obtains a certificate for its own hydraulic support. A section for the excavation of thick coal layers using a wide frontal method was constructed and made on the basis of the PV own engineering knowledge and experience of many years in the underground coal excavation in accordance with the Velenje excavation method.

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- The underground pit track system is connected to the NOP II ventilation shaft. The new facility will be used for the ventilation of pit premises and it is important for the production to the end of mine operation, also for the improvement in the environmental standards of the Šalek Valley.
- The planned shutdown of Unit 6 TEŠ. The equipment inspections and guarantee repairs of the steam collector are carried out. When Unit 6 is stopped, Unit 4 in TEŠ provides electricity and thermal energy.

- The reduction in share capital of TET - in liquidation to EUR 100 thousand, adoption of the new Articles of Association of the company and closing of the regular liquidation procedure of the company as at 31 December 2017.
- The Slovenian Sovereign Holding re-appoints Miloš Pantoš, PhD and Boštjan Markoli, PhD as the HSE Supervisory Board members whose new four-year term of office begins on 22 January 2018.

2.2 Important events after the end of the financial year 2017

- Miha Pečovik took over the management of HSE Invest on 4 January 2018.
- In January, SENG started emptying the water storage basin in Most na Soči due to the maintenance of the hydro mechanical equipment of the Podselo dam.
- On 23 January 2018 SENG began a legal test on the generating unit 2 within the reconstruction of the hydro power plant Plave 1.
- TET - in liquidation - Since 1 January it has operated as a normal company under the name of HSE - Energetska družba Trbovlje that is managed by Evin Renko. The company continues the performance of services of storing oil derivatives for the mandatory state reserves and ancillary services in the national grid.
- On 2 and 5 February 2018 the management boards of PV and HTZ met all the social partners (SPESS Trade Union of acquiring energy raw materials, Trade Union of employees in mining and energy sector of Slovenia - SSDRES, Works Council of PV and HTZ) in order to agree jointly on closing the year 2017. The result was a signed agreement on closing the year 2017; it was signed by the SPESS Trade Union and the Works Council of PV and HTZ. The signatories of the agreement agreed that the employer would pay a reward for the performance in the year 2017 in the amount of EUR 3.5 gross / day of work in accordance with the Collective Agreement of PV.

2.3 Corporate governance statement

Pursuant to Article 70, paragraph 5 of the Companies Act Holding Slovenske elektrarne d.o.o., Koprska ulica 92, 1000 Ljubljana (HSE) declares the following for the period from 1 January 2017 to 31 December 2017:

The HSE Management Board and Supervisory Board declare that the governance of the Company complied with the acts, other regulations, Articles of Association of the HSE limited liability company, recommendations stated in the Corporate Governance Code for Companies with State Capital Investments in 2017.

Pursuant to Article 60 of the Companies Act the Management Board and Supervisory Board declare that the annual report with all integral parts, including the corporate governance statement, is prepared and published in line with the Companies Act and International Financial Reporting Standards.

The Corporate Governance Statements is an integral part of the annual report and it is available on the website of the Company under htpp://www.hse.si.

1. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE FOR COMPANIES WITH STATE CAPITAL INVESTMENTS (SSH CODE) AND RECOMMENDATIONS AND EXPECTATIONS OF THE SLOVENIAN SOVEREIGN HOLDING (SSH RECOMMENDATIONS)

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

HSE follows the Corporate Governance Code for Companies with the Capital Investment of the Slovenian Sovereign Holding as its reference code (the Code) that replaced the Code with the same name in May 2017 and is available on the website of the Slovenian Sovereign Holding. To a great extent the Company sensibly adhered to the Code in the operations, under consideration of the Company's activity and its other specificities. In accordance with the comply-and-explain-principle the Company fully observed the major part of recommendations contained in the Code (May 2017) that referred to the companies 100% owned by the state. Deviations are explained in the sections below:

- Recommendation 3.2: The recommendation is applied partially. The Management Board adopted the Rules of Corporate Governance in the HSE Group and the Company that reasonably considered the recommendation adjusted to the HSE Group. The Rules are not public.
- Recommendations 3.6, 3.6.1 and 3.6.2: The provisions of Article 21 of the Slovenian Sovereign Holding Act on diversity are followed directly. The Articles of Association define the criteria concerning the Management Board and the entire process is set up so that the Company selects the best candidate in a concrete situation. On 12 February 2018 the Company adopted the diversity policy of the HSE management and supervision bodies and the policy only formalised the current practice of the Supervisory Board in 2017. The policy was published.
- Recommendation 6.4.1: The recommendation is followed reasonably. On the basis of the decision the Supervisory Board determined the competence profile considering the direct legal basis – Article 21 of the Slovenian Sovereign Holding Act. It was not published on the Company's website.
- Recommendation 6.8: The recommendation is applied partially. The procedure of selecting candidates for the Supervisory Board members and formulation of the resolution of the Shareholders' Meeting on the appointment of the Supervisory Board members is transparent (decision-taking at a HSE Supervisory Board meeting), but not defined in advance.
- Recommendation 6.9.2: The recommendation is applied partially. The existing decision of the founder from the year 2011 essentially follows the decision in Annex 2 to the Code.
- Recommendation 6.9.3: HSE recommendations are not followed in the section referring to the D&O insurance. Within the framework of the collective D&O insurance of the HSE Group the HSE Supervisory Board members are entitled to join this insurance scheme. A tax benefit is charged in accordance with the tax rules.
- Recommendation 6.13.2: The recommendation is not followed fully. The number of regular meetings of the Audit Committee depended on the objective circumstances and the needs of the Company that

dictated a slight exceeding of the recommended number and kind of meetings.

- Recommendation 6.15.1: The recommendation is applied partially. The Chairman of the Supervisory Board is not a chairman of the Audit Committee, but of another committee within the Supervisory Board.
- Recommendation 9.1.1: The recommendation is applied partially. The auditor was separately appointed for a period of one year.
- Recommendation 9.2.7: The recommendation is applied partially, as certain recommendations are implemented in an extended period due to their complexity.
- Recommendation 10.2: The recommendation is applied partially. At present the Company does not foresee a person authorised for corporate integrity. Some of its foreseen functions are dispersed and are carried out in scope of professional services.

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

During the operations in 2017 the Company reasonably and to a great extent followed the recommendations of the Slovenian Sovereign Holding under consideration of the Company's activity and its other specificities. The recommendations and expectations of the Slovenian Sovereign Holding (February 2016) were replaced by the new SSH Recommendations with the same name in May 2017. The Company followed the major part of the recommendations under the comply-and-explain-principle in 2017. The deviations are explained in the sections below:

- Recommendation 3.6 is applied partially. The recommendation is not followed in the section referring to the field of trading in energy products and related products. The agreements concluded in the field of trading that have the nature of ordering agreements, such as intermediary agreements relating to trading, are not reported on publicly as they are considered confidential business information. Publication of the conducted transactions stated in the recommendation is carried out in line with the Public Information Access Act.
- Recommendation 3.8 is applied partially. The recommendation is not followed in the section referring to the field of trading in energy products and related products. Publications related to this recommendation are not made for the field of trading as the transactions are considered confidential business information.
- Recommendations under Item 4: The recommendations for 2017 were followed fully or reasonably, with the exception of recommendation 4.4 that is partially implemented.
- Recommendations under Item 5 are not applied. The recommendations are applied partially in the implementation of the management systems and through the conduct of internal audits in line with the standards (ISO 9001, ISO 14001, BS OHSAS 18001 and ISO 27001) that serve also as bases for a self-evaluation under the EFQM model.

2. DATA ON THE WORK OF THE SHAREHOLDERS' MEETING, COMPOSITION AND WORK OF THE MANAGEMENT AND SUPERVISORY BODIES

In 2017, the Slovenian Sovereign Holding, managed the HSE Company acting as the sole member in accordance with the Articles of Association. The HSE management and supervisory bodies are the Management Board and the Supervisory Board.

In 2017, the Company had no adopted the diversity policy that would be implemented in relation to the representation in the management and supervisory bodies; the Company promoted diversity in compliance with recommendation 6.4 of the SSH Code as it is laid down in the SSH Code and the Slovenian Sovereign Holding Act. The HSE Company adopted the diversity policy of the HSE management and supervisory bodies on 12 February 2018 and it only formalised the current practice.

In accordance with the recommendation of the SSH Code No. 10.2.1 we state that individual elements of the corporate integrity system are dispersed in the Company and carried out in scope of various professional services and committees.

Founder in the role of the Shareholders' Meeting

The founder has the role and competence of the Shareholders' Meeting in line with the Articles of

Association of the HSE Company, Companies Act and the applicable legislation. In accordance with Article 526 of the Companies Act the founder enters its resolutions in the book of resolutions. In 2017, the founder acted in line with the competence determined in the Articles of Association of the Company that are published (Agency of the RS for Public Legal Records and Related Services – AJPES). Key competence is:

- adoption of the business policy foundations and the Development plan of the HSE Company and the Group for a five year period, including the financial, business, HR and organisational restructuring on the proposal of the Management Board and consent of the Supervisory Board,
- decision-making on the use of accumulated profit,
- decision-making on the repayment of subsequent payments,
- decision-making on the use, distribution and withdrawal of shares,
- appointment and recall of the Supervisory Board members, except those elected by the Works Council,
- decision-making on founding companies and acquisition of the majority shares in equity of other companies on the proposal of the Management Board and consent of the Supervisory Board,
- decision-making on disposing of the interests and shares in the companies that are defined as strategic or important investments in each decree on the strategy of capital investment management by the State,
- decision-making on the disposing and burdening of interests/shares in subsidiaries and associates on the proposal of the Management Board and consent of the Supervisory Board,
- granting discharge to the Management Board and the Supervisory Board,
- decision-making on concluding agreements and conducting other transactions by which the Company obliges to transfer at least 3% of the Company's assets against payment or free of charge to another person in one transaction or several related transactions, whereby the transfer under the Companies Act on status changes is not concerned,
- decision-making on changes in the share capital of the Company,
- decision-making on status changes and winding-up of the company and other competence that are further determined in the Articles of Association and the applicable legislation.

Work of the Supervisory Board

In 2017, the Supervisory Board acted in compliance with the competence determined in the Companies Act, Articles of Association of the HSE Company, Rules of Procedure on the work of the HSE Supervisory Board and the Corporate Governance Code of Companies with State Capital Investments as the reference code (in accordance with the comply-and-explain-principle). The Articles of Association of HSE determine the composition, a four-year term of office and competence of the Supervisory Board.

The Supervisory Board had twelve members in 2017. Eight members represented the interests of the founder and four members the interests of the employees (they are appointed and recalled in line with the Worker Participation in Management Act). At the date of entry of the new Articles of Association on 31 August 2017, i.e. 8 September 2017 the number of members was reduced to nine – and since then six members represent the interests of the founder and three members the employee interests. As a result, an employee representative was recalled by the HSE Works Council. The Supervisory Board members are appointed for a period of four years and can be re-appointed after the expiry of the term of office.

The composition and work of the Supervisory Board are presented in the report of the Supervisory Board as well as the work of all Supervisory Board committees as the professional assistance in the work of the Supervisory Board (HSE Supervisory Board Audit Committee, HSE Supervisory Board Restructuring Committee, HSE Supervisory Board Marketing and Investment Committee, HSE Supervisory Board Personnel Committee).

COMPOSITION OF THE SUPERVISORY BOARD AND COMMITTEES IN THE FINANCIAL YEAR

FULL NAME	Milan Perović	Boštjan Markoli, PhD	Miloš Pantoš, PhD	Barbara Gorjup, M.Sc.	Vesna Cukrov	Viktor Vračar, PhD
FUNCTION (Chairman, Vice-Chairman, SB member)	SB Chairman	SB Vice-Chairman	SB member	SB member	SB member	SB member
FIRST APPOINTMENT	Member Chairman:	Member Vice-Chairman:	21 January 2014	5 April 2016	1 September 2017	5 April 2016
EXPIRY OF THE TERM OF OFFICE	5 April 2020	22 January 2022	22 January 2022	5 April 2020	1 September 2021	5 April 2020
REPRESENTATIVE OF CAPITAL /EMPLOYEES	representative of capital	representative of capital	representative of capital	representative of capital	representative of capital	representative of capital
PARTICIPATION IN SB MEETINGS WITH RESPECT TO THE TOTAL NUMBER OF SB MEETINGS	100%	100%	11 od 12	100%	3 of 4	100%
GENDER	male	male	male	male	male	male
NATIONALITY	Slovene	Slovene	Slovene	Slovene	Slovene	Slovene
YEAR OF BIRTH	1964	1968	1977	1973	1967	1971
EDUCATION	BSc (Econ.)	PhD	PhD	M.Sc. (International Economics)	BA (Law), fully qualified lawyer	PhD
PROFESSIONAL PROFILE	business finance	montanistics	electric power	business finance, valuation, economic justification of investments, controlling (plan, reporting system), accounting, corporate governance	legal affairs, investments	management, organisation, restructuring
WITH ARTICLE 23 OF THE CODE (YES/NO)	yes	yes	yes	yes	yes	yes
CONFLICT OF INTEREST IN THE FINANCIAL YEAR (YES/NO)	no	no	no	no	no	no
MEMBERSHIP IN SUPERVISORY BODIES OF OTHER COMPANIES	Pošta Slovenije	no	no	Telekom Slovenije	no	no
MEMBERSHIP IN COMMITTEES	KK	KK RK	KTI KP	RK KK	KP	KP KTI
CHAIRMAN/MEMBER OF A COMMITTEE	KK - Chairman	RK and KK - member	KTI Chairman, KP - member	RK - Chairman KK - member	KP - member	KP - Chairman KTI - member
PARTICIPATION IN COMMITTEE MEEETINGS WITH RESPECT TO THE TOTAL NUMBER OF MEETINGS	KK - 100%	KK - 100% RK - 100%	KTI - 100% KP - 100%	RK - 100% KK- 100%	KP - 100%	KP - 100% KTI -100%

SB - Supervisory Board, RK - Audit Committee, KK - Personnel Committee, KTI - Marketing & Investment Committee, KP - Restructuring Committee

FULL NAME	Boštjan Jančar	Jernej Otič	Damjan Lipušček	Vanja Živanić Jovanović	Črt Slokan	Drago Štefe, M.Sc.	Matjaž Marovt
FUNCTION (Chairman, Vice-Chairman, SB member)	SB member	SB member	SB member	*SB member*	*SB member*	*SB member*	*SB member*
FIRST APPOINTMENT	5 April 2016	30 June 2014	5 April 2016	*5 April 2016*	*21 January 2014*	*21 Januar 2014*	*5 April 2016*
EXPIRY OF THE TERM OF OFFICE	5 April 2020	5 April 2020	5 April 2020	*8 September 2017*	*6 March 2017*	*1 September 2017*	*1 Avgust 2017*
REPRESENTATIVE OF CAPITAL /EMPLOYEES	employee representative	employee representative	employee representative	employee representative	*representative of capital*	*representative of capital*	*representative of capital*
PARTICIPATION IN SB MEETINGS WITH RESPECT TO THE TOTAL NUMBER OF SB MEETINGS	100%	10 of 12	100%	*100%*	*0 of 3*	*100%*	*100%*
GENDER	male	male	male	*female*	*male*	*male*	*male*
NATIONALITY	Slovene	Slovene	Slovene	Slovene	Slovene	Slovene	Slovene
YEAR OF BIRTH	1971	1976	1968	*1976*	*1981*	*1937*	*1962*
EDUCATION	M.Sc. (Business)	BSc (Electrical Engineering), M.Sc. (Econ. & Business)	BSc (Electrical Engineering)	*BSc (Econ.)*	*BA (Law)*	*M.Sc. (Econ.)*	*BSc (Electrical Engineering) and M.Sc. (Quality Management)*
PROFESSIONAL PROFILE	finance, economics	electrical engineering, electricity production	trading in energy, HPP operation	*controlling*	*restructuring, transactions*	*energy*	*production processes, investments, purchasing, development, quality*
WITH ARTICLE 23 OF THE CODE (YES/NO)	yes	yes	yes	yes	yes	yes	yes
CONFLICT OF INTEREST IN THE FINANCIAL YEAR (YES/NO)	no	no	no	no	no	no	no
MEMBERSHIP IN SUPERVISORY BODIES OF OTHER COMPANIES	no	no	no	*no*	*no*	*no*	*no*
MEMBERSHIP IN COMMITTEES	RK	KK KP	KTI	*KP*	*KK*	*KTI*	*KK KP*
CHAIRMAN/MEMBER OF A COMMITTEE	RK - member	KK and KP - member	KTI - member	*KP - member*	*KK - member*	*KTI - member*	*KK and KP - member*
PARTICIPATION IN COMMITTEE MEEETINGS WITH RESPECT TO THE TOTAL NUMBER OF MEETINGS	RK - 100%	KK - 2 od 3 KP - 100%	KTI - 100%	*KP - 100%*	*KK - 100%*	*KTI - 100%*	*KK - 100% KP - 100%*

SB - Supervisory Board, RK - Audit Committee, KK - Personnel Committee, KTI - Marketing & Investment Committee, KP - Restructuring Committee

EXTERNAL MEMBERS IN THE COMMITTEES

FULL NAME	Maja Zaman Groff, PhD
COMMITTEE	Audit
PARTICIPATION IN COMMITTEE MEEETINGS WITH RESPECT TO THE TOTAL NUMBER OF COMMITTEE MEETINGS	100%
GENDER	female
NATIONALITY	Slovene
EDUCATION	PhD
YEAR OF BIRTH	1972
PROFESSIONAL PROFILE	audit (external, internal), financial accounting
MEMBERSHIP IN SUPERVISORY BODIES OF THE COMPANIES NOT RELATED WITH THE COMPANY	not a member of supervisory bodies

Work of the Management Board

Pursuant to the provisions of the Articles of Association of the HSE Company and the decision of the Supervisory Board the Management Board manages and represents the Company on its own responsibility. In the period from 1 January 2017 to 28 March 2017 the Management Board had two members, namely Gorazd Skubin, Director General and Stojan Nikolić, M.Sc., Financial Director. From 29 March 2017 the Management Board had one member - Stojan Nikolić, M.Sc. On 19 April 2017 Matjaž Marovt was appointed the interim Director General for a period of maximum six months and on 2 August 2017 he was appointed for the full 4-year term of office. Throughout the year 2017 Stojan Nikolić, M.Sc., worked as the Financial Director.

COMPOSITION OF THE MANAGEMENT BOARD IN THE FINANCIAL YEAR

FULL NAME	Matjaž Marovt	Stojan Nikolić, M.Sc.	*Gorazd Skubin*
FUNCTION (President, member)	Managing Director	Finance Director	Managing Director
SCOPE OF WORK IN THE MANAGEMENT BOARD	Managing Director	Finance Director	Managing Director
FIRST APPOINTMENT	19 April 2017	1 October 2014	*16 July 2016*
EXPIRY OF THE TERM OF OFFICE	2 Avgust 2021	1 October 2018	*28 March 2017*
GENDER	male	male	*male*
NATIONALITY	Slovene	Slovene	*Slovene*
YEAR OF BIRTH	1962	1975	*1963*
EDUCATION	BSc in Electrical Engineering and M.Sc. in Quality Management	M.Sc. in Economics	*BSc in Electrical Engineering*
PROFESSIONAL PROFILE	Production processes, investments, purchasing, development, quality	Financial management	*Electrical engineering, electricity production, trading in electricity*
MEMBERSHIP IN SUPERVISORY BODIES OF THE COMPANIES NOT RELATED WITH THE COMPANY	/	/	/

3. DESCRIPTION OF THE MAIN CHARACTERISTICS OF THE INTERNAL CONTROLS SYSTEMS AND RISK MANAGEMENT IN THE COMPANY RELATING TO THE FINANCIAL REPORTING PROCEDURE

With the aim of ensuring increased transparency, efficiency and responsible operations the Company has an established, functioning internal controls system and a risk management system that are implemented through the organisational structure of the Company, ISO 9001 quality management standard, ISO 14001 environmental management standard, OHSAS 18001 occupational health and safety standard, ISO/IEC 27001 information security standard and internal acts of the Company with a precisely elaborated reporting system by individual organisational unit. The internal controls system is supported by the information technology controls system, which, among others, provides adequate limitations and supervision over the network and accurate, up-to-date and full data processing.

In accordance with the plan and through the internal controls system the Company systematically uses the procedures and methods that ensure accuracy, reliability and completeness of data and information, true and fair preparation of the financial statements, prevent and detect errors in the system and ensure compliance with acts and other regulations, acts of the management bodies and systemic regulations of the Company in their operation.

The Management Board of the Company is responsible for keeping adequate books of account and for establishing and ensuring the functioning of internal controls and internal accounting controls, selection and use of accounting policies.

When setting-up an internal controls system the principle of three lines of defence is considered:

- environmental impact assessment, risk assessment (carried out by risk owners),
- determination of the controlling method – setting up an a control system (carried out by various professional services),
- control of system operation and introduction of improvements (carried out by the internal audit service).

Three main objectives are pursued when setting-up an internal controls system:

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

An independent risk management department and a risk management committee have been established in the Company with the aim of achieving complete risk management in the Company and providing quality information to the Company Management Board and Supervisory Board about the management and supervision of the Company. The risk management department is responsible for the establishment and continuous operation of the risk management system. It carries out the operational and coordinating support to the risk management committee and its sub-committees that supervise the complete risk management system and propose adequate amendments. The organisation, composition and the working method are defined in the Rules of Procedure on the work of the HSE Risk Management Committee.

An internal audit service is established in the Company in line with the adopted Rules on the HSE internal audit operation. Its mission in the HSE Group is carried out on the basis of a medium-term and annual plan. The organisational independence has been displayed by the fact that the internal audit is organised as an independent organisational unit that reports to the HSE Management Board in terms of the organisation and to the audit committee and/or the HSE Supervisory Board in terms of its function. Internal auditing is conducted in the entire HSE Group in accordance with the International Standards for the Professional Practice of Internal Auditing. It operates with the aim of adding value to the implementation of strategic and business objectives.

In 2017, the internal audit carried out the internal audit procedures and other activities in line with the approved annual plan of work. One internal audit procedure was carried out at the request of the Supervisory Board. In scope of the performed procedures the internal audit reviewed the existence, operation and efficiency of the internal controls system for the achievement of the objectives set in the audited units. It submitted the recommendations for their improvement. The internal audit carried out some informal consulting oriented towards the assistance in developing the internal controls system and the risk management system. Special attention was paid to the monitoring of implementation of audit recommendations, training and education as well as the provision of quality and professional operation of the internal audit function within the HSE Group. The internal audit reported on its work to the Management Board, the Audit Committee and the Supervisory Board.

The development of internal audit occurs by implementing the programme of ensuring and improving quality. Its purpose is to ensure all the interested parties that the internal audit operates in line with the applicable rules of the profession and that its operation is effective and efficient.

Ljubljana, 3. April 2018

Matjaž Marovt, Managing Director of HSE

Stojan Nikolić M.Sc., Finance Director of HSE

Milan Perović, Chairman of the Supervisory Board of HSE

2.4 Presentation of the HSE Group

The HSE Group is the largest Slovene organisation in the field of electric power and the major producer and seller of electricity in the Slovene wholesale market. Hydro power plants, a thermal power plant and a mine are joined under the HSE trademark. A uniform appearance of the companies ensures better competitiveness in the market, optimal utilisation of the production capacities with respect to the current market conditions, reduction in negative financial effects of production outages, complete offer of electricity products, lower risk in concluding long-term agreements and better possibilities of appearance in foreign markets.

The activity of the HSE Group includes the area of energy and environmental management as well as the control of related processes and risks. A wide range of activities includes the following core ones:

- production of electricity and thermal energy,
- extraction of lignite,
- sale and trading in electricity and thermal energy, futures contracts for electricity, emission coupons, gas, etc.,
- production optimisation in the HSE Group,
- provision of ancillary services, required for the operation of the national grid system in Slovenia,
- management and implementation of the energy and environmental projects.

The core activities of the HSE Group are electricity production and trading in electricity. Therefore, the Group strives for the exploitation of synergies of a wide range of production capacities in order to be able to increase the efficiency in operations. The operational and cost characteristics of individual production units differ among each other and therefore it is possible to achieve a cost-effective offer of electricity by a suitable combination. It should be also taken into account that electricity prices change in the market and thus planning and optimisation of production units are of essential importance under consideration of the technical criteria and increasingly demanding circumstances in the electricity market.

RELATED PARTIES OF THE HSE GROUP AS AT 31 DECEMBER 2017

HOLDING SLOVENSKE ELEKTRARNE D.O.O.

HPP PRODUCTION

- Dravske elektrarne Maribor d.o.o. (HSE 100.0%) → MHE Lobnica d.o.o. (DEM 65.0%)
- Soške elektrarne Nova Gorica d.o.o. (HSE 100.0%) → Elprom d.o.o. (SENG 100.0%)
- Hidroelektrarne na spodnji Savi d.o.o. (HSE 15.4%, DEM 30.8%, SENG 2.8%) → Partner d.o.o., Senovo (HESS 100.0%)
- Srednjesavske elektrarne d.o.o. (HSE 60.0%)

INTERNATIONAL NETWORK

- HSE BE d.o.o. (HSE 100.0%)
- HSE Adria d.o.o. (HSE 100.0%)
- HSE Mak Energy DOOEL (HSE 100.0%)
- HSE BH d.o.o. (HSE 100.0%)
- HSE Prague Branch
- HSE Bucharest representative office

TPP PRODUCTION

- Termoelektrarna Šoštanj d.o.o. (HSE 100.0%)
- Termoelektrarna Trbovlje d.o.o. - in liquidation (HSE 100.0%) → TET Novi Materiali d.o.o. (TET - in liquidation 93.8%)

INVESTMENTS

- Soenergetika d.o.o. (HSE 25.0%)
- HSE Invest d.o.o. (HSE, DEM in SENG each 25.0%)

PRIMARY SOURCES

- Premogovnik Velenje d.o.o. (HSE 100.0%)
- Sipoteh d.o.o. (PV 100.0%)
- PLP d.o.o. (PV 26.0%)
- Branch office in Macedonia
- Karboteh d.o.o. - in liquidation (PV 24.0%, RCE 76.0%)
- Tehnoveter d.o.o. - in liquidation (PV 24.0%, RCE 76.0%)
- HTZ I.P. d.o.o. (100.0%)
- RGP d.o.o. (PV 89.2%, HTZ I.P. 10.8%)
- PV Invest d.o.o. (PV 100.0%)
- RCE - razvojni center energija d.o.o. in bankruptcy (PV 11%, TEŠ 8%, PV Invest 4.5%, HTZ 1%)
- Filvoteh d.o.o. - in liquidation (RCE 76.0%, HTZ I.P. 24.0%)

BUSINESS MODEL OF THE HSE GROUP

Legend

Legend
2017
2016

SALES IN FOREIGN MARKETS

	2017	2016
Electricity sales in GWh:	27,876	20,402
Share of sales in foreign markets:	74%	67%

HSE

	2017	2016
Number of employees:	174	150
Purchase of electricity in GWh:	37,799	30,483

SALES OF ELECTRICITY IN THE DOMESTIC MARKET

	2017	2016
Sales of electricity in GWh:	9,923	10,081
Share of sales in the domestic market:	26%	33%

OTHER SOURCES

	2017	2016
Purchase of electricity in GWh:	30,765	22,705
Share of other sources:	81%	74%

OWN PRODUSTION

	2017	2016
Number of employees:	1,949	1,936
Production in GWh:	7,034	7,778
Share of own production:	19%	26%
Capacity in MW:	1,858	1,858

44% of sources

	2017	2016
Number of employees:	365	359
Production in GWh:	3,066	3,659
Capacity in MW:	929	929
Number of units:	66 turbines	66 turbines

56% of sources

	2017	2016
Number of employees:	329	346
Production in GWh:	3,968	4,119
Capacity in MW:	929	929
Number of units:	2 blocks and 4 gas turbines	2 blocks and 4 gas turbines

	2017	2016
Number of employees:	1,255	1,231
Production in TJ:	39,156	39,390

DEM

	2017	2016
Number of employees:	241	237
Production in GWh:	2,333	2,846
Capacity in MW:	592	592
Number of units:	28 turbines	28 turbines

TEŠ

	2017	2016
Number of employees:	311	323
Production in GWh:	3,966	4,119
Capacity in MW:	871	871
Number of units:	2 blocks and 2 gas turbines	2 blocks and 2 gas turbines

PV

	2017	2016
Number of employees:	1,255	1,231
Production in TJ:	39,156	39,390

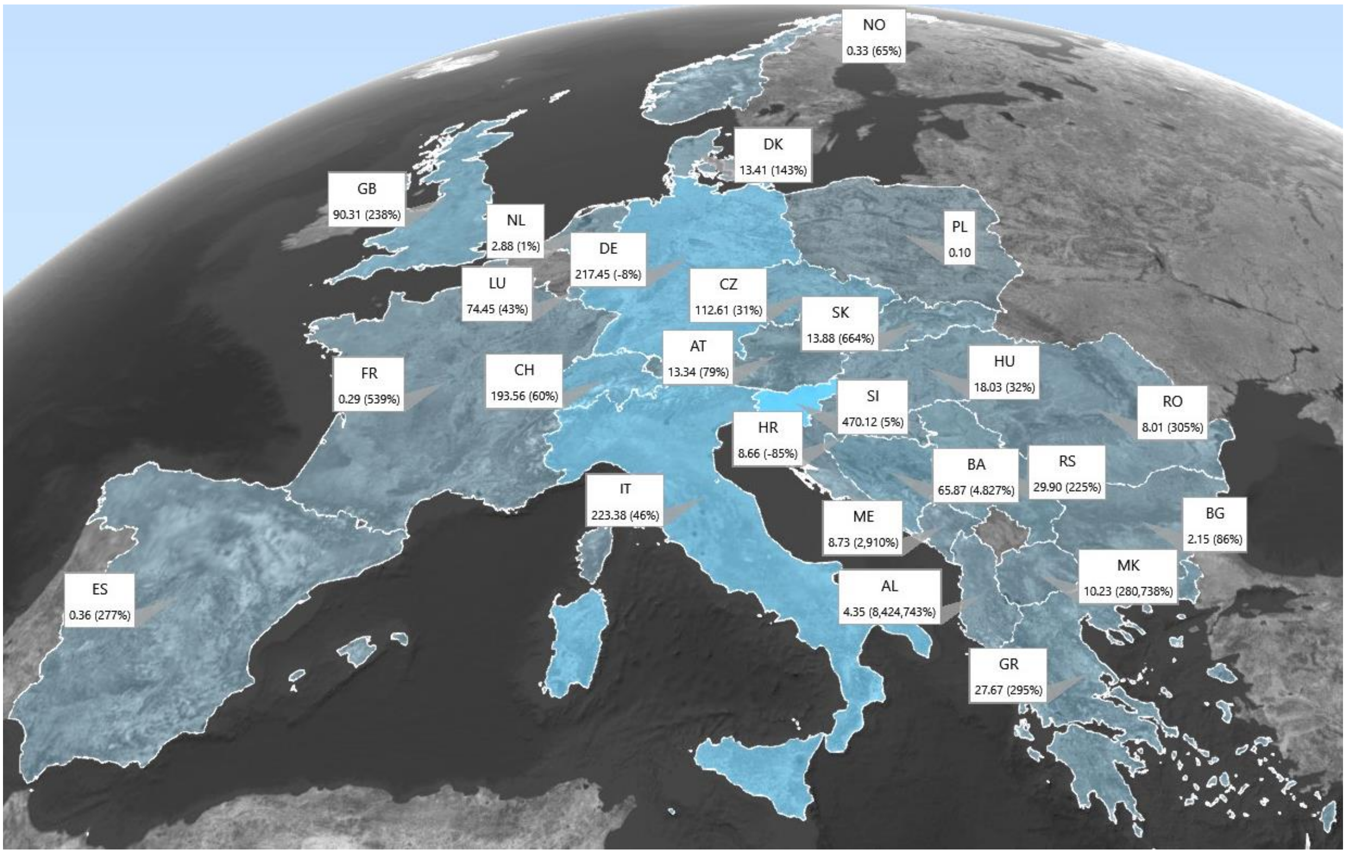
SENG

	2017	2016
Number of employees:	124	122
Production in GWh:	733	813
Capacity in MW:	337	337
Number of units:	38 turbines	38 turbines

TET - in liquidation

	2017	2016
Number of employees:	18	23
Production in GWh:	2	0
Capacity in MW:	58	58
Number of units:	2 gas turbines	2 gas turbines

REVENUE FROM THE SALE OF ELECTRICITY AT THE LEVEL OF THE HSE GROUP IN EUR MILLION IN 2017 AND CHANGES OVER THE YEAR 2016 EXPRESSED AS A PERCENTAGE



In 2017, the electricity market was marked by higher electricity prices that were the result of low temperatures in winter months and dry weather throughout the year.

2.5 Market environment[1]

ECONOMIC GROWTH IN EUROPE

2.5%

1.7%

The high economic growth in Europe that exceeded the expectations was a result of higher consumption, lower unemployment and economic growth elsewhere in the world, but mainly in the USA and in Asia.

INTEREST RATE – 12 m EURIBOR

- 0.186%

- 0.083%

European Central Bank insisted on record low EURIBOR-values, which additionally stimulated the economic growth and consumption.

EXCHANGE RATE

1.1942

1.0606

The EUR value compared to USD strengthened significantly due to the recovery of the European economy and the politics of the USA, which slightly cushioned the exceptional increases in prices of energy products in the electricity market.

OIL PRICE

67 $/Bbl

57 $/Bbl

The Brent crude oil price substantially increased after the conclusion of the agreement on the reduction in production of the OPEC member countries with Russia. Throughout the year the USA constantly increased the production to 10 million barrels per day.

GAS PRICE

18 EUR/MWh

18 EUR/MWh

The gas market was marked by the exceptional growth in prices of liquefied natural gas in Asia, where the price initially reacted to the political tensions in Saudi Arabia and Qatar that belong to the largest producers of liquefied natural gas in the world. It also faced the record high gas consumption in China as a result in the transition from coal heating to gas heating. At the end of the year Europe observed some problems with gas transport.

COAL PRICE

90 $/t

69 $/t

The increase in coal prices was a result of the higher demand in China, Japan, South Korea and India. The impact of Europe in the coal market gradually shrunk. Due to the favourable price ratio several European gas power plants were able to produce electricity at lower prices than some less efficient coal thermal power plants during the year.

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1 2017 2016

WATER POWER IN SE EUROPE

36.8 TWh

39.3 TWh

Exceptional drought in summer, especially in our region (Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Albania, Rumania, Montenegro, Bulgaria, etc.) and in the Alpine countries resulted in a production of run-of-river power plants that was lower over the previous year by 2.5 TWh.

RENEWABLE ENERGY SOURCES IN GERMANY

139 TWh

111 TWh

Germany is the main carrier of increasing capacities from renewables. German solar power plants with the total installed power of 42.9 GWh produced 35.8 TWh of electricity and wind farms with the total installed power of 56.3 GWh generated 102.8 TWh of electricity, which was a 25% increase in production from renewables.

CO_2 PRICES

7.4 EUR/t

5.1 EUR/t

In the first half of 2017 the CO_2 price amounted to approx. 5 EUR/t. Far more dynamic was the second half of the year when the CO_2 price rose by 60% to the end of December, which was a result of the discussions about the revision of stage 4 of the emission trading scheme, i.e. the legislation framework that will be applicable in the years 2020 -2030.

AVERAGE ELECTRICITY PRICES

34 €/MWh

29 €/MWh

50 €/MWh

35 €/MWh

50 €/MWh

36 €/MWh

54 €/MWh

43 €/MWh

55 €/MWh

43 €/MWh

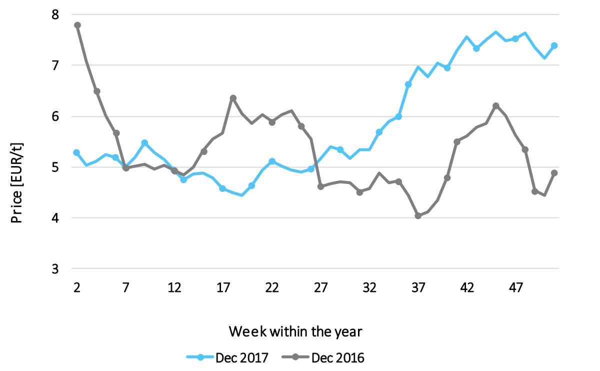
48 €/MWh

33 €/MWh

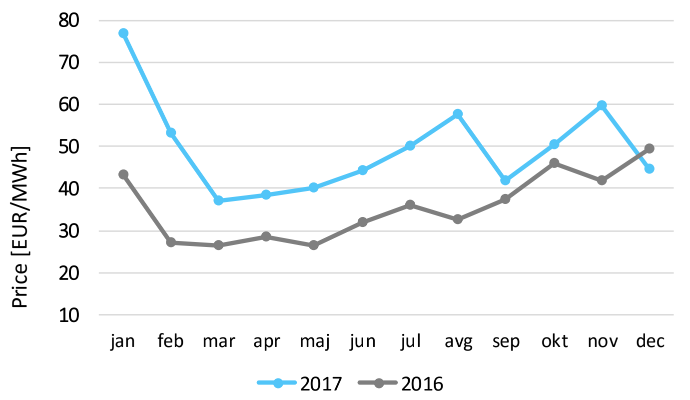
The reduced production of French nuclear power plants in combination with low temperatures and poor hydrology was the main reason for high electricity prices. In 2017, coal power plants determined the price limit in the German market and gas power plants in Italy. The price in the Hungarian market is formed in relation to the highest price in the Italian market in the West, the Greek market in the South and the lowest price in the Rumanian market in the East, where the impacts of production from renewable energy sources are material. The impact of the German market that dictates the prices exclusively in the period of good hydrology has become increasingly low. The impact on the electricity price in the region is dictated by the hydrological circumstances as well as the gradually increasing production from renewables, mainly from wind farms in Rumania and Croatia and to a small extent from solar power plants.

2017 2016

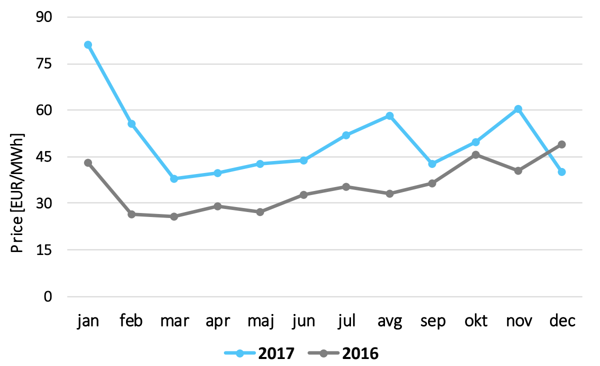
AVERAGE WEEKLY PRICES OF CO_2 COUPONS WITH THE DECEMBER DELIVERY WITHIN THE YEAR OF DELIVERY



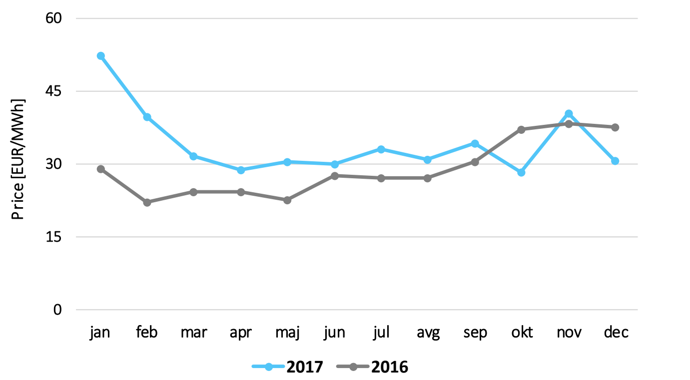
AVERAGE MONTHLY ELECTRICITY PRICE: BSP – Southpool (Slovenia)



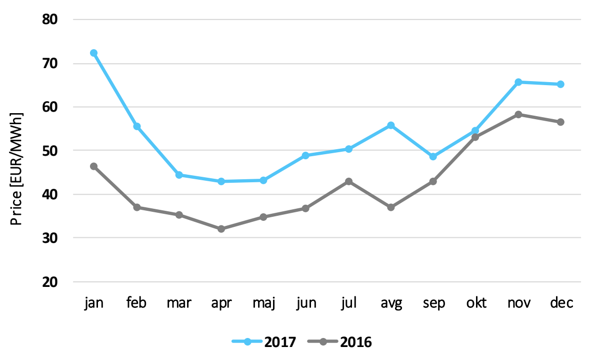
AVERAGE MONTHLY ELECTRICITY PRICE: HUPX (Hungary)



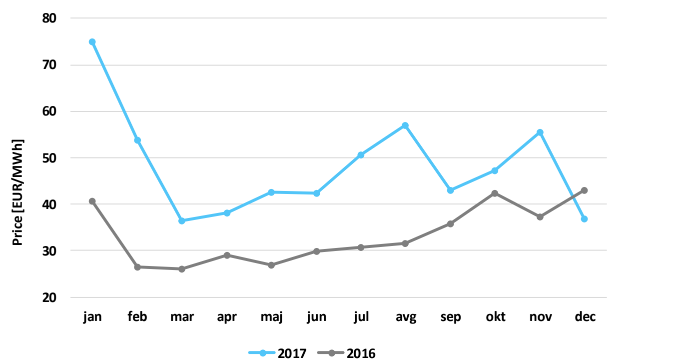
AVERAGE MONTHLY ELECTRICITY PRICE: EPEX Spot DE/AT (Germany)



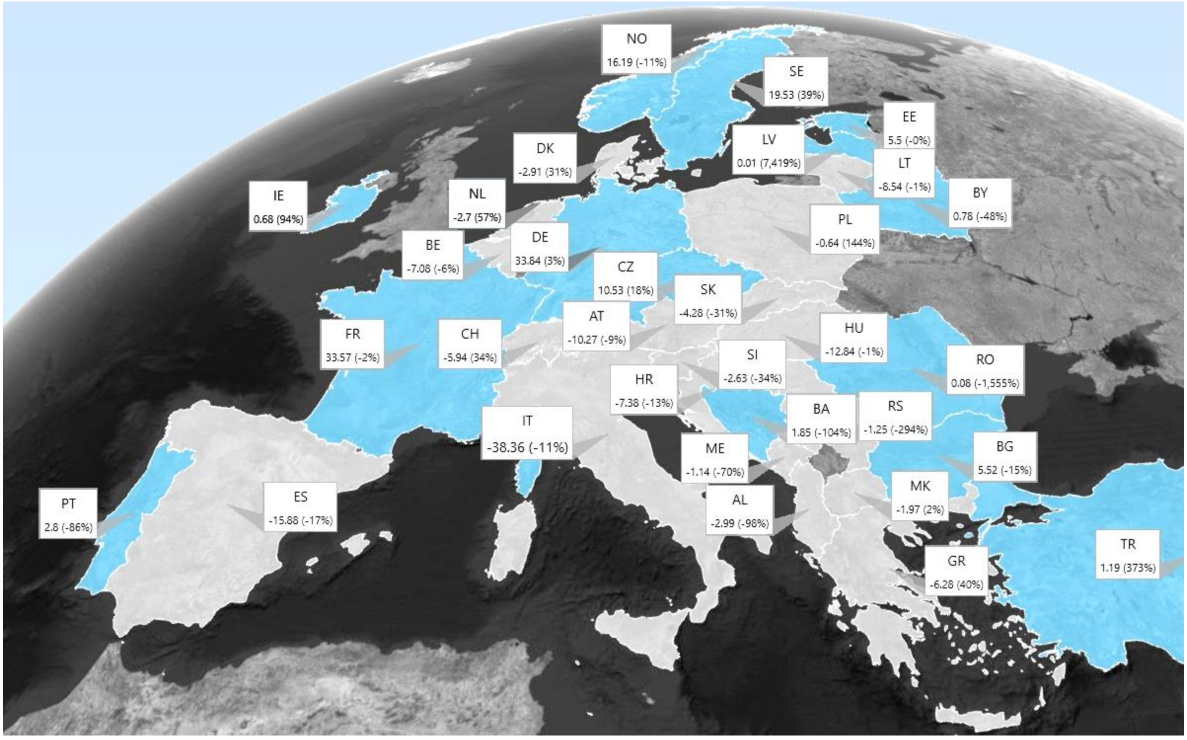
AVERAGE MONTHLY ELECTRICITY PRICE: GME PUN (Italy)



AVERAGE MONTHLY ELECTRICITY PRICE: OPCOM (Rumania)

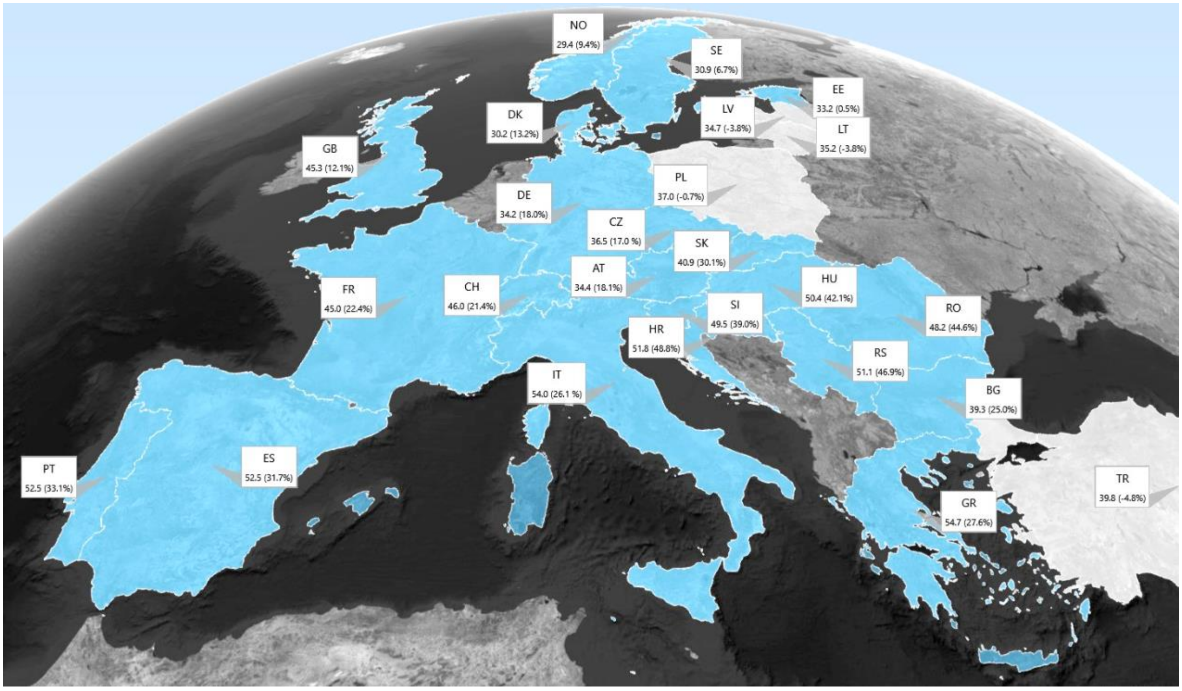


BALANCE SHEET OF THE EUROPEAN ELECTRICITY MARKETS IN 2017 AND A CHANGE IN THE BALANCE SHEET OVER 2016 EXPRESSED AS A PERCENTAGE



Source: ENTSOe
Note: TWh, a change in % in parenthesese.

ACHIEVED AVERAGE ANNUAL DAILY PRICE OF THE EUROPEAN ELECTRICITY MARKETS IN 2017 (EUR/MWh) AND A CHANGE OVER 2016 EXPRESSED AS A PERCENTAGE



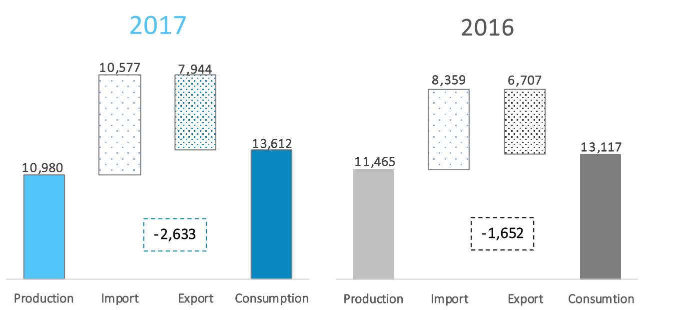
Fall in the price over 2016
Increase in the price over 2016

Source: Power Exchanges
Note: Only the markets having Power Exchange are marked.

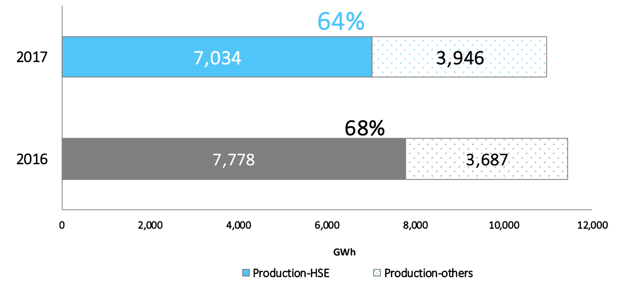
FUTURE PRICES OF BASELOAD ELECTRICITY FOR THE DELIVERY IN 2018 AT THE END OF 2017 (EUR/MWh)

Source: Power Exchanges

SLOVENE ELECTRICITY MARKET IN GWh



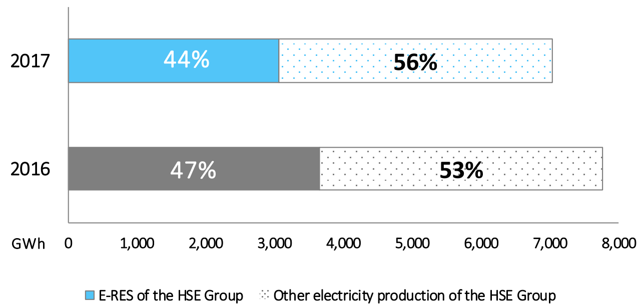
PRODUCTION SHARE OF THE HSE GROUP IN TOTAL ELECTRICITY PRODUCTION IN SLOVENIA IN GWh



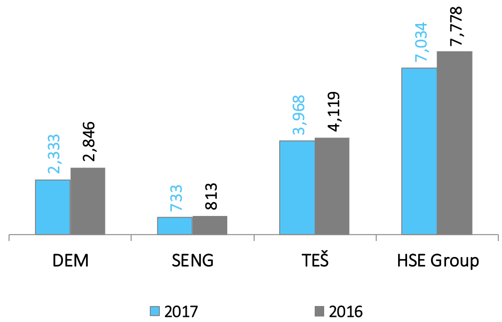
In 2017, the quantity of electricity produced in Slovenia was lower by 0.5 TWh or 4% over 2016. The lower production in comparison with the previous year was a result of lower production in hydro power plants. In 2017, the electricity production of hydro power plants amounted to 3.7 TWh or 0.6 TWh less than in v 2016. The Slovene portion of electricity produced by the Krško Nuclear Power Plant amounted to 3 TWh in 2017, which was an increase of 0.3 TWh over the year 2016.

Total electricity consumption in Slovenia, including the PSPP Avče, and losses in the power grid increased by 0.5 TWh or 4% in 2017 over 2016. The energy balance sheet of Slovenia was again negative in 2017. The import dependency went up by 27% over the year 2016, which increased the risk of electricity price volatility on the Slovene BSP Power Exchange.

SHARE OF RENEWABLE ENERGY SOURCES IN THE HSE GROUP IN THE PRODUCTION OF THE HSE GROUP



RATED POWER PRODUCED IN THE HSE GROUP IN GWh



2.6 Business performance analysis of the HSE Group and the Company

BUSINESS PERFORMANCE ANALYSIS OF THE HSE GROUP AND THE COMPANY IN EUR 000

Legend

2017
2016

HSE Group	2017	2016
Assets:	2,132,482	2,156,757
Total equity:	1,032,427	1,015,220
Net profit or loss:	7,710	21,661
EBITDA:	135,360	156,452

PRODUCTION

DEM	2017	2016
Assets:	478,991	495,656
Total equity:	466,959	481,304
Net profit or loss:	7,717	14,604
EBITDA:	21,538	29,055

SENG	2017	2016
Assets:	231,778	252,605
Total equity:	194,936	208,959
Net profit or loss:	3,994	9,233
EBITDA:	14,626	20,185

SRESA	2017	2016
Assets:	68	69
Total equity:	68	69
Net profit or loss:	(0)	(8)
EBITDA:	(0)	(8)

Sresa is established for the purspoe of contruction HPP on the Middle Save. HSE d.o.o. is still the concession right holder.

TRADING & OTHER ACTIVITIES

HSE	2017	2016
Assets:	1,321,085	1,299,128
Total equity:	905,369	876,577
Net profit or loss:	19,738	44,360
EBITDA:	48,306	65,735

HSE Invest	2017	2016
Assets:	2,510	2,763
Total equity:	1,599	1,792
Net profit or loss:	(200)	7
EBITDA:	(119)	145

Soenergetika	2017	2016
Assets:	3,135	4,267
Total equity:	1,834	1,827
Net profit or loss:	546	574
EBITDA:	699	1,389

INTERNATIONAL NETWORK

HSE BH	2017	2016
Assets:	11,554	1,770
Total equity:	751	583
Net profit or loss:	168	16
EBITDA:	189	21

HSE MAK	2017	2016
Assets:	1,905	39
Total equity:	98	33
Net profit or loss:	65	(37)
EBITDA:	68	(37)

HSE BE	2017	2016
Assets:	10,011	3,117
Total equity:	861	742
Net profit or loss:	87	45
EBITDA:	103	40

(continued:)

Legend

2017
2016

TET - in liquidation	2017	2016
Assets:	4,248	7,505
Total equity:	2,843	3,315
Net profit or loss:	(471)	(60)
EBITDA:	2,367	116

HSE Adria	2017	2016
Assets:	290	1,411
Total equity:	276	1,356
Net profit or loss:	(93)	364
EBITDA:	(95)	464

TEŠ	2017	2016
Assets:	1,076,292	1,089,708
Total equity:	411,122	396,560
Net profit or loss:	(32,594)	(47,227)
EBITDA:	30,307	21,444

PV	2017	2016
Assets:	130,129	124,373
Total equity:	43,991	40,685
Net profit or loss:	3,404	770
EBITDA:	16,444	14,084

HTZ I.P.	2017	2016
Assets:	16,289	16,083
Total equity:	1,035	973
Net profit or loss:	109	20
EBITDA:	1,807	1,838

RGP	2017	2016
Assets:	4,711	5,502
Total equity:	514	1,813
Net profit or loss:	(1,291)	42
EBITDA:	140	800

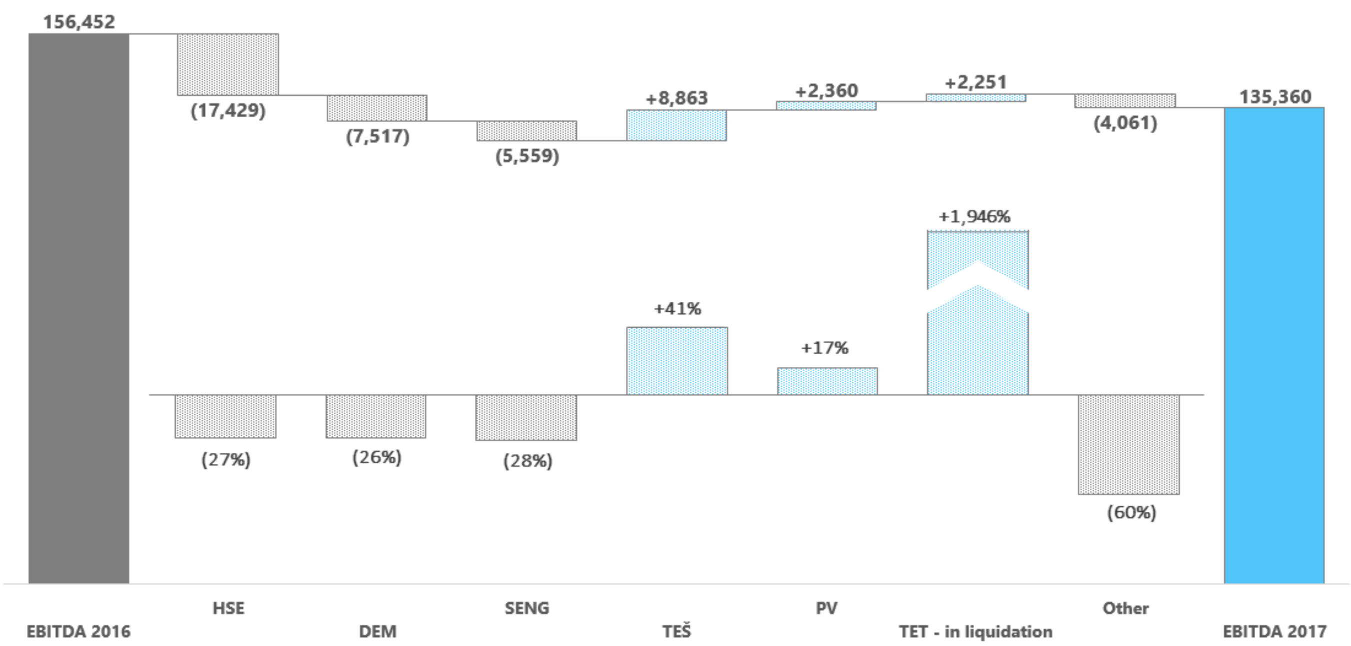
PV Invest	2017	2016
Assets:	12,278	13,538
Total equity:	9,024	8,879
Net profit or loss:	634	785
EBITDA:	806	3,863

Sipoteh	2017	2016
Assets:	901	-
Total equity:	295	-
Net profit or loss:	29	-
EBITDA:	116	-

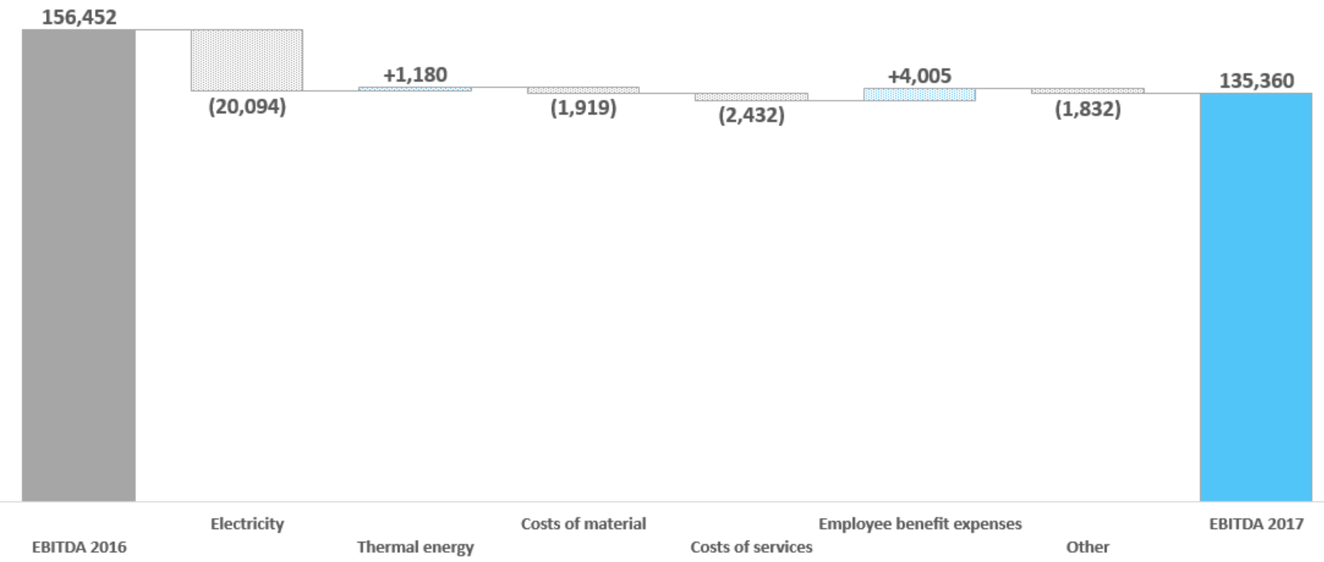
Sipoteh has been a part of the PV Group since 1 June 2017.

HSE Group

CHANGE IN EBITDA OF 2017 OVER 2016 BY COMPANY IN THE HSE GROUP IN EUR THOUSAND



CHANGE IN EBITDA OF 2017 OVER 2016 IN THE HSE GROUP IN EUR THOUSAND

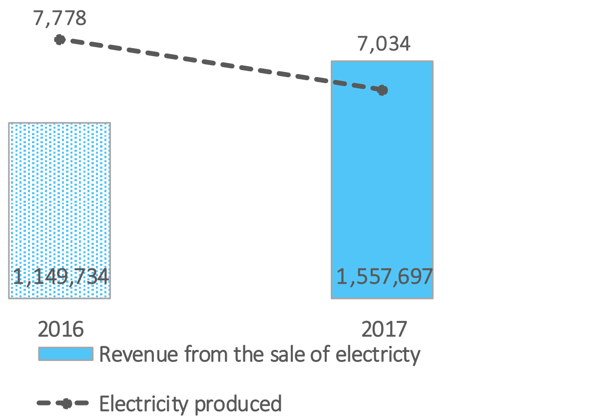


In spite of the diversity in the production fleet the year 2017 was demanding for the HSE Group. From the aspect of production the nature was not favourable in 2017. The production in hydro power plants was lower by 17%, in thermal power plants by 4%, and in PSPP Avče it dropped by 2% compared to the previous year, which was also the main reason for the EBITDA that was by EUR 20 million lower in 2017 compared to 2016. The Group replaced the loss in hydrology and thermal power plant production by additional trading activities and took the advantage of market opportunities, especially in the foreign markets.

The HSE Group increased trading activities

The sales share in foreign markets increased in the sales structure (in 2017 the share of revenue from the sale in foreign markets accounted for 70% of revenue from the sale and in 2016 it accounted for 61 %). In 2017, the Group generated 98% of revenue from the sale of electricity. The quantity electricity sales in the amount of 37 TWh were by 30% higher, sales revenue was higher by 35% over the year 2016, also due to higher average wholesale electricity prices.

REVENUE FROM THE SALE OF ELECTRICITY IN EUR THOUSAND AND PRODUCED ELECTRICITY QUANTITIES IN GWh

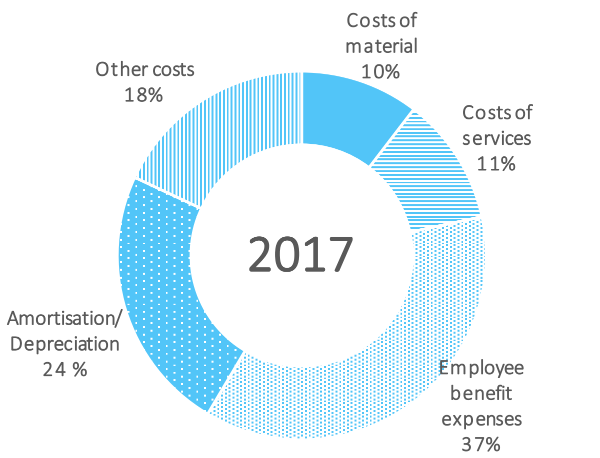


The revenue from heat was higher by 30% due to higher selling prices. The revenue from the sale of services in the domestic market was lower by 37%, which was a result of the Group restructuring and the sale of unnecessary Group assets.

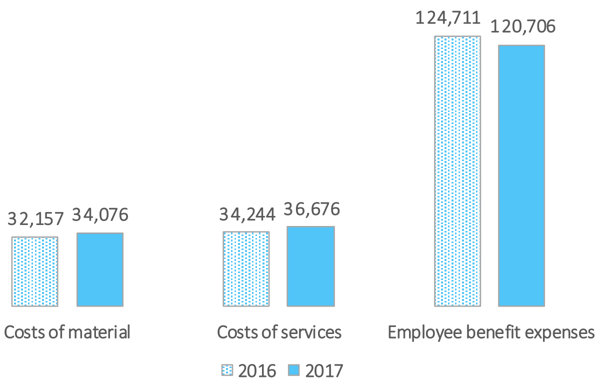
Costs were at the level of the previous year

All items of costs, except costs of material and services, were lower over the previous year. The costs of material were higher by 6% due to a higher quantity of gas used for electricity production. The costs of services were higher by 7%, especially because of higher costs of lawyers' services. Employee benefit expenses were lower by 3%, which was a result of business restructuring. The average number of employees was lower by 143 persons.

STRUCTURE OF COSTS IN THE HSE GROUP IN EUR THOUSAND



COSTS OF MATERIAL, SERVICES AND EMPLOYEE BENEFITS IN THE HSE GROUP IN EUR THOUSAND



In addition to poor hydrology net profit in the amount of EUR 7.7 million was reduced also by finance expenses for financing that were lower by 16% over the year 2016. The effects of futures contracts of the controlling company on net profit were positive.

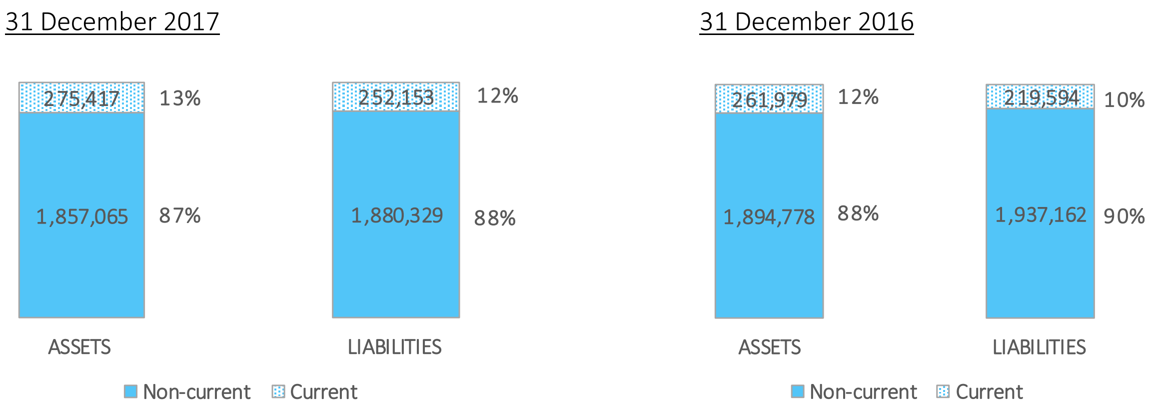
Lower indebtedness

In the previous years the HSE Group borrowed for financing of large investments (replacement Unit 6 in TEŠ and PSPP Avče). In the recent years the Group has been financially restructured. In 2017, total indebtedness was lower by 5% or EUR 48 million. In the following years the Group's debts will be further reduced. As at 31 December 2017, the Group's assets were lower by 1% over the same period in 2016 as the investments did not follow the amortisation. As at 31 December 2017, the Group's equity was higher by 2% when compared to 31 December 2016, as the Group generated net profit.

The structure of financial position improved

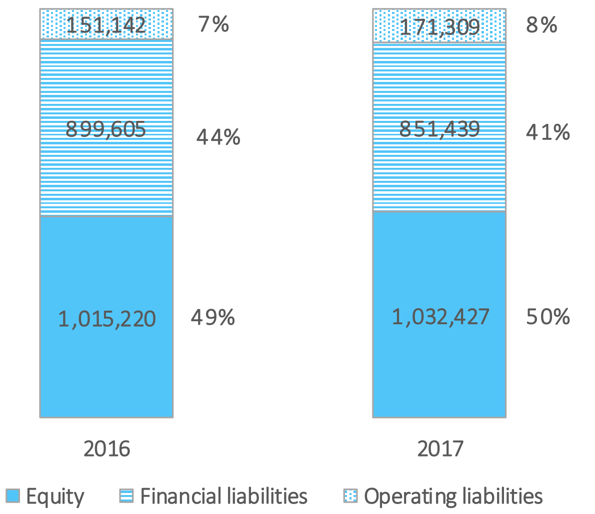
The activities relating to the rescheduling of the existing financial liabilities have been in progress in the PV Group.

STRUCTURE OF FINANCIAL POSITION OF THE HSE GROUP



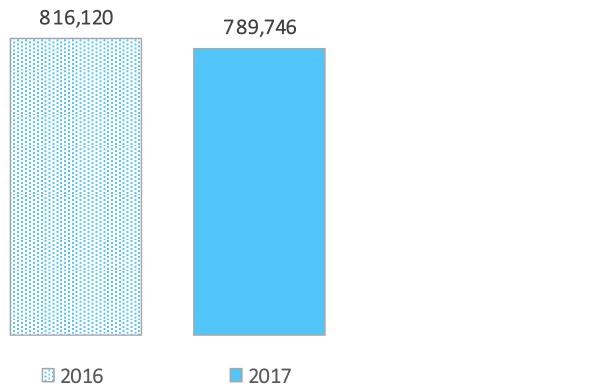
As at 31 December 2017, it was evident from the debt structure of the HSE Group that the share of financial liabilities reduced in equity and liabilities, but the share of equity and other liabilities increased.

DEBT STRUCTURE OF THE HSE GROUP

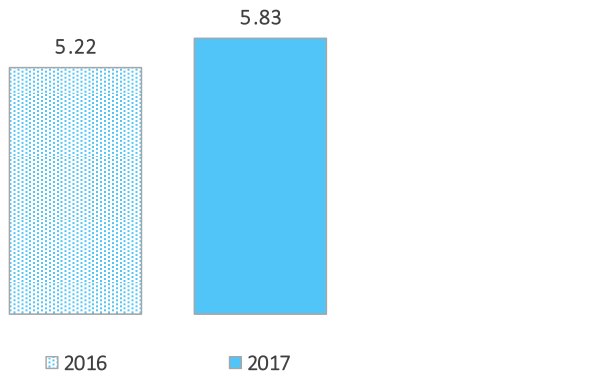


As at 31 December 2017, net financial liabilities of the HSE Group amounted to EUR 789.7 million and were by 3% lower when compared to the balance at the end of 2016. The ratio of net debt to EBITDA in the amount of 5.83 was higher over the year 2016 due to the lower EBITDA.

NET FINANCIAL DEBT OF THE HSE GROUP



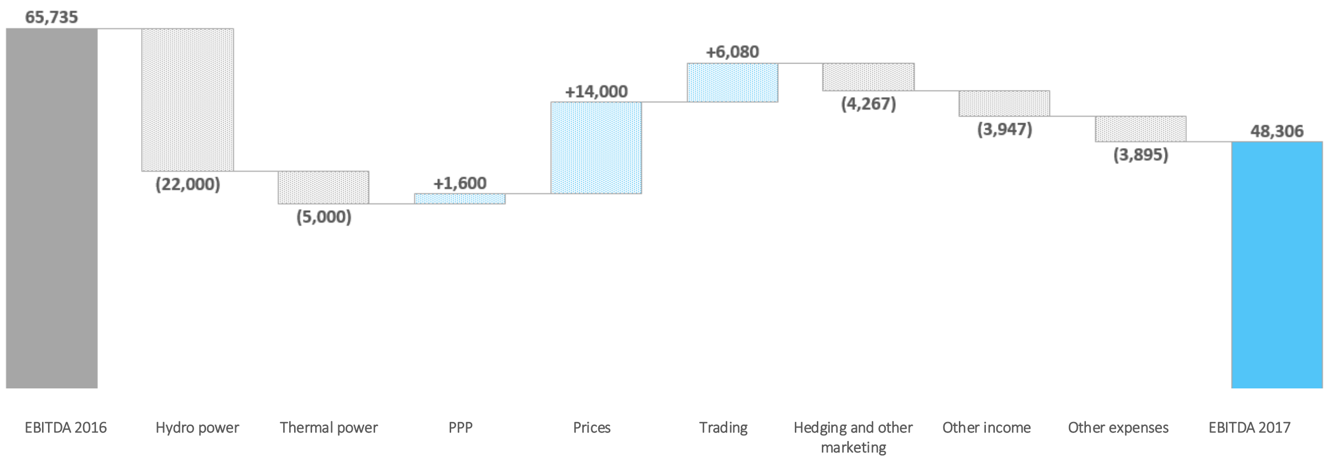
NET FINANCIAL DEBT / EBITDA



HSE Company

Hydrology below the average and good trading results

CHANGE IN EBITDA OF 2017 OVER 2016 OF THE HSE COMPANY IN EUR THOUSAND



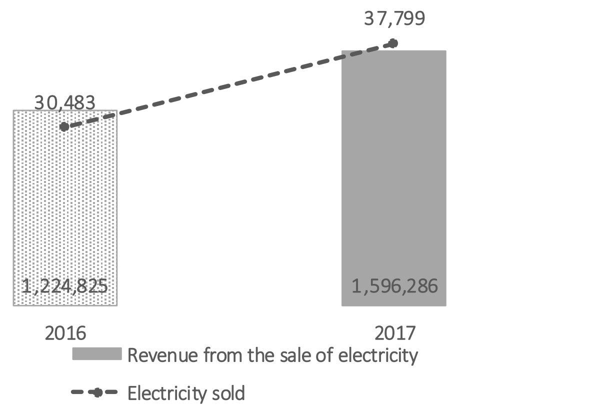
The HSE Company generated EBITDA in the amount of EUR 48.3 million, which was a decrease of 27% over the year 2016. The HSE Company purchased the electricity produced by hydro power plants and the thermal power plant from its subsidiaries. HSE daily optimises the electricity production with respect to the hourly electricity prices with the aim of maximising the sales result and thereby the Company assumes all market risks relating to electricity prices and CO_2 emission coupons as well as all to production risks associated with the lower electricity production of hydro power plants due to poor hydrology and of the thermal power plant due to the unforeseen non-availability of thermal units. The lower electricity production has been replaced by purchases in the external market, as the majority of production has been sold on long-term, a year in advance.

HSE concludes annual contracts with its subsidiaries. The contractual amount of hydro power plants consists of the amount for power leasing that covers total fixed costs including the added comparable margin of the industry and a variable portion that covers the costs of concessions, water reimbursements, etc. – i.e. costs depending on the quantity of produced electricity in hydro power plants. The thermal power plant purchases the total required quantity of coal from PV, and HSE purchases electricity from TEŠ. For this purpose a long-term agreement on the purchase of coal, power leasing and purchase of electricity has been concluded among PV, TEŠ and HSE. The contractual amount of the thermal power plant is formed on market bases and consists of the electricity value that HSE already sold or will sell it in the market and the value of providing ancillary services. TEŠ is the largest provider of ancillary services and one of the rare power plants in the Slovene electric power system that offers secondary frequency regulation.

In 2017, the hydro power plant production in the DEM and SENG chains was lower by 586 GWh than in 2016, which resulted in a loss of EUR 22 million under consideration of the average purchase price and variable costs of hydro power plants. On the basis of a more favourable price ratio compared to 2016 the PSPP Avče presented higher added value in the amount of EUR 1.6 million in 2017. The limited operation of thermal units and a higher purchase price of electricity from TEŠ due to higher market electricity prices resulted in a loss in the HSE Company amounting to EUR 5 million when compared to 2016. The Company compensated the loss in production and hedging (replacement of lower production that was already sold in the long-term, a year in advance by purchases in the market) by trading where the result was by EUR 6 million better than in the previous year.

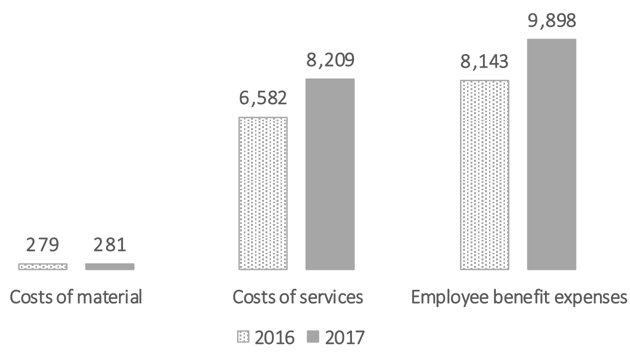
The quantity sale in the amount of 37.8 TWh was higher by 24% over 2016. The revenue generated through the sale was higher by 30% also due to higher average wholesale electricity prices.

REVENUE FROM THE SALE OF ELECTRICITY IN EUR THOUSAND AND QUANTITIES OF ELECTRICITY SOLD IN GWh

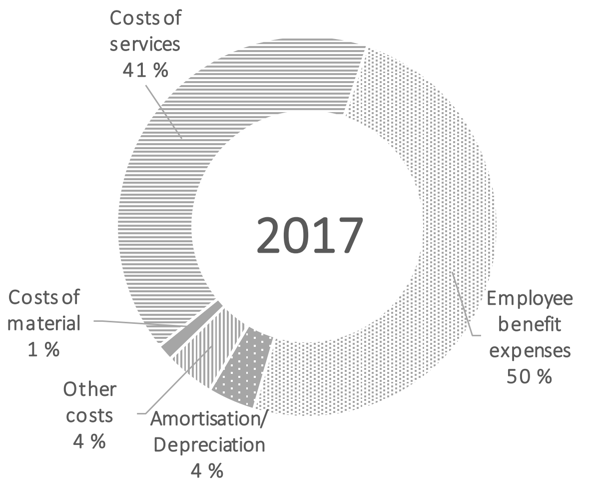


Employee benefit expenses were higher by 22% due to a higher average number of employees, which was partly a result of joining supporting processes. In spite of the implementation of optimisation measures and streamlining of operations the costs of services were higher by 25% due to higher costs of lawyers' services (legal procedures related to the investment in TEŠ Unit 6) and banking services.

COSTS OF MATERIAL, SERVICES AND EMPLOYEE BENEFITS OF THE HSE COMPANY IN EUR THOUSAND



COSTS OF THE HSE COMPANY IN EUR THOUSAND

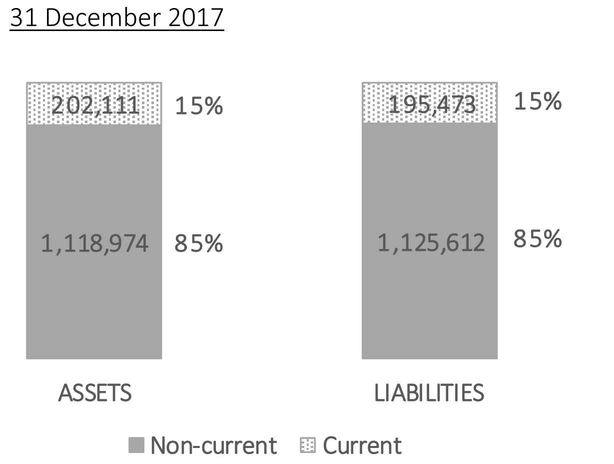


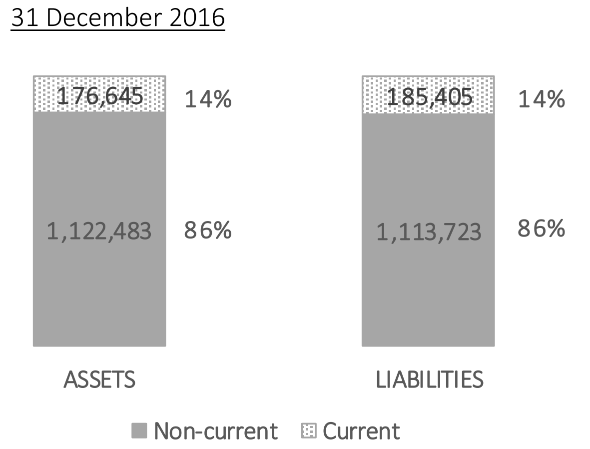
When compared to the previous year, EBITDA was lower also due to the realised extraordinary income from reversal of provisions in the amount of EUR 3 million in 2016 and realised income from the elimination of write-offs of receivables in the amount of EUR 0.8 million.

The payment of profit-sharing in the subsidiaries in the amount of EUR 41.2 million and a positive effect of the sales of futures contracts for from trading in the amount of EUR 3.5 million as well as lower finance expenses for financing had a positive impact on the net profit or loss; the impairment of long-term investments in the amount of EUR 48.5 million had a negative effect.

The structure of financial position of the Company remained favourable

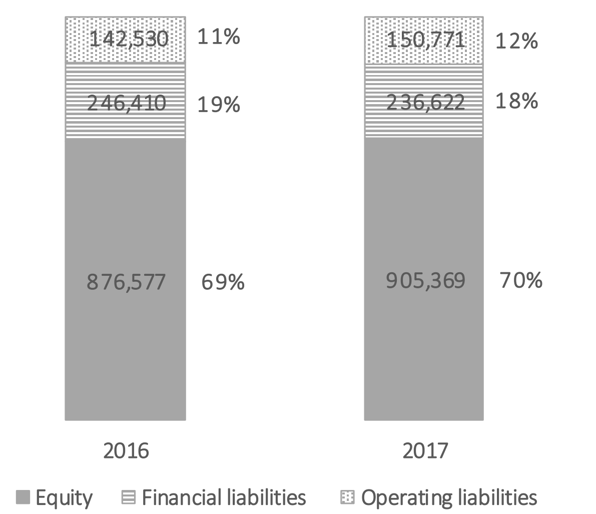
STRUCTURE OF FINANCIAL POSITION OF THE HSE COMPANY





As at 31 December 2017, the Company's assets were higher by 2% when compared to the previous year's balance due to higher receivables due from subsidiaries abroad (higher turnover with these companies) and heavy investments in hardware and software. The equity increased by 3% due to profitable operations.

DEBT STRUCUTRE OF THE HSE COMPANY

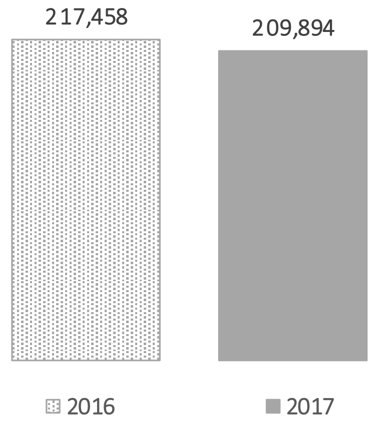


Total indebtedness of the HSE Company was lower by 4%. Consequently, the costs of loans reduced. Financial debt decreased in the structure of liabilities.

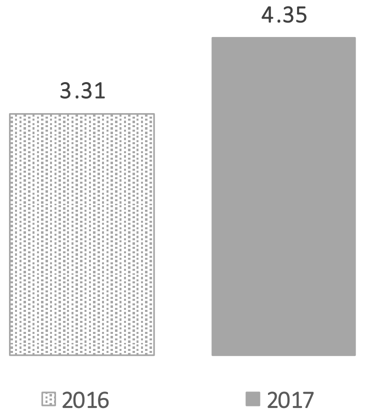
Net indebtedness was lower

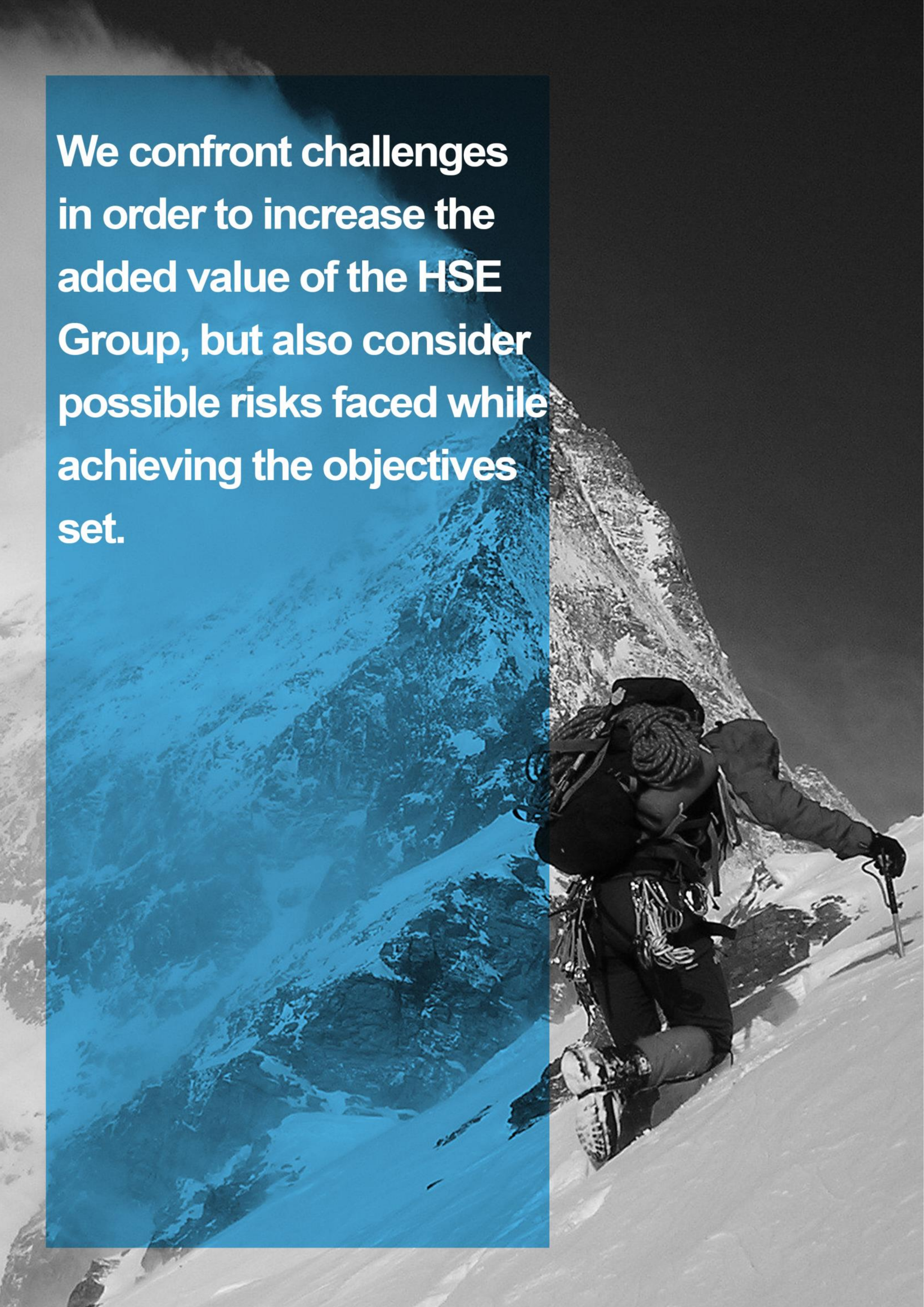
As at 31 December 2017, net financial debt of the HSE Company amounted to EUR 209.9 million and fell by 3% over the year 2016. The ratio of net debt to EBITDA in the amount of 4.35 was lower due to the lower EBITDA.

NET FINANCIAL DEBT IN EUR THOUSAND



NET FINANCIAL DEBT / EBITDA OF THE HSE COMPANY




We confront challenges in order to increase the added value of the HSE Group, but also consider possible risks faced while achieving the objectives set.

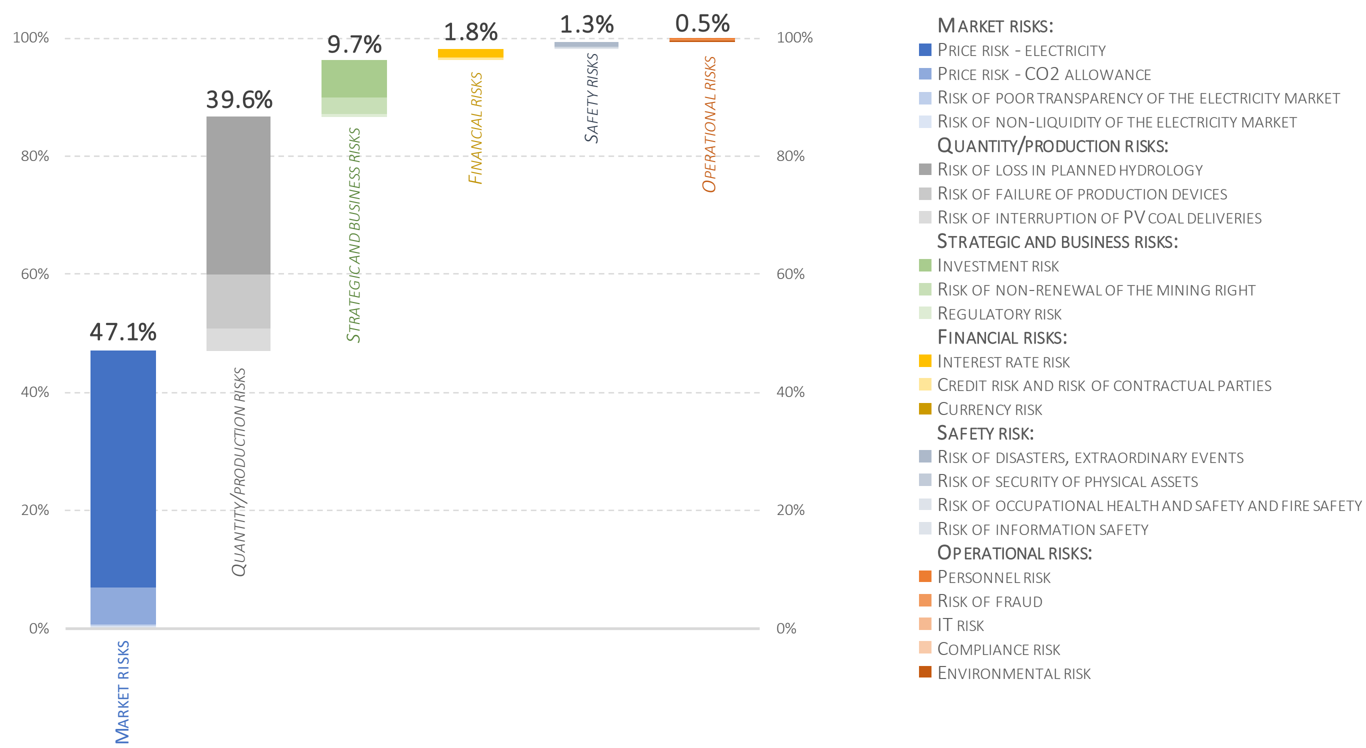
2.7 Risk management of the HSE Group

The integrated risk management system of the HSE Group has been established on the basis of the centralised risk management of the Group. It determines the standardised processes and tools for identification, valuation and taking of measures and ensures more efficient monitoring and implementation of the strategic and business objectives of the HSE Company and the Group. We are aware of the fact that it is crucial to effectively take on individual risks in order to be able to increase the value of the HSE Group. The challenge we face is to identify those risks that affect the performance of the business, to transform their management in order to protect the assets of each company in the Group as much as possible, to improve their business efficiency and to create added value.

The process of risk identification is permanent, it includes all business processes in line with their competence and responsibilities. The main purpose of risk identification is to ensure the integration of all key risks in the established uniform information system of the HSE Group, to use a uniform process of measuring the exposure to risks and to achieve the uniform treatment and understanding of key risks at all levels of operation in the HSE Group. A quantitative assessment of the recognised key risks is carried out on the basis of the assessment of the impact, incidence, correlation, established measures and other important data, which enables a better overview of the operations, more efficient monitoring of decisions, risk control as well as better stability of operations.

A risk profile is calculated on the basis of the assessment of individual key risks at the level of an individual company or the entire Group. It is a contribution of an individual key risk to the entire risk profile of the Company and/or the Group and it is calculated by using the Monte-Carlo method of repeated simulations of all evaluated risk effects at a time.

RISK PROFILE OF THE HSE GROUP



2.7.1 Market risks

The risk that the HSE Group is most exposed to in its operations is the exposure to price risks that arise from fluctuations in market prices of electricity and market prices of other energy products and raw materials (coal, gas, CO_2 emission coupons, oil, etc.) that have a direct impact on electricity prices or the operations of the HSE Company and the Group. The price risks are controlled by the HSE controlling company. The exposure to these risks mostly depends on the size of open positions (when the quantities of purchase and sales transactions do not match by point of delivery or maturity), volatility or price fluctuations in individual markets and price correlations among individual markets at a certain moment of delivery.

Market risks are mostly controlled by daily monitoring and analysing of VaR parameters (5-day VaR with a 95% confidence interval – "Value at Rrisk) and MtM ("Mark to Market") by separate groups of business, limitation of maximum exposure of trading activities to price risks (through the VaR parameter), monitoring and limitation of the quantity openness of the entire position at a moment and by the strategy of sold own production and the purchase of CO_2 emission coupons for the needs of own production. The aim of implementing this strategy is to curb the price risks by being exposed only to unplanned loss of the production units and hydrological conditions that deviate from the planned ones, while the stability of revenue from the sale of electricity should be ensured in the long-term. Futures contracts and various financial instruments of stock exchange trading are used for the security against changes in electricity prices and position trading.

An individual treatment of volatility by separate market of SE Europe was established within the information system up-grade for trading and management of market risks, which enables a real measurement of exposure to price risks. In the field of trading in CO_2 emission coupons the calculation of an open position risk value was, due to the needs of risk control, upgraded through the VaR parameter in accordance with the same principle as formulated for electricity trading.

Additional information relating to the management of price risks is presented in the financial section of the report (Financial instruments and risk control).

In 2017, electricity prices in spot trading markets were high, but mainly as a result of weather influences, poor production availability (French nuclear power plants) and poor hydrological conditions in the region. The increase in prices was slightly heightened the price risk level, but the risk was successfully controlled by covering the loss in energy by the production from our own thermal power plants and reallocation of intraday production.

2.7.2 Quantity / production risks

Quantity/production risks are risks that occur due to the differences between the forecast and the actually produced or purchased electricity quantity. The risks are associated with the technological and logistic limitations in the production and timely delivery of energy product and weather conditions.

There were several unplanned production outages in the TEŠ Unit 6 in 2017 due to guarantee inspections and repairs. Some guarantee items are still open in TEŠ Unit 6, and the unit has been at the state of preparation for the performance of the first regular overhaul in Quarter 2 of 2018.

Among quantity/production risks we were mostly exposed to the loss in planned hydrology, followed by production equipment failures in 2017. The exposure to risks of interrupted deliveries of coal was slightly lower over 2016. The year 2017 was the poorest year in terms of hydrology in the last fourteen years.

In 2017, the risks of major failures were successfully controlled by timely inspections and repairs as well as by the replacement of loss of TEŠ Unit 6 by a start-up and operation of TEŠ Unit 4 and TEŠ gas units.

Quantity/production risks are controlled at the level of individual subsidiaries of the HSE Group and the HSE controlling company at the level of the Group. The risks of production facilities are controlled on the basis of long experience, knowledge and regular training of the employees and the established methods of production facility operation. Separate departments in the HSE Group are responsible for the continuous operation of production units and other electric power devices and they carry out regular maintenance and periodic controls of devices (measurements, diagnostics of devices). The risks are controlled by long-term and short-term forecasting of the consumption profile, sale of electricity and daily monitoring of quantity deviations of the majority of consumption and sales points. In this context, the control centre plays the main role. Quantity risks in the HSE Group occur also in the delivery of energy products and they are controlled by holding a suitable stock.

2.7.3 Strategic and business risks

Strategic and business risks are the risk that appear due to inadequate strategic and business decisions and unresponsiveness to the changes in the business environment.

Key strategic and business risks mainly include the exposure to the solvency risk, and risk of capital adequacy, regulatory risks and investment risks.

When controlling solvency and capital adequacy all risk factors are taken into account that have a long-term impact on the operations of the HSE Group (risks having a permanent impact) and therefore these risks are controlled at the same time as other risks. At the level of the HSE Group solvency indicators are regularly monitored in accordance with the Financial Operations, Insolvency Proceedings and Compulsory Winding-up Act and suitable corrective measures are implemented in individual companies of the HSE Group. From the aspect of long-term solvency we tend to provide such a volume of long-term sources of finance that is sufficient for the size and kind of transactions conducted under consideration of the risks we are exposed to.

Regulatory risks are controlled by regular monitoring of legislative amendments and analysing of their impacts on the operations of the HSE Group before the introduction of the amendment to the applicable legal order.

The renewal of the PV mining right is also of vital importance among the strategic risks; PV concluded a concession agreement on the exploitation of mineral resources No. 354-14-73/01 with the Republic of Slovenia on 21 January 2002. The activities for the extension of the concession agreement are run by PV that submitted an initiative for the extension of the concession agreement to the Ministry of Infrastructure. A special Mining Act for PV (*lex specialis*) has been prepared in compliance with the agreement with the competent Ministry, in which the specific situation of the sole Slovene underground exploitation of energy mineral resource would be enacted. The motion will be submitted to the Ministry or the Government by mid 2018 to be adopted by expedited procedure.

In 2017 were actively participated in public discussions relating to the changes in the sectoral legislation (EZ -1, EKS, winter set, EU ETS reform, Act determining the methodology for setting the prices of ancillary services, ...), at the level of acts, regulations and strategies with the aim of formulating an adequate regulatory environment for the operation of the HSE Group, for example to enable payable primary regulation, transfer of the 110 kV network against payment of a suitable price that will be determined by the value on the basis of methodology of the Energy Agency, to provide decarbonisation and restructuring of the regions by public funds, to enable the competitive operation of the existing BAT technologies to the end of a life cycle, acceleration of the hydro power plant construction on watercourses with granted concession, to ensure an appropriate carbon price after 2021 by the reduction in the surplus of coupons in the market (doubling the entry into the MSR) and appropriate evaluation of total costs of ancillary services by the Energy Agency of the RS .

Investments risks of the HSE Group were efficiently controlled in 2017 by the established control of investments of the HSE Group by the preliminary assessment of risks of individual projects, preparation of the sensitivity analysis, monitoring of investment projects in progress, provision of independent and impartial investment evaluation, efficient supervision over the professional committee, boards of active control, hedging against unfavourable impacts on investment profitability, timely maintenance and appropriate selection of needs and decision-making on maintenance measures with a long-term aspect.

2.7.4 Financial risks

Financial risks are defined as risks arising from financial transactions. Key financial risks in the HSE Group are liquidity risk, interest rate risk, exchange risk and credit risk.

Detailed information on the exposure to an individual financial risk and disclosures relating to the financial instruments are presented in the financial section of the report (Financial instruments and risk control).

Liquidity risk in the framework of financial risks is defined as a risk of non-compliance between the matured assets and equity and liabilities or a possibility of lack in financial assets for the payment of due liabilities. The Financial Operations, Insolvency Proceedings and Compulsory Winding-up Act defines the liquidity risk as the risk of loss occurrence due to short-term insolvency (Article 30). As the liquidity risk is a common denominator to other risks, the control of this risk is a difficult, but a very important task that cannot be carried out individually, but in association with the control of other risks. A key factor for the successful management of the liquidity risk is mainly the supervision over cash flows. Liquidity is defined as accurate monitoring and planning of a daily, monthly and annual cash flows at the level of the Company and at the consolidated level by effective allocation of surpluses within the Group, provision of adequate available credit lines with commercial banks and careful and safe placement of free cash. In 2017, any current deficits of individual companies was covered by cash management of the HSE Group and loans received from commercial banks.

Credit risks are controlled by a detailed verification of the credit rating of operations of the existing and potential business partners and their liquidity abilities with a clearly defined procedure of debt recovery, reminder system and conclusion of contracts with suitable security (bank and corporate guarantees, advances and other adequate insurance). The level of assessed risk depends mainly on the business results of a partner, especially the indebtedness level, short-term liquidity, and solvency and profitability indicators. Great emphasis has been placed on obtaining topical information from the market, as a status of an individual partner can change quickly due to various market and regulators changes.

In 2017 credit risks slightly increased, especially because of the increasingly unforeseeable circumstances in the electricity markets. In such conditions the implementation of the measures for timely identification of critical markets and partners was strengthened and timely and targeted activities in case of identification of potential infringement of contractual obligations by business partners were carried out.

From the aspect of controlling the credit risk to banks and other financial institutions we regularly monitor the data on operations of financial institutions we cooperate with. The risk is additionally controlled by the diversification of depositing funds with individual banks, by short-term investing of financial assets for current operations and conclusion of security deals against currency and interest rate risks based on standardised ISDA agreements.

Various financial instruments are available for the control of the interest rate risk (e.g. interest rate swaps), whose purpose is reducing negative effects while market interest rates change. As a rule the scope of exposure to the interest rate risk depends on the size of the share in financial liabilities and investments in the company – the larger share means also a greater exposure. The strategy for the control of the interest rate risk is regularly verified in scope of the interest risk control and market forecasts relating to the movement of interest rates are considered. In 2017, the interest rate increase was not hedged, as the loans having a variable interest rate were concluded with the Erabor interest rate that could not be negative – i.e. "zero floor".

2.7.5 Security risks

Security risks are the risks that occur due to inadequate or unsuccessful security of information, property, health and safety at work and unforeseeable external events that may have an exceptional impact on the operations of the companies.

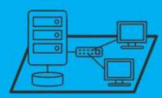
Among security risks HSE is greatly exposed to the risk of natural disasters and extraordinary events, risks of health and safety at work and fire safety, risks of information safety and risks of securing physical assets. These risks are successfully controlled by establishing and regular upgrading adequate preventive measures and systems for timely identification of changes in the operating environment. In 2017, no important events occurred that would have an impact on the occurrence of safety risk.

2.7.6 Operational risks

Operational risks are the risk occurring due to inadequate or unsuccessful operation in the field of operations of the HSE Group or implementation of internal processes, personnel recruitment and control of external events and impacts of individual companies of the HSE Group.

The key element of controlling these risks is establishing an efficient internal controls system whereby we focus mostly on the correctness and reliability of financial reporting, provision of compliance of operations with external and internal acts and efficiency and reliability of implementation of business processes. The aim of controlling operational risks is an effective prevention of potential loss events, efficient elimination of consequences in case of occurrence of an individual event, optimisation of business processes and professional and ethical work of the employees in the HSE Group.

In 2017, a slightly increased exposure to the personnel risk was observed in the HSE Group as some of the key persons left the company and the implementation of reorganizational process in some of the HSE companies, but the risk was adequately controlled and had no impact on the operations of the HSE Group. In 2017, the organisational climate was measured in the companies within the HSE Group and in 2018 the results will serve as the basis for upgrading the measures of the organisational climate improvement and satisfaction of the employees. With the aim of establishing target management and the development of employees we again introduced regular annual appraisals. The personnel risk is controlled also by constant upgrading of the existing knowledge or acquiring new knowledge and competence, by team work, exceptional flexibility, proactivity, self-initiative and excellent mutual relations and communications.



Within the framework of risk associated with IT the implementation of SAP ERP was efficiently concluded in 2017; the documentary system was unified in the companies HSE, DEM, SENG, TEŠ and HSE Invest. Thereby, the risks relating to business process control and IT support to them were reduced. After a due diligence review of the entire IT environment in 2016 the project for the establishment of high availability of the infrastructure environment started in 2017 in line with the consolidation strategy of the entire information system of the HSE Group and the highest standards in the field of information safety.

Compliance risk arises from the possible non-compliance of operations, internal rules and provisions with the applicable regulations. Within the HSE Group and the Company the compliance function is dispersed over several professional services. The risk is controlled through the internal controls system and supervision, monitoring and valuation of regulatory changes. The principles and expectations of acting are determined also in the Code of Ethics of the HSE Group.

Environmental risks are risks relating to the recognised environmental aspects or impacts that include the areas of consumption of raw materials and energy, environmental degradation, emissions into the air, discharges into watercourses, waste and other. The environmental risks include risks relating to inefficiently regulated business processes, and risks relating to environmental penalties. The HSE Group strictly follows the established environmental policy that defines also the key guidelines of implementing measures for the environmental management control (a detailed description is given in the section of Sustainable development of the HSE Group). All companies of the HSE Group that produce electricity as well as the controlling company hold the ISO 9001 international quality certificate and the ISO 14001 international environmental certificate. The consistency with these certificates ensures safe and environmentally friendly electricity production in all hydro power plants. TEŠ also reached a more environmentally friendly technological level with the environmental rehabilitation, modernisation and the state-of-the-art Unit 6. PV was among the first mines in the world that proved the comprehensive and responsible environmental management in compliance with the requirements of the international standard.

2.8 Development strategy of the HSE Group

Due to a high level of regulations the energy sector strongly depends on the legislative and strategic framework. It is therefore of crucial importance for the HSE Group to adequately present our business interests to the relevant sectoral policy makers and decision makers. Investments in the power industry, especially those intended for the achievement of climate objectives are long-term investments that have to be planned under assumption of a reliable regulatory framework – at the national, European and international levels.

At the end of 2016 the European Commission presented the proposal for eight legislative acts in under the "Clean energy for all Europeans" set of measures that would substantially interfere with the concept of the electric power market and have an impact on the operations of the energy sector, including the HSE Group. Therefore the HSE Group has already joined the discussion about these acts at an early stage and through various communications channels. The following viewpoints concerning the electric power market reform are defended:

- ensuring equal treatment and rules to all participants in the market,
- ensuring technological neutrality in all areas of the electric power market operation,
- accelerated integration of renewable energy sources in the market after 2020,
- capacity mechanisms are the measure for ensuring reliable supply – the integrated capacities should meet the same environmental and other conditions as applicable to other capacities in the market,
- the EU ETS has to become a key mechanism for the achievement of objectives of the climate - energy policy of the European Union,
- ensuring a stable and foreseeable framework to all participants in the market,
- non-retroactivity of the measured proposed,
- recognising the specificities of the Slovene national grid.

At the end of 2017, the member states reached an agreement about the content of 4 key acts in the set that confirmed some of the above-mentioned principles. The entry into force of these acts will depend on the negotiations with the European Parliament that will take place during 2018.

Development plan of the HSE Company and the Group for 2016-2020 was adopted at the 11th meeting of the HSE Supervisory Board HSE of 16 November 2015 and the Slovenian Sovereign Holding of 28 November 2015. The plan outlines the strategic orientation of the HSE Group. In 2018, the Development plan of the HSE Group will be analysed and revised with the aim of adjusting it to the new challenges of the business environment.

The HSE Group will use its best efforts to:

- boost the efficiency of its production portfolio by reducing the cost price and increasing the flexibility of production units,
- expand its production portfolio by additional investments in order to increase the competitiveness and generate the require return on equity of the HSE Group,
- reduce dependency from the wholesale market with the aim of improving sales, maturity and

stability of the B2B and B2C sales channels on a bilateral market,

- improve the financial position and strengthen the power by reducing indebtedness with the aim of reinforcing the investment capacity of the HSE Group,
- improve the satisfaction and commitment of the employees and to keep the professional competence of the employees of the HSE Group.

BUSINESS POLICY OF THE HSE GROUP

MISSION

To become the leading provider of complete energy solutions in the region under consideration of the principles of sustainable development, by adjusting to the market conditions and using the synergies of the Group.

VISION

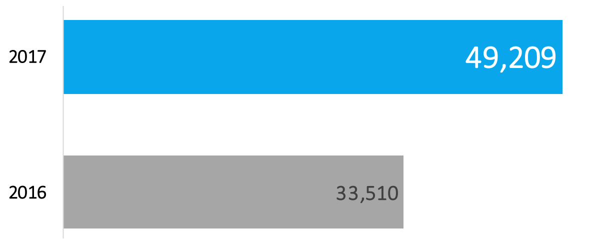
To carry out the HSE Group consolidations by means of innovative solutions, competence and social responsibility of all the employees with the aim of increasing its competitive advantage in the energy markets.

VALUES

Attitude to uses → social environment → employees → business partners → owners.

Investment policy of the HSE Group is an integral part of the development strategy of the HSE Group. The HSE Group implements investment plans in accordance with the adopted strategic orientation and with the aim of achieving sustainable growth. In 2017 the investments continued that were of key importance for the sustainable competitiveness of the HSE Group in the field of production and operation as well as the environment. The investments prevailed that were needed in order to be able to ensure the reliability of operation.

INVESTMENTS IN THE HSE GROUP (IN EUR THOUSAND)



In the upcoming period the HSE will implement the investment plans of the companies in the HSE Group within the given options, in accordance with the adopted strategic orientation and with a view to sustainable growth. In the period 2018-2020 the investments will be continued that are crucial for the sustainable competitiveness of the HSE Group in the field of production, operation and the environment.

Key activities include the implementation of the adopted strategy of operation of the TEŠ units to the year 2030. In 2018, the construction of the small power plant Kneža will be completed and the refurbishment of some existing production hydro power plant facilities has been in progress (reconstruction of Stage II of HPP Plave I, reconstruction of RTP Plave, reconstruction of the Podselo dam, rehabilitation of the Markovci dam, etc.). The first two major overhauls of TEŠ Unit 6 and the generating unit of PSPP Avče in SENG are planned for 2018.

The activities for obtaining the project, environmental and other required documents for the projects of embedding hydro power plants on the Middle Sava River, the Drava, the Soča and other watercourses will be also carried out in the coming period. The purpose is not to stop the time-consuming procedures of embedding in the environment. In the event of signing a concession agreement for the use of water potential on the Middle Sava River the procedures of embedding the hydro power plants on the Middle Sava in the environment will be accelerated. The investments in development projects of renewable sources in the region will be also continued in accordance with the available investment potential.

The continuation of systematic construction of a uniform information platform in the business and infrastructure fields has been planned in the field of information technologies. Thereby the actual and development needs of all companies in the HSE Group are taken into account. The introduction of a unified business information system and the unified document system in the PV Group has been planned for the future period, which will result in the efficient unification of the information support to the processes in the entire HSE Group.

Important investment activities by company in the HSE Group in 2017 were as follows:

HSE

Hydro power plant on the Middle Sava River: In 2017, HSE Company re-intensified the activities, especially in the field of coordination of the concession agreement; it also continued obtaining of the relevant project documents required for embedding hydro power plants in the national spatial plan (HPP Suhadol, HPP Trbovlje and HPP Renke).

Commercial lines: the activities for obtaining the building permit for the commercial line from the Vrtojba distribution transformer substation to the Vrtojba international border crossing continued in 2017 (the application for the issue of the building permit, purchase of the land plot, signing of the easement agreement).

Investments in the IT infrastructure: in 2017, the implementation of the unified business information system (ERP) was completed in the companies of HSE, DEM, SENG, TEŠ and HSE Invest as well. The document system (eDMS) was unified in the companies HSE, DEM, SENG and TEŠ.

A due diligence review of the entire information system of the HSE Group was conducted in the field of system infrastructure and formulated the guidelines and strategy of further development of information technologies. In 2017, we joined the establishment of two data centres in Šoštanj (PC HSE) and Maribor (PC DEM), the renewal of the HSE transport communications system, implemented the transfer of performing services of the support centre to the HTZ subsidiary and prepared other projects for the implementation of information system unification in the HSE Group.

DEM

Small HPP: the investment and project documents for small hydro power plants have been elaborated and water permits have already been obtained. The operating support of the Energy Agency has been successfully obtained for certain small hydro power plants (small HPP Pesnica, small HPP Josipdol and small HPP Rogoznica).

HPP on the Mura: HPP Hrastja Mota – the amendments to the environmental report (a study of variants and conceptual solutions) were submitted to the Ministry of the Environment and Spatial Planning after the comments of the spatial planning authors had been made.

Pumped HPP Kozjak: in February 2011 the Decree on the National Spatial Plan for the pumped HPP Kozjak and the connection of the transmission line PSPP -RTP Maribor was adopted; in March 2012 the conceptual design was elaborated with the added option of a PSPP powerhouse in the underground section; in the event the project will be continued it will be necessary to prepare the amendment to the conceptual design and obtain the environmental consent to the building permit at the stage of the environmental impact assessment.

Wind power station: the activities relating to embedding wind power station in the national spatial plan have continued; wind potential measurements have been carried out at the location of Paški Kozjak; the conceptual design for Paški Kozjak and Rogatec has been elaborated.

Investments in production reliability: the investments that are needed for ensuring safe and reliable electricity production were made (reconstruction of flow paths, maintenance of the energy potential of the water storage basins in the HPP chain on the Drava River, overhaul of the auxiliary water gate for closing flow paths on the HPP Ožbalt and HPP Vuhred, etc.).

Reconstructions: reconstruction of the HPP Formin (research studies and analyses have been conducted), refurbishment of the Markovci dam (the design for building permit. The required investment documents have been elaborated, the contractor has been selected and the work has been in progress).

SENG

Small HPP Kneža: the facility has been constructed. The pressure pipeline has been fully installed and reinforced concrete works on the inlet facility and the grit chamber completed. Electrical equipment has been produced. The operating support of the Energy Agency has been obtained for this project.

Control centres and telecommunications networks: updating of software and hardware in the control centre.

Reconstructions (in progress): reconstruction of the hydro mechanical equipment of the Podselo dam, reconstruction of Stage II of Plave I, reconstruction of the Plave distribution transformer station, reconstruction of the small HPP Knežke Ravne.

TEŠ

Unit 6: the project was completed. The investments in 2017 included the reconstruction of the utilisator and purchase of spare parts for Unit 6.

Investments in production reliability: the ecological and technological rehabilitation of depressions was completed.

Revitalisation of Unit 5: the primary measures for the reduction in nitrogen emissions, connection of the unit transformer and the GIS switching substation, replacement of the output coal superheater collector 2, renewal of the Unit 5 management system, replacement of spraying nozzles in the washer of the desulphurisation device. Contracts concluded with contractors for the performance of revitalisation were signed.

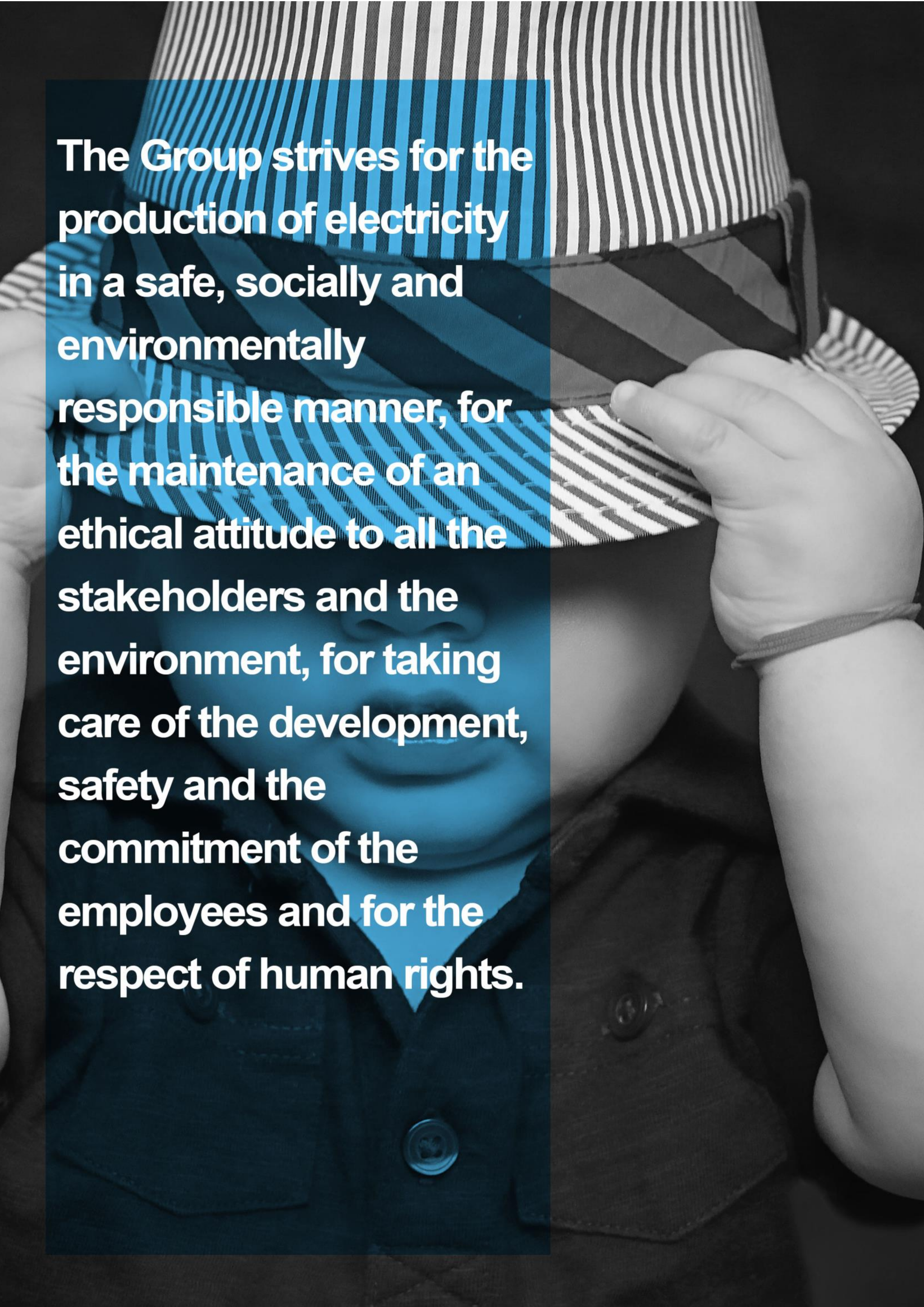
HSE Invest

The most pressing investments in the replacement of obsolete hardware and software were made.

PV GROUP

As far as possible, the investments were intended for the implementation of the project of pit ventilation optimisation in PV that includes the construction of the shaft and entry lines for the NOP outlet ventilation shaft, for the purchase of the equipment needed in the production process and for ensuring operating reliability and production safety. The largest investments were made in the modernisation of the circuit-breaker equipment.

Activities for the sale of all unnecessary business assets have been performed in all companies of the PV Group and all unnecessary activities that are not linked to the core activity or do not comply with the strategy of the HSE Group will be eliminated.



The Group strives for the production of electricity in a safe, socially and environmentally responsible manner, for the maintenance of an ethical attitude to all the stakeholders and the environment, for taking care of the development, safety and the commitment of the employees and for the respect of human rights.

2.9 Sustainable development of the Group

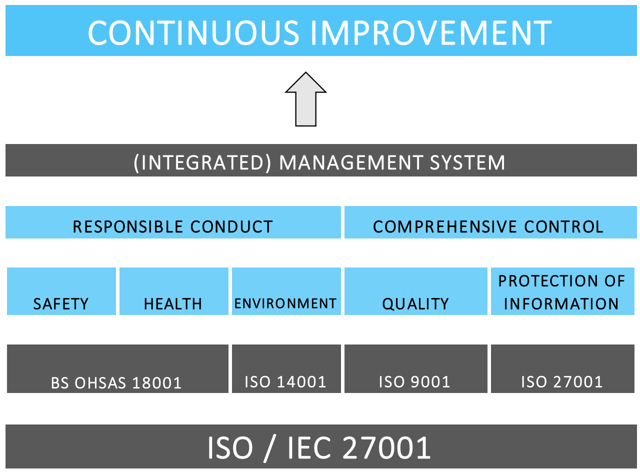
The operations of the HSE Group have been intertwined with the efforts for sustainable development. The Group demonstrates its commitment to sustainability by the operation in the following fields:

- ethical behaviour,
- social justice,
- occupational health and safety and
- environmental protection.

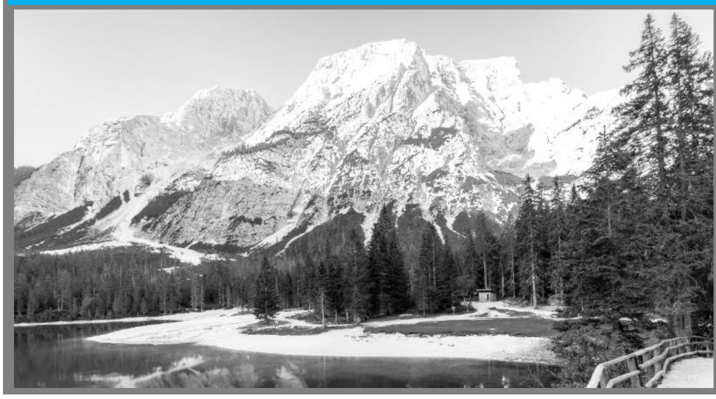
The activities have been performed in accordance with the international guidelines and the examples of the most efficient European energy companies. The commitment to sustainable development is a conscious decision of the HSE Group that monitors the Group from the very beginning. The operation of the Group has been based on the responsibilities to fellow human beings and natural and economic environments. The attitude to the balanced development is one of the essential components of the corporate culture and the mission of the HSE Group. We proactively take opportunities for the development of environmentally friendly methods of electricity production, reduce emissions, carefully manage waste, efficiently use natural resources and develop new, original environmental solutions. The sustainable development has long-term positive effects on the nature, people and operations; it has thus become increasingly important also from the aspect of cost control, increase in margins and trademark value.

The sustainable development has been reached by continuous improvements in the integrated management system based on the requirements of ISO 9001 standard. It is upgraded and extended by other requirements of standards ISO 14001, BS OHSAS 18001 and ISO/IEC 27001, which was confirmed during successful internal and external audits. The provisions of the ISO 26000 social responsibility standard were also reasonably followed in our work. The Code of Ethics of the HSE Group and the socially responsible behaviour to the company as a whole and all the stakeholders represented an upgrade of the management system.

THE MANNER OF ACHIEVING SUSTAINABLE DEVELOPMENT OF THE INTEGRATED MANAGEMENT SYSTEM



ENVIRONMENTAL POLICY



The mission of the HSE Group is a reliable, efficient, socially and environmentally responsible electricity production and delivery of electricity and other energy products in a cost-efficient and profitable manner that enables development of renewable energy sources and the performance of related activities in a socially responsible way.

The HSE Group follows the fundamental and strategic guidelines of the State and the EU that presuppose the sustainable development. The activities of the Group are oriented towards the implantation of the economically justifiable investments in new production facilities that enable the use of renewable resources, significantly reduce the CO_2 emissions per unit of electricity produced and increase the added value of the HSE Group.

In the field of sustainable development of energy in the HSE Group we have pursued the outlined environmental policy from the very beginning. This policy can be summarised in some basic points:

- respect of the legislation and all recommendations,
- reduction in the impact of production and use of energy on the environment,
- increase in the share of production from renewable energy sources,
- introduction of the most advanced technologies that are available so that impacts on the environment are as minimal as possible,
- energy saving and its efficient consumption as well as cost control of effective ways of energy storing,
- maintenance and upgrade of optimal structure of production sources,
- taking into account the optimal use of national energy sources,
- sustainable embedding of large power generation facilities in the space under consideration of NATURE 2000,
- reliability of supply,
- achievement of partnerships with local communities, joint solving of environmental problems and planning of sustainable development of electricity production,
- achievement of sustainable operation and development of energy capacities,
- regular monitoring of environmental parameters,
- regular maintenance of water storage basins (removal of deposits),
- sustainable regulation of water infrastructure and
- a protection and rescue plan in the event of high water (concern for minimising the impacts of electricity production on the environment and protection of civilians living along rivers against floods).

ENVIRONMENTAL DATA

HSE Group		2017	2016
Water consumption	m^3	11,224,665	10,087,287
Waste water - cooling / process	m^3	4,126,904	3,854,647
Consumption of electricity from the network	kWh	3,169,763	3,486,955
Non-hazardous waste	t	1,467,740	924,620
Hazardous waste	t	72,381	101,301
Processed waste	t	888,170	693,333
Emissions into the air	t	4,080,001	4,152,583
Fines and non-monetary sanctions due to non-observance of the environmental regulations (4-EN 29)	T EUR	0	0
Costs of environmental protection	T EUR	43,480	45,371

PRODUCTION

TOTAL	Total HPP	Thermal PP - coal	TE gas and ELKO	SE	∑ 2017	∑ 2016
Production in GWh	3,065	3,932	35	1	7,034	7,778
Share in %	44	56	1	0	100	
Rated power in MW	928	787	142	1	1,858	1,858
Share in %	50	42	8	0	100	

HE

DEM	HPP	Small HPP	SE	∑ 2017	% IN THE HSE GROUP 2017	% IN THE HSE GROUP 2016
Production in GWh	2,312	20	1	2,333	33	37
Rated power in v MW	587	4	1	592	32	32

SENG	HPP	Small HPP	PSPP AVČE	∑ 2017	% IN THE HSE GROUP 2017	% IN THE HSE GROUP 2016
Production in GWh	396	66	271	733	10	10
Rated power in MW	138	19	180	337	18	18

TE

TEŠ	Thermal PP - coal	PP gas	∑ 2017	% IN THE HSE GROUP 2017	% IN THE HSE GROUP 2016
Production in GWh	3,932	34	3,966	56	53
Rated power in MW	787	84	871	47	47

TET - in liquidation	TE ELKO	∑ 2017	% IN THE HSE GROUP 2017	% IN THE HSE GROUP 2016
Production in GWh	2	2	0	-
Rated power in MW	58	58	3	3

NOTE: There was no production in 2016.

All the companies within the HSE Group that produce electricity as well as the controlling company hold the ISO 9001 international quality certificate and the ISO 14001 international environmental certificate. Safe and environmentally friendly electricity production is ensured in all hydro power plants in full compliance with these two certificates. The environmental rehabilitation, modernisation and state-of-the-art Unit 6 TEŠ achieved a more environmentally friendly level and PV was among the first mines in the world that proved the complete and responsible environmental management in accordance with the requirements of the standard.

CERTIFICATES OF THE COMPANIES IN THE HSE GROUP

	HSE	DEM	SENG	TEŠ	PV	HTZ	RGP	HSE Invest
ISO 9001 Quality management	✓	✓	✓	✓	✓	✓	✓	✓
ISO 14001 Environmental management	✓	✓	✓	✓	✓	✓	✓	
OHSAS 18001 Occupational health and safety	✓	✓	✓	✓	✓	✓	✓	✓
ISO 27001 Information security management	✓	✓	☒	✓	☒	☒	☒	☒
ISO/IEC 17025:2005 General requirements for the competene of testing and calibration laboratories				✓				
EE TÜV Certification of the generation of electricity from renewable sources (electricity generation)	✓	✓	✓					
EEnew Generation of electricity with the requirements for new HPP	✓	✓						
PoI Certificate of origin	✓	✓	✓					
DPP Family Friendly Company	✓	✓						

✓ certification
☒ observance of obligatory controls

The companies TET - in liquidation, PV Invest and Sipoteh hold no certificates.

In the light of accepted European commitments of the Republic Slovenia relating to the reduction in greenhouse emissions along with the implementation of measures for efficient energy use and the increase in share of renewable sources the HSE Group pays a lot of attention to the development of environmental projects that are carried out in accordance with the applicable legislation and reduce the impact on the environment of the existing power plants:

- Use of waste heat: the project is co-financed by the European Union and DEM participates in it with other partners from the region. Within the framework of the project the technological and economic use of waste heat as a result of processes at hydroelectric power plants (waste heat of generators, turbine bearings) will be studies for the purpose of heating buildings, greenhouses, etc.

- Construction of passages for aquatic organisms: on the basis of the Water Framework Directive and NUV 2, it is necessary to establish passages for aquatic organisms in all hydroelectric power plants and dams on the Drava River. In the framework of the activity, such a passage to HPP Mariborski otok (DEM) was built in 2017. The preparation of project documentation for other facilities is in progress. The entire construction is expected to be completed to the year 2027.
- Removal of sludge and preservation of the energy potential of water storage basins: sand and sludge deposits in water storage basins are the problems that require an integrated approach. So far, the removal of sludge in individual parts of the water storage basis is carried out by means of accumulating the removed sediments at certain locations and thus forming artificial islands. A study of the alternative use of sludge or the method of its disposal has been conducted.
- Ecological and technological rehabilitation of depressions (PSU) in TEŠ: in the period 2016-2017 the ecological and technological rehabilitation of depressions was carried out; its key objectives were to ensure the impermeability of the facilities in the field of PSU, safe and reliable operation of the closed water circuit, to ensure the capture of contaminated water and prevent the pollution of lakes and rivers.

As the electricity in Europe has become cleaner, it is one of the key designers of an energy efficient and low-carbon European economy. Therefore, Avere, EURELECTRIC, European Steel Institute, European Association of Heat Pumps Producers, SolarPower Europe and WindEurope formed an electrification alliance and invited a broad circle of stakeholder to sign the Declaration of electrification – which the HSE Group also joined. The signatories of the declaration support the reduction in carbon intensity and the increase in investments in clean technologies, such as renewable energy sources, energy savers and smart grids, and encourage the integration of the electricity sector with the cooling, heating and transport sector. In this context, we call for reforms within the current reform of the European climate, energy and transport legislation in order to accelerate the electrification process in the coming years. The electrification will enable the use of efficient technologies, which will help increase competitiveness, economic growth, job creation and creation of a sustainable society for European citizens.

A decarbonisation process is related also the area of the so-called fair transition which the European Commission pays its undivided attention to. In December 2017 it presented the Platform for coal regions in transition that deal with the issue of fair transition of these regions. If the commitment to the transition to clean energy is irreversible, particular attention should be paid to coal regions in this process. In the HSE Group, in which the coal power plant and the mine operate that are necessary for the electricity system in the transition phase, as the coal mine supplies the coal exclusively to this power plant, we believe that the successful economic transformation of coal regions is closely linked to the performance of the long-term climate and energy framework of the European Union and therefore, we are committed to recognizing the importance of this area at the national and European levels.

We have joined the Platform for Coal region Transition as observers which should facilitate the development of projects and long-term strategies in the coal-intensive regions. It will trigger a transition and will be the basis for tackling environmental and social challenges. It will bring together the European, national, regional and local stakeholders involved in the transition and encourage them to partnerships and learning by exchanging experience. The platform is designed to help Member States and regions in the challenges of maintaining growth and jobs in the affected communities. It will enable the dialogue of several different stakeholders on policy frameworks and financing, including areas such as structural transformation, economic diversification and retraining, introduction of renewable energy technologies, eco-innovation and advanced coal technology.

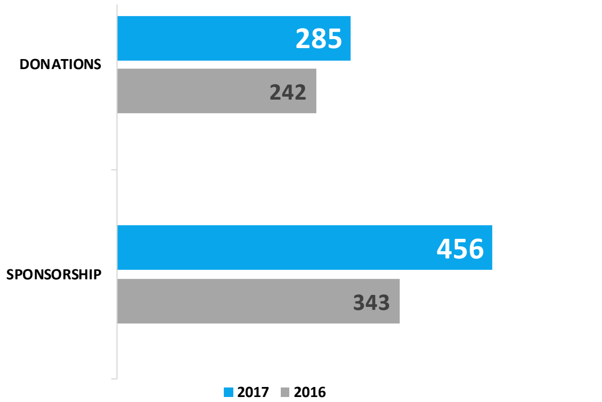
SOCIAL POLICY

In the context of sustainable development – its social work – the social responsibility of the HSE Group is important. Social responsibility is not understood only as acting for the benefit of the company and its external and internal stakeholders, as these are voluntary policies that confirm our responsible and ethical attitude to fellow human beings, partners, local communities, the state and its bodies and especially the environment.

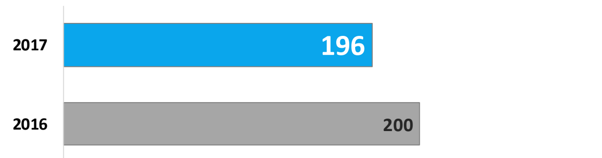
The tools for implementing the social responsibility policies are material and non-material. One of the key tools of material occurrence that is implemented through the social responsibility centre of the HSE Group is the financial assistance to various organisations, projects and people who are either (substantively) linked with the operations or activity of the Group or are otherwise referential in terms of spreading the reputation of the HSE Group. Annual sponsorships, donations and (non-) financial support to charity, sports, cultural, scientific and educational projects follow the principles set out in the strategic documents and represent an important part of corporate communications of the HSE Group.

In 2017, the companies in the HSE Group contributed over EUR 400 thousand to the local environments in form of sponsorship and over EUR 250 thousand in form of donations. The controlling HSE Company has been a sponsor of the Kayak Association of Slovenia for many years, and as the major sponsor we cooperated with the Olympic Committee of Slovenia and the Basketball Association of Slovenia at the national level. In form of donations and sponsorship we also contributed a lot to the local environment where our companies operate, but mostly to the Savinja and Šalek Valley and their sports clubs. In 2017, PV granted most of the funds to the Football club Rudar Velenje, and TEŠ to the voluntary fire brigade Šoštanj. SENG donated the majority of funds allocated to social responsibility to the General Hospital Dr. Franc Derganc Nova Gorica, and sponsored the celebration of the 70th anniversary of the Municipality of Nova Gorica and SENG. DEM intended the majority of sponsorship funds for the local environment and the customs (special carnival named kurentovanje, Lent Festival etc.) and its donations proportionally contributed to the development of the environment, clubs and (sports, cultural) societies in the neighbouring municipalities of the River Drava.

SPONSORSHIP AND DONATIONS (IN EUR THOUSAND)



NUMBER OF SOLIDARITY AIDS PAID



The most important form of public relations is projects developed for young people that deal with the attitude towards environment in the HSE Group and the operation in the spirit of sustainable development. The most recognisable among them are Blue Jan and the Blue Generation through which the reputation of the HSE brand is strengthened.

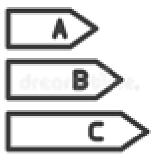
The Blue Jan project primarily contributed to the increasing visibility of the Blue energy and Blue generation projects, as it emphasised the environmental orientation, concern for renewable energy sources and efficient use of energy among the youngest and consequently their nursery teachers, school teachers and parents. The Blue Jan project has become well recognised and accepted among children, nursery teachers, school teachers and parents, as shown by the responses to the tendered projects on the website of www.modri-jan.si and subscriptions to the Blue Jan magazine. The interest of young readers of the Blue Jan magazine that is intended for knowing and conserving the nature went up also in 2017. The circulation of the magazine is over 15,000 copies, which has been achieved practically without advertising, only by mouth to mouth marketing. The subscribers were mostly children aged 4 to 12 years and over 600 institutions – mostly kindergartens, schools and libraries.

The Blue Generation project is an idea about the movement of the youth, which is related to the blue and smart decisions that are an upgrade of a green life and attitude. It also represents the mind-set and lifestyle meaning a smart way of life, smart thoughts and smart attitude to the planet. The primary target group are youngsters between 13 and 19 years. As the discussions revealed the youth are aware that the ecology and environmental protection, as they are important for their and our future, but in most cases they have been not actively engaged in the environmental care and other communities related to the environmental conservation. In spite of that they are convinced that they would join such a community if it were interesting and would provide information in a way that is interesting to them. Of course, they do care about the future of the environment and the future in general. They would like to know how their actions have an impact on the future of the environment and how they could improve it and co-create the future. The objective of the project is training and education for responsible environmental management.

The Blue energy project is intended to contribute to build the reputation of the HSE Group, as it emphasises the environmental orientation, promotes the use of renewable energy sources and efficient use of energy. In 2018, it will be a challenge to revive this project and link it to the planned development of vertical integration and potential direct marketing of electricity to the final customer.

All Blue energy customers contribute funds to the Blue fund which is aimed at stimulating the acquisition of energy from renewable sources, research in the field of accelerating acquisition of such energy and renewal and construction of units that produce such energy. The funds collected were used for the implementation of several large-scale education projects, research projects, studies and last but not least assisted in the implementation of numerous summer camps in the field of electricity from renewable energy sources and efficient use of electricity. A solar power plant was constructed on the roof of the Velenje Grammar School that serves as a promotional and educational instrument. In 2018, we would like to implement similar high-quality projects in this field.

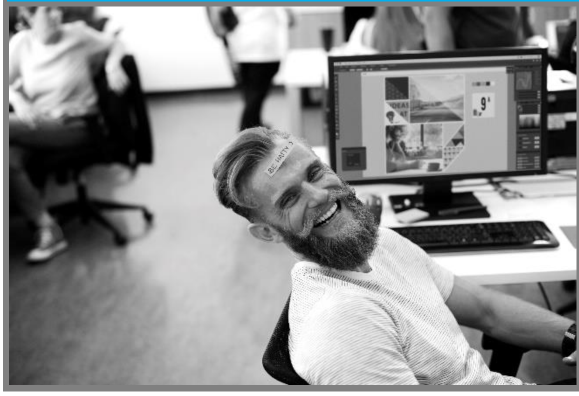
The Eco-mobility project that also promotes the renewable energy sources and new trends not only in the supply of electricity, but also in transport will be further upgraded in 2018 by new promotional campaigns, with the aim of attracting all generations so that they can start getting to know an electric car as a means of transport in the near future, and within this, the HSE Group as the carrier of development trends in the field of "blue" / smart electricity production and its efficient use.



The development trend of the HSE Group is focused on the efficient energy use and renewable energy sources that has been practised for almost a decade through the campaign "You are the energy, be efficient" and the network of business and social benefits of Sinergija. It follows the guidelines of the European Union and the principles of sustainable development. An integral part of these activities is also the efforts to raise public awareness of saving energy, which is intended not only for more economical management of the environment, but also for the prevention of extreme circumstances that can be caused by pointless use of electricity .

The activities related to the HSE obligations deriving from the Decree on energy savings requirements were also performed in 2017 in the framework of implementation of measures in the Imerys Ruše company. The final report showed that the companies that carried out the changes in the technological process that were described in energy reviews built up savings in the total amount of 2,540 MWh in 2015 and savings amounting to 2,312 MWh in 2016 in order to fulfil our obligations as an entity liable to make savings. With the same volume of sales to end payers the obligations of the Group as the liable entity to make savings in 2017 will be met. With the Imerys Ruše project we entered the field of energy services. We have proved that the Group controls also this field and not only energy reviews.

PERSONNEL POLICY



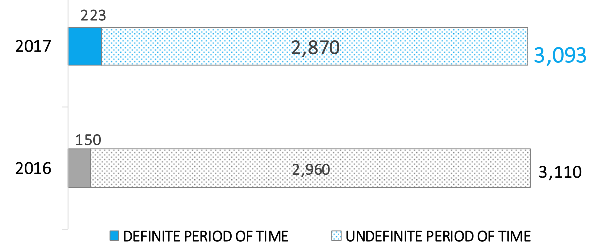
The employment policy, concern for the development and training of employees, monitoring of satisfaction and commitment of the employees are only some of the main factors of personnel management in the HSE Group HSE.

A dynamic working environment offers many challenges and opportunities for the growth and development. Special attention is paid to attracting, recognising and development of talents. In this way we ensure that the HSE Group will be successful also in the future. Our operation is based on equal opportunities for all and on following the legislation and respecting the ethical attitude to fellow human beings and the wide social environment.

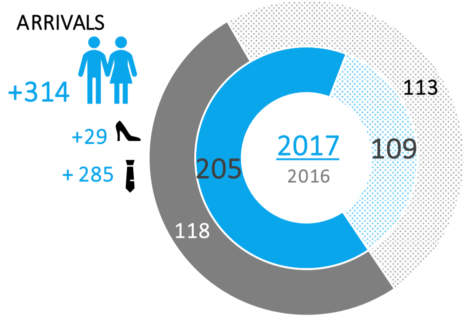
BALANCE OF EMPLOYEES IN THE HSE GROUP

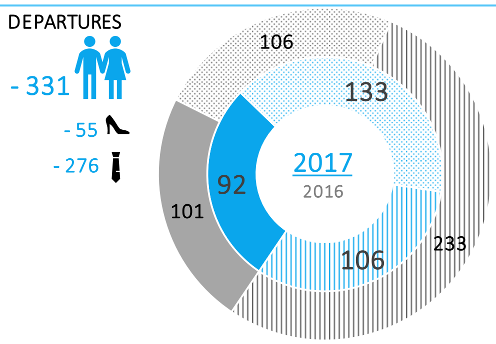
COMPANY	31/12/2017	%	31/12/2016	%	IND 17/16
HSE	174	6	150	5	116
DEM	241	8	237	8	102
SENG	124	4	122	4	102
TEŠ	311	10	323	10	96
TET - in liquidation	18	1	23	1	78
Group PV	2,169	70	2,187	70	99
HSE Invest	53	2	64	2	83
HSE BE	2	0	2	0	100
HSE BH	1	0	1	0	100
HSE Adria	0	0	1	0	0
Total	**3,093**	**100**	**3,110**	**100**	**99**

EMPLOYEES EMPLOYED FOR A DEFINITE / UNDEFINITE PERIOD OF TIME



PERSONNEL TURNOVER IN THE HSE GROUP





■ A = new employment ⁘ B = redeployment from another company

■ C = retirement ⁘ D = redeployment to another company ⦀ E = departure

Annual appraisals are used for the efficient management, motivation, monitoring of employee work performance, feedback and guiding the development of the employees in the majority of the companies in the HSE Group. A computer-aided system of annual appraisals enables a current insight into individual stages of annual appraisal performance, a quick analysis of training needs, overview of individual development plans, wishes for career changes and plans for competence development. Annual appraisals enable a more optimal implementation of the training plan and therefore homogenous groups were formed for the implementation of the language and computer training courses adjusted to the contents and demanding level as well as training in the field of management, skills and professional knowledge. Due to establishment a pool of key and promising personnel and the system of head development the assessments of the management potential were prepared and they served as the basis for their strengthening through the systematic training and coaching.

TRAINING IN THE HSE GROUP IN 2017

- 69,019 training hours in the HSE Group in 2017
- 22 training hours per employee
- 213 internal training courses
- 9 joint workshops at the Group level

Mentoring enables the exchange of experience and development of employee potentials. It is used for the newly employed persons who are being introduced to work and the employees who take over new, more responsible tasks.

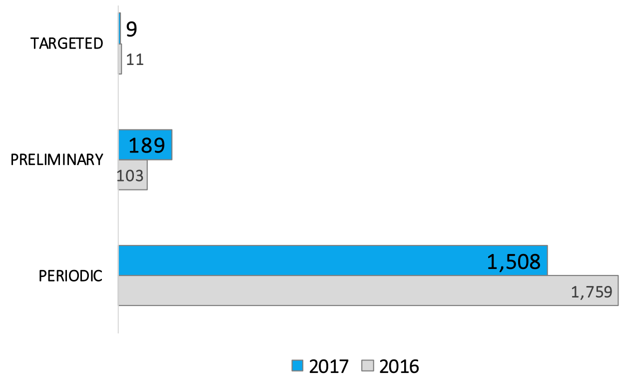
The well performed work and the efficiency of the employees are recognised. Therefore the employees are motivated for further work through various forms of remuneration. In this way, we would like to encourage commitment and loyalty and award productivity and excellence.

Within the framework of the continuous improvement system a system of innovations and improvements in work has been established. The employees are encouraged to constantly search for ways leading to better and high-quality performance of work in their daily performance of tasks.

Our goal to be successful can be achieved only by motivated and committed employees, which reflects in the results of measuring the organisational climate. These results are a good tool for making improvements that contribute to the creation of an efficient and creative working environment and commitment of employees and last but not least also to the business results of the HSE Group. The companies in the HSE Group are recognised as successful and therefore they are among the most desirable and respected employees in the country.

The fundamental objective of the occupational health and safety and fire safety policy is sustainable development, which can be achieved through planning, implementation, supervision and taking measures, prevention of accidents at work and other extraordinary events and by sharing responsibilities and integrating policy in individual business processes. We provide safe working environment to the employees and external providers. The risks of accidents and health problems are monitored for all jobs and technologies. The risks are evaluated periodically, maintained at an acceptable level by adequate protective measures and in the long run we can influence the continuous improvement in working conditions. Various preventive measures reduce the possibility of disability or health restrictions. The occupational health and safety management system complies with the BS OHSAS 18001:2007 standard and is integrated in the management system. The concern for the employee health is a shared responsibility of all the employees, their heads, professional services and specialists in the field occupational medicine. Works Councils are also involved in these activities.

PREVENTIVE MEDICAL EXAMINATIONS



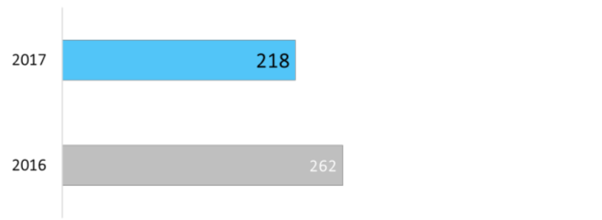
Trade Union and Works Council are a link between the employees and the management board. Through the Trade Union Chairman or the Works Council Chairman the employees can submit their questions and initiatives for discussion. An important source of information is regular meetings of the social partners with the management board and the annual Works Council meeting where the employees are informed about the operating results, plans for the future and the strategy of HSE Group development and other topical information. The employees are regular informed via e-mails, bulletin boards, intranet, Internet, information points (displays) and internal newsletters of the companies within the HSE Group. Since 1975 an internal radio has been broadcasting and the employees can listen to it on a daily basis.

The HSE Group has an organised a Joint Works Council of the HSE Group, where Works Councils of the companies in the HSE Group participate, except the Works Council of the HSE Company. The latter cooperates with the HSE management board in a way specified in the Worker Participation in Management Act and the Participation agreement and together with trade union it represents the interests of the employees.

POLNI CERTIFIKAT Družini prijazno podjetje

An important key to the satisfaction of employees is certainly efficient coordination of professional and private life and therefore HSE and DEM decided to obtain the full certificate of a Family Friendly Company (FFC). On the basis of the results of research conducted among the employees the FFC team of a separate company upgrades the system of measures by three new measures every three years. Other companies in the HSE Group have also followed the conduct and the example of HSE and DEM in this field.

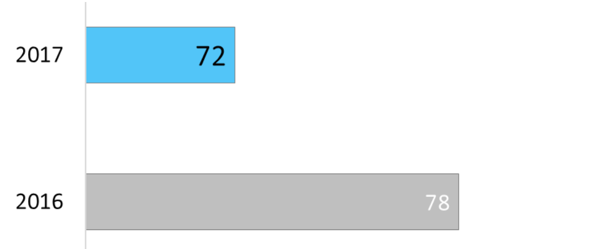
EMPLOYEES ON PARENTAL LEAVE



Voluntary supplementary pension insurance of the employees is an integral part of the salary policy in the HSE Group. It includes the employees of all subsidiaries in the HSE Group.

In order to be able to ensure adequately qualified young potentials and with respect to the deficit professions in our companies, HSE awards grants in the fields where it is estimated that certain expertise will be most needed.

NUMBER OF GRANT RECEIPIENTS



The HSE Groups enables the employees to spend their high-quality leisure time in various sports, cultural and other societies. The employees can also spend their annual leave in holiday facilities at various locations in Slovenia and Croatia. Every year, a New Year celebration is organised for the employees and Father Christmas visits the youngest in December.

HUMAN RIGHT

The HSE Group respects human rights. Primarily, the respect for human rights is ensured by the compliance of operations with the legislation, internationally recognised principles and guidelines, including the Universal declaration on human rights by the United Nations and other regulations.

Each company in the HSE Group defines the procedures and takes measures for ensuring corporate compliance with internal acts, decisions of the Management Board, decisions of the Supervisory Boards and in the event of one-tier management the decision of a single member. The companies in the HSE Group have the established adequate internal codes of conduct and procedures, within which mechanisms operate and ensure compliance with the legislation and other regulations.

Code of Ethics of the HSE Group obliges us to follow the ethical and professional standards of work and conduct. They ensure the employees equal possibilities regardless of gender, race, religion, nationality or other cultural differences. Discrimination as one of the elements of unequal treatment of individuals is strictly sanctioned. For this purpose the companies in the HSE Group have appointed internal bodies whose primary tasks are the evaluation and judgement of reported cases of mobbing, including also reports on discriminatory conduct. The established internal bodies in 2017 did not receive any report on a discriminatory conduct, countermeasures, sexual harassment and other harassment or ill-treatment at work.

EMPLOYEES BY GENDER IN THE HSE GROUP

- 2,711
- 88%
- 88 on leading positions

- 382
- 12%
- 29 on leading positions

EMPLOYEES BY AGE

2017	Number of employees	%	Men	Women
up to 30 years	357	12	352	5
from 31 to 40 years	806	26	719	87
from 41 to 50 years	1,126	36	999	127
from 51 to 60 years	764	25	604	160
over 61 years	40	1	37	3
Total	3,093	100	2,711	382

BALANCE OF EMPLOYEES AS AT 31 DECEMBER 2017 AND AVERAGE NUMBER OF EMPLOYEES IN 2017 BY EDUCATION

	NUMBER OF EMPLOYEES AS AT 31 DECEMBER 2017		AVERAGE NUMBER OF EMPLOYEES IN 2017	
EDUCATION CLASS	HSE	GROUP HSE	HSE	GROUP HSE
8/2	2	12	3	13
8/1	27	66	26	72
7	76	247	72	273
6/2	40	186	36	195
6/1	17	331	17	338
5	12	807	12	815
4		1,083	1	1,094
3		59		59
2		100		102
1		149		148
Total	174	3,093	166	3,107

Protection of personal data is one of the key priorities of the HSE Group. Technical and organisational security measures have been established for this purpose and they are intended for the protection of rights and freedoms of individuals, who are subject to personal data. The companies in the HSE Group follow the ISO 27001 standard that refers to the protection of information, including the protection of personal data, although only some of them maintain the ISO 27001 certificate. In 2017, no case of violating the right to protection of individual's personal data was detected.

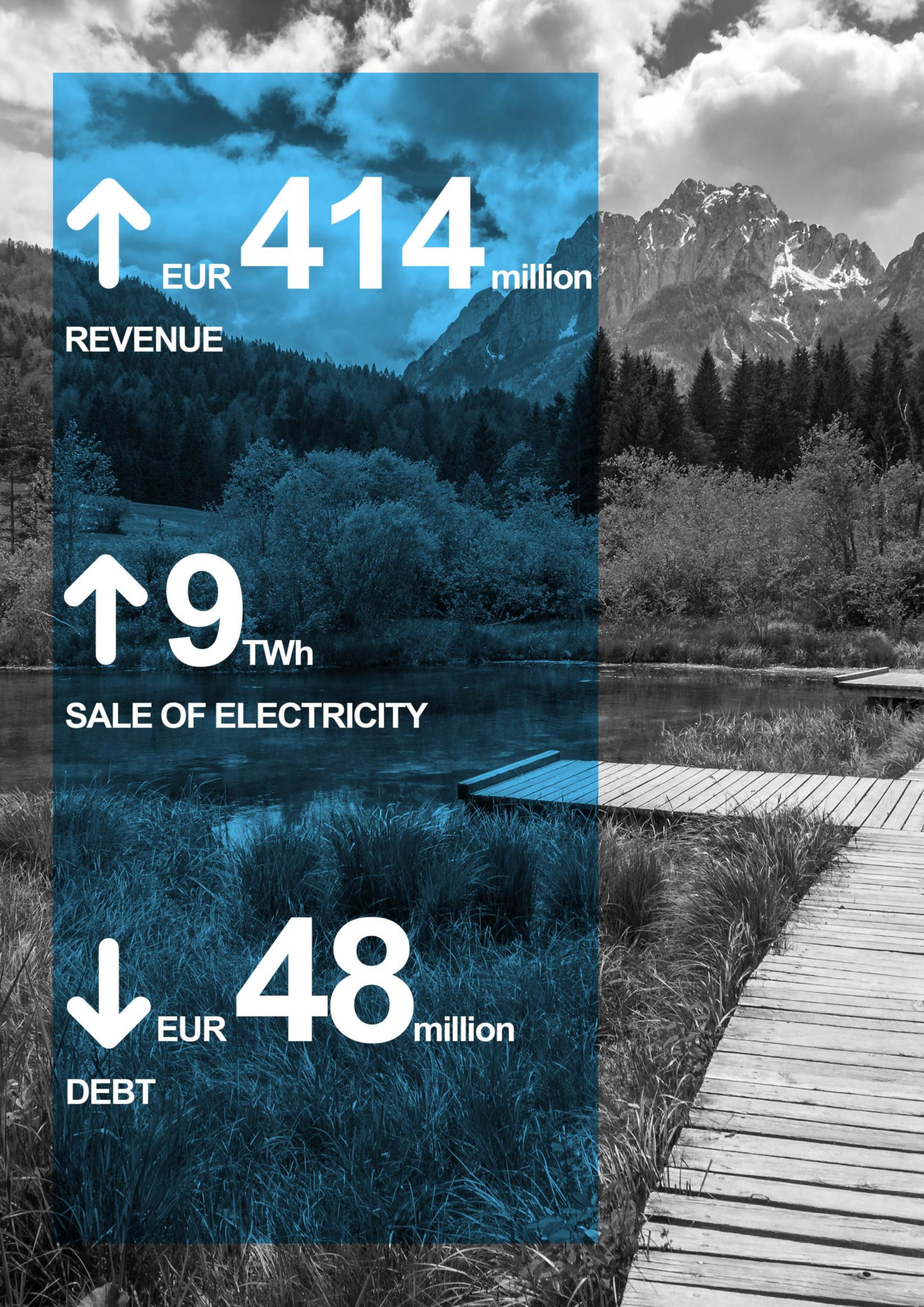
The business premises of the companies in the HSE Group are adapted to disabled persons, with the exception of some production facilities, which, due to their purpose, do not permit the removal of architectural barriers. The business premises are equipped with lifts and spacious rooms which enables disabled persons to have an easy access to their workplace. When designing premises it is the goal to reduce architectural barriers that would make the access of disabled persons difficult or impossible. The place of work used by a disabled person is adapted to enable such a person to work smoothly and in an undisturbed manner.

The HSE Group is committed to reducing the use of some precarious forms of work, as mainly uncertainty, flexibility, low payment and short-term are characteristic of these forms of work. For ensuring the adequate personnel structure the companies in the HSE Group systematically work with young people even before they enter the employment market. Generally, the companies in the HSE Group conclude employment contracts only for an indefinite period of time.

The companies in the HSE Group apply the zero-tolerance as regards the infringement of human rights, abusive practices at work, non-payment of work and unsafe working conditions.

The HSE Management Board adopted the Rules on the whistleblowing detection system. The introductory provisions of the Rules express the interest of the HSE Group to report any forms of irregularities and unlawful acts in the operations of the companies within the Group with the common goal of enforcing a regulated and fair management and efficiency of the HSE Group's supervision. A possibility of submitting anonymous comments and communications is established by these rules. A three-member committee for the discussion of complaints was appointed for this purpose. During its operation in 2016 and 2017 the committee held 19 meetings, discussed 12 reports, issued 7 final reports by which it informed the HSE Management Board and Supervisory Board, and in five cases it proposed that measures were to be taken by the HSE Management Board.

In accordance with Item 10.2.2 of the revised Corporate Governance Code for Companies with State Capital Investments (May 2017) that lays down that large and medium-sized companies should establish an internal warning system concerning irregularities in the company and the mechanism for the projection of reporting persons (whistleblowing), HSE appointed a service for prevention and detection of fraud that assumes the competence of a committee.


EUR 414 million
REVENUE
9 TWh
SALE OF ELECTRICITY
EUR 48 million
DEBT

3.1 Independent Auditor's Report for the HSE Group

KPMG

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

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

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of the Holding Slovenske elektrarne, d.o.o. and its subsidiaries ("the Group") which comprise the consolidated balance sheet as of 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated 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 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 the other information. The other information comprises the Introduction including Report of the Supervisory board and the Business Report included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. We obtained other information before the date of issuance of the auditor's report, except for the Report of the Supervisory Board, which is to become available at a later date.

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

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.

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.

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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 in all material respects consistent with the consolidated 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 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 Business Report. 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.

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- 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, 4 April 2018	KPMG Slovenija, d.o.o.

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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:

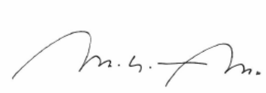
- the accounting policies are correctly chosen and consistently applied,
- the assessments and evaluations are reasonable and prudent.

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 3 April 2018, the management adopted the consolidated financial statements of the HSE Group for the business year which ended on 31 December 2017.

Ljubljana, 3. April 2018



Matjaž Marovt, Managing Director of HSE

Stojan Nikolić M.Sc., Finance Director of HSE

3.3 Introductory Notes to the Preparation of 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 audit 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

3.4.1 Consolidated Statement of Financial Position

Consolidated Statement of Financial Position (in 000 EUR)	Note	31/12/2017	31/12/2016
ASSETS		2,132,482	2,156,757
A. LONG-TERM ASSETS		1,857,065	1,894,778
I. Intangible assets	1	19,107	17,939
II. Property, plant and equipment	2	1,682,288	1,723,165
III. Investment property	3	12,148	7,270
V. Other long-term investments and loans	4	137,922	137,723
VI. Long-term operating receivables		4,008	1,670
VII. Other long-term assets		753	1,054
VIII. Deferred tax assets	5	838	5,955
B. SHORT-TERM ASSETS		275,417	261,979
I. Assets included in the disposal group		493	3,026
II. Inventories	7	24,423	19,144
III. Short-term investments and loans	8	13,537	2,952
IV. Short-term trade receivables	9	123,927	117,208
V. Current tax assets	29	4,285	75
VI. Other short-term assets	10	47,059	36,089
VII. Cash and cash equivalents	11	61,693	83,485
EQUITY AND LIABILITIES		2,132,482	2,156,757
A. EQUITY	12	1,032,427	1,015,220
I. Called-up capital		29,559	29,559
II. Capital surplus		561,243	561,243
III. Revenue reserves		413,856	413,856
IV. Hedging reserve		10,753	1,741
V. Fair value reserve		(1,295)	(1,029)
VI. Retained earnings or losses		18,766	10,831
VII. Translation reserve		(1,072)	(1,395)
VIII. Equity of the non-controlling interest		616	414
B. LONG-TERM LIABILITIES		847,902	921,942
I. Provisions for termination benefits and jubilee premiums	13	13,919	13,554
II. Other provisions	14	52,496	55,839
III. Other long-term liabilities	15	1,735	3,858
IV. Long-term financial liabilities	16	779,543	848,218
V. Long-term operatng liabilities		204	470
VI. Deferred tax assets	6	6	4
C. SHORT-TERM LIABILITIES		252,153	219,594
II. Short-term financial liabilities	17	71,896	51,387
III. Short-term operating liabilities	18	123,003	107,444
IV. Current tax liabilities	29	48	3,533
V. Other short-term liabilities	19	57,206	57,230

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

3.4.2 Consolidated Income Statement

Consolidated Income Statement (in 000 EUR)	Note	2017	2016
OPERATING INCOME		1,615,943	1,206,502
1 Revenue	21	1,587,760	1,179,841
2. Change in value of inventories and work in progress		827	(1,078)
3. Capitalised own products and services	22	8,767	6,807
4. Other operating income	23	19,416	19,854
GROSS OPERATING YIELD		1,616,770	1,205,424
OPERATING EXPENSES		1,563,546	1,129,635
5. Costs of goods, material and services	24	1,297,306	859,998
6. Employee benefits expense	25	120,706	124,711
7. Write-downs in value	26	82,136	80,663
8. Other operating expenses	27	63,398	64,263
OPERATING PROFIT OR LOSS		53,224	75,789
9. Finance income		4,668	147
10. Finance costs		36,511	43,128
FINANCIAL RESULT	28	(31,843)	(42,981)
11. Profit shares in associates and jointly controlled entities		1,064	1,453
PROFIT OR LOSS BEFORE TAX		22,445	34,261
TAX	29	14,735	12,600
12. Income tax expense		9,615	13,597
13. Deferred tax		5,119	(996)
NET PROFIT OR LOSS FOR THE PERIOD	30	7,710	21,661
Majority owner		7,765	21,679
Non-controlling interest		(55)	(18)

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

3.4.3 Consolidated Statement of Other Comprehensive Income

Consolidated Statement of Other Comprehensive Income (in 000 EUR)	Note	2017	2016
Net profit or loss for the period	30	7,710	21,661
Net profit or loss from revaluation of non-current assets held for sale			(0)
Actuarial gains and losses of employee defined benefit plans	13	(281)	(412)
Gains and losses on foreign currency translation of the financial statements of foreign operations		323	(11)
Items that will not be transferred to profit or loss		42	(423)
Net effective portion of changes in fair value of cash flow hedges	12	9,024	2,340
Net effective portion of changes in fair value of cash flow hedges reclassified to profit or loss	12	(6)	252
Items that may be transferred to profit or loss		9,018	(2,088)
Total comprehensive income for the period		16,769	19,149
Majority owner		16,823	19,151
Non-controlling interest		(54)	(2)

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

3.4.4 Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flow (in 000 EUR)	2017	2016
CASH FLOWS FROM OPRATING ACTIVITIES		
Profit or loss for the period	7,710	21,661
Adjustment for:		
Amortisation of intangible assets	1,075	1,072
Depreciation on property, plant and equipment	75,296	75,826
Depreciation of investment property	344	283
Impairment of intangible assets, property, plant and equipment and investment property	2,894	1,641
Impairment - other	64	
Write-off of intangible assets, property, plant and equipment and investment property	870	792
Write-off of operating receivables	811	872
Write-off of inventories	526	
Loss on sale of property, plant and equipment, intangible assets and investment property	256	177
Finance income	(4,668)	(147)
Finance costs	36,511	43,128
Profit shares in associates and jointly controlled entities	(1,064)	(1,453)
Gain on sale of property, plant and equipment	(1,727)	(3,095)
Reversal of write-off of operating receivables	(891)	(200)
Reversal of impairment of property, plant and equipment	(3,229)	
Income tax paid	14,735	12,600
Cash generated from operating activities before change in net current assets and taxses	**129,514**	**153,157**
Change in net current assets and provisions		
Change in:		
Inventories	(5,016)	(459)
Trade payables and other assets	(20,834)	3,472
Assets held for sale	766	2,693
Trade and other payables	54,021	45,038
Liabilities held for sale		(6,322)
Provisions	(3,259)	1,751
Income tax paid	(17,311)	(3,657)
Cash from operating activities	**137,880**	**195,675**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	8	60
Income from other financing activities	397	60
Dividends received	107	166
Proceeds from sale of intangible assets	3,945	13,186
Proceeds from sale of investment property		18
Proceeds from sale of investment property	604	244
Proceeds from settlement of derivatives	3,749	46
Proceeds from decrease in short-term investments	2,586	19,784
Proceeds from decrease in long-term investments	1,333	134
Acquisitions of property, plant and equipment	(44,820)	(34,866)
Acquisitions of intangible assets	(31,158)	(27,935)
Acquisition of investment property	(1,389)	(290)
Costs for increasing other short-term investments	(13,250)	(2,910)
Costs for settlement of derivatives	(1,040)	(807)
Net cash used in investing activities	(78,927)	(33,109)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	14,567	181,824
Proceeds from short-term borrowings	8,345	150,871
Proceeds from other long-term financial liabilities	96	3,138
Payment of interest on borrowings	(27,925)	(34,177)
Costs for other financial liabilities	(7,779)	(8,410)
Repayment of long-term borrowings	(48,872)	(171,980)
Repayment of short-term borrowings	(19,178)	(275,895)
Repayment of other long-term liabilities		(2,973)
Acquisition of non-controlling interest		(358)
Net cash used in financing activities	**(80,745)**	**(157,960)**
OPPENING BALANCE OF CASH AND CASH EQUIVALENTS	83,485	78,880
Financial result	(21,792)	4,605
CLOSING BALANCE OF CASH AND CASH EQUVALENTS	61,693	83,485

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

3.4.5 Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity (in 000 EUR)	CALLED-UP CAPITAL		REVENUE RESERVES			RETAINED EARNINGS OR LOSSES				
	Share capital	CAPITAL SURPLUS	Other revnue reserves	HEDGING RESERVE	FAIR VALUE RESERVE	Retained earnings or loss	Net profit or loss fot the period	Translation reserve	Equity of the non-controlling interest	Total
Balance at 1/1/2016	29,559	561,243	413,856	(797)	(651)	467,106	(477,881)	(1,384)	697	991,749
B.2. Changes in total comprehensive income				2,592	(374)	(54)	21,679	(11)	(2)	23,830
Profit or loss for the period							21,679		(18)	21,661
Items that will not be transferred to profit or loss					(374)	(54)		(11)	16	(423)
Net profit or loss from revaluation of short-term assets held for sale					*(0)*					*(0)*
Actuarial gains and losses of employee defined benefit plan					*(374)*	*(54)*			*16*	*(412)*
Gains and losses from foreign currency translation of the financial statements of foreign operations								*(11)*		*(11)*
Items that may be transferred to profit or loss				2,592						2,592
Net effective portion of change in fair value of instrument for cash flow hedging				*2,231*						*2,231*
Net effective portion of change in fair value of instrument for cash flow hedging, transferred to profit or loss				*361*						*361*
B.3. Changes within equity				(54)	(4)	(477,900)	477,881		(281)	(358)
Allocation of the remaining portion of net profit of the comparable period to other equity components						*(477,881)*	*477,881*			
Other changes iwthin equity				*(54)*	*(4)*	*(19)*			*(281)*	*(358)*
Balance at 31/12/2016	29,559	561,243	413,856	1,741	(1,029)	(10,848)	21,679	(1,395)	414	1,015,220
Balance at 1/1/2017	29,559	561,243	413,856	1,741	(1,029)	(10,848)	21,679	(1,395)	414	1,015,220
B.2. Changes in total comprehensive income				9,013	(261)	(17)	7,765	323	(54)	16,769
Profit or loss for the period							7,765		(55)	7,710
Items that will not be transferred to profit or loss					(266)	(17)		323	2	42
Actuarial gains and losses of employee defined benefit plan					*(266)*	*(17)*			*2*	*(281)*
Gains and losses from foreign currency translation of the financial statements of foreign operations								*323*		*323*
Items that may be transferred to profit or loss				9,013	5					9,018
Net effective portion of change in fair value of instrument for cash flow hedging, transferred to profit or loss				*(6)*						*(6)*
Change in fair value of financial assets available for sale				*9,019*	*5*					*9,024*
B.3. Changes within equity					(5)	21,866	(21,679)		256	437
Other changes within equity					*(5)*	*186*			*256*	*437*
Balance at 31/12/2017	29,559	561,243	413,856	10,753	(1,295)	11,001	7,765	(1,072)	616	1,032,427

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

3.5 Notes to the Consolidated Financial Statements

3.5.1 Reporting entity

The consolidated financial statements for the HSE Group (hereinafter referred also as "Group") are prepared by the controlling company Holding Slovenske elektrarne d.o.o. (hereinafter referred also as "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 2017 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 2017.

3.5.1.1 HSE Group as at 31 December 2017

Group companies included in the consolidated financial statements of the HSE Group

Company	% ownership 31/12/2017	% ownership 31/12/2016	Country of the company's seat
HSE	100.0%	100.0%	Slovenia
DEM	100.0%	100.0%	Slovenia
SENG	100.0%	100.0%	Slovenia
TEŠ	100.0%	100.0%	Slovenia
PV	100.0%	100.0%	Slovenia
HTZ IP	*100.0%*	*100.0%*	*Slovenia*
PV Invest	*100.0%*	*100.0%*	*Slovenia*
RGP	*100.0%*	*100.0%*	*Slovenia*
SIPOTEH	*100.0%*	*100.0%*	*Slovenia*
TET - in liquidation	100.0%	100.0%	Slovenia
HSE Invest	75.0%	75.0%	Slovenia
SRESA	60.0%	60.0%	Slovenia
mHE LOBNICA	65.0%	65.0%	Slovenia
ELPROM	100.0%	100.0%	Slovenia
HSE MAK Energy	100.0%	100.0%	Macedonia
HSE Adria	100.0%	100.0%	Croatia
HSE BH	100.0%	100.0%	Bosnia and Herzegovina
HSE BE	100.0%	100.0%	Serbia

Significant amounts from the subsidiaries' financial statements (in 000 EUR)	Assets	Liabilities (exclusive of equity)	Revenue	Net profit or loss for the period	Total equity
TEŠ	1,076,292	665,170	207,445	(32,594)	411,122
DEM	478,991	12,032	59,965	7,717	466,959
SENG	231,778	36,842	38,195	3,994	194,936
PV	130,129	86,138	121,675	3,404	43,991
HTZ I.P.	16,289	15,254	32,988	109	1,035
PV Invest	12,278	3,254	1,940	634	9,024
HSE BH	11,554	10,803	65,524	168	751
HSE BE	10,011	9,151	29,037	87	861
RGP	4,711	4,197	9,015	(1,291)	514
TET - in liquidation	4,248	1,405	4,749	(471)	2,843
HSE Invest	2,510	911	3,922	(200)	1,599
HSE MAK Energy	1,905	1,807	10,608	65	98
SIPOTEH	901	606	1,919	29	295
mHE Lobnica	621	1	16	(15)	620
HSE Adria	290	14	16	(93)	276
SRESA	68	0	0	(0)	68
ELPROM	52	0		(5)	52
Total	1,982,631	847,587	587,014	(18,464)	1,135,044

In 2017, the company Sipoteh (PV is its sole owner) was included for the first time in the consolidation; at the start of the year, the company Golte withdrew from the Group and was in 2016 for the last time included in the consolidation.

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 fair presentation of Group's business operations.

3.5.1.2 Associated Entities

Company	Company co-owner	Country of the company's seat	% ownership	% ownership of HSE Group
PLP	PV	Slovenia	26.0%	26.0%
	TEŠ	Slovenia	8.0%	
	PV	Slovenia	11.0%	
	HTZ IP	Slovenia	1.0%	
RCE - bankruptcy	PV Invest	Slovenia	4.5%	24.5%
	RCE - bankruptcy	Slovenia	18.6%	
Filvoteh - in liquidation	HTZ IP	Slovenia	24.0%	42.6%
	RCE - bankruptcy	Slovenia	18.6%	
Karboteh - in liquidation	PV	Slovenia	24.0%	42.6%
	RCE - bankruptcy	Slovenia	18.6%	
Tehnoveter - in liquidation	PV	Slovenia	24.0%	42.6%
	DEM	Slovenia	30.8%	
	HSE	Slovenia	15.4%	
HESS	SENG	Slovenia	2.8%	49.0%

3.5.1.3 Jointly Controlled Entities

Data on jointly controlled entities as at 31 December 2017	Address	Activity	% ownership	% voting rights
SOENERGETIKA	Stara cesta 3 4000 Kranj	electricity and thermal heat	25%	25%

3.5.1.4 Branches and the Representative Office

The Group has two branches abroad, one in Macedonia and one in the Czech Republic, as well as a representative office in Romania. Through their branches, the scope of operations in 2017 was minimal or not carried out at all. The operation of the branches and the representative office are included in the consolidated financial statements of the Group.

3.5.2 Basis for Preparation

A) STATEMENT OF COMPLIANCE

When preparing the consolidated financial statements as of 31 December 2017, the Group took into consideration the following:

- the International Financial Reporting Standards (IFRS), which include the International Accounting Standards (IAS), Interpretations from the Standing Interpretations Committee (SIC) and Interpretations 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 accrual principal (i.e. the occurrence of a business event), and
- the going concern principal (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 presentation in compliance with the International Financial Reporting Standards: the consolidated financial statements present fairly the entity's financial position, financial performance and cash flows of the Group.
- Consistent presentation: the presentation and classification of items in the financial statements equals the form applied in the previous year.
- 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 2017.

C) BASIS FOR MEASUREMENT

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 PRESENTATION CURRENCY

In this report, the consolidated financial statements are presented in euro (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 2017.

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

- the assessment of the useful life of the depreciated assets (Note 1, 2 of the consolidated statement of financial position);
- the testing of impairment of assets (Note 1, 2, 3 of the consolidated statement of financial position);
- the assessment of fair value of derivative financial instruments (Note 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 (Note 7 of the consolidated statement of financial position);
- the assessment of provisions for termination benefits and jubilee benefits (explanation Note 13 of the consolidated statement of financial position);
- the assessment of other provisions (explanation Note 14 of the consolidated statement of financial position); and
- the assessment of contingent liabilities and assets (explanation Note 21 of the consolidated statement of financial position).

Additional estimates and judgements of the management when preparing the consolidated financial statements on 31 December 2017 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 case of impairment testing of assets with infinite useful life (hydro power plants and goodwill), 13-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 10 years (2021-2030 period), and with the latter to a period of 20 years (2012-2040 period). 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 the company TET – in liquidation, which is in regular liquidation since December 2014, are as of 31 December 2017 no longer included among the assets or liabilities for sale due to the completed liquidation and company's transition to operating companies in 2018.

3.5.3 Fundamental Accounting Policies

3.5.3.1 Foreign Currency Translation

Transactions in foreign currencies are translated to the respective functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Exchange rate differences are recognised in the consolidated income 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,
- equity according to the original exchange rate, and
- income and expenses according to the average exchange rate in the reporting year.

3.5.3.2 Basis of consolidation

The consolidated financial statements include the financial statements of the controlling company and of subsidiaries. Subsidiaries are entities controlled by the Group. The latter signifies 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 subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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 income statement. 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 Group companies are included in the consolidated financial statements by applying full consolidation. Financial statements are combined from one item to another, by summing similar items of assets, debts, capital, income and expenses.

When preparing the consolidated financial statements, the balances of intra-Group receivables and liabilities, income and expenses, as well as unrealised profits and losses arising from intra-Group transactions are eliminated.

Exchange rate differences from the translation of subsidiaries' financial statements (whose functional currency differs from the Group's presentation currency) are recognised in the translation reserve of the capital or in the statement of other comprehensive income.

3.5.3.3 Intangible assets

Intangible assets are long-term assets enabling performance of the Group's registered activities, whereas physically they do not exist.

Among intangible assets, the Group records concessions, patents, licences, trademarks, and similar rights (also emission coupons), goodwill and other intangible assets.

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

Intangible assets are subsequently measured using the cost model.

The residual value of an intangible asset is an estimated amount the Group would receive upon disposal of such asset, after the reduction by estimated costs of disposal, if such asset were old enough and if its state reflected the end of its useful life. The Group has no intangible assets, for which it would define the residual value when purchased.

Goodwill occurs during consolidation and represents an excess of cost over the recipient's share in the fair value of acquired recognised assets, liabilities and contingent liabilities of the subsidiary as at the date of acquisition. Goodwill is recognised as an asset and is subject to impairment testing at least once a year. Each impairment is immediately recognised in the consolidated income statement and subsequently eliminated. Upon the disposal of the subsidiary, the relevant amount of goodwill is included in establishing profit or loss during the sale and has an impact on the Group's operating result.

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

The Estimated Usefull Life for Intangible Assets	2017	2016
Software	2-20 years	2-20 years
Licences	4-10 years	4-10 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 adjusted if necessary. In the event of extending the useful life, the costs of the accounted amortisation in the business year are reduced, while in case the shortening the useful life the respective costs are increased. The adjustment of the useful life must 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.

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

An intangible asset is eliminated 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 transferred among other operating income or write-downs in value.

3.5.3.4 Property, plant and equipment

Property, plant and equipment are long-term assets owned by the Group companies and used for the performance of their registered activities.

Property, plant and equipment comprise land, buildings, production equipment, other equipment and assets in the course of construction.

Property, plant and equipment (hereinafter also 'fixed assets') are carried at cost less accumulated depreciation and accumulated losses from impairments. Cost includes costs that can be directly attributed to the acquisition of an item of property, plant and equipment. Cost includes also borrowing costs relating to the acquisition of a fixed asset until the asset is made ready for tis intended use, depending on the type of fixed asset and cost of dismantling.

The parts of items of plant and equipment with different useful lives are accounted for as individual assets. Spare parts of major values are recorded among property, plant and equipment and depreciated during the asset's useful life for which they were acquired.

The anticipated cost of regular inspections and repairs of fixed assets are treated as parts of fixed assets. These are repairs that are usually carried out every three years (in a cyclical manner) and are important in terms of value.

The cost 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.

Subsequent measurement of property, plant and equipment used the cost model.

The residual value of the fixed asset is the assessed amount which the Group would receive during the disposal of the asset, upon reducing it for the expected cost of disposal if the age and the condition of the fixed asset would indicate an end of its useful life. The Group has no properties, plant and equipment for which the residual value would be determined.

Depreciation is calculated on a straight-line basis, taking into account the useful life of individual (integral) part of a fixed asset. Depreciation begins when an asset is available for use. Land, quarries and assets under construction are not depreciated.

Assets obtained free of charge are depreciation; concurrently, a portion of long-term deferred income, which equals the value of accounted depreciation, is transferred among other operating income.

The Estimated Usefull Life for Property, Plant and Equipment	2017	2016
Buildings	10-70 years	10-70 years
Parts of buildings	5-70 years	5-70 years
Production plants	4-50 years	4-50 years
Parts of production plants	5-25 years	5-25 years
Computer equipment	2-10 years	2-10 years
Furniture	4-10 years	4-10 years
Small tools	3-10 years	3-10 years
Personal vehicles	5-10 years	5-10 years
Other vehicles	4-10 years	4-10 years
Other plant 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 adjusted if necessary. In the event of extending the useful life, the costs of the accounted depreciation in the business year are reduced, while in case the shortening the useful life the respective costs are increased. The adjustment of the useful life must 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 in the remaining useful life.

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

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

3.5.3.5 Leases

Leases in terms of which the Group assumes substantially all major risks and benefits of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in line with the accounting policies applying to such assets owned by the Group. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are treated as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

3.5.3.6 Long-term investments in associates and jointly controlled entities

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

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

Investments in associates and in jointly controlled entities are at acquisition carried at cost in consolidated financial statements, whereas later on their carrying amount changes due to write-ups as the result of using the equity method.

3.5.3.7 Financial instruments

Financial instruments include the following assumptions:

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

I. NON-DERIVATIVE FINANCIAL ASSETS

The Group's non-derivative financial assets comprise available-for-sale financial assets, receivables, loans and cash and cash equivalents.

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

Non-derivative financial assets are upon initial recognition classified by using the following groups:

- financial asset at fair value through profit or loss
- available-for-sale financial asset
- loans and receivables
- cash and cash equivalents

A) FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

An asset is classified as financial asset at fair value through profit or loss if it is held for trading or if it is defined as such upon initial recognition. Financial assets are defined at fair value through profit or loss under the condition that the company is able to hold to manage these assets and decide on purchases and sales based on fair value.

Upon initial recognition the accompanying costs of transaction are recognised in profit or loss upon their accrual. Financial assets at fair value through profit or loss are measured at fair value, while the amount of change in fair value is recognised in profit or loss.

Financial assets at fair value through profit or loss of the company comprise primarily unrealised derivatives and derivatives valued at the reporting date.

B) AVAILABLE FOR SALE FINANCIAL ASSET

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or financial assets at fair value through profit or loss.

Available-for-sale financial assets are recognised after the trading date.

They are carried at fair value, if the fair value can be established and the profit or loss during valuation is recognised directly in other comprehensive income or equity, except loss due to impairment. These are recognised so that potential accumulated loss, which is initially recognised in other comprehensive income and disclosed in fair value reserve, is transferred to profit or loss. Subsequent increase in fair value of impaired available-for-sale equity security is recognised under the fair value reserve.

At derecognition of investment, the accumulated profit and loss recorded in other comprehensive income are transferred to profit or loss.

In case the fair value cannot be reliably measured, since the range of justified fair value assessments is of significant importance and the probability of various assessments is difficult to be assessed, the Group companies measure the financial asset at cost.

C) LOANS AND RECEIVABLES

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

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

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

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

D) CASH AND CASH EQUIVALENTS

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

II. NON-DERIVATIVE FINANCIAL LIABILITIES

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

Among them, the Group records loans received with interest, liabilities to suppliers and other financial liabilities.

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

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

III. DERIVATIVES

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

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

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

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

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

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

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

When a derivative is defined as hedging in case of exposure to changeability of cash flows that may be attributed to an individual risk related to recognised asset, liability or very probable envisaged transactions, which can affect the profit or loss, the successful portion of changes in fair value of derivative is recognised in comprehensive income and disclosed in risk hedging reserve. Unsuccessful portion of changes in the fair value of financial instrument is directly recognised in the income statement. The Group shall discontinue prospectively the hedge accounting if the hedge no longer meets the criteria for hedge accounting, if the hedging instrument is sold, terminated or exercised. The accumulated profit or loss recognised in comprehensive income remains recorded in the hedging reserve until the envisaged transaction impacts the profit or loss. If the envisaged transactions cannot be expected any more, the amount recognised in other comprehensive income must be directly recognised in profit or loss. In other cases, the amount recognised as comprehensive income is transferred to profit or loss for the same period in which the protected item affects the profit or loss.

Effects of other derivatives, which are not determined as risk hedges in case of exposure to cash flow changeability or cannot be attributed to individual risk related to recognised asset or liability, are recognised in profit or loss.

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

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

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

3.5.3.8 Inventories

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

The value of finished products and work in progress includes total production costs in the narrow sense, which comprise direct costs of materials, direct costs of services, direct labour costs, direct depreciation/amortisation costs and general production costs. General production costs are costs of materials, services, salaries and amortisation/depreciation, which are charged in the framework of production process, but cannot be directly connected to developing business effects. A part of production costs in total costs (materials, services, labour costs and depreciation) is established once per year on the basis of data from the previous year.

If in the accounting period the prices of newly purchased volume units differ from prices of volume units of the same type held in stock, the decline of these volumes is accounted by using the FIFO (first-in-first-out) method.

Net realisable value is assessed on the basis of selling price in the normal course of business reduced by the estimated costs of completion and sales. The write-downs of damaged, expired and useless inventories are regularly performed during the year by individual items.

At least once per year, namely as at the date of preparation of annual financial statements, the evidence on impairment of inventories is assessed. The impairment of inventories is assessed for each individual type of inventories. Individual types of inventories are classified as groups of inventories with similar characteristics on the basis of time component of changes in inventories. In the assessment of impairment for an individual group, the criteria of professional assessment, further utilisation or sale are used.

3.5.3.9 Impairment of assets

I. FINANCIAL ASSETS

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

Objective evidence on the impairment of financial assets can be: non-compliance or violation by the debtor, deterioration of borrowers' solvency, signs that the debtor will go bankrupt and disappearance of active market for such instrument.

A) IMPAIRMENT OF RECEIVABLES AND LOANS GRANTED

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

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

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

Disputed receivables are those which comply with one of the following conditions:

- the legal collection procedure began at the court;
- the decision on beginning of compulsory settlement, liquidation or bankruptcy is published.

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

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

In case all actions were performed with the carefulness of a good manager, with intention to repay certain unsettled receivable and in case that due to the amount of receivable, it would not be economic for the Group to enter the collection procedure through court, receivables are finally written down in full based on the management's decision.

The Group assesses evidence on loan impairment for each significant loan.

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

II. NON-FINANCIAL ASSETS

On each reporting date, the Group companies verify the carrying amount of significant non-financial assets with the purpose to establish whether there are any signs of impairment. If such signs exist, the recoverable amount of the asset is estimated. Goodwill and indefinite-lived intangible assets that are not ready for use are tested annually for impairment prior to compilation of financial statements. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of the two: value in use or fair value less costs of sale. When determining the value of an asset in use, the expected future cash flows are discounted to their current value by using the discount rate before tax that reflects regular market assessments of the time value of money and risks that typically occur in relation to the asset. For the purpose of impairment test, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from further use and are mostly independent from receipts of other assets and groups of assets (cash-generating unit). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

At the end of the reporting period, the Group companies evaluate losses due to impairment in previous periods and determine whether the loss has decreased or even disappeared. Loss due to impairment is reversed in case there has been a change in assessments, on the basis of which a company defines the recoverable amount of an asset. The impairment loss is reversed to the amount up to which the asset's increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation had no impairment loss been recognised for the asset in prior periods. Loss on impairment of goodwill is not derecognised.

3.5.3.10 Equity

Share capital and capital surplus represent cash and non-cash contributions made by the owner of the controlling company.

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

Other reserves are amounts that are intentionally retained from the controlling company's revenue of previous periods. They are created on the basis of the decision by relevant management and supervisory body.

Fair value reserve represents amounts arising from revaluation of derivatives, available-for-sale financial-assets of the Group, and the cumulative amount of actuarial gains/losses arising from the actuarial calculation from provisions for termination benefits upon retirement.

The retained earnings include profits or loss of the Group companies in the current and previous years.

The consolidated equity adjustment includes exchange rate differences from translations of items in financial statements of the Group companies operating abroad.

Minority interest represents the share of minority owners in the total equity of subsidiaries.

3.5.3.11 Provisions for jubilee premiums and termination benefits upon retirement

In accordance with legal regulations, collective agreements and internal rules, the Group companies are obliged to pay jubilee premiums to employees and termination benefits on their retirement for which provisions are created. There are no other existing pension liabilities.

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

3.5.3.12 Employee benefits

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

3.5.3.13 Other provisions

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

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

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

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 by costs or expenses for settling of items for which they were created. The aforesaid means that these costs or expenses no longer appear in the fiscal year; the discount-related effects are recognised within finance costs.

In the event the anticipated liabilities do not occur, or if the period of drawing the provisions is extended, the amount of the created provisions is reversed to the credit of operating costs. 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 during the 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 elements based on which TEŠ has prepared the assessment of the necessary decommissioning and the assessment of possible income arising from the sale of decommissioned materials/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 adjusted 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 terms and conditions for these kinds of work e.g. (environmental terms, health safety terms, handling of certain materials that might be labelled as dangerous in the future, etc.). Most of these conditions will be determined in the consents 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 types of government grants are initially recognised as deferred income within long-term liabilities when there is reasonable assurance that they will be received and that the Group will comply with terms and conditions associated with the grant. Subsequently they are recognised in the income statement among other operating income in the useful life of each individual asset. Government grants received for covering costs and expenses are recognised as income in periods in which the relevant costs arise that are to be replaced by the government grants.

3.5.3.15 Other assets and liabilities

Other assets include advances given, receivables due from state institutions and other long-term and short-term deferred costs and accrued income.

Accrued income is income which is taken into account in the profit or loss, although not charged yet.

Deferred costs represent the amounts incurred but not yet charged against the profit or loss.

Other liabilities include advances received, payables to employees, payables to state and other institutions, and long-term and short-term accrued costs and deferred income.

Deferred income is income that will in a period longer than one year cover the anticipated expenses. They include also government grants and asset-related grants.

Accrued costs are amounts that have not occurred yet but will in the future and have already an impact on profit or loss.

3.5.3.16 Contingents liabilities

Contingent liability is:

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

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

3.5.3.17 Revenue

The sales revenue is recognised at fair value of the received payment of receivables, namely decreased by discounts. The revenue is disclosed when the buyer assumes all significant types of risks and benefits related to the ownership of the asset, when there is a certainty in relation to recoverability of a fee and related costs or possibility of repayment of products and when the Group stops deciding on products sold.

Sales of goods are recognised when the Group delivers the products to the client. The client accepts the products, while the collectability of associated receivables is reasonably ensured.

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

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

Other operating income related to operating effects are composed of revenue from the reversal of provisions, revenue from utilisation of deferred income, gains arising from sales of fixed assets, reversal of impairment of receivables, received compensations and contractual penalties, and similar revenue (ex. government grants).

Finance income comprises revenue from shares in investments, interest on loans and deposits given and revenue of associates. Interest revenue is recognised upon its occurrence, in the amount of agreed-upon interest rate.

3.5.3.18 Expenses

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

The cost of goods sold includes expenses related to the sales of electricity and contingent costs of electricity. In case the Group has more negative than positive operating foreign exchange differences, they are recorded as costs of goods sold.

Costs of material are historical costs of materials purchased that are directly used for creating products and services (direct costs of material), as well as costs of material that do not have such characteristics and are included in relevant purpose (functional) groups of indirect operating costs. The first subgroup includes costs of raw materials, other materials and purchased parts and semi-finished products whose consumption can be related to creating products and services. The second group includes costs of auxiliary materials for maintenance of property, plant and equipment, small tools whose useful life does not exceed one year, spare parts for servicing of products after their sale, office supplies, specialised literature and other items. Costs of materials cover also the accrued costs of shrinkage, spilling, breakage and failure.

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

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

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

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

Finance costs comprise borrowing costs, including related derivatives and impairment of investments. Interest expenses are recognised upon their occurrence, in the amount of agreed-upon interest rate.

3.5.3.19 Taxation

Taxes include current and deferred tax liabilities. Current tax is included in the consolidated income statement. Deferred tax in recognised in the consolidated income statement and in the consolidated statement of financial position.

Current tax liabilities are based on taxable profit for the period. The taxable profit differs from net profit reported in the Group's profit or loss, since it excludes the items of revenue or expenses that are taxable or deductible in other years as well as items that are never taxable or deductible. The Group companies' current tax liabilities are calculated with tax rates that are applicable on the reporting date. If current tax liability is lower than advances paid, current tax receivable is disclosed.

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

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

Deferred tax liability represents the amount of accounted income tax from taxable temporary differences, which indicates that the amount of taxes to be paid will increase in the future.

3.5.3.20 Consolidated statement of cash flows

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

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

3.5.3.21 Segment reporting

The Group does not disclose operations by segments in the annual report. Segment reporting must be disclosed by the companies whose treasury or debt securities are traded in the market and companies which are issuing treasury or debt securities in public security markets.

3.5.3.22 New standards and interpretations issued by IASB and adopted by the European Union, which are not yet effective

New standards, interpretations and amendments to the existing standards as adopted by the European Union and stated below are not yet applicable and were not taken into account during the compilation of the annual financial statements for the fiscal year that started as of 1 January 2017:

- **IFRS 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contracts with Customers**

(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:

- identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide entities with two additional practical expedients:

- An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application). Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, the management does not expect that the new standard, when initially applied, will have material impact on the its financial statements. The timing and measurement of the Group's income are not expected to change under IFRS 15.

➢ IFRS 9 Financial Instruments (2014)

(Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting until the standard resulting from the IASB's project in macro hedge accounting is effective.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

Further, financial assets, such as equity instruments of other entities are measured at fair value.

Gains and losses arising on remeasurement of financial assets are recognised in profit or loss, except financial assets owned within the business model, which aims to obtain contractually agreed cash flows through the sale of these assets – gains and losses on the remeasurement are recognised in the statement of other comprehensive income.

In relation to non-trading equities, entities can irrevocably decide to present subsequent changes of fair value (including exchange gains and losses) in other comprehensive income. In no circumstances can they subsequently be reclassified to profit or loss.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required

The Group does not expect the new standard on the day of its first application to have a material impact on its financial statements.

➢ Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Group expects that the amendments, when initially applied, will have a material impact on its financial statements as the volatility that arises from application of IFRS 9 will be recognized in other comprehensive income rather than profit or loss.

➢ IFRS 16 Leases

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

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

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

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

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

It is expected that the new standard, when initially applied, will have a certain impact on the financial statements, since it will require the Group to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Entity acts as a lessee. Detailed value analysis about the expected impact by the new standard have not yet been prepared but based on the reviewed list of operating lease contracts the Group assesses that the impact will not be material in view of the currently disclosed values of fixed assets and Group's financial liabilities.

➢ Annual Improvements to the IFRS 2014-2016 Cycle

(Effective for annual periods beginning on or after 1 January 2018 except for the changes to IFRS 12 that shall be applied for annual periods beginning on or after 1 January 2017.)

The Improvements to IFRSs (2014-2016) contains 3 amendments to standards. The main changes were to:

- delete short-term exemptions for first-time adopters (IFRS 1 First-time Adoption of International Financial Reporting Standards) relating, inter alia, to transition provisions of IFRS 7 Financial Instruments - Disclosures regarding comparative disclosures and transfers of financial assets, and of IAS 19 Employee

Benefits; The exemptions were deleted due to the fact that these reliefs had been available to entities only for reporting periods that had passed;

- clarify that requirements of IFRS 12 Disclosure of Interest in Other Entities (with an exception of disclosure of summarized financial information in accordance with paragraphs B10-B16 of that standard) apply to entities that have an interest in subsidiaries, or joint arrangements, or associates, or unconsolidated structured entities, which are classified as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; and
- clarify that election of exemption from applying the equity method per IAS 28 Investments in Associates and Joint Ventures shall be made separately for each associate or joint venture at initial recognition of the associate or joint venture.

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

New standards and amendments that were not yet adopted by the European Union

➢ Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

(The European Commission decided to defer the endorsement indefinitely.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

➢ IFRS 17 Insurance Contracts

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

This pronouncement is not yet endorsed by the Europena Union.

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

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

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

➢ IFRIC 22 Foreign Currency Transactions and Advance Consideration

(Effective for annual periods beginning on or after 1 January 2018. Early application is permitted.)

This interpretation is not yet endorsed by the European Union.

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance and clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The Group does not expect that the interpretation, when initially applied, will have material impact on the financial statements as it uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

➢ IFRIC 23 Uncertainty over Income Tax Treatments

(Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.)

This interpretation is not yet endorsed by the European Union.

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

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

➢ Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Earlier application is permitted.)

These amendments are not yet endorsed by the European Union.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because it does not enter into share-based payment transactions.

➢ Amendments to IAS 40 Transfers of Investment Property

(Effective for annual periods beginning on or after 1 January 2018; earlier application is permitted.)

These amendments are not yet endorsed by the European Union.

The Amendments provide clarification on transfers to, or from, investment properties:

- a transfer into, or out of investment property should be made only when there has been a change in use of the property; and
- such a change in use would involve an assessment of whether the property qualifies as an investment property.

The Group does not expect that the amendments will have a material impact on the financial statements because the company transfers a property asset to, or from, investment property only when there is an actual change in use/the company does not record investment property.

➢ Amendments to IFRS 9 Prepayment *Features with Negative Compensation*

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

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

The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

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

➢ Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the European Union.

The amendment clarifies that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

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

➢ Annual Improvements to IFRS 2015-2017 Cycle

(Effective for annual periods beginning on or after 1 January 2019.)

These annual improvements are not yet endorsed by the European Union.

The Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to:

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

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

➢ Amendments to IAS 19: Employee Benefits

(Effective for annual periods beginning on or after 1 January 2019.)

These annual improvements are not yet endorsed by the European Union.

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

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

3.5.4 Determination of Fair Value

With reference to disclosing financial instruments, their fair values must be presented. Fair value is the amount by which an asset can be sold, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

- first level comprises quoted prices (unmodified) in active markets for equal assets or liabilities;

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

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

3.5.5 Financial Risk Management

Detection and management of financial risks is defined in the business report.

In notes to consolidated financial statements, the risks are presented in connection with items in consolidated financial statements (note 'Financial instruments and risks'), namely:

- credit risk,
- liquidity risk,
- currency risk,
- interest rate risk, and
- price risk.

3.5.6 Changes in the Group in 2017

COMPANY'S INCLUSION INTO THE GROUP

The company PV purchased in 2017 equity interests from all shareholders in the company Sipoteh and is now its sole (100%) owner. In compliance with the Agreement on implementing measures for a financial restructuring, PV transformed the existing receivables into equity of Sipoteh. The total value of the repurchased interests and transformed receivables amounted to EUR 703 thousand.

With Sipoteh's joining the HSE Group, additional assets worth EUR 901 thousand were obtained, whereof long-term assets in the amount of EUR 195 thousand and liabilities worth EUR 634 thousand.

Based on Sipoteh's inclusion and consequently affecting the consolidation on the total equity and long-term investments in Sipoteh, the HSE Group discloses goodwill among its intangible assets.

Assets acquired and liabilities taken over by the Group (in 000 EUR)	2017
Assets	901
Liabilities	634
Net value of acquired assets	266
Value of allowance for obtaining an equity interest	703
Goodwill	436

COMPANY'S EXCLUSION FROM GROUP

In 2017, the HSE Group no longer includes the company Golte as a result of a material change in the ownership structure (e.g. from majority into minority interest). In November 2017, two HSE Group companies sold their equity interests in the Golte company. The effect of the Golte's final exclusion from the HSE Group is disclosed as increase in equity in the total amount of EUR 537 thousand, which mostly refers to eliminating the impairment of assets in previous years.

The relevant exclusion or sale of the equity interests had no impact on HSE Group's cash flow in 2017, as the respective payments will be carried out in 2018 based on the Agreement on disposal of equity interests.

Assets and liabilities eliminated from the Group (in 000 EUR)	2017
Property, plant and equipment	4,608
Other long-term investments and loans	7
Assets held for sale	793
Short-term operating receivables	150
Other short-term assets	54
Cash and cash equivalents	79
Provisions	(27)
Long-term deferred income	(1,692)
Long-term financial liabilities	(3,143)
Short-term financial liabilities	(5)
Short-term operating liabilities	(787)
Other short-term liabilities	(37)

Group's financial statements are excluded additional impairments, which the Group recorded in previous years in connection with the valuation of fixed assets of Golte (e.g. land worth EUR 380 thousand and buildings worth EUR 992 thousand).

3.5.7 Disclosures to the Consolidated Financial Statements

3.5.7.1 Consolidated Statement of Financial Statement

As at 31 December 2017, Group's assets are recorded in the total amount of EUR 2,132,482 thousand.

INTANGIBLE ASSETS (1)

Intangible assets (in 000 EUR)	31/12/2017	31/12/2016
Emission coupons	3,090	2,159
Other long-term property rights	3,194	3,394
Goodwill	12,823	12,387
Total	19,107	17,939

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).

Movement of intangible assets (in 000 EUR)	Emission coupons	Long-term property rights	Goodwill	Other intangible assets	Total
Cost at 01/01/2017	2,159	15,591	12,387	5	30,142
Acquisitions	30,299	815	436		31,551
Transfers from investments	(29,368)	43			(29,325)
Transfer - restatements		25			25
Exchange differences		0			0
Write-offs		(470)			(470)
Cost at 31/12/2017	3,090	16,004	12,823	5	31,921
Write-downs at 01/01/2017		12,197		5	12,202
Disposals - write-offs, sales		(22)			(22)
Transfer - restatements		23			23
Amortisation		1,075			1,075
Exchange differences		0			0
Write-offs		(465)			(465)
Write-downs at 31/12/2017		12,809		5	12,814
Carrying amount at 31/12/2017	2,159	3,394	12,387		17,939
Cost at 01/01/2016	3,090	3,194	12,823		19,107
Cost at 01/01/2016	4,073	15,283	12,387	5	31,747
Acquisitions	27,172	657			27,829
Disposals - write-offs, sales	(29,086)	(47)			(29,133)
Transfer - restatements		114			114
Exchange differences		(0)			(0)
Write-offs		(416)			(416)
Cost at 31/12/2016	2,159	15,591	12,387	5	30,142
Write-downs at 01/01/2016		11,562		5	11,567
Disposals - write-offs, sales		(29)			(29)
Transfer - restatements		9			9
Amortisation		1,072			1,072
Exchange differences		(0)			(0)
Write-offs		(416)			(416)
Write-downs at 31/12/2016		12,197		5	12,202
Carrying amount at 01/01/2016	4,073	3,721	12,387		20,181
Carrying amount at 31/12/2016	2,159	3,394	12,387		17,939

The Group purchases emission coupons for the purpose of electricity production within the Group. In line with the changed legislation, all TPPs have to purchase emission coupons on the market since 2013. The opening balance of the Group's emission coupons amounted to 3,925 thousand coupons, 4,460 thousand of coupons were purchase in 2017 in the value of EUR 30,299 thousand, and 4,399 thousand of emission coupons were used or sold in the amount of EUR 29,368 thousand. Accordingly, the Group recorded 3,986 thousand emission at the year-end of 2017.

The largest amount among other long-term property rights refers to the licenced software, which the Group uses for information support. In 2017, additions hereunder amounted to EUR 815 thousand and write-offs were recorded at EUR 470 thousand (the carrying amount of the written off software was still EUR 5 thousand).

Amortisation of long-term property rights amounted in 2017 to EUR 1,075 thousand. In 2017, the useful lives of significant software was checked and according to findings made the useful lives of certain software were not properly assessed in view of currently anticipated use of these assets. The useful lives of the said software were accordingly extended, thus amortisation charge totalled in 2017 to EUR 3 thousand, which is EUR 3 thousand less than if the rates were not changed.

No impairments of Group's long-term property rights were performed in 2017.

In 2017, the Group companies did not written up interest to the cost of intangible assets arising from the purchase prior to bring the assets to its use, as the relevant setting up for the use of assets acquired in 2017 was of no long-term.

The Group has no intangible assets under finance lease and its intangible assets are not pledged as collateral.

As at 31 December 2017, the Group recorded EUR 111 thousand worth of contracts for purchasing intangible assets in the coming years.

Due to the Sipoteh's first inclusion into the consolidation procedure, the HSE Group discloses among its intangible assets also goodwill in the amount of EUR 436 thousand.

As at 30 September 2017, impairment testing of the cash generating unit SENG was carried out from which goodwill arises.

Assumptions considered in the impairment testing of the goodwill and relevant results are outlined below:

GOODWILL - SENG	
2017	2016
Method of defining the recoverable value during impairment testing	
Value in use (present value of the expected free cash flows)	Value in use (present value of the expected free cash flows)
Date of impairment testing	
30 September 2017	30 November 2016
Significant assumptions used during impairment testing	
Period of specific business outlook until 2030.	Company's business operations until 2030.
Discount rate in the nominal rate of 7.21%, adjusted to the real level: 5.52% in the October-December period of 2017, 5.30% in 2018 and from 2019 onwards 5.10%.	Discount rate in the nominal rate of 7.09%, adjusted to the real value: 5.93% for December 2016, 5.61% in 2017 and from 2018 onwards 5.51%.

(continued):

GOODWILL - SENG	
Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2018-2020, with the starting price of EUR 40.72/MWh, the price change in the period is 8.7%.	Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2017-2019, with the starting price of EUR 37.91/MWh, the price change in the period is -7.9%.
Long-term forecasts of electricity market price fluctuations (Poyry Management Consulting) for the 2021-2030 period, with the starting price of EUR 48.04/MWh, the price change in the period is 46.7%.	Long-term forecasts of electricity market price fluctuations (Poyry Management Consulting) for the 2020-2030 period, with the starting price of EUR 54.80/MWh, the price change in the period is 48.7%.
Average annual growth rate of normalised free cash flow is 0%.	Average annual growth rate of normalised free cash flow is 0%.
Average production is taken into account at 787 GWh/year. Average production of HPP on Soča is defined on the basis of statistical data on the average hydrology on the Soča river. In 2018 (lower by 162 GWh) and 2025 (lower by 278 GWh), lower electricity production is anticipated due to the overhaul of the PP Avče in the 2028-2030 period and the anticipated overhaul of the HPP Solkan (lower by 9 GWh).	Average production is taken into account at 787 GWh/year. Average production of HPP on Soča is defined on the basis of statistical data on the average hydrology on the Soča river. In 2018 (lower by 136 GWh) and 2025 (lower by 91 GWh), lower electricity production is anticipated due to the overhaul of the PP Avče in the 2028-2030 period and the anticipated overhaul of the HPP Solkan (lower by 9 GWh).
CAPEX in the period of projections is recorded at EUR 57,822 thousand.	CAPEX in the period of projections is recorded at EUR 65,423 thousand.

Impairment testing results

Carrying amount of goodwill prior to impairment testing was recorded at EUR 224,767 thousand.	Carrying amount of goodwill prior to impairment testing was recorded at EUR 190,700 thousand.
Recoverable value is stated at EUR 382,544 thousand.	Recoverable value is stated at EUR 414,029 thousand.
Revaluation expenses for impairment are recorded at EUR 0 thousand.	Revaluation expenses for impairment are recorded at EUR 0 thousand.

Sensitivity analysis - goodwill valuation

		Sensitivity (change) of the recoverable value in 000 EUR					
		Change in the discount rate (WACC) in %		Change NOPLAT (EBIT-tax) in %		Change of CAPEX in %	
Goodwill	Recoverable amount in 000 EUR	(0.5)	0.5	(5.0)	5.0	(5.0)	5.0
GOODWILL - SENG	382,544	36,760	(30,315)	(24,345)	26,345	7,999	(7,999)

PROPERTY, PLANT AND EQUIPMENT (2)

Property, Plant and Equipment (in 000 EUR)	31/12/2017	31/12/2016
Land	25,121	25,746
Buildings	398,966	408,828
Production equipment	1,191,031	1,238,219
Other equipment	29,107	27,934
Property, plant and equipment being acquired	38,063	22,437
Total	1,682,288	1,723,165

Most of the Group companies are engaged in the production of electricity or extraction of raw materials used for electricity production. This requires specialised equipment and buildings and due to the said activity also the values of buildings are significant. Therefore, property, plant and equipment account for the largest part of the Group's assets.

Movement Property, Plant and Equipment (in 000 EUR)	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost at 01/01/2017	34,183	1,171,823	3,185,534	71,205	30,507	4,493,252
Acquisition				1	44,066	44,068
Disposals	(1,425)	(10,501)	(6,269)	(3,324)	(36)	(21,554)
Transfers from investments	155	2,941	21,980	1,620	(26,696)	
Transfer - restatements	(1,879)	(1,399)	(6,264)	1,814	(1,234)	(8,962)
Depreciation						
Exchange differences			0	1		1
Value increase						
Impairment						
Write-offs	(22)	(191)	(8,686)	(1,018)	(475)	(10,392)
Cost at 31/12/2017	31,011	1,162,674	3,186,295	70,300	46,133	4,496,413
Write-downs at 01/01/2017	8,437	762,995	1,947,315	43,271	8,070	2,770,087
Acquisition	(1,750)	(2,593)				(4,343)
Disposals	(802)	(7,753)	(3,931)	(2,782)		(15,268)
Transfers from investments		88	668	6		762
Transfer - restatements		(10)	(389)	387		(13)
Depreciation	6	14,285	59,661	1,344		75,296
Exchange differences				1		1
Impairment		(3,113)	580	(17)		(2,550)
Write-offs		(191)	(8,640)	(1,016)		(9,847)
Writen-downs at 31/12/2017	5,891	763,707	1,995,264	41,193	8,070	2,814,125
Carrying amount at 31/12/2017	25,746	408,828	1,238,219	27,934	22,437	1,723,165
Carrying amount at 31/12/2017	25,121	398,966	1,191,031	29,107	38,063	1,682,288
Cost at 01/01/2016	35,868	1,180,003	3,173,084	89,698	20,440	4,499,094
Acquisition	24			1	34,840	34,866
Disposals	(1,725)	(14,759)	(4,540)	(636)		(21,659)
Transfers from investments	51	7,198	14,638	1,132	(23,019)	
Transfer - restatements	3		8,127	(18,533)	(1,221)	(11,624)
Exchange differences				(0)		(0)
Write-offs	(39)	(620)	(5,774)	(456)	(534)	(7,424)
Cost at 31/12/2016	34,183	1,171,823	3,185,534	71,205	30,507	4,493,252
Write-downs at 01/01/2016	9,255	754,693	1,897,637	60,432	8,070	2,730,087
Disposala	(1,007)	(6,868)	(3,986)	(472)		(12,333)
Transfer - restatements			(374)	(17,930)		(18,303)
Depreciation	6	14,549	59,743	1,529		75,826
Exchange differences				(0)		(0)
Impairment	183	1,239				1,422
Write-offs		(619)	(5,705)	(287)		(6,611)
Write-downs at 31/12/2016	8,437	762,995	1,947,315	43,271	8,070	2,770,087
Carrying amount at 01/01/2016	26,613	425,310	1,275,447	29,265	12,371	1,769,007
Carrying amount at 31/12/2016	25,746	408,828	1,238,219	27,934	22,437	1,723,165

The most significant among investments in property, plant and equipment of Group companies in 2017 are the investments made in the reconstruction of production facilities and purchasing equipment for conducting the core activity in the total amount of EUR 44,068 thousand.

Under additions or increases, the Group discloses the company Sipoteh's inclusion into the Group.

Disposals (business combinations) include the exclusion of the Golte company from the Group.

Most of transfers and reclassifications relate to investment properties in the carrying amount of EUR 1,875 thousand.

In 2017, the useful lives of major fixed assets were reviewed and according to findings made the useful lives of certain buildings and equipment were extended, which resulted in lower depreciation. Consequently, depreciation for such buildings and equipment amounted for 2017 to EUR 48 thousand, which is EUR 48 thousand less than the depreciation accounted in view of the initially defined useful lives.

The Group holds other equipment under finance lease in the amount of EUR 78 thousand, whereby no real properties are held under finance lease.

Mortgages are entered on Group's real properties and equipment as collaterals for borrowings in the carrying amount of EUR 94,849 thousand (2016: EUR 106,178 thousand), thereof EUR 1,074 thousand referring to land, EUR 51,727 thousand to buildings and EUR 42,047 thousand to production plant.

At the year-end of 2017, the Company recorded EUR 9,266 thousand worth of contracts for purchasing property, plant and equipment in the coming years.

As at 30 September 2017, the Group performed impairment testing of property, plant and equipment in cash generating units (CGUs), which recorded losses. The most significant among them is the CGU which includes electricity production in TEŠ and obtaining the energy product from the PV company (excavation of coal) for this production. Certified appraisals have valued the recoverable value of these assets.

The tables below show the assumptions applied in the impairment testing and the relevant result for fixed assets of the cash generating units TEŠ, PV and HTZ.

ASSETS IN TEŠ	
2017	2016
Method of defining the recoverable value during impairment testing	
Value in use (present value of the expected free cash flows)	Value in use (present value of the expected free cash flows)
Date of impairment testing	
30 September 2017	30 November 2016
Significant assumptions used during impairment testing	
Company's business operations until 2054.	Company's business operations until 2054.
Discount rate in the nominal rate of 7.50%, adjusted to the real level: 5.81% in the October-December period of 2017, 5.59% in 2018 and from 2019 onwards 5.39%.	Discount rate in the nominal rate of 7.35%, adjusted to the real value: 6.19% for December 2016, 5.87% in 2017 and from 2018 onwards 5.77%.
Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2018-2020, with the starting price of EUR 40.72/MWh, the price change in the period is 8.7 %.	Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2017-2019, with the starting price of EUR 37.91/MWh, the price change in the period is -7.9%.
Exchange prices for standardized futures contracts for CO_2 emission coupons at the EEX stock exchange for 2018-2020, with the starting price of EUR 6.48/t, the price change in the period is 14.8%.	Exchange prices for standardized futures contracts for CO_2 emission coupons at the EEX stock exchange for 2017-2020, with the starting price of EUR 4.83/t, the price change in the period is 2.3%.
Long-term forecasts for electricity prices fluctuations (Poyry Management Consulting) for the 2021-2040 period, with the starting price of EUR 48.04/MWh, the price change in the period is 58.7%.	Long-term forecasts for electricity prices fluctuations (Poyry Management Consulting) for the 2020-2040 period, with the starting price of EUR 54.80/MWh, the price change in the period is 62.4%.

ASSETS IN PV	
2017	2016
Method of defining the recoverable value during impairment testing	
Value in use (present value of the expected free cash flows)	Value in use (present value of the expected free cash flows)
Date of impairment testing	
30 September 2017	30 November 2016
Significant assumptions used during impairment testing	
Company's business operations until 2054.	Company's business operations until 2054.
Discount rate in the nominal rate of 7.85%, adjusted to the real level: 6.15% in the October-December period of 2017, 5.93% in 2018 and from 2019 onwards 5.73%.	Discount rate in the nominal rate of 7.9%, adjusted to the real value: 6.52% for December 2016, 6.21% in 2017 and from 2018 onwards 6.10%.
Coal's sales price is recorded at EUR 2.75/GJ in the overall period until 2054.	Coal's sales price is recorded at EUR 2.75/GJ in the overall period until 2054.
Costs for closing the coal mine after its operations are estimated at EUR 53,980 thousand.	Costs for closing the coal mine after its operations are estimated at EUR 53,388 thousand.
Average annual coal production is recorded at 35.292 TJ/year in the 2018-2030 period, decline in the volume of operations in the 2030-2040 period due to the anticipated closure of the coal mine; a constant production and sale of coal at 19,168 TJ/year is anticipated after 2040.	Average annual coal production is recorded at 35.422 TJ/year in the 2017-2030 period, decline in the volume of operations in the 2030-2040 period due to the anticipated closure of the coal mine; a constant production and sale of coal at 19,168 TJ/year is anticipated after 2040.

(continued):

ASSETS IN TEŠ		ASSETS IN PV	
2017	2016	2017	2016
Long-term forecasts for market price fluctuations for CO_2 emissions coupons (Poyry Management Consulting) for the 2021-2030 period, with the starting price at EUR 12,32/t, and the price change in the period is 107%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is kept on the level at 34%.	Long-term forecasts for market price fluctuations for CO_2 emissions coupons (Poyry Management Consulting) for the 2021-2030 period, with the starting price at EUR 15,39/t, and the price change in the period is 140.2%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is kept on the level at 56%.	CAPEX in the period of projections is recorded at EUR 371,539 thousand.	CAPEX in the period of projections is recorded at EUR 414,673 thousand.
The 2041-2054 takes account of the prices for electricity and CO_2 emission coupons from 2040.	The 2041-2054 takes account of the prices for electricity and CO_2 emission coupons from 2040.	The recoverable value of investments in subsidiaries and other companies is recorded at EUR 27,480 thousand.	The recoverable value of investments in subsidiaries and other companies is recorded at EUR 30,161 thousand.
Average annual production of electricity from coal power plant sis recorded at 3.6 TWh in the 2018-2030 period, 2.5 TWh in the 2031-2040 period and 2.0 TWh in the 2041-2054 period.	Average annual production of electricity from coal power plant sis recorded at 3.7 TWh in the 2017-2030 period, 2.6 TWh in the 2031-2040 period and 2.0 TWh in the 2041-2054 period.	The recoverable value of non-performing assets is recorded at EUR 4,288 thousand.	The recoverable value of non-performing assets is recorded at EUR 4,278 thousand.
Value of other income (income on provision of system services, thermal energy, income on sale of ash and gypsum) is recorded at EUR 20,030 thousand in 2018 and at EUR 19,169 thousand until 2054.	Value of other income (income on provision of system services, thermal energy, income on sale of ash and gypsum) is recorded at EUR 23,900 thousand in 2017 and at EUR 27,300 thousand until 2054.		
CAPEX in the period of projections is recorded at EUR 179,730 thousand.	CAPEX in the period of projections is recorded at EUR 211,115 thousand.		

Impairment testing results		*Impairment testing results*	
Carrying amount of assets prior to impairment testing was recorded at EUR 998,640 thousand.	Carrying amount of assets prior to impairment testing was recorded at EUR1,021,483 thousand.	Carrying amount of assets prior to impairment testing was recorded at EUR 70,852 thousand.	Carrying amount of assets prior to impairment testing was recorded at EUR 67,416 thousand.
Recoverable value is stated at EUR 1,005,550 thousand.	Recoverable value is stated at EUR 1,041,847 thousand.	Recoverable value is stated at EUR 70,736 thousand.	Recoverable value is stated at EUR 68,497 thousand.
Revaluation expenses for impairment are recorded at EUR 0 thousand.	Revaluation expenses for impairment are recorded at EUR 0 thousand.	Operating expenses for impairment are recorded at EUR 116 thousand and income on reversal of impairment at EUR 1,511 thousand.	Revaluation expenses for impairment are recorded at EUR 0 thousand.

ASSETS IN HTZ	
2017	2016
Method of defining the recoverable value during impairment testing	
Value in use (present value of the expected free cash flows)	Value in use (present value of the expected free cash flows)
Date of impairment testing	
30 September 2017	30 November 2016
Significant assumptions used during impairment testing	
Company's business operations until 2054.	Company's business operations until 2054.
Discount rate in the nominal rate of 7.56%, adjusted to the real level: 7.56% in the October-December period of 2017, 5.65% in 2018 and from 2019 onwards 5.45%.	Discount rate in the nominal rate of 7.31%, adjusted to the real level: 6.15% in December 2016, 5.83% in 2017 and from 2019 onwards 5.73%.
Average annual net revenue in the 2018-2030 period is recorded at EUR 21,779 thousand, in the 2030-2040 period at EUR 16,001 thousand, and from 2040 onwards at EUR 12,763 thousand.	Average annual net revenue in the 2017-2030 period is recorded at EUR 20,444 thousand, in the 2030-2040 period at EUR 14,749 thousand, and from 2040 onwards at EUR 11,826 thousand.
Average annual other income in the 2018-2030 period is recorded at EUR 6,560 thousand, in the 2030-2040 period at EUR 4,655 thousand, and from 2040 onwards at EUR 3,713 thousand.	Average annual other income in the 2017-2030 period is recorded at EUR 5,910 thousand, in the 2030-2040 period at EUR 4,095 thousand, and from 2040 onwards at EUR 3,284 thousand.
Average annual employee benefits expense in the 2018-2030 period is recorded at EUR 20,992 thousand, in the2030-2040 period at EUR 14,960 thousand, and from 2040 onwards at EUR 11,993 thousand.	Average annual employee benefits expense in the 2017-2030 period is recorded at EUR 19,393 thousand, in the2030-2040 period at EUR 13,524 thousand, and from 2040 onwards at EUR 10,844 thousand.
Average annual costs of services in the 2018-2030 period are recorded at EUR 2,845 thousand, in the 2030-2040 period at EUR 2,148 thousand, and from 2040 onwards at EUR 1,713 thousand.	Average annual costs of services in the 2017-2030 period are recorded at EUR 2,710 thousand, in the 2030-2040 period at EUR 1,955 thousand, and from 2040 onwards at EUR 1,568 thousand.
Average annual costs of materials in the 2018-2030 period are recorded at EUR 2,064 thousand, in the 2030-2040 period at EUR 1,609 thousand, and from 2040 onwards at EUR 1,283 thousand.	Average annual costs of materials in the 2017-2030 period are recorded at EUR 1,415 thousand, in the 2030-2040 period at EUR 1,021 thousand, and from 2040 onwards at EUR 819 thousand.
Recoverable value of surplus assets is recorded at EUR 2,071 thousand.	Recoverable value of surplus assets is recorded at EUR 1,740 thousand.
CAPEX in the period of projections is recorded at EUR 28,715 thousand.	CAPEX in the period of projections is recorded at EUR 28,552 thousand.
Costs of closing the company in 2054 are recorded at EUR 11,560 thousand.	Costs of closing the company in 2054 are recorded at EUR 9,956 thousand.
Impairment testing results	
Carrying amount of assets prior to impairment testing was recorded at EUR 9,222 thousand.	Carrying amount of assets prior to impairment testing was recorded at EUR 9,758 thousand.
Recoverable value is stated at EUR 15,904 thousand.	Recoverable value is stated at EUR 20,809 thousand.
No operating expenses arising on impairment were recorded, whereas income on reversal of impairment was recorded at EUR 1,718 thousand.	Revaluation expenses for impairment are recorded at EUR 0 thousand.

Sensitivity analysis by individual category for CGUs TEŠ, PV and HTZ

Long-term fixed assets	Recoverable amount in 000 EUR	Sensitivity (change) of the recoverable value in 000 EUR					
		Change in the discount rate (WACC) in %		Change NOPLAT (EBIT-tax) in %		Change of CAPEX in %	
		(0.5)	0.5	(5.0)	5.0	(5.0)	5.0
TEŠ	1,005,550	(65,534)	(69,533)	(29,096)	23,701	2,350	(7,746)
PV	70,736	4,754	(4,300)	(1,242)	1,242	9,464	(9,464)
HTZ	15,904	408	(397)	(609)	609	657	(675)

Based on valuations conducted by a certified appraiser, the Group impaired the cash generating units TET – in liquidation (EUR 2,204 thousand), PV Invest (EUR 163 thousand) and RGP (EUR 580 thousand). The total amount of eliminating impairments is recorded at EUR 3,229 thousand, whereof the cash generating unit PV accounts for EUR 1,511 thousand and HTZ for EUR 1,718 thousand.

Given the valuation of property, plant and equipment as at 31 December 2017 and the fact that the impairment tests were carried out as at the balance of 30 September 2017, the Group assessed the changed circumstances of CGU's business operations in the last month of the fiscal year 2017. It was established that relevant circumstances of business operations have not significantly changed in the last quarter of 2017, showing that the valuation of property, plant and equipment as at 31 December 2017 remains unchanged in view of the balance as at 30 September 2017.

INVESTMENT PROPERTY (3)

Investment property (in 000 EUR)	31/12/2017	31/12/2016
Land	1,421	126
Buildings	10,728	7,145
Total	12,148	7,270

Most of investment property refers to apartments. The valuation conducted by a certified appraiser has established that the fair value of apartments exceeds book value. In relation to hiring out investment properties, the Group generated in 2017 rental income in the amount of EUR 1,043 thousand and costs in the amount of EUR 56 thousand.

Investment property under mortgage are recorded at EUR 6,525 thousand.

Within the valuation of the PV Group's equity, which was performed by a certified appraiser, the recoverable value of PV Group's investment property was determined as at 30 September 2017 for the purpose of an impairment testing. The recoverable value is calculated as fair value less selling costs by using the market approach and the yield capitalisation approach, whereas the recoverable value of apartments, business premises and parking premises is established as the fair value less selling expenses by applying the discounted cash flows method.

The Group is not required to perform any impairments.

Movement of investment property (in 000 EUR)	Land	Buildings	Total
Cost at 01/01/2017	237	13,449	13,686
Acquisition		1,389	1,389
Transfer - restatements	4,255	5,551	9,806
Disposals	(310)	(1,389)	(1,699)
Write-downs at 01/01/2017	4,182	19,001	23,183
Write-downs at 01/01/2017	111	6,305	6,416
Transfer - restatements	2,755	2,614	5,369
Disposals	(105)	(990)	(1,095)
Depreciation		344	344
Writen-downs at 31/12/2017	2,761	8,273	11,034
Carrying amount at 01/01/2017	126	7,145	7,270
Carrying amount at 31/12/2017	1,421	10,728	12,148
Cost at 01/01/2016	186	11,288	11,474
Acquisition		290	290
Transfer - restatements	51	2,273	2,324
Disposals		(402)	(402)
Cost at 31/12/2016	237	13,449	13,686
Write-downs at 01/01/2016	84	4,686	4,771
Transfer - restatements	7	1,336	1,343
Disposals		(158)	(158)
Depreciation		283	283
Impairment	20	158	178
Write-downs at 31/12/2016	111	6,305	6,416
Carrying amount at 01/01/2016	102	6,602	6,703
Carrying amount at 31/12/2016	126	7,145	7,270

Transfers and reclassifications include the value of land and buildings, which were transferred from property, plant and equipment in the book amount of EUR 1,875 thousand.

OTHER LONG-TERM INVESTMENTS AND LOANS (4)

Other long-term investments and loans (in 000 EUR)	31/12/2017	31/12/2016
Long-term investments in associates	137,272	136,947
Long-term investments in jointly controlled entities	443	457
Long-term financial assets available for sale	145	139
Other long-term investments	7	15
Long-term financial receivables and loans	55	165
Total	137,922	137,723

No essential changes were recorded with other long-term investments and loans in 2017, while long-term investments in associates increased due to the write-up under the equity method.

A) INVESTMENTS IN ASSOCIATES

Investments in associates (in 000 EUR)	31/12/2017	31/12/2016
ERICO		449
PLP	194	305
HESS	137,078	136,192
Total	137,272	136,947

Group's most significant investments in associates relates to the 49 percent equity interest in the company HESS.

Movement of long-term investments in associates (in 000 EUR)	2017	2016
Balance at 01/01	136,947	135,777
Disposal of ELDOM		(134)
Disposal of ERICO	(449)	
Attributable profits under equity method	927	1,308
Transfers, restatements	(153)	
Impairment of SIPOTEH		(4)
Balance at 31/12	137,272	136,947

Change in the value of investments in associates primarily refers to the write-up of profits based on the equity method and the sale of an associated entity.

Data on associates as at 31 December 2017	Address	Activity
PLP	Partizanska 78 3320 Velenje, Slovenia	Timber activity
RCE - bankruptcy	Preloška cesta 1 3320 Velenje, Slovenia	R&D in natural science and technology
Filvoteh - in liquidation	Cesta Simona Blatnika 18 3320 Velenje, Slovenia	Other engineering activity, advisory
Tehnoveter - in liquidation		
Karboteh - in liquidation		
HESS	Cesta bratov Cerjakov 33a 8250 Brežice, Slovenia	Electricity production in HPP

Significant amounts from the financial statements of associates (in 000 EUR)	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
HESS	343,831	64,825	15,256	1,808	279,006
PLP	1,618	389	2,840	160	1,560
Tehnoveter - in liquidation	0			(0)	0
Karboteh - in liquidation	1			(0)	1
Total	345,450	65,214	18,096	1,967	280,566

B) INVESTMENTS IN THE JOINTLY CONTROLLED ENTITIES

Jointly controlled entity	31/12/2017	31/12/2016
Soenergetika	443	457

Investments in jointly controlled entities includes the 25 percent equity interest in the company Soenergetika.

Movement of long-term investments in the jointly controlled entity (in 000 EUR)	2017	2016
Balance at 01/01	457	463
Transfers, restatements	(150)	(150)
Value increase	137	144
Balance at 31/12	443	457

Significant amounts from the financial statements of the jointly controlled entity for 2017 (in 000 EUR)	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
Soenergetika	3,135	1,301	3,304	546	1,834

DEFERRED TAX ASSETS (5)

Deferred tax assets (in 000 EUR)	31/12/2017	31/12/2016
Provisions	482	460
Impairment	234	5,472
Depreciation and amortisation expense	0	1
Other	121	22
Total	838	5,955

Change in deferred tax assets is in 2017 recorded at EUR – 5,118 thousand and is included in the consolidated income statement in the amount of EUR 5,119 thousand and in equity at EUR 1 thousand. The disclosed amount, which is recognised in the consolidated income statement, relates largely to the reversal of deferred tax assets where the company in liquidation will be reactivated; the controlling company had deferred tax assets formed in connection with impairment.

LIABILITIES FOR DEFERRED TAXES (6)

Liabilities for deferred taxes (in 000 EUR)	31/12/2017	31/12/2016
Financial assets	6	4
Total	6	4

Movement of deferred tax (in 000 EUR)	Provisions	Impairment	Depreciation and amortisation expense	Other	Total
Balance at 01/01/2017	460	5,472	1	22	5,955
To debit/credit of profit or loss	23	(5,239)	(1)	97	(5,119)
To debit/credit of other comprehensive income				1	1
Balance at 31/12/2017	482	234	0	121	838
Balance at 01/01/2016	422	4,381	4	199	5,006
To debit/credit of profit or loss	38	1,092	(3)	(130)	996
To debit/credit of other comprehensive income				(47)	(47)
Balance at 31/12/2016	460	5,472	1	22	5,955

Change in deferred tax assets arising from provisions refer to jubilee premiums and termination benefits, and changes in other provisions.

Change in deferred tax assets on impairment comprises in 2017 the reversal of deferred tax assets by temporary differences arising from tax non-deductible revaluation financial expenses for impairment of long-term investments as the subsidiary in liquidation will be reactivated; the controlling company consequently reversed the deferred tax assets, which arise from impairment of long-term investments in the subsidiary.

Changes in deferred tax assets relating to amortisation and depreciation arise from differences established between the operating and tax depreciation in 2017.

Other changes in deferred tax assets primarily refer to changes in fair values of interest and currency swaps and to impairment of receivables.

INVENTORIES (7)

Inventories (in 000 EUR)	31/12/2017	31/12/2016
Material	21,078	11,651
Work in progress	5	861
Products and merchandise	3,340	6,633
Total	24,423	19,144

The largest amount in the inventories of spare parts and materials is represented by inventories of spare parts and materials for maintenance, which are necessary for fast repair of defects of production equipment and thus ensuring reliable production.

The highest amount among inventories of products and merchandise refers to inventory of coal.

No inventories have been pledged as collateral.

Inventory surpluses and deficits (in 000 EUR)	31/12/2017	31/12/2016
Value adjustments for inventory	(205)	
Surpluses in year-end inventory	7	8
Deficits in year-end inventory	(18)	(18)
Write-off of inventory due to change of thei	(86)	(103)

SHORT-TERM INVESTMENTS AND LOANS (8)

Short-term investments and loans (in 000 EUR)	31/12/2017	31/12/2016
Short-term financial receivables and loans to associates		0
Short-term deposits to others	13,516	2,725
Total	13,516	2,725

Increase in short-term deposits granted to others refers to liabilities arising under the deposit, which the subsidiary TEŠ disclosed in connection with the loan contract with EBRD; the deposit is earmarked for repaying the loan instalments.

SHORT-TERM TRADE RECEIVABLES (9)

Short-term trade receivables (in 000 EUR)	31/12/2017	31/12/2016
Short-term operating receivables to associates	224	641
Short-term operating receivables due from jointly controlled entities	0	0
Short-term trade receivables	123,702	116,567
Total	123,927	117,208

Due to production of electricity by subsidiaries and purchase of electricity by the controlling company, the majority of short-term trade receivables are related to the sale of electricity by the controlling company.

Disclosures in relation to maturity of receivables, allowances for receivables and insuring short-term operating receivables are represented in the section on financial risk management hereunder.

OTHER SHORT-TERM ASSETS (10)

Other short-term assets (inb 000 EUR)	31/12/2017	31/12/2016
Short-term advances	2,592	1,645
Short-term operating receivables to state and other institutions	28,241	26,026
Short-term operating receivables due from others	7,670	829
Accrued income	1,747	1,534
Short-term deferred costs and expenses	6,810	6,055
Total	47,059	36,089

Most of receivables among short-term assets comprise receivables due from the state and other institutions, whereof these mostly refer to input VAT.

Short-term deferred costs primarily relate to transactions arising in connection with electricity trading.

CASH AND CASH EQUIVALENTS (11)

Cash and cash equivalents (in 000 EUR)	31/12/2017	31/12/2016
Money in transit	751	
Cash in hand and cheques received	4	63
Bank balance	33,114	49,975
Call deposits	28,035	31,280
Deposits tied up to 3 months	540	2,168
Total	61,693	83,485

For the purposes of carrying out its activities, the Group holds bank accounts in Slovenia and abroad (controlling company in particular). Call deposits include mostly overnight deposits.

EQUITY (12)

Equity (in 000 EUR)	31/12/2017	31/12/2016
Called-up capital	29,559	29,559
Capital surplus	561,243	561,243
Other revenue reserves	413,856	413,856
Hedging reserve	10,753	1,741
Fair value reserve	(1,295)	(1,029)
Reatined earnings	18,766	10,831
Translation reserve	(1,072)	(1,395)
Non-controlling interest	616	414
Total	1,032,427	1,015,220

Capital surplus (in 000 EUR)	31/12/2017	31/12/2016
Paid-in capital surplus	561,243	561,243
Amounts arising from reversal of general capital revaluation adjustment	0	0
Total	561,243	561,243

The value of share capital, capital surplus and other revenue reserves remained unchanged in 2017.

Other revenue reserves refer to the portion of controlling company's profits brought forward and generated up until 31 December 2013. Since that date, possible profits of the controlling company, which are allocated to other revenue reserves, are not transferred in the consolidated financial statements and are recorded under retained earnings or losses.

As at 31 December 2017, the Group discloses under the fair value reserve in total amount of EUR 10,753 thousand:

- results of standardized futures for electricity (forward contracts) in the amount of EUR 1,178 thousand,
- results for standardized futures for emission coupons (forward contracts) in the amount of EUR 9,625 thousand,
- fair value of currency swaps EUR - 49 thousand.

Movement of the hedging reserve (in 000 EUR)	Standardized futures for electricity	Standardized futures for emission coupons	Interest rate swaps	Currency swaps	Total
Balance at 01/01/2017	94	1,690		(43)	1,741
Formation, increase	2,029	13,180		(49)	15,160
Decrease	(506)	(5,245)		43	(5,707)
Transfer to costs	(440)				(440)
Balance at 31/12/2017	1,178	9,625		(49)	10,753
Balance at 01/01/2016	(515)		(272)	(64)	(851)
Formation, increase	1,298	5,944		(43)	7,199
Decrease	(689)	(4,255)	283	64	(4,597)
Deferred tax			(11)		(11)
Balance at 31/12/2016	94	1,690		(43)	1,741

The hedging reserve increased in 2017 by EUR 9,013 thousand, which is mostly attributable to higher trading with standard futures on the electricity markets and to the emission coupons.

Electricity futures contracts refer to concluding deals on purchase of electricity on foreign electricity stock exchanges for the period from 2018 to 2020, thus securing the already concluded deals for the sale of electricity in the same period. Standard futures contracts for emission coupons represent contracts of purchase and sale of emission coupons on foreign exchanges for the period from 2018 to 2020. On the basis of electricity fluctuations and emission coupon prices on the stock exchange, a cumulative positive financial effect in the amount of EUR 9,019 thousand was realised in forwards concluded in 2017. No deferred taxes were accounted in this relation, as the Group will pay an agreed-upon price during the deal's realisation.

In 2017, the Group closed the currency swaps, whose negative fair value amounted as at 31 December 2016 (inclusive of deferred taxes) to EUR 43 thousand. The Group entered in 2017 into new deals and partly already also closed them. The overall change in the fair value is negative and recorded at EUR – 6 thousand, while deferred tax assets increased by EUR 1 thousand. The negative fair value of open currency swaps amounted at the end of 2017 to EUR – 61 thousand, whereof EUR 12 thousand were accounted for deferred tax assets. Thus the closing balance, inclusive of deferred taxes, is recorded at EUR - 49 thousand EUR.

Movement of fair value reserve (in 000 EUR)	Available-for-sale assets	Actuarial gains/losses	Other	Total
Balance at 01/01/2017	33	(1,073)	12	(1,029)
Formation, increase	7	(314)		(307)
Decrease	(2)	(42)		(44)
Transfer to retained earnings or losses		85		85
Balance at 31/12/2017	38	(1,344)	12	(1,295)
Balance at 01/01/2016	35	(729)	15	(679)
Formation, increase		21		21
Decrease	(0)	(430)		(431)
Transfer to retained earnings or losses		32		32
Exchange differences	(3)	34	(3)	28
Balance at 31/12/2016	33	(1,073)	12	(1,029)

Group's fair value discloses at the year-end of 2017:

- change in the value of financial assets available for sale in the mount of EUR 38 thousand,
- actuarial losses on retirement benefits in the amount of EUR – 1,344 thousand, and
- revaluation of land in the amount of EUR -12 thousand.

Retained ernings or losses (in 000 EUR)	2017	2016
Net profit	7,765	21,679
Retained earnings or losses	11,001	(10,848)
Total	18,766	10,831

At the end of 2017, the Group discloses profit in the amount of EUR 7,765 thousand. Retained earnings or losses increased in 2017 by the effect of eliminating the company Golte from the Group and the joining of the company Sipoteh to the Group, and declined by the loss from actuarial restatement retirement benefits.

Translation reserve amounted to EUR 1,072 thousand and includes exchange differences arising on the translation of financial statements of subsidiaries abroad into the Group's presentation currency.

Equity of the non-controlling interest represents the value of owners holding non-controlling interests in subsidiaries and is disclosed at EUR 616 thousand.

Non-controlling interests (in 000 EUR)	31/12/2017	2017	31/12/2016	2016
	Non-controlling interests	Profit shares	Non-controlling interests	Profit shares
GOST				0
PV Invest			(18)	
GOLTE			(266)	(18)
HSE Invest	400	(50)	448	2
SRESA	27	(0)	27	(3)
mHE Lobnica	217	(5)	222	1
Total	616	(55)	414	(18)

Accumulated profit or loss is not established on the Group level.

PROVISIONS FOR JUBILEE PREMIUMS AND RETIREMENT BENEFITS (13)

Provisions for termination benefits and jubilee premiums (in 000 EUR)	31/12/2017	31/12/2016
Provisions for termination benefits upon retirement	10,620	10,292
Provisions for jubilee premiums	3,299	3,261
Total	13,919	13,554

The Group discloses provisions for termination benefits and jubilee premiums created on the basis of an actuarial calculation prepared as at 31 December 2017.

Provisions for termination benefits and jubilee premiums (in 000 EUR)	Provisions for termination benefits upon retirement	Provisions for jubilee premiums	Total
Balance at 01/01/2017	10,292	3,261	13,554
Formation, increase	1,419	518	1,937
Decrease - utilisation	(661)	(313)	(974)
Decrease - reversal	(431)	(167)	(598)
Balance at 31/12/2017	10,620	3,299	13,919
Balance at 01/01/2016	9,505	3,162	12,667
Formation, increase	2,873	914	3,788
Decrease - utilisation	(1,182)	(508)	(1,690)
Decrease - reversal	(904)	(308)	(1,211)
Balance at 31/12/2016	10,292	3,261	13,554

The actuarial calculation was based on:

- the number of employees in the Group as at 31 October 2017 (gender, age, overall and pension qualifying period of service, average net and gross salary for the period August-October 2017);
- method for calculating termination and jubilee premiums in the company;
- average salary growth of 1.7% for 2017, 1.6% for 2018, and 2.2% p.a. from 2019 onwards;
- nominal long-term interest rate of 1.2%, and
- employee turnover by age category.

Sensitivity analysis (in 000 EUR)	Discount rate		Growth of wages	
	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	199	(184)	(184)	203
Provisions for jubilee premiums	81	(75)	(79)	83
Total 2017	280	(259)	(262)	287
Provisions for termination benefits upon retirement	198	(183)	(179)	198
Provisions for jubilee premiums	82	(76)	(78)	82
Total 2016	279	(258)	(258)	281

OTHER PROVISIONS (14)

Other provisions (in 000 EUR)	31/12/2017	31/12/2016
For lawsuits	4,363	4,622
For closing works on mining caves	31,224	30,539
For decommissioning	11,376	11,141
For compensations	1,647	20
Other provisions	3,885	9,516
Total	52,496	55,839

Decrease in other provisions over the 2016 year-end balance primarily refers to reversal of provisions for hazardous waste dump in the subsidiary TET – in liquidation, and the reposting of unpaid wages to the item 'short-term portion' in the companies PV and HTZ.

Movement of other provisions (in 000 EUR)	Lawsuits	Closing works on mining vaves	For decommissioning	Compensations	Other provisions	Total
Balance at 01/01/2017	4,622	30,539	11,141	20	9,516	55,839
Formation, increase	702	685	235	1,627	184	3,433
Decrease - utilisation					(1,694)	(1,694)
Transfers and restatements	(941)				(1,165)	(2,106)
Decrease - reversal	(20)				(2,955)	(2,975)
Balance at 31/12/2017	4,363	31,224	11,376	1,647	3,885	52,496
Balance at 01/01/2016	4,508	28,611	8,970	20	9,504	51,614
Formation, increase	4,680	3,458	2,171		4,418	14,727
Decrease - utilisation	(806)				(1,065)	(1,871)
Decrease - reversal	(3,760)	(1,530)			(3,341)	(8,631)
Balance at 31/12/2016	4,622	30,539	11,141	20	9,516	55,839

Provisions for legal actions are created on the basis of assessed liabilities from legal actions, in which the Group acts as the defendant. Formation of these provisions refers also to the increase due to new lawsuits and charged default interest on the part of damage amounts claimed.

Other transfers and reclassifications include other provisions of the PV company, which refer to the discounted value of long-term accrued costs arising on unpaid wages to employees from 2012, which fall due for payment in 2018 pursuant to the social agreement signed on 4 April 2016, and are disclosed among short-term liabilities to employees, and transfer of bookings to other provisions and formed provisions for lawsuits.

Based on the Energy licence and assessment of costs for dismantling the Unit 6 upon the expiry of the useful period, the company TEŠ additionally formed provisions in the amount of EUR 235 thousand. The increase of provisions for dismantling the Unit 6 includes takes account of EUR 110 thousand of finance costs (discounting due to expiry), while EUR 124 thousand refers to the effect of the changed discount rate.

When determining the discounted value of provisions for closing works of the coal mines, the average 2-year discount rate of the German bonds was applied as at the balance sheet date. The effect of adjusting the discounting of the disclosed balance of provisions in 2017 is reflected in higher provisions by EUR 303 thousand. In addition, the PV company increased in 2017 the provisions through higher values of construction buildings due to the expected closing works in the amount of EUR 382 thousand, which is the result of the changed discount rate applied with respect to the previous year and in the change of the assessed value of the closing works. Hence, the total effect of provisions for closing works amounts in 2017 to EUR 685 thousand.

Use of other provisions mostly relate to the payment of unpaid liabilities arising under Christmas and holiday bonuses in the company TEŠ up until 2016.

Reversal of provisions includes the provision formed for hazardous waste dump in the company TET – in liquidation.

Transfer and reclassifications mostly include transfers from unpaid wages to 'short-term portion' in companies PV and HTZ.

OTHER LONG-TERM LIABILITIES (15)

Other long-term liabilities (in 000 EUR)	31/12/2017	31/12/2016
Emission coupons	115	173
Government grants	1,619	3,684
Total	1,735	3,858

The largest portion of other long-term liabilities include government grants received, among them exemption from payment of contributions for the disabled, in accordance with the Vocational Rehabilitation and Employment of Disabled Persons Act. They are used to settle costs indicated in the aforementioned Act.

Most of other government grants received refer to the exempted contributions for the disabled insurance, health insurance and the maternity allowances in the amount of EUR 6,972 thousand.

Other government grants received were used mostly for covering wages and salaries for the disabled in the amount of EUR 7,334 thousand.

Disposal of business combinations in the table below refers to the exclusion of the company Golte from the Group.

Movement of other long-term liabilities (in 000 EUR)	Emission coupons	Other government grants received	Total
Balance at 01/01/2017	173	3,684	3,858
Additions		6,989	6,989
Utilisation	(58)	(7,363)	(7,421)
Disposal - business combinations		(1,692)	(1,692)
Balance at 31/12/2017	115	1,619	1,735
Balance at 01/01/2016	200	4,496	4,696
Additions		6,236	6,236
Utilisation	(27)	(7,047)	(7,074)
Balance at 31/12/2016	173	3,684	3,858

LONG-TERM FINANCIAL LIABILITIES (16)

Long-term financial liabilities (in 000 EUR)	31/12/2017	31/12/2016
Long-term financial liabilities to banks	779,480	845,066
Other long-term financial liabilities	63	3,152
Total	779,543	848,218

Long-term financial liabilities to banks include long-term borrowings. Loans have been taken with Slovene and foreign banks, and interest rates are fixed and variable, depending on the type of the loan, maturity and the timing of borrowing. As at 31 December 2017, interest rate for borrowings raised ranged between 1.15% and 5.50%.

The value of borrowings' principal amounts that mature in 2018 are disclosed among short-term liabilities to banks in the amount of EUR 71,616 thousand. In 2017, EUR 48,872 thousand of long-term borrowings were repaid.

Movement of long-term financial liabilities (in 000 EUR)	Long-term financial liabilities to banks	Other long-term financial liabilities	Total
Balance at 01/01/2017	845,066	3,152	848,218
Additions	14,567	96	14,662
Transfers to short-term liabilities	(71,616)	(41)	(71,657)
Repayments	(8,536)	(0)	(8,537)
Other		(3,143)	(3,143)
Balance at 31/12/2017	779,480	63	779,543
Balance at 01/01/2016	716,626	38	716,664
Additions	183,750		183,750
Transfer from short-term liabilities	1,342	1	1,344
Transfers to short-term liabilities	(46,435)	(22)	(46,457)
Repayments	(5,319)	(3)	(5,322)
Other	(4,899)	3,138	(1,761)
Balance at 31/12/2016	845,066	3,152	848,218

In 2017, the TEŠ company started to repay the principal amount of the long-term borrowing from EIB in the amount of EUR 440,000 thousand, which was in this period repaid in the amount of EUR 20,500 thousand.

Long-term borrowings are collateralised with guarantees, mortgages taken out on real estate, assignment of receivables, pledge of accounts, cash and equity interests, and a guarantee of the Republic of Slovenia in the total amount of EUR 529,349 thousand.

Maturities of long-term liabilities by period are disclosed within the section on liquidity risk.

Disposal of business combinations refers to the exclusion of the company Golte from the Group.

SHORT-TERM FINANCIAL LIABILITIES (17)

Short-term financial liabilities (in 000 EUR)	31/12/2017	31/12/2016
Short-term financial liabilities to group companies without interest	71,556	50,823
Short-term financial liabilities to Group companies for interest	139	209
Short-term derivatives	61	53
Other short-term financial liabilities	140	303
Total	71,896	51,387

Most of short-term financial liabilities refer to borrowings from banks.

Short-term financial liabilities to bank include also a portion of Group's long-term borrowings that mature within one year after the date of the consolidated statement of financial position, and short-term loans. Interest rate of the short-term borrowing was 3.10%.

Increase in short-term financial liabilities over the year-end balance of 2016 is attributable to transfer of a portion of long-term financial liabilities to short-term liabilities, as TEŠ started to repay the long-term borrowing from EIB in 2017.

Movement of short-term financial liabilities (in 000 EUR)	Short-term financial liabilities to Group companies without interest	Short-term financial liabilities to Group companies for interest	Short-term derivatives	Other short-term financial liabilities	Total
Balance at 01/01/2017	50,823	209	53	303	51,387
Acquisitions	8,345	9,043		1,493	18,881
Transfers from long-term liabilities	71,616			41	71,657
Short-term repayments	(19,178)	(9,038)		(1,655)	(29,870)
Long-term repayments	(40,335)			(36)	(40,372)
Other	285	(75)	8	(5)	212
Balance at 31/12/2017	71,556	139	61	140	71,896
Balance at 01/01/2016	297,415	464	393	169	298,441
Acquisitions	151,369	32,506		6,585	190,460
Transfers from long-term liabilities	46,435			22	46,457
Transfers to long-term liabilities	(1,342)			(1)	(1,344)
Short-term repayments	(275,895)	(32,605)		(6,448)	(314,948)
Long-term repayments	(166,661)			(23)	(166,684)
Other	(498)	(157)	(340)		(994)
Balance at 31/12/2016	50,823	209	53	303	51,387

SHORT-TERM TRADE PAYABLES TO SUPPLIERS (18)

Short-term trade payables to suppliers (in 000 EUR)	31/12/2017	31/12/2016
Short-term operating liabilities to associates	2,296	1,480
Short-term operating liabilities to jointly controlled companies	78	74
Short-term operating liabilities to suppliers	120,630	105,890
Total	123,003	107,444

Disclosures regarding the maturity of trade payables are provided in the section discussing liquidity risk.

OTHER SHORT-TERM LIABILITIES (19)

Other short-term liabilities (in 000 EUR)	31/12/2017	31/12/2016
Short-term operating liabilities from advances	2,219	572
Short-term operating liabilities to employees	15,929	17,328
Short-term operating liabilities to state and other institutions	27,128	26,165
Short-term operating liabilities to others	2,825	1,649
Short-term deferred income	1	184
Short-term accrued costs and expenses	9,103	11,332
Total	57,206	57,230

Payables to state and other institutions account nearly half of other short-term liabilities, where most thereof relates to VAT arising from emission coupons given to the state. Approximately a quarter of other short-term liabilities, which mostly include payables to employees, refer to December earnings paid out in January 2018. The Group hereunder discloses also liabilities arising on unused vacation days in the amount of EUR 1,537 thousand (2016: EUR 2,486 thousand). Short-term accrued costs largely refer to costs for accounted interest and bank guarantees, costs for damages and costs relating to electricity purchases.

CONTINGENT LIABILITIES (20)

Contingent liabilities (in 000 EUR)	31/12/2017	31/12/2016
Performance and repair guarantees	1,230	1,879
Other	586	2,066
Total	1,816	3,946

The guarantees for appropriate execution of works and repair of irregularities comprise the guarantees the Group gave to third parties in connection with performed business.

Other contingent liabilities include the estimated value of lawsuits for which the possibility of the Group losing in legal procedures has been assessed as low.

3.5.7.2 Consolidated Income Statement

REVENUE (21)

Revenue (in 000 EUR)	2017	2016
On the domestic market	470,578	455,189
Electricity	453,364	433,092
Thermal heat	5,067	3,886
Other products	343	350
Other merchandise and material	1,372	1,305
Other services	10,432	16,556
On the foreign market	1,117,182	724,652
Electricity	1,104,333	716,642
Other products	2	6
Other merchandise and material	146	698
Other services	12,700	7,306
Total	1,587,760	1,179,841

Most of the revenue refers to the revenue generated through the sale of electricity by the controlling company.

Revenue from thermal energy fully refers to the company TEŠ, which produces thermal energy.

Income generated on other merchandise and material include mainly sale of waste material and the sales of emission coupons.

Revenue from other services provided in the amount of EUR 23,132 thousand is generated largely through services in connection with electricity (i.e. contribution for allocation of transfer capacities, etc.), whereas the rest refers to construction and maintenance services, mining and maintenance services, rents and other services.

CAPITALISED OWN PRODUCTS (22)

Capitalised own products and services in the amount of EUR 8,767 thousand include predominantly:

- engineer services rendered during the construction and reconstruction of HPPs, and
- worked relates to pit sites.

OTHER OPERATING INCOME (23)

Other operating income (in 000 EUR)	2017	2016
Income on reversal of provisions	2,999	5,533
Utilisation of deferred income	7,423	6,992
Reversal of impairment of receivables	891	200
Income from damages and contractual penalties	1,219	359
Default interest	54	155
Gains on sale of fixed assets	1,727	3,095
Reversal of impairment of property, plant and equipment	3,229	
Other	1,874	3,520
Total	19,416	19,854

Revenue from utilisation of deferred revenue account for the largest share among other operating revenue and represent assigned allowances for disabled persons.

Income on reversal of impairment of property, plant and equipment was generated on the cash generating units PV and HTZ.

Most of income on reversal of provisions refers to provisions for hazardous waste dump in the company TET - in liquidation (EUR 2,571 thousand).

COSTS OF GOODS, MATERIALS AND SERVICES (24)

Costs of goods, material and services (in 000 EUR)	2017	2016
Costs of goods sold	*1,183,929*	*766,081*
Dependent costs of goods sold	*42,626*	*27,515*
Total costs of goods sold	1,226,554	793,596
Costs of material	*24,573*	*22,573*
Costs of subsidiary material	*2,733*	*2,419*
Costs of energy	*1,408*	*1,772*
Costs of spare parts	*4,132*	*4,266*
Costs of small tools	*275*	*300*
Office stationary	*262*	*311*
Professional literature	*64*	*223*
Other	*630*	*293*
Total costs of material	34,076	32,157
Services of manufacturing products	*2,625*	*3,683*
Transport services	*871*	*824*
Maintenance	*9,072*	*8,680*
Rentals	*2,393*	*2,074*
Refund of labour costs to employees	*252*	*257*
Insurance of bank services	*5,475*	*5,393*
Professional nad personal services	*6,460*	*4,011*
Research and development services	*72*	*201*
Fairs, advertisingand entertainment	*762*	*626*
Services rendered by individuals	*859*	*1,021*
Municipal utility services	*3,194*	*3,709*
Costs of mine-related damages	*872*	*903*
Costs of protection and surveillance	*188*	*167*
Cleaning costs	*245*	*341*
Sorting of coal	*97*	*106*
Membership fees	*114*	*198*
Management od properties	*162*	*86*
Costs of freight forwarding	*4*	*2*
Management of disposal facilities	*220*	*1,228*
Other	*2,739*	*734*
Total costs of services	36,676	34,244
Total	1,297,306	859,998

Costs of goods sold include mainly costs of purchasing electricity and accompanying expenses thereof.

Costs of material comprise the most significant costs of energy products required for the production of electricity (except costs of coal) and heat, as well as spare parts and maintenance-related material.

Costs of services (EUR 36,676 thousand) to a large extent include maintenance costs of Group's fixed assets, costs of insurance, costs of personal and professional services, and sewage disposal services.

Costs of auditor (in 000 EUR)	2017	2016
Audit of the Annual Report	124	127
Other services of providing assuranc	8	10
Total	132	137

In 2017, the financial statements of the HSE Group companies in Slovenia were audited by the audit firm KPMG Slovenija, which carried out also a review of financial information of subsidiaries abroad that are included in the consolidation; however, their financial statements were not audited in the country of residence. Three companies registered abroad were audited by the audit companies in their respective countries.

EMPLOYEE BENEFITS EXPENSE (25)

Employee benefits expense (in 000 EUR)	2017	2016
Wages and salaries	87,138	89,391
Pension insurance costs	14,828	14,907
Other insurance costs	6,398	6,529
Other labour costs	12,343	13,884
Total	120,706	124,711

Employee benefits expense comprise salaries and wage compensations, social insurance contributions, additional pension insurance and other labour costs (i.e. meal allowance, commuting allowance, annual leave allowance, financial support, provisions for jubilee and termination benefits, etc.). Costs of compensations for unused vacation days in 2017, which can be utilised by 30 June 2018, are accounted as well.

Number of the Group employees and average number of employees by education	01/01/2017	31/12/2017	Average number of employees
1	147	149	148
2	104	100	102
3	58	59	59
4	1,105	1,083	1,094
5	814	815	815
6/1	342	334	338
6/2	193	197	195
7	274	271	273
8/1	71	73	72
8/2	13	12	13
Total	3,121	3,093	3,107

WRITE-DOWNS IN VALUE (26)

Write-downs in value (in 000 EUR)	2017	2016
Amortisation of intangible assets	1,075	1,072
Depreciation of property, pant and equipment	75,296	75,826
Depreciation of investment property	344	283
Impairment/write-off of receivables	811	872
Impairment/write-off of inventories	526	
Impairment of property, plant and equipment and intangible assets	2,958	1,641
Write-offs of property, plant and equipment	870	792
investment property	256	177
Total	82,136	80,663

The majority of write-downs in value made in 2017 relates to the impairment of property, plant and equipment.

Expenses relating to property, plant and equipment occurred in connection with the cash generating units PV, PV Invest and TET - in liquidation. The Group applies similar rates of depreciation to intangible assets and fixed assets of the same kind. As for the manufacturing plant and equipment, individual subsidiaries apply depreciation rates that correspond to the activity carried out.

Depreciation of fixed assets acquired through government grants or free of charge is accounted for separately. For the amount of accumulated depreciation, long-term deferred income is utilised and other operating income is recorded.

Allowances for operating receivables include the formation of doubtful operating receivables, which is outlined in the section of credit risk.

OTHER OPERATING EXPENSES (27)

Other operating expenses (in 000 EUR)	2017	2016
Formation of provisions	2,426	3,506
Fee for building site use	9,763	8,351
Concessions	10,974	12,746
Environmental charges	35,834	37,127
Donations	280	242
Other operating expenses	4,121	2,291
Total	63,398	64,263

The most important among other operating expenses are the environmental levies (costs of emission coupons and water recovery), the concession contribution paid to the state, and charge for the use of construction land.

FINANCIAL RESULT (28)

The Group incurred in 2017 a negative financial result in the amount of EUR 31,770 thousand (a negative result was recorded also in 2016 in the amount of EUR 41,528 thousand).

Finance income (in 000 EUR)	2017	2016
Dividends and other profit shares	107	16
Finance income on loans granted and deposits	8	25
Income on derivatives relating to trading with electricity and emission coupons	3,749	46
Finance income on sale of investments	406	8
Other finance income	397	51
Total	4,668	147

The share in the positive operating result of associates and jointly controlled companies, which was accounted by using the equity method, was in this report disclosed in the consolidated income statement under item 11. The share in profits of associates and jointly controlled entities for 2017 is recorded at EUR 1,064 thousand.

Finance costs (in 000 EUR)	2017	2016
Interest costs	27,855	33,921
Loss on derivatives relating to trading with electricity and emission coupons	1,040	844
Finance costs on sale of investments		28
Other finance costs	7,616	8,336
Total	36,511	43,128

Other finance costs include primarily insurance costs referring to borrowings raised, which declined by 18% relative to 2016 as a result of rescheduling the borrowings obtained under more favourable interest rates.

Other finance expenses largely include costs and collaterals related to the borrowings raised.

TAXES (29)

Taxes (in 000 EUR)	2017	2016
Current tax	9,612	13,597
Deferred taxes	5,119	(996)
Total income tax disclosed in income statement	14,732	12,600
Deferred taxes recognised in equity	12	(1)

The HSE Group companies are liable to pay corporate income tax, VAT, financial services tax and excise duties.

In 2017, three out of fourteen Group companies in Slovenia were liable to pay corporate income tax, as well as three out of four companies abroad. Owing to tax incentives or the utilisation of tax losses and financial loss, the remaining companies did not determine the base for paying income tax.

Current tax of Group companies in 2017 amounts to EUR 9,615 thousand, which is nearly 29% less than in 2016. As at the year-end of 2017, Group companies disclose EUR 4,285 thousand of current tax assets and EUR 48 thousand of current tax liabilities.

Deferred taxes refer to deferred tax assets recognised in the amount of likely available profit against which they can be used in the future. Deferred tax assets are decreased by the amount up to which it is no longer probable that tax deductible expenses can be utilised in the future or the amount up to which expenses have been included in tax statements for the current year. The Group's deferred taxes comprise deferred tax assets in the amount of EUR 838 thousand and EUR 6 thousand of deferred tax liabilities. Further details on deferred tax assets are disclosed in Notes 5 and 6 of the consolidated statement of financial position.

At the end of 2017, the Group companies' unutilised tax losses amounted to EUR 816.422 thousand for which no deferred tax assets were formed.

In establishing the base for current tax, income and expenses established in accordance with IFRS were corrected in terms of decrease and increase in tax base, as shown in the table below.

Effective tax rate calculation (in 000 EUR)	2017	2016
Profit or loss before tax	23,314	34,642
Tax calculated at applicable tax rate	4,398	5,903
Tax on income reducing tax base	(504)	(1,014)
Tax on tax relief	(1,728)	(826)
Tax on expenses reducing tax base	(298)	(202)
Tax on non-deductible expenses	555	956
Tax on other changes in tax calculation	380	466
Tax effect of non-deductible deferred receivables for tax losses	6,812	8,315
Current taxes	9,616	13,597
Deferred tax	5,119	(996)
Total tax	14,735	12,600
Effective tax rate in %	63.20%	36.37%

NET PROFIT FOR THE PERIOD (30)

Net profit or loss (in 000 EUR)	2017	2016
Gross operating yield	1,616,770	1,205,424
Operating profit or loss	53,224	75,789
Financial result	(31,843)	(42,981)
Profit or loss before tax	22,445	34,261
Net profit or loss fot the period	7,710	21,661

The HSE Group generated profit in 2017.

3.5.7.3 Related companies

Related companies are entities in which the Group has a significant influence and companies in which the Group jointly controls together with other owners the operations of this entity.

The Group conducted transactions with related companies on the basis of sales and purchase contracts signed. Sales and purchases comprise the turnover of all transactions (exclusive of VAT), including finance income. Transactions with associates mostly refer to the purchase of electricity from the HESS and the write-up of profits in this company.

The most important transactions with related companies include following:

- transactions with associates and jointly controlled companies, and
- transactions with companies that are directly or indirectly owned by the Republic of Slovenia (ownership exceeds 50%) and are important for HSE from the perspective of significance of transactions (income or expenses in 2017 exceed EUR 2,000 thousand), except banks where all transactions are disclosed. Transactions primarily relate to trading in electricity or financing of the Group.

The controlling company is fully (100%) owned by the Republic of Slovenia. In 2017, no dividends were paid out.

Related party transactions (in 000 EUR)	Sales	Purchases	Receivables at 31/12/2017	Liabilities at 31/12/2017
Associated entities	2,603	10,727	224	2,296
Jointly controlled entities	137	548	0	78
Total	2,740	11,275	225	2,374

Transactions with Republic of Slovenia and entities which are directly owner by the Republic of Slovenia (in 000 EUR)	Outstanding receivables as at 31/12/2017	Outstanding liabilities 31/12/2017	Income in 2017	Expenses in 2017
BORZEN	111	1,326	840	8,291
BSP	223	52	95,312	28,389
ECE	11,288	824	102,475	3,662
ELES	3,771	516	25,740	2,575
ELEKTRO MARIBOR ENERGIJA PLUS	5,238	40	43,040	830
E3	5,245	119	45,300	2,759
GEN ENERGIJA	660	25	4,169	505
GEN-I	3,452	164	77,537	61,948
PETROL	1,425	2,425	14,289	13,337
GEOPLIN	13	304	126	2,475
Energy sector - total	31,426	5,795	408,826	124,771
TALUM	1,845	4	17,707	26
Aluminium production	1,845	4	17,707	26
SID		69,674		6,176
NLB			0	4
Banks - total		69,674	0	6,179
Total	33,271	75,473	426,533	130,977

3.5.7.4 Remuneration

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement comprises:

- gross compensation included in the income tax return statement,
- other allowances (meals, transportation, per diems, untaxed portion of jubilee benefits), and
- premiums paid for voluntary supplementary pension insurance.

Remuneration of Supervisory Board members includes gross attendance fees of all members (changes of the Supervisory Board's composition during the year), including travel expenses related to the performance of tasks in the Supervisory Board and the Audit Committee.

In 2017, members of Management Boards, other employees who are not subject to the tariff part of the collective labour agreement, and members of the Group's Supervisory Boards did not participate in the net profits under resolutions adopted by the Shareholders' Meeting, nor were they approved any advances, loans or guarantees by group companies.

Remuneration (in 000 EUR)	Gross salary	Other earnings	Bonuses	Refund of costs	Attendance fees	Total
Members of the Managament Board	1,121	130	34	22	7	1,314
Members of the Supervisory Board and the Audit Committee				4	265	269
Employees who are not subject to the tariff part of the collective agreement	1,287	181	45	30		1,544
Total 2017	2,407	311	80	56	272	3,126
Members of the Managament Board	1,094	99	35	26	6	1,260
Members of the Supervisory Board and the Audit Committee			3	9	268	280
Employees who are not subject to the tariff part of the collective agreement	1,272	61	41	22		1,397
Total 2016	2,366	160	80	57	274	2,937

Remuneration of companies' managements (in 000 EUR)	Gross salary	Other earnings	Bonuses	Refund of costs	Attendance fees	Total
Nikolić Stojan - HSE	129	4	4	2	6	144
Skubin Gorazd - HSE	42	71	3	0		117
Marovt Matjaž - HSE	80	2	6	1	2	91
Pozeb Viljem - DEM	103	4	2	1		110
Pintar Marjan - SENG	101	14	3	2		119
Koritnik Arman - TEŠ	107	4	7	2		120
Golob Ludvik - PV	99	5	2	1		107
Letnik Mojca - PV	93	4	1	1		99
Hudej Marjan - RGP	60	4	1	1		67
HSE Sandi - HSE Invest	117	4	6	2		127
Koželjnik Suzana - HTZ	63	7		2		71
Tumpej Andrej - DEM	33	1	1	1		35
Sovič Jelenko Natalija - PV Invest	44	5		3		52
Zaluberšek Matej - Sipoteh	20	1		1		23
Kikec Iztok - Sipoteh	29	1		2		32
Total 2017	1,121	130	34	22	7	1,314

Remuneration of members of Supervisory Boards (in 000 EUR)	*Gross attendance fee/sessions*	*Gross attendance fee/basic payments*	Gross attendance fee	*Net attendance fee*	Travel costs	Total
Jančar Boštjan - SB member of HSE	*3*	*11*	14	*10*		14
Cukrov Vesna - SB member of HSE	*1*	*3*	3	*2*	0	3
Markoli Boštjan - Vice Chairman of the SB of HSE	*3*	*12*	15	*11*	0	15
Otič Jernej - SB member of HSE	*2*	*11*	14	*10*	1	15
Pantoš Miloš - SB member of HSE	*3*	*11*	14	*10*	0	14
Slokan Črt - SB member of HSE		*3*	3	*2*	0	3
Štefe Drago - SB member of HSE	*2*	*9*	11	*8*	0	11
Perović Milan - SB Chairman of HSE	*3*	*17*	20	*15*	0	20
Vračar Viktor - SB member of HSE	*3*	*11*	15	*11*	0	15
Marovt Matjaž - SB member of HSE	*1*	*4*	5	*4*	0	6
Lipušček Damjan - SB member of HSE	*3*	*11*	15	*11*	1	15
Živanić Jovanović Vanja - SB member of HSE	*2*	*9*	11	*8*		11
Gorjup Barbara - SB member of HSE	*3*	*11*	15	*11*	0	15
Nikolić Stojan - Vice Chairman of the SB of PV			6	*4*		6
Marovt Matjaž - Chairman of SB of PV			2	*2*		2

(continued):

Remuneration of members of Supervisory Boards (in 000 EUR)	Gross attendance fee/sessions	Gross attendance fee/basic payments	Gross attendance fee	Net attendance fee	Travel costs	Total
Rednjak Danilo - SB member of PV			2	2		2
Podobnik Uroš - SB member of PV			5	3		5
Polak Drago - SB member of HSE Invest			2	2		2
Rejec Alida - SB member of HSE Invest			2	2		2
Tumpej Andrej - Vice Chairman of the SB of HSE Invest			3	2		3
Rejec Katja - SB member of HSE Invest			3	2		3
Cenc Gregor - SB member of HSE Invest			1	1		1
Ivan Zagožen - Chairman of the SB of HSE Invest			4	3		4
Mikelj Gregor - SB member HSE Invest			2	1		2
Total 2017	30	124	187	136	3	189

Remuneration of Audit Committee members of Supervisory Board (in 000 EUR)	Gross attendance fee/sessions	Gross attendance fee/basic payments	Gross attendance fee	Net attendance fee	Travel costs	Total
Jančar Boštjan - AC member of HSE	2	3	5	3		5
Markoli Boštjan - AC member of HSE	2	3	5	3	0	5
Gorjup Barbara - AC President of HSE	2	4	6	5	0	6
Zaman Groff Maja - AC external member of HSE	3	11	14	10	0	14
Total 2017	9	21	30	22	0	30

Remuneration of members of the Human Resources Committee of HSE's Supervisory Board (in 000 EUR)	Gross attendance fee/sessions	Gross attendance fee/basic payments	Gross attendance fee	Net attendance fee	Travel costs	Total
Markoli Boštjan - member of the Human Resources Committee	0	2	2	2	0	2
Otič Jernej - member of the Human Resources Committee	0	3	3	2	0	3
Slokan Črt - member of the Human Resources Committee	0	1	1	1		1
Perović Milan - President of the Human Resources Committee	1	4	5	4	0	5
Marovt Matjaž - member of the Human Resources Committee	0	1	1	1		1
Gorjup Barbara - members of the Human Resources Committee	0	2	2	2	0	2
Total 2017	2	12	15	11	0	15

Remuneration of members of the Restructuring Committee (in 000 EUR)	Gross attendance fee/sessions	Gross attendance fee/basic payments	Gross attendance fee	Net attendance fee	Travel costs	Total
Cukrov Vesna - member of the Restructuring Committee		0	0	0		0
Otič Jernej - member of the Restructuring Committee	0	1	1	1		1
Pantoš Miloš - member of the Restructuring Committee	1	3	4	3	0	4
Vračar Viktor - President of the Restructuring Committee	1	4	5	4	0	5
Marovt Matjaž - member of the Restructuring Committee	1	1	2	1	0	2
Živanić Jovanović Vanja - member of the Restructuring Committee	1	2	3	2		3
Total 2017	3	11	14	10	0	15

Remuneration of members of the Marketing and Investments Committee (in 000 EUR)	Gross attendance fee/sessions	Gross attendance fee/basic payments	Gross attendance fee	Net attendance fee	Travel costs	Total
Markoli Boštjan - member of the Marketing and Investment Committee	1	3	3	3	0	3
Pantoš Miloš - President of the marketing and Investment Committee	1	4	5	4	0	5
Štefe Drago - member of the Marketing and Investment Committee	1	2	3	2	0	3
Vračar Viktor - member of the Marketing and Investment Committee	1	3	4	3	0	4
Lipušček Damjan - member of the Marketing and Investment Committee	1	3	4	3	0	4
Total 2017	4	15	19	14	0	19

3.5.7.5 Financial instruments and risks

This section refers to section of the accounting report, as well as to the chapter about financial risks in the business report.

3.5.7.5.1 Credit risk

More than 98% of Group's revenue refers to the activity of electricity trading, therefore most of the credit risk management activities are centred in the controlling company. The latter manages credit risk in accordance with procedures described in section Credit risk in the Accounting report of the controlling company, which discusses also the structure of the controlling company's short-term receivables and their management. HSE company, which purchases most of the production from its subsidiaries or the Group's production units, settles its liabilities pursuant to provisions of the contract on electricity purchase concluded by the controlling company on an annual bases with its subsidiaries engaged in electricity production. The electricity is thereupon sold by the controlling company on the market, indicating that it is thereby mostly exposed to credit risk. The credit risks of subsidiaries are managed according to internal policies and procedures of each individual subsidiary.

Group companies manage credit risks by means of a detailed examination and rational selection of its business partners prior to their approval, by means of regular monitoring of operations of each individual business partner upon their approval, and by means of a conservative approach that further defines the volume of operations with individual partner.

Operating receivables are insured with bank guarantees, corporate guarantees, pledge of receivables under contracts on managing bank accounts, with deposits, with advance payments, bills of exchange and enforcement drafts. Nearly 70% of Group companies' short-term trade receivables are insured, which represent the majority of Group's total receivables.

Within the framework of managing credit risks towards banks and financial institutions, the Group regularly monitors the data on the partner bank's business operations. The risk is additionally managed by means of diversified depositing of assets in individual banks, investing funds for current operations in the short term, and entering into instruments for hedging against currency and interest rate risks on the basis of standard ISDA contracts.

In case of default, the customers in Slovenia and abroad are charged default interest at the contractually agreed rate.

Long-term operating and financial receivables by maturity (in 000 EUR)	Due date: up to 2 years after the date of the statement of financial position	Due date: from 3 to 5 years after the date of the statement of financial position	Due date: over 5 years after the date of the statement of financial position	Total
Long-term deposits to others	11	28	15	55
Long-term trade receivables	251	583		834
Long-term advances granted	11	29	27	68
Long-term operating receivables due from others	2		3,104	3,106
Total 31/12/2017	**275**	**641**	**3,147**	**4,063**
Long-term deposits to others	132	17	16	165
Long-term operating recievables due from associates	145	142		287
Long-term trade receivables	76	817		893
Long-term advances granted	11	29	27	68
Long-term operating receivables due from others	85	2	624	711
Total 31/12/2016	450	1,007	667	2,124

Short-term operating and financial receivables by maturity (in 000 EUR)	Due date: not yet due	overdue up to 3 months (90 days)	overdue from 3 to 6 months (from 91 days to 180 days)	overdue from 6 to 9 months (from 181 days to 270 days)	overdue from 9 to 12 months (from 271 days to 360 days)	overdue more than one year (more than 361 days)	Total
Short-term financial receivables and loans to others						10	10
Short-term deposits to others	13,392	123		1			13,516
Short-term operating receivables due from associates	224						224
Short-term operating receivables due from jointly controlled companies	0						0
Shor-term trade receivables	120,595	2,691	88	38	215	6,601	130,227
Short-term advances granted	2,592					207	2,799
Short-term operating receivables due from state and other institutions	28,099				143		28,242
Short-term operating receivables due from others	7,670					1,075	8,745
Total 31/12/2017	**172,572**	**2,814**	**88**	**39**	**358**	**7,893**	**183,762**
Short-term financial receivables and loans to associates				31			31
Short-term financial receivables and loans to others						10	10
Short-term operating receivables due from associates	666	30	26	25	23	166	936
Short-term operating receivables due from jointly controlled companies	0						0
Shor-term trade receivables	115,091	505	45	40	745	6,739	123,164
Short-term advances granted	1,645					207	1,851
Short-term operating receivables due from state and other institutions	26,026						26,026
Short-term operating receivables due from others	829					895	1,724
Short-term deposits to others	2,559	7	5		37	117	2,725
Total 31/12/2016	146,816	543	75	96	805	8,133	156,468

Movement of allowances for long-term operating receivables (in 000 EUR)	2017	2016
Balance at 01/01	289	2
Collected written-off receivables	(115)	(0)
Formation of allowances for receivables		287
Final write-off of receivables	(173)	
Balance at 31/12		289

Movement of allowances for short-term financial receivables and loans (in 000 EUR)	2017	2016
Balance at 01/01	41	26
Collected written-off receivables	(16)	(18)
Formation of allowances for receivables		33
Final write-off of receivables	(16)	
Balance at 31/12	10	41

Movement of allowances for short-term operating receivables (in 000 EUR)	2017	2016
Balance at 01/01	7,995	7,968
Collected written-off receivables	(201)	(351)
Formation of allowances for receivables	794	463
Final write-off of receivables	(781)	(85)
Balance at 31/12	7,806	7,995

As at the year-end of 2017, EUR 7,806 thousand of allowances for doubtful and disputable short-term operating receivables were formed.

Allowances for short-term operating receivables are formed primarily for receivables that are past due by more than 361 days.

Credit risks were properly managed in 2017 and all activities were performed in compliance with applicable policies and rules that refer to credit risk management.

The value of pledged receivables for borrowings amounted as at 31 December 2017 to EUR 61,044 thousand.

3.5.7.5.2 Liquidity risk

Liquidity or solvency risk is the risk associated with insufficient financial sources and the subsequent inability of the Group to settle its liabilities in due time.

The Group implements the policy of regular cash flow planning and liquidity management based on which the liquidity situation and cash flows are monitored on a daily, monthly and annual level. The parent company provides for monitoring, planning and balancing of liquidity on the consolidated level.

Liquidity risk was in 2017 was properly managed by means of ongoing customisation of receivables' and liabilities' maturity, consistent collection of past due receivables, providing of proper liquidity reserve and the availability of appropriate credit lines, as well as the possibility of sustainable generating of cash flows from operations.

Within the framework of credit risk management, special attention is given to risks related to the breach of financial covenants laid down in the borrowing contracts. Ratios of the controlling company and the HSE Group were in 2017 in accord with covenants of the borrowing contracts.

HSE company and the HSE Group have a sustainable liquidity balance in the long run and both established terms for managing liquidity risk and maintaining an appropriate liquidity reserve in case of unforeseen negative events.

Group's liquidity reserve, which consists of unused but approved credit lines and available funds and which is earmarked for balancing cash flows and materially reducing the liquidity risk of the controlling company and the HSE Group, is suitable.

Liquidity risk management is monitored by individual categories of Group's operations, namely:

Management of liquidity risk arising on operating activities, which is closely linked to the credit risk. Liquidity risk arising on operations is managed primarily through adjusting of payment deadlines for receivables and liabilities that occur in connection with the core activity – electricity trading, as well as payment deadlines for other liabilities in a way that Group companies in due time settle their trade payables. Measure for managing this category of liquidity risk aims at providing for optimum payment ability for settling current liabilities of Group companies in normal, as well as critical circumstances that arise from electricity trading, transfer capacities, emission coupons and futures contracts that require an adequate amount of liquidity reserves in order to ensure stable daily operations and trading. The respective measures include an up-to-date monitoring of settlements by supplier, in addition to extending payment deadlines, and agreements on postponing of payments. The liquidity risk arising from operations is in 2017 assessed as adequately managed.

Management of liquidity risk arising on investing activity, closely linked to investment risk. Management of liquidity risk arising on investment activities relates to financing investments in accordance with investment-related programmes and in a way that sufficient funds anticipated in the financial plans are timely ensured, and that no delays occur in the implementation of projects. Investment-related liquidity risk is also reflected on the side of inflows – by implementing divestment activities that are carried out within the process of optimising business operations of Group companies. Liquidity risk arising on investing activities is in 2017 assessed as adequately managed.

Management of liquidity risk arising on financing activities the risk linked to providing sufficient funds for Group's operating and investment activities, which includes an active relationship to financial markets, obtaining of sufficient short-term borrowings and credit lines, as well as long-term sources of financing for the purpose of a timely repayment of Group companies' liabilities that arise on operating and investment activities by taking into account obligations defined in the loan contracts with banks. The Group applies the so-called »cash management« system in form of borrowing among Group companies. The primary source of financing short-term deficits recorded by Group companies are the surpluses of free cash of other Group companies, whereas liquidity of individual Group companies is optimised. The liquidity risk arising on financing activities is in 2017 assessed as adequately managed, as the Group successfully ensured a sufficient amount of credit and guarantee lines for smooth business operations.

Based on deleveraging according to the plan and maintaining the credit rating ratings »Ba2 stable« (Moody's) and »BB positive« (Standard & Poor's) and both with a stable outlook, the HSE Group additionally discloses business stability.

Maturity of Group's long-term and short-term liabilities is outlined in tables below.

Long-term operating and financial liabilities by maturity (in 000 EUR)	Due date: up to 2 years after the date of the statement of financial position	from 3 to 5 years after the date of the statement of financial position	over 5 years after the date of the statement of financial position	Total
Long-term financial liabilities to banks	81,340	309,553	388,587	779,480
Other long-term financial liabilities		63		63
Long-term trade payables	27	20		46
Long-term operating liabilities from advances		3	6	9
Other long-term operating liabilities	87	3	59	149
Total 31/12/2017	**81,454**	**309,641**	**388,652**	**779,747**
Long-term financial liabilities to banks	68,364	299,955	476,746	845,066
Other long-term financial liabilities	11	4	3,138	3,152
Long-term operating liabilities to associates			0	0
Long-term trade payables	20	23	252	295
Long-term operating liabilities from advances		3	6	9
Other long-term operating liabilities	33	3	130	166
Total 31/12/2016	68,428	299,988	480,272	848,688

Short-term operating and financial liabilities by maturity (in 000 EUR)	not yet due	Due date: overdue up to 3 months (90 days)	overdue from 3 to 6 months (from 91 days to 180 days)	overdue from 6 to 9 months (from 181 days to 270 days)	overdue from 9 to 12 months (from 271 to 360 days)	overdue more than 1 year (more than 361 days)	Total
Short-term financial liabilities to banks	71,695						71,695
Short-term derivatives	61						61
Other short-term financial receivables	140						140
Short-term operating liabilities to associates	2,165	130					2,296
Short-term operating liabilities to jointly controlled entities	78						78
Short-term trade payables	118,997	1,314	18		5	296	120,630
Short-term operating liabilities from advances	2,219						2,219
Short-term operating payables to employees	15,929						15,929
Short-term operating liabilities to the state and other institutions	27,128						27,128
Other short-term operating liabilities	2,788	37					2,825
Total 31/12/2017	**241,201**	**1,481**	**18**		**5**	**296**	**243,001**
Short-term financial liabilities to banks	51,031						51,031
Short-term derivatives	53						53
Other short-term financial receivables	298	1	1	1	1		303
Short-term operating liabilities to associates	1,361	119				0	1,480
Short-term operating liabilities to jointly controlled entities	74						74
Short-term trade payables	103,825	1,872	27	23	12	131	105,890
Short-term operating liabilities from advances	572						572
Short-term operating payables to employees	17,328						17,328
Short-term operating liabilities to the state and other institutions	26,165						26,165
Other short-term operating liabilities	1,625	24					1,649
Total 31/12/2016	202,332	2,016	28	24	13	131	204,545

Exposure to liquidity risk arising on financial liabilities to banks as at 31 December 2017 is outlined in the table below. The amounts presented are not discounted and include contractually anticipated interest rates. The Group has sufficient financing sources to settle the liabilities to banks that mature in 2018. The aforesaid sources comprise operating income, whereby the Group also has a liquidity reserve in form of cash in the amount of EUR 61,693 thousand and long-term revolving loans in the amount of EUR 50,200 thousand.

Exposure to liquidty risk arising on financial liabilities to banks (in 000 EUR)	Expected cash flows					
	up to 2 months after the date of statement of financial position	2 to 12 months after the date of statement of financial position	1 to 2 years after the date of statement of financial position	2 to 5 years after the date of statement of financial position	more than 5 years after the date of statement of financial position	Total
Financial liabilities to banks without interest rate hedging						
Short-term borrowings	430	1,179				1,609
Long-term borrowings	838	107,202	114,468	382,611	504,345	1,109,463
Total	1,268	108,381	114,468	382,611	504,345	1,111,073

3.5.7.5.3 Currency risk

The Group is exposed to currency risk in a lesser extent since the majority of inflows and outflows are performed in domestic currency euro.

In 2017, the Group's currency risk was adequately managed. While hedging against currency risk, the company acts in compliance with the Rules on Currency Risk Management. The controlling company is mainly exposed to currency risk while trading with electricity in foreign currencies on foreign markets. If required, the currency risk is managed by applying derivatives.

The exposure to currency risk occurs also in operations of subsidiaries registered in SE Europe. With regard to the fact that operations of subsidiaries based in SE Europe represent a smaller segment of operations in comparison with total HSE Group operations, the exposure to currency risk is thus minimum.

Since other currencies are used in smaller extent, the Group does not perform sensitivity analysis for changes in foreign currencies exchange rates, since this would not significantly affect the Group's profit or loss.

The following exchange rates were used for translation of items in the consolidated financial statements:

Exchange rates

Country	Currency designation	Closing exchange rate in EUR for 2017	Closing exchange rate in EUR for 2016
Bosnia and Herzegovina	BAM	1.9558	1.9558
Croatia	HRK	7.4400	7.5597
Macedonia	MKD	61.2150	61.8000
Serbia	RSD	118.6600	123.6000

Exposure to currency fluctuation risk (in 000 EUR)	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	45		10	55
Long-term operating receivables	3,443		565	4,008
Short-term financial receivables and loans	13,465		50	13,516
Short-term operating receivables	158,850	2	3,578	162,429
Long-term financial liabilities	(779,543)			(779,543)
Long-term operating liabilities	(204)			(204)
Short-term financial liabilities	(71,896)			(71,896)
Short-term operating liabilities	(166,303)	(650)	(2,615)	(169,568)
Net exposure of the statement of financial position at 31/12/2017	(842,144)	(648)	1,588	(841,203)
Long-term financial receivables and loans	155		10	165
Long-term operating receivables	1,388		282	1,670
Short-term financial receivables and loans	2,657		68	2,725
Short-term operating receivables	144,271		1,666	145,937
Long-term financial liabilities	(848,218)			(848,218)
Long-term operating liabilities	(470)			(470)
Short-term financial liabilities	(51,886)			(51,886)
Short-term operating liabilities	(149,381)	(333)	(958)	(150,672)
Net exposure of the statement of financial position at 31/12/2016	(901,483)	(333)	1,068	(900,748)

Concluded currency swaps by maturity (in 000 EUR)	31/12/2017	31/12/2016
up to 12 months	4,494	4,200
Total	4,494	4,200

Effect of currency swaps (in 000 EUR)	2017	2016
Unrealised loss on effective swaps	(49)	(53)
Realised profit on effective swaps	5	66
Realised loss on effective swaps	(89)	(13)

3.5.7.5.4 Interest rate risk

The Group manages interest rate risks in compliance with the Rules of HSE Group's interest rate management, which defines the policy of managing interest rate risk in Group companies. Interest rate risk was in 2017 adequately managed as it aims to limit and reduce the risk relating to interest rate fluctuations and thereby stabilise cash flows.

As at 31 December 2017, more than half of Group's long-term loans bear the fixed interest rate.

Interest rate risks of Group companies are regularly monitored and reported about. Referring to the aforesaid also developments on the cash market, the movement of interest rates and the value of concluded interest rate hedges are monitored on an ongoing basis, with individual Group companies adopting appropriate hedging strategies.

CASH FLOW SENSITIVITY ANALYSIS WITH FINANCIAL INSTRUMENTS BEARING A VARIABLE INTEREST RATE

The change in interest rate for 50 b. p. on the reporting date would increase (decrease) the Group's net profit or loss for the values stated below. The analysis prepared assumes that all variables, particularly foreign currency rates, remain unchanged. In case of borrowings that bear the Euribor interest rate with the »zero floor« clause, a mark-up of + 0.50 b.p. to the average Euribor value in 2017 was taken into account (average value of the 3-month Euribor -0.329%; average value of 6-month Euribor -0.260%). Borrowings without the »zero floor« clause, the change of the interest rate +/- 50 b.p. was taken into account, with regard to the Euribor value as at the date of fixation prior to individual interest period. Consequently, the final result is different by +/- 50 b.p. change in the interest rate.

Financial instruments at variable interest rate (in 000 EUR)	Net profit or loss 2017		Net profit or loss 2016	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial instruments at variable interest rate	(1,284)	811	(1,204)	461
Financial assets			(0)	0
Financial liabilities	(1,284)	811	(1,203)	460

3.5.7.5.5 Price risk

The Group applies futures contract with the purpose hedge long-term positions against price risks.

The price risks arise on fluctuation of market prices of electricity and other energy products (e.g. coal, gas, oil, etc.) that have a direct impact on electricity prices or on Group's operations. In addition, the group is exposed to price fluctuations of emission coupons, which must be provided for the operations of Group's TPP.

The impact of price risk on Group's operations can be quantified on the basis of key variables:

- Group's market position on individual markets at a specific moment of supply,
- volatility or price fluctuation on individual markets at a specific moment of supply, and
- correlation between prices on individual markets in a certain moment of supply.

The above-mentioned variables are considered in the calculation of the VaR (value-at-risk) parameter, which is the key indicator of Group's exposure to price fluctuations, while directly also to volume risk (through the market position). The Group monitors the 5-day VaR with 95% of confidence interval. The respective parameter represents the amount of possible loss of the Group's trading portfolio in five days, which in 95% of cases of normal market movements will not be exceeded in view of market prices, correlation and volatility, as well as in view of Group's volume position. The central parameter in controlling the market position risk is the value of VaR, which for all transactions must not exceed EUR 5.000 thousand. In 2017, the average value amounted to EUR 1,800 thousand, with the highest daily value being recorded at EUR 2,900 thousand. The price risk monitoring system is being upgraded on a regular basis.

The Group manages and controls price risks by means of following activities and methods:

- daily monitoring of the market position at the level of Group, as well as the controlling company by country and individual group of transactions that have a similar purpose or meaning. If the position in a certain moment exceeds the volumes allowed by rules, then it is properly adjusted,
- daily market activities – conclusion of counter transactions with equal volume on the same market or purchasing derivatives by means of purchasing derivatives, with respect to the type of the trading deal,
- daily monitoring and analysing the prices of energy products and forecasting expected price changes on various markets,
- daily monitoring of market activities on the emission coupons market,
- monitoring investment-related decisions in the energy sector of the European Union and the economic growth in the leading countries,
- daily monitoring and analysing the value of the parameter VaR and MtM (mark-to-market) in terms of individual groups of Group's transactions that have a similar purpose by taking into account limitations or the levels of the VaR value defined within the rules,
- daily monitoring of the value of coverage used for price fluctuations with the purpose to generate added value or minimising the risk of loss in compliance with the principle of good management,
- weekly reviews of conditions, prices and events on the electricity market,
- reviews of Group's exposure on a two-week basis by individual groups of transactions with similar purpose, and a review of conditions on the oil and coal markets.

The sale of electricity and purchase of emission coupons relating to own production is managed on the basis of the relevant Strategy of selling own production and purchase of emission coupons for Group's own production. The mechanism was set up with the purpose to disperse the price risk over a longer period of time. The period of sale in the future is subject to the liquidity of the market. Procedures related to implementing the strategy of selling own production are constantly monitored and evaluated at least every two weeks by the group in charge of selling own production. The controlling company reduced the risk arising on electricity prices by means of partial sales of own electricity volumes and purchases of emission coupons on the energy markets for years ahead.

3.5.7.5.6 Capital management

Capital management (in 000 EUR)	31/12/2017	31/12/2016
Long-term financial liabilities	779,543	848,218
Short-term financial liabilities	71,896	51,387
Total financial liabilities	**851,439**	**899,605**
Equity	1,032,427	1,015,220
Financial liabilities/ Equity	**0.82**	**0.89**
Cash and cash equivalents	61,693	83,485
Net financial liability	789,746	816,120
Net debt/ Equity	**0.76**	**0.80**

Rations indicating the relationship between the Group's debt and equity was at the year-end of 2017 lower over the 2016 balance. The respective improvement is attributable to the HSE Group's lower indebtedness, which is due to the repayment of loans, higher balance of cash and equity due to profit achieved.

The Group performs numerous measures for optimizing the business operations, which are reflected in lower costs of maintenance and labour costs. In addition, the Group is divesting under-performing assets, the certain effects of which shall be evident in next years.

3.5.7.6 Fair values

The Group estimates that the carrying amount is a sufficient approximation for its financial instruments, except derivatives, which are recorded at fair value.

Book values and fair values of financial instruments (in 000 EUR)	31/12/2017		31/12/2016	
	Book value	Fair value	Book value	Fair value
Non-derivative financial assets at fair value	173	173	381	381
Availabe-for-sale financial assets	173	173	381	381
Non-derivative financial assets at amortised cost	241,701		233,753	
Financial receivables	13,570		2,890	
Trade and other receivables	166,437		147,378	
Cash	61,693		83,485	
Total	241,874	173	234,135	381
Derivative financial liabilities at fair value	61	61	53	53
Derivatives (liabilities)	61	61	53	53
Non-derivative financial liabilities at amortised cost	1,024,475		1,060,575	
Bank borrowings	851,175		896,097	
Other financial liabilities	203		3,455	
Trade and other payables	173,097		161,023	
Total	1,024,536	61	1,060,628	53

Financial instruments at fair value by hierarchy (in 000 EUR)	31/12/2017	31/12/2016
Financial assets at fair value - Level 1	34	35
Financial assets at fair value - Level 3	139	346
Financial liabilities at fair value - Level 2	61	53

Most of Level 1 financial assets at fair value include available-for-sale financial assets i.e. Triglav shares, which are disclosed by the SENG company in the amount of EUR 34 thousand; Level 3 financial assets at fair value primarily comprise HSE's available-for-sale assets in the amount of EUR 112 thousand; Level 2 financial liabilities include the unrealised loss of efficient currency swaps.

3.5.7.7 Events after the balance sheet date

The TET company started liquidation proceedings in 2014. Due to the existence of deductible tax differences arising from revaluation financial expenses as a result of impairment of investments during the transition to liquidation, the controlling company HSE formed deferred tax assets. These were reversed in the financial statements for 2017, as the company TET - in liquidation started operations again at the start of 2018. Consequently, the chances of the controlling company to use the stated deductible tax differences within the tax returns are thus lower.

As of 2 February 2018, the Abanka informed the HSE about enforcing the performance guarantee relating to Eko srebrne hiše in the amount of EUR 700 thousand, which was also given effect on 5 February 2018 to the guarantee's beneficiary. HSE and the bank are negotiating on the manner of paying the guarantee.

EUR 376 million

REVENUE

7 TWh

SALE OF ELECTRICITY

EUR 10 million

DEBT

4 Accounting Report of HSE d.o.o.

4.1 Independent Auditor's Report of the HSE d.o.o.

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Independent Auditors' Report

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 2017, the separate statement of profit or loss, the separate statement of other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows 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 unconsolidated financial position of the Company as at 31 December 2017, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

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

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

Other Information

Management is responsible for the other information. The other information comprises the Introduction including Report of the Supervisory board and the Business Report included in the Annual Report, but does not include the separate financial statements and our auditor's report thereon. We obtained other information before the date of issuance of the auditor's report, except for the Report of the Supervisory Board, which is to become available at a later date.

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

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

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

KPMG

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 separate financial statements and the procedures above, in our opinion:

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

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

Responsibility of Management 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.

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

KPMG

- 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.

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 2017, the statement of profit or loss 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
Ljubljana, 4 April 2018	KPMG Slovenija, d.o.o.

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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 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 company Holding Slovenske elektrarne, d.o.o. (hereinafter 'HSE company' or 'Company').

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

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

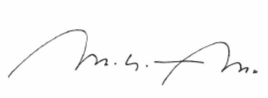
- the accounting policies are correctly chosen and consistently applied,
- the assessments and evaluations are reasonable and prudent.

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

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

On 3 April 2018, the management adopted the financial statements of Holding Slovenske elektrarne, d.o.o. for the business year which ended on 31 December 2017.

Ljubljana, 3. April 2018



Matjaž Marovt, Managing Director of HSE

Stojan Nikolić, M.Sc. Finance Director of HSE

4.3 Introductory Notes to the Preparation of Consolidated Financial Statements

The accounting part of Holding Slovenske elektrarne d.o.o. consists of the financial statements with accompanying notes.

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 Company has been preparing financial statements and explanations since 1 January 2011, in accordance with the International Financial Reporting Standards, as adopted by the European Union.

The audit company KPMG Slovenija d.o.o. audited the financial statements with notes and compiled an independent auditor's report which is included at the end of the chapter.

4.4 Financial Statements

4.4.1 Statement of Financial Position

Statement of Financial Position (in 000 EUR)	Note	31/12/2017	31/12/2016
ASSETS		1,321,085	1,299,128
A. LONG-TERM ASSETS		1,118,974	1,122,483
I. Intangible assets	1	26,839	27,434
II. Property, plant and equipment	2	12,426	11,754
IV. Long-term investments in subsidiaries	3	1,010,573	1,011,775
V. Other long-term investments and loans	4	65,764	65,388
VI. Long-term operating receivables		3,104	624
VIII. Deferred tax assets	5	267	5,510
B. SHORT-TERM ASSETS		202,111	176,645
III. Short-term investments and loans	6	2,584	1,906
IV. Short-term trade receivables	7	135,566	117,157
V. Current tax assets	24	1,270	
VI. Other short-term assets	8	35,963	28,630
VII. Cash and cash equivalents	9	26,728	28,951
EQUITY AND LIABILITIES		1,321,085	1,299,128
A. EQUITY	10	905,369	876,577
I. Called-up capital		29,559	29,559
II. Capital surplus		561,243	561,243
III. Revenue reserves		562,745	562,745
IV. Hedging reserve		10,753	1,741
V. Fair value reserve		51	21
VI. Retained earnings or losses		(258,982)	(278,731)
B. LONG-TERM LIABILITIES		220,243	237,146
I. Provisions for termination benefits and jubilee premiums	11	822	738
IV. Long-term financial liabilities	12	219,421	236,408
C. SHORT-TERM LIABILITIES		195,473	185,405
II. Short-term financial liabilities	13	17,201	10,002
III. Short-term operating liabilities	14	132,706	125,884
IV. Current tax liabilities	24		1,469
V. Other short-term liabilities	15	45,565	48,049

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

4.4.2 Income Statements

Income Statement (in 000 EUR)	Note	2017	2016
OPERATING INCOME		1,610,815	1,238,417
1 Revenue	17	1,610,688	1,234,433
4. Other operating income	18	127	3,985
GROSS OPERATING YIELD		1,610,815	1,238,417
OPERATING EXPENSES		1,563,353	1,173,448
5. Costs of goods, material and services	19	1,551,739	1,164,179
6. Employee benefits expense	20	9,898	8,143
7. Write-downs in value	21	845	766
8. Other operating expenses		872	361
OPERATING PROFIT OR LOSS		47,462	64,969
9. Finance income	22	47,814	55,271
10. Finance costs	23	62,314	67,813
FINANCIAL RESULT		(14,500)	(12,542)
PROFIT OR LOSS BEFORE TAX		32,962	52,427
TAX	24	13,224	8,067
12. Income tax expense		7,980	9,029
13. Deferred tax		5,244	(961)
NET PROFIT OR LOSS FOR THE PERIOD	25	19,738	44,360
Majority owner		19,738	44,360

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

4.4.3 Statement of Other Comprehensive Income

Statement of Other Comprehensive income (in 000 EUR)	Note	2017	2016
Net profit or loss of the period	25	19,738	44,360
Actuarial gains and losses of employee defined benefit plans		42	78
Items that will not be transferred to profit or loss		42	78
Net effecitive portion of changes in fair value of cash flow hedges	10	9,019	2,340
Net effective portion of changes in fair value of cash flow hedges reclassified to profit or loss	10	(6)	138
Items that may be transferred to profit or loss		9,013	2,478
Total comprehensive income for the period		28,792	46,915
Total comprehensive income for the period attributable to majority owner		28,792	46,915

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

4.4.4 Statement of Cash Flows

Statement of Cash Flow (in 000 EUR)	2017	2016
CASH FLOWS FROM OPRATING ACTIVITIES		
Profit or loss for the period	19,738	44,360
Adjustements for:		
Amortisation of intangible assets	313	280
Depreciation on property, plant and equipment	494	477
Write-off of property, plant and equipment	1	
Write-off of trade receivables	28	6
Elimination of write-off/impairment of trade recivables		(862)
Loss on sale of property, plant and equipment	9	2
Finance income	(47,814)	(55,271)
Finance costs	62,314	67,813
Gain on sale of property, plant and equipment	(8)	(13)
Income tax paid	13,224	8,067
Cash generated from operating activities before change in net current assets and taxses	48,299	64,860
Change in net current assets and provisions		
Change in:		
Inventories		1
Trade and other receivables	(28,251)	(1,107)
Trade and other payables	13,357	17,637
Provisions	114	(2,993)
Income tax paid	(10,720)	(1,200)
Cash from operating activities	22,799	77,198
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	277	3,319
Income from other financing activities	1,087	1,913
Dividends received	41,155	50,322
Proceeds from sale of property, plant and equipment	29	20
Proceeds from sale of intangible assets	36,587	21,129
Proceeds from decrease in short-term loans given	240	860
Receipts from decrease in long-term loans given	47,509	225,020
Proceeds from settlement of derivatives	3,749	46
Proceeds from decrease in short-term investments		5,005
Acquisitions of property, plant and equipment	(1,197)	(420)
Acquisitions of intangible assets	(36,305)	(27,607)
Acquisitons of subsidiaries	(47,259)	(234,894)
Costs for increasing short-term loans	(20,000)	(800)
Costs for increasing long-term loans	(27,259)	(162,934)
Costs for settlement of derivatives	(1,040)	(807)
Net cash used in investing activities	(2,426)	(119,826)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital		
Proceeds from long-term borrowings		178,074
Proceeds from short-term borrowings		132,503
Payment of interest on borrowings	(8,018)	(11,155)
Costs for other financial liabilities	(5,375)	(6,297)
Repayment of long-term borrowings	(9,203)	(10,922)
Repayment of short-term borrowings		(267,789)
Repayment of other short-term financial liabilities	(0)	(3)
Net cash used in financing activities	(22,597)	14,412
OPPENING BALANCE OF CASH AND CASH EQUIVALENTS	28,951	57,157
Financial result	(2,224)	(28,205)
CLOSING BALANCE OF CASH AND CASH EQUVALENTS	26,728	28,951

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

4.4.5 Statement of Changes in Equity

Statement of Changes in Equity (in 000 EUR)	CALLED-UP CAPITAL		REVENUE RESERVES			RETAINED EARNINGS OR LOSSES		
	Share capital	CAPITAL SURPLUS	Other revenue reserves	HEDGING RESERVE	FAIR VALUE RESERVE	Retained earnings or loss	Net profit or loss for the period	Total
Balance at 01/01/2016	29,559	561,243	562,745	(737)	(30)	(0)	(323,117)	829,662
B.2. Changes in total comprehensive income				(2,202)	51	27	44,360	42,235
Items that will not be transferred to profit or loss					51	27		78
Actuarial gains and losses of employee defined benefit plans					*51*	*27*		*78*
Items that may be transferred to profit or loss				(2,202)				(2,202)
Net effective portion of changes in fair value of instruments for cash flow hedges				*138*				*138*
Net effective portion of changes in fair value of instruments for cash flow hedges reclasified to profit or loss				*2,340*				*2,340*
B.3. Changes within eqiuty						(278,758)	278,758	
Allocation of the remaining portion of net profit of the comparable period to other equity components						*(323,117)*	*323,117*	
Settlement of loss as deductible equity component						*44,360*	*(44,360)*	
Balance at 31/12/2016	29,559	561,243	562,745	(2,940)	21	(278,731)		871,897
Balance at 01/01/2017	29,559	561,243	562,745	1,741	21	(278,731)		876,577
B.2. Changes in total comprehensive income				9,013	31	11	19,738	28,792
Net profit or loss for the reporting period							19,738	19,738
Items that will not be transferred to profit or loss					31	11		42
Actuarial gains and losses of employee defined benefit plans					*31*	*11*		*42*
Items that may be transferred to profit or loss				9,013				9,013
Net effective portion of changes in fair value of instruments for cash flow hedges reclasified to profit or loss				*(6)*				*(6)*
Change of the reserve for the fair value of financial assets available for sale				*9,019*				*9,019*
B.3. Changes within eqiuty						19,738	(19,738)	
Allocation of the remaining portion of net profit of the comparable period to other equity components						*19,738*	*(19,738)*	
Balance as at 31/12/2017	29,559	561,243	562,745	10,753	51	(258,982)		905,369

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

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

4.5.1 Reporting Entity

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

The financial year of the Company equals the calendar year. The separate financial statements of the HSE company for the year ended 31 December 2017 are presented below.

4.5.2 Basis for prepration

A) STATEMENT OF COMPLIANCE

When preparing the financial statements as of 31 December 2017, the Company took into consideration the following:

- the International Financial Reporting Standards (IFRS), which include the International Accounting Standards (IAS), Interpretations from the Standing Interpretations Committee (SIC) and Interpretations from the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union,
- the Companies Act,
- the Energy Act,
- the Corporate Income Tax Act,
- the Rules on the implementation of the Corporation Tax Act,
- accounting Rules for the Group, and
- other applicable legislation.

B) ACCOUNTING ASSUMPTIONS AND QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

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

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

- **Fair presentation in compliance with the International Financial Reporting Standards**: the financial statements present fairly the entity's financial position, financial performance and cash flows of the Company.
- **Consistent presentation**: the presentation and classification of items in the financial statements equals the form applied in the previous year.
- **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 Company uses the same accounting policies for all periods which are presented in the financial statements for 2017.

C) BASIS FOR MEASUREMENT

Company's financial statements are prepared on the basis of historical values, except for derivatives and assets available for sale, which are disclosed at fair value and financial assets that are carried at fair value through profit or loss.

D) FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements contained in this report are presented in euro (EUR) exclusive of cents. The euro has been the functional and presentation currency of the Company. Due to the rounding of amounts, minor but insignificant deviations exist in the tables. Values presented in the table with 0 indicate the value below EUR 500. Where the table cell is left empty, the value of the item equals EUR 0.

E) USE OF ESTIMATES AND JUDGEMENTS

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

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

Estimates and assumptions are present at the following judgements:

- assessment of useful life of amortisable assets (Note 1, 2 of the statement of financial position),
- impairment testing of assets (Note 1, 2 and 3 of the statement of financial position),
- assessment of fair value of derivatives (Note 10 of the statement of financial position),
- assessment of realisable values of receivables (Note 'Credit risk'),
- assessment of provisions for post-employment and other long-term employees benefits (Note 11 of the statement of financial position), and
- assessment of contingent assets and liabilities (Note 17 of the statement of financial position).

Additional estimates and judgements of the management when preparing the financial statements on 31 December 2017 include the following:

1. The Company has the right to repurchase the entire participating interest in HESS sold in 2014 (35.6% and not 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 HSE Group, as well as the realised and planned free cash flow, the 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 HSE Group. The strategy of operations of the Company and the HSE Group is directed into reducing the debt of the HSE Group, reducing investment expenditures for new production facilities and optimisation, as well as rationalisation of business processes of the Group. The Company does not plan to purchase of the participating interest in HESS until the end of 2019.

   By selling the 35.6% participating interest in HESS, the Company lost the majority control in managing HESS (the HSE Group has the minority of members in the Supervisory Board of HESS).

2. The 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).

3. In case of impairment testing of money-generating units (TEŠ), the business projections for their entire useful life are used. The used price projections for price fluctuations of electricity and emission allowances prepared by an external independent institution are limited to the

2012-2040 period. The reasons for using long-term projections for implementing the impairment testing 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.

4.5.3 Branches and representative offices

The Company has a branch office in the Czech Republic and a representative office in Romania. The Company did not perform any transactions through the branch office in 2017 as the trade with electricity was transferred to the parent company itself. The operations of the branch and the representative office are included in financial statements of the Company.

4.5.4 Fundamental Accounting Policies

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

4.5.4.1 Foreign Currency Translation

Transactions in foreign currencies are translated to the respective functional currency at the exchange rate at the date of the transaction.

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

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Exchange rate differences are recognised in the income statement by applying the net principle.

4.5.4.2 Intangible assets

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

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

Intangible assets are subsequently measured using the cost model.

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

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

Amortisation methods and useful lives of groups of intangible assets are checked at the end of each business year and adjusted if necessary. In the event of extending the useful life, the costs of the accounted amortisation in the business year are reduced, while in case the shortening the useful life the respective costs are increased. The adjustment of the useful life must 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 Estimated Usefull Life for Intangible Assets	2017	2016
Software	2-20 years	2-20 years

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

4.5.4.3 Property, plant and equipment

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

Property, plant and equipment (hereinafter also 'fixed assets') are disclosed at cost less accumulated depreciation. Cost includes costs that can be directly attributed to the acquisition of an item of property, plant and equipment. The parts of items of plant and equipment with different useful lives are accounted for as individual assets. Borrowing costs that are directly allocated to the purchase, construction or production of a qualifying asset, i.e. until the capitalisation of an asset, are recognised as a part of cost of such an asset. The Company did not obtain any loans for purchase of fixed assets. Accordingly, the costs of borrowing are not attributed to the assets in the process of construction or production.

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

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

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

The Estimated Usefull Life for Property, Plant and Equipment	2017	2016
Business premises	50 years	50 years
Solar power plant	25 years	25 years
Computer equipment	2-5 years	2-5 years
Furniture	10 years	10 years
Small tools	3-5 years	3-5 years
Personal vehicles	5 years	5 years
Other plant and equipment	3-10 years	3-10 years

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

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

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

4.5.4.4 Leased assets

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

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

4.5.4.5 Long-term investments in subsidiaries

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

In financial statements, investments in subsidiaries are disclosed at cost.

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

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

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

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

4.5.4.6 Long-term investments in associates and jointly controlled entities

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

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

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

4.5.4.7 Financial instruments

Financial instruments include the following assumptions:

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

I. NON-DERIVATIVE FINANCIAL ASSETS

The Company's non-derivative financial assets comprise investments, trade receivables, loans, cash and cash equivalents.

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

Non-derivative financial assets are upon initial recognition classified by using the following groups:

- financial asset at fair value through profit or loss
- available-for-sale financial asset
- loans and receivables
- cash and cash equivalents.

A) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

An asset is classified as financial asset at fair value through profit or loss if it is held for trading or if it is defined as such upon initial recognition. Financial assets are defined at fair value through profit or loss under the condition that the company is able to hold to manage these assets and decide on purchases and sales based on fair value.

Upon initial recognition the accompanying costs of transaction are recognised in profit or loss upon their accrual. Financial assets at fair value through profit or loss are measured at fair value, while the amount of change in fair value is recognised in profit or loss.

Financial assets at fair value through profit or loss of the company comprise primarily unrealised derivatives and derivatives valued at the reporting date.

B) 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. They include investments in companies, where the company's equity interest in these companies is less than 20% and investments in the institute.

Available-for-sale financial assets are recognised after the trading date.

They are carried at fair value, if the fair value can be established and the profit or loss during valuation is recognised directly in other comprehensive income. At derecognition of investment, the accumulated profit and loss recorded in other comprehensive income are transferred to profit or loss.

In case the fair value cannot be reliably measured, since the range of justified fair value assessments is of significant importance and the probability of various assessments is difficult to be assessed, the company measures the financial asset at cost.

C) LOANS AND TRADE RECEIVABLES

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

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

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

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

D) CASH AND CASH EQUIVALENTS

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

II. NON-DERIVATIVE FINANCIAL LIABILITIES

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

Loans received are initially recognised as at the date of their settlement (repayment), while payables to suppliers as of the trading date.

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

III. DERIVATIVES

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

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

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

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

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

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

- the instrument must hedge against cash flow changes that can be attributed to hedged risks;

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

When a derivative is defined as hedging in case of exposure to changeability of cash flows that may be attributed to an individual risk related to recognised asset, liability or very probable envisaged transactions, which can affect the profit or loss, the successful portion of changes in fair value of derivative is recognised in comprehensive income and disclosed in risk hedging reserve. Unsuccessful portion of changes in the fair value of financial instrument is directly recognised in the income statement. The Company shall discontinue prospectively the hedge accounting if the hedge no longer meets the criteria for hedge accounting, if the hedging instrument is sold, terminated or exercised. The accumulated profit or loss recognised in comprehensive income remains recorded in the hedging reserve until the envisaged transaction impacts the profit or loss. If the envisaged transactions cannot be expected any more, the amount recognised in other comprehensive income must be directly recognised in profit or loss. In other cases, the amount recognised as comprehensive income is transferred to profit or loss for the same period in which the protected item affects the profit or loss.

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

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

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

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

4.5.4.8 Impairment of assets

I. FINANCIAL ASSETS

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

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

A) IMPAIRMENT OF RECEIVABLES AND LOANS GRANTED

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

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

Disputed receivables are those which comply with one of the following conditions:

- the legal collection procedure began at the court;
- the decision on beginning of compulsory settlement, liquidation or bankruptcy is published.

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

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

In case all actions were performed with the carefulness of a good manager, with intention to repay certain unsettled receivable and in case that due to the amount of receivable, it would not be economic for the Company to enter the collection procedure through court, receivables are finally written down in full based on the management's decision.

The Company assesses evidence on loan impairment for each significant loan.

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

B) IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

II. NON-FINANCIAL ASSETS

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

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

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

4.5.4.9 Equity

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

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

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

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

Hedging reserve includes the effect of changed fair value of derivatives, which were classified as successful hedges in case of exposure to cash flow fluctuations.

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

Retained earnings include unallocated profit of the current year.

4.5.4.10 Provisions for post-employment and other long-term employee benefits

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

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

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

4.5.4.11 Employee benefits

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

4.5.4.12 Other provisions

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

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

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

4.5.4.13 Other assets and other liabilities

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

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

4.5.4.14 Contingent liabilities

Contingent liability is:

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

Company's contingent liabilities include the guarantees granted and parent guarantees.

4.5.4.15 Revenue

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

The revenue is disclosed when the buyer assumes all significant types of risks and benefits related to the ownership of the asset, when there is a certainty in relation to recoverability of a fee and related costs or possibility of repayment of products and when the company stops deciding on products sold.

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

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

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

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

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

4.5.4.16 Expenses

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

Operating expenses are recognised once the merchandise has been sold.

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

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

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

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

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

Other operating income occur in connection with the formation of provisions, environmental charges and other duties.

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

4.5.4.17 Taxation

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

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

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

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

In 2017, the applicable tax rate for corporate income tax amounted to 19%, which will remain the same also in the next tax periods, based on the currently applicable tax legislation.

4.5.4.18 Statement of cash flows

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

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

4.5.4.19 Segment reporting

The Company does not disclose operations by segments in the annual report. Segment reporting must be disclosed by companies whose treasury or debt securities are traded in the market, and companies which are issuing treasury or debt securities in public security markets.

4.5.4.20 New standards and interpretations issued by IASB and adopted by Eureopean Union, which are not yet effective

New standards, interpretations and amendments to the existing standards as adopted by the European Union and stated below are not yet applicable and were not taken into account during the compilation of the annual financial statements for the fiscal year that started as of 1 January 2017:

- **IFRS 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contracts with Customers**

(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:

- identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent

(responsible for arranging for the good or service to be provided); and

- determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide entities with two additional practical expedients:

- An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements, the management does not expect that the new standard, when initially applied, will have material impact on the its financial statements. The timing and measurement of the Company's income are not expected to change under IFRS 15.

➢ IFRS 9 Financial Instruments (2014)

(Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting until the standard resulting from the IASB's project in macro hedge accounting is effective.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

Further, financial assets, such as equity instruments of other entities are measured at fair value.

Gains and losses arising on remeasurement of financial assets are recognised in profit or loss, except financial assets owned within the business model, which aims to obtain contractually agreed cash flows through the sale of these assets – gains and losses on the remeasurement are recognised in the statement of other comprehensive income.

In relation to non-trading equities, entities can irrevocably decide to present subsequent changes of fair value (including exchange gains and losses) in other comprehensive income. In no circumstances can they subsequently be reclassified to profit or loss.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required

The Company does not expect the new standard on the day of its first application to have a material impact on its financial statements.

Amendments to IFRS 4:Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)

The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

The Company expects that the amendments, when initially applied, will have a material impact on its financial statements as the volatility that arises from application of IFRS 9 will be recognized in other comprehensive income rather than profit or loss.

IFRS 16 Leases

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

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

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

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

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

The Company does not expect that the new standard, when initially applied, will have material impact on the financial statements as it does not act as customer in contract that is subject to treatment under IFRS 16.

Annual Improvements to the IFRS 2014–2016 Cycle

(Effective for annual periods beginning on or after 1 January 2018 except for the changes to IFRS 12 that shall be applied for annual periods beginning on or after 1 January 2017.)

The Improvements to IFRSs (2014-2016) contains 3 amendments to standards. The main changes were to:

- delete short-term exemptions for first-time adopters (IFRS 1 First-time Adoption of International Financial Reporting Standards) relating, inter alia, to transition provisions of IFRS 7 Financial Instruments - Disclosures regarding comparative disclosures and transfers of financial assets, and of IAS 19 Employee Benefits; The exemptions were deleted due to the fact that these reliefs had been available to entities only for reporting periods that had passed;

- clarify that requirements of IFRS 12 Disclosure of Interest in Other Entities (with an exception of disclosure of summarized financial information in accordance with paragraphs B10-B16 of that standard) apply to entities that have an interest in subsidiaries, or joint arrangements, or associates, or unconsolidated structured entities, which are classified as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; and clarify that election of exemption from applying the equity method per IAS 28 Investments in Associates and Joint Ventures shall be made separately for each associate or joint venture at initial recognition of the associate or joint venture.

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

New standards and amendments that were not yet adopted by the European Union

➢ Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

(The European Commission decided to defer the endorsement indefinitely.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

➢ IFRS 17 Insurance Contracts

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

This pronouncement is not yet endorsed by the European Union.

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

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

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

➢ IFRIC 22 Foreign Currency Transactions and Advance Consideration

(Effective for annual periods beginning on or after 1 January 2018. Early application is permitted.)

This interpretation is not yet endorsed by the European Union.

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance and clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The Company does not expect that the interpretation, when initially applied, will have material impact on the financial statements as it uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

➢ IFRIC 23 Uncertainty over Income Tax Treatments

(Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.)

This interpretation is not yet endorsed by the European Union.

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

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

➢ Amendments to IFRS 2 Classificationd and Measurement of Share-based Payment Transactions

(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Earlier application is permitted.)

These amendments are not yet endorsed by the Euroepan Union.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because it does not enter into share-based payment transactions.

➢ Amendments to IAS 40 Transfers of Investment Property

(Effective for annual periods beginning on or after 1 January 2018; earlier application is permitted.)

These amendments are not yet endorsed by the European Union.

The Amendments provide clarification on transfers to, or from, investment properties:

- a transfer into, or out of investment property should be made only when there has been a change in use of the property; and
- such a change in use would involve an assessment of whether the property qualifies as an investment property.

The Company does not expect that the amendments will have a material impact on the financial statements because the Company transfers a property asset to, or from, investment property only when there is an actual change in use/the Company does not record investment property.

➢ Amendments to IFRS 9 Prepayment *Features with Negative Compensation*

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the Europen Union.

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

The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

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

➢ Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

(Effective for annual periods beginning on or after 1 January 2019.)

These amendments are not yet endorsed by the Eropen Union.

The amendment clarifies that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

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

➢ Annual Improvements to IFRS 2015-2017 Cycle

(Effective for annual periods beginning on or after 1 January 2019.)

These annual improvements are not yet endorsed by the European Union.

The Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to:

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

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

➢ Amendments to IAS 19: Employee Benefits

(Effective for annual periods beginning on or after 1 January 2019.)

These annual improvements are not yet endorsed by the European Union.

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

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

4.5.5 Determination of Fair Value

With reference to disclosing financial instruments, their fair values must be presented. Fair value is the amount by which an asset can be sold, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

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

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

In order to determine the fair value of interest and currency swaps we use information submitted to the Company by the bank where an individual swap was concluded. Values are verified in the Company's financial department.

4.5.6 Financial Risk Management

Detection and management of financial risks is defined in the management report. In notes to the financial statements, the risks are presented in connection with items in consolidated financial statements (section 4.5.7.6. Financial instruments and risk management), namely:

- credit risk,
- liquidity risk,
- currency risk,
- interest rate risk, and
- price risk.

4.5.7 Disclosures to the Financial Statements

4.5.7.1 Statement of Financial Position

INTANGIBLE ASSETS (1)

Intangible Assets (in 000 EUR)	31/12/2017	31/12/2016
Emission coupons	24,726	25,558
Other long-term property rights	2,113	1,876
Total	26,839	27,434

Intangible assets comprise emission coupons for the purposes of electricity production within the HSE Group and software.

Movement of Intangible Assets (in 000 EUR)	Emission coupons	Other long-term property rights	Other long-term property rights being acquired	Total
Cost at 01/01/2017	25,558	6,135	517	32,209
Acquisitions	30,299		550	30,849
Transfer from investments		1,064	(1,064)	
Disposals - write-offs, sales	(31,131)			(31,131)
Write-offs		(437)		(437)
Cost at 31/12/2017	24,726	6,762	3	31,490
Write-downs at 01/01/2017		4,775		4,775
Amortisation		313		313
Write-offs		(437)		(437)
Write-downs at 31/12/2017		4,651		4,651
Carrying amount at 01/01/2017	25,558	1,359	517	27,434
Carrying amount at 31/12/2017	24,726	2,110	3	26,839
Cost at 01/01/2016	19,515	5,899	320	25,733
Acquisitions	27,172		434	27,607
Transfer from investments		237	(237)	
Disposals - write-offs, sales	(21,129)	(0)		(21,129)
Write-offs		(1)		(1)
Cost at 31/12/2016	25,558	6,135	517	32,209
Write-downs at 01/01/2016		4,496		4,496
Amortisation		280		280
Write-offs		(1)		(1)
Write-downs at 31/12/2016		4,775		4,775
Carrying amount at 01/01/2016	19,515	1,403	320	21,237
Carrying amount at 31/12/2016	25,558	1,359	517	27,434

Among its intangible assets, the Company records emission coupons for covering requirements of own electricity production at TEŠ and TET – in liquidation. In 2011, the Agreements on Managing the Emission Coupon Portfolio were signed according to which HSE manages emission coupons of both companies. The Company purchases the required quantity of coupons for several years in advance (depending on the quantities of electricity sold in those periods). The amount of coupons needed at TEŠ and TET – in liquidation for the current period is determined at the beginning of the next year, thus the sale and transfer of coupons to the companies TEŠ and TET – in liquidation is carried out in the next period. However, all sales effects are included in the Company's operating result for the current year.

At the beginning of 2017, the Company had in stock and recorded 3,767 thousand emission coupons for covering the requirements of own electricity production in its subsidiaries. For this purpose the Company purchased in 2017 4,237 thousand and sold 4,192 thousand coupons; as at 31 December 2017, the Company had EUR 428 thousand of profit in this relation.

In 2017, the Company reviewed useful lives of relevant software and established that useful life of one item of software had been prolonged, which resulted in decreased amortisation rates. Due to extended useful life of this software, the amortisation charge in 2017 totalled to EUR 3 thousand, which is EUR 3 thousand less than the amortisation of the initially determined useful life. As at the balance sheet, the Company recorded EUR 111 thousand liabilities to upgrade software for marketing requirements (ENDUR), launch a uniform parent base of production infrastructure and the system for managing electronic documents.

No pledges or other ownership-related limitations referring to intangible assets exist.

PROPERTY, PLANT AND EQUIPMENT (2)

Property, Plant and Equipment (in 000 EUR)	31/12/2017	31/12/2016
Buildings	1,260	1,295
Production equipment	91	97
Other equipment	1,499	972
Property, plant and equipment being acquired	9,577	9,390
Total	**12,426**	11,754

The item of buildings includes part of Company's business premises in Ljubljana, whereby part of premises in Ljubljana, business premises in Šoštanj, Maribor and Nova Gorica are hired by the Company. The item of production equipment comprises the solar power plant, while other equipment includes mostly computer equipment.

Movement Property, Plant and Equipment (in 000 EUR)	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	Total
Cost at 01/01/2017	1,733	127	8,788	9,390	20,038
Acquisition				1,197	1,197
Disposals			(228)		(228)
Transfers from investments			1,010	(1,010)	
Write-offs			(129)		(129)
Cost at 31/12/2017	1,733	127	9,441	9,577	20,878
Write-downs at 01/01/2017	439	30	7,815		8,285
Disposals			(198)		(198)
Depreciation	35	5	453		494
Write-offs			(129)		(129)
Writen-downs at 31/12/2017	474	36	7,942		8,451
Carrying amount at 01/01/2017	1,295	97	972	9,390	11,754
Carrying amount at 31/12/2017	1,260	91	1,499	9,577	12,426
Cost at 01/01/2016	1,733	127	8,607	9,317	19,784
Acquisition				420	420
Disposals			(87)		(87)
Transfers from investments			347	(347)	
Write-offs			(78)		(78)
Cost at 31/12/2016	1,733	127	8,788	9,390	20,038
Write-downs at 01/01/2016	404	25	7,535		7,964
Disposals			(79)		(79)
Depreciation	35	5	437		477
Write-offs			(78)		(78)
Write-downs at 31/12/2016	439	30	7,815		8,285
Carrying amount at 01/01/2016	1,330	102	1,072	9,317	11,821
Carrying amount at 31/12/2016	1,295	97	972	9,390	11,754

Property, plant and equipment being acquired includes the investment in the construction of the middle Sava HPP in the amount of EUR 9,407 thousand. The aforesaid investment refers to the compilation and preparation of the pre-investment and investment-related documentation that is required within procedure of setting up the hydro-power plant into the environment. In 2017, the investment in the middle Sava HPP has gone up by EUR 71 thousand. Due to demanding circumstances on the electricity market, the HSE Group conducts its activities on the project in a limited scope so as to not hinder the long-term proceedings of setting the plant in the environment. Existing documentation and expert opinions were prepared so that they will not fall under the statute of limitation and can be used by the new investor as the basis for further activities. All the so-far compiled documentation and expert opinions were prepared so that they will not fall under the statute of limitation and can be used by the new investor as the basis for further activities. All the above-mentioned confirms that regardless of the investment's slowdown due to the current unfavourable circumstances with respect to the expected yield, the investment itself is probably not at risk and there was no need for impairing the investment as at 31 December 2017. A valuation was carried out in 2016, which confirmed the balance of investment as at 30 September 2016.

The useful lives of significant equipment were checked in 2017 and according to findings made the expected useful lives of have been prolonged, which resulted in lower depreciation rates. Due to extended useful life of this equipment, the depreciation charge in 2017 totalled to EUR 48 thousand, which is EUR 47 thousand less than the depreciation of the initially determined useful life.

The Company does not have any item of property, plant and equipment under mortgage. As of the balance sheet date, the Company recorded EUR 904 thousand liabilities relating to the acquisition of other equipment, studies for designing a spatial plan for Slovenia-Italy commercial waters, and the implementation of the investment in the middle Sava HPP.

Plant and equipment were not impaired in 2017 as the useful life of relevant equipment does not exceed five years. The Company examined also the reasons for possible impairment of business premises, by comparing the market value at the end of 2017 with their carrying amount. It was determined that differences between the carrying and market value are immaterial and indicate that the reasons for impairment are not required to be checked.

No pledges, finance leases or other ownership-related limitations referring to property, plant and equipment exist.

INVESTMENTS IN SUBSIDIARIES (3)

Investments in Subsidiaries (in 000 EUR)	31/12/2017	31/12/2016
DEM	387,059	387,059
SENG	152,692	152,692
TEŠ	424,039	424,080
TET - in liquidation	2,154	3,315
PV	42,989	42,989
HSE Invest	80	80
SRESA	60	60
HSE BE	856	856
HSE Adria	103	103
HSE MAK Energy	27	27
HSE BH	514	514
Total	**1,010,573**	**1,011,775**

Large part of Company's assets comprise long-term investments in subsidiaries. They include investments in companies, in which the parent company – directly or indirectly through other owners – owns a controlling interest and prepares consolidated financial statements for this group of companies.

Data on subsidiaries

Company	Address	Country	Activity	% of ownership	% voting rights
DEM	Obrežna ulica 170, 2000 Maribor	Slovenia	Hydroelectricity generation	100.0%	100.0%
SENG	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Hydroelectricity generation	100.0%	100.0%
TEŠ	Cesta Lole Ribarja 18, 3325 Šoštanj	Slovenia	Electricity production at thermal power plants	100.0%	100.0%
PV	Partizanska 78, 3320 Velenje	Slovenia	Mining and agglomeration of lignite	100.0%	100.0%
TET - in lliquidation	Ob železnici 27, 1420 Trbovlje	Slovenia	Electricity production at thermal power plants	100.0%	100.0%
HSE BE	Bulevar Mihaila Pupina 117, Beograd	Serbia	Electricity trading	100.0%	100.0%
HSE Adria	Miramarska 24, 10 000 Zagreb	Croatia	Electricity trading	100.0%	100.0%
HSE MAK Energy	Belasica no. 2, 1000 Skopje	Macedonia	Electricity trading	100.0%	100.0%
HSE BH	Ul. Alije Isakovića br.1, Sarajevo	Bosnia and Herzegovina	Electricity trading	100.0%	100.0%
ELPROM	Erjavčeva 20, 5000 Nova Gorica	Slovenia	Hydroelectricity generation	100.0%	100.0%
HTZ I.P.	Partizanska 78, 3320 Velenje	Slovenia	Repair of machines and plants	100.0%	0.0%
PV Invest	Koroška cesta 62 b, 3320 Velenje	Slovenia	Ground preparation work	100.0%	0.0%
SIPOTEH	Partizanska cesta 78, 3320 Velenje	Slovenia	Production of metallic structures	100.0%	0.0%
RGP	Rudarska cesta 6, 3320 Velenje	Slovenia	Specialized construction work	89.2%	0.0%
mHE Lobnica	Obrežna ulica 170, Maribor	Slovenia	Hydroelectricity generation	65.0%	65.0%
SRESA	Ob železnici 27, 1420 Trbovlje	Slovenia	Hydroelectricity generation	60.0%	60.0%
HSE Invest	Obrežna ulica 170 a, 2000 Maribor	Slovenia	Other project engineering and technical consulting	25.0%	25.0%

Significant amounts from the financial statements of subsidiaries (in 000 EUR)	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
TEŠ	1,076,292	665,170	207,445	(32,594)	411,122
DEM	478,991	12,032	59,965	7,717	466,959
SENG	231,778	36,842	38,195	3,994	194,936
PV	130,129	86,138	121,675	3,404	43,991
HTZ I.P.	16,289	15,254	32,988	109	1,035
PV Invest	12,278	3,254	1,940	634	9,024
HSE BH	11,554	10,803	65,524	168	751
HSE BE	10,011	9,151	29,037	87	861
RGP	4,711	4,197	9,015	(1,291)	514
TET - in liquidation	4,248	1,405	4,749	(471)	2,843
HSE Invest	2,510	911	3,922	(200)	1,599
HSE MAK Energy	1,905	1,807	10,608	65	98
SIPOTEH	901	606	1,919	29	295
mHE Lobnica	621	1	16	(15)	620
HSE Adria	290	14	16	(93)	276
SRESA	68	0	0	(0)	68
ELPROM	52	0		(5)	52
Total	1,982,631	847,587	587,014	(18,464)	1,135,044

Changes in love-term investments in Group companies (in 000 EUR)	2017	2016
Share capital increase in TEŠ	47,259	228,063
Repurchase of the non-controlling interest in PV		358
Share capital increase in TET - in liquidation		6,473
Impairment of investments in TEŠ	(47,300)	(46,215)
Impairment of investments in TET - in liquidation	(1,161)	(3,158)
Total	(1,202)	185,521

Movement of long-term investments in subsidiaries (in 000 EUR)	2017	2016
Cost at 01/01	1,637,213	1,402,320
Acquisition	47,259	234,894
Cost at 31/12	1,684,473	1,637,213
Write-downs at 01/01	(625,439)	(576,066)
Impairments	(48,461)	(49,373)
Write-downs at 31/12	(673,900)	(625,439)
Carrying amount at 01/01	1,011,775	826,254
Carrying amount at 31/01	1,010,573	1,011,775

As at 29 December 2017, the Company increased the share capital in TEŠ in the amount of EUR 47,259 thousand based on converting long-term financial receivables, which the Company recorded due from TEŠ. The share capital increase was carried out on the basis of the positive test result performed by a private investor of an international institution.

None of the subsidiaries or comparable companies are listed on the stock exchange, hence reasons for a possible impairment could not be determined based on the market prices. Possible grounds for impairment were examined by comparing the difference between the carrying amount of the Company's long-term investment with a proportionate share of the carrying amount of the total capital of subsidiaries. The carrying amounts of the total capital of subsidiaries are, in case of all subsidiaries and upon the impairment of the investment of TEŠ and TET - in liquidation, higher or equal to the carrying amount of a long-term investment in an individual company. Impairment testings of long-term financial assets were conducted by certified appraisers for the companies TEŠ and TET - in liquidation and the PV Group, and some of them were also impaired.

As at 30 September 2017, the long-term investment in the company TEŠ was impaired in the amount of EUR 47,300 thousand and in TET – in liquidation in the amount of EUR 1,161 thousand; the relevant expenses were charged against finance costs.

A regular liquidation procedure of the company TET – in liquidation started as of 16 December 2014, which was concluded in 2017 with the purpose of reactivating the company under the new name i.e. HSE EDT.

The tables below show the assumptions applied in the impairment testing and the relevant result:

LONG-TERM INVESTMENTS IN TEŠ	
2017	**2016**
Method of defining the recoverable value during impairment testing	
Value in use (present value of the expected free cash flows)	Value in use (present value of the expected free cash flows)
Date of impairment testing	
30 September 2017	30 November 2016
Significant assumptions used during impairment testing	
Company's business operations until 2054.	Company's business operations until 2054.
Discount rate in the nominal rate of 7.50%, adjusted to the real level: 5.81% in the October-December period of 2017, 5.59% in 2018 and from 2019 onwards 5.39%.	Discount rate in the nominal rate of 7.35%, adjusted to the real value: 6.19% for December 2016, 5.87% in 2017 and from 2018 onwards 5.77%.
Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2018-2020, with the starting price of EUR 40.72/MWh, the price change in the period is 8.7 %.	Exchange prices for standardized futures contracts for electricity at the HUPX stock exchange for 2017-2019, with the starting price of EUR 37.91/MWh, the price change in the period is -7.9%.
Exchange prices for standardized futures contracts for CO2 emission coupons at the EEX stock exchange for 2018-2020, with the starting price of EUR 6.48/t, the price change in the period is 14.8%.	Exchange prices for standardized futures contracts for CO2 emission coupons at the EEX stock exchange for 2017-2020, with the starting price of EUR 4.83/t, the price change in the period is 2.3%.
Long-term forecasts for electricity prices fluctuations (Poyry Management Consulting) for the 2021-2040 period, with the starting price of EUR 48.04/MWh, the price change in the period is 58.7%.	Long-term forecasts for electricity prices fluctuations (Poyry Management Consulting) for the 2020-2040 period, with the starting price of EUR 54.80/MWh, the price change in the period is 62.4%.

LONG-TERM INVESTMENTS IN PV	
2017	**2016**
Method of defining the recoverable value during impairment testing	
Value in use (present value of the expected free cash flows)	Value in use (present value of the expected free cash flows)
Date of impairment testing	
30 September 2017	30 November 2016
Significant assumptions used during impairment testing	
Company's business operations until 2054.	Company's business operations until 2054.
Discount rate in the nominal rate of 7.85%, adjusted to the real level: 6.15% in the October-December period of 2017, 5.93% in 2018 and from 2019 onwards 5.73%.	Discount rate in the nominal rate of 7.9%, adjusted to the real value: 6.52% for December 2016, 6.21% in 2017 and from 2018 onwards 6.10%.
Coal's sales price is recorded at EUR 2.75/GJ in the overall period until 2054.	Coal's sales price is recorded at EUR 2.75/GJ in the overall period until 2054.
Costs for closing the coal mine after its operations are estimated at EUR 53,980 thousand.	Costs for closing the coal mine after its operations are estimated at EUR 53,388 thousand.
Average annual coal production is recorded at 35.292 TJ/year in the 2018-2030 period, decline in the volume of operations in the 2030-2040 period due to the anticipated closure of the coal mine; a constant production and sale of coal at 19,168 TJ/year is anticipated after 2040.	Average annual coal production is recorded at 35.422 TJ/year in the 2017-2030 period, decline in the volume of operations in the 2030-2040 period due to the anticipated closure of the coal mine; a constant production and sale of coal at 19,168 TJ/year is anticipated after 2040.

(continued:)

LONG-TERM INVESTMENTS IN TEŠ	
2017	2016
Long-term forecasts for market price fluctuations for CO_2 emissions coupons (Poyry Management Consulting) for the 2021-2030 period, with the starting price at EUR 12,32/t, and the price change in the period is 107%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is kept on the level at 34%.	Long-term forecasts for market price fluctuations for CO_2 emissions coupons (Poyry Management Consulting) for the 2021-2030 period, with the starting price at EUR 15,39/t, and the price change in the period is 140.2%. From 2031 onwards, the ratio between electricity prices and CO_2 emission coupons is kept on the level at 56%.
The 2041-2054 takes account of the prices for electricity and CO_2 emission coupons from 2040.	The 2041-2054 takes account of the prices for electricity and CO_2 emission coupons from 2040.
Average annual production of electricity from coal power plant sis recorded at 3.6 TWh in the 2018-2030 period, 2.5 TWh in the 2031-2040 period and 2.0 TWh in the 2041-2054 period.	Average annual production of electricity from coal power plant sis recorded at 3.7 TWh in the 2017-2030 period, 2.6 TWh in the 2031-2040 period and 2.0 TWh in the 2041-2054 period.
Value of other income (income on provision of system services, thermal energy, income on sale of ash and gypsum) is recorded at EUR 20,030 thousand in 2018 and at EUR 19,169 thousand until 2054.	Value of other income (income on provision of system services, thermal energy, income on sale of ash and gypsum) is recorded at EUR 23,900 thousand in 2017 and at EUR 27,300 thousand until 2054.
CAPEX in the period of projections is recorded at EUR 179,730 thousand.	CAPEX in the period of projections is recorded at EUR 211,115 thousand.

Impairment testing results

Carrying amount of the investment prior to impairment testing was recorded at EUR 424,080 thousand.	Carrying amount of the investment prior to impairment testing was recorded at EUR 470,295 thousand.
Recoverable value is stated at EUR 376,780 thousand.	Recoverable value is stated at EUR 424,080 thousand.
Revaluation expenses for impairment are stated at EUR 47,300 thousand.	Revaluation expenses for impairment are stated at EUR 46,215 thousand.

LONG-TERM INVESTMENTS IN PV	
2017	2016
CAPEX in the period of projections is recorded at EUR 371,539 thousand.	CAPEX in the period of projections is recorded at EUR 414,673 thousand.
The recoverable value of investments in subsidiaries and other companies is recorded at EUR 27,480 thousand.	The recoverable value of investments in subsidiaries and other companies is recorded at EUR 30,161 thousand.
The recoverable value of non-performing assets is recorded at EUR 4,288 thousand.	The recoverable value of non-performing assets is recorded at EUR 4,278 thousand.

Impairment testing results

Carrying amount of the investment prior to impairment testing was recorded at EUR 42,989 thousand.	Carrying amount of the investment prior to impairment testing was recorded at EUR 42,989 thousand.
Recoverable value is stated at EUR 59,911 thousand.	Recoverable value is stated at EUR 58,503 thousand.
Revaluation expenses for impairment are recorded at EUR 0 thousand.	Revaluation expenses for impairment are recorded at EUR 0 thousand.

Sensitivity analysis - impairment testing of long-term investments in TEŠ and PV

Long-term investments	Recoverble value in EUR thousand	Sensitivity (change) of recoverable value (in EUR thousand)					
		Change of discount rate (WACC) in %		Change of NOPLAT (EBIT-tax) in %		Change of CAPEX in %	
		(0,5)	0.5	(5)	5	(5)	5
TEŠ	376,750	70,960	(64,107)	(26,383)	26,413	5,062	(5,032)
PV	59,911	4,754	(4,300)	(1,242)	1,242	9,464	(9,464)

OTHER LONG-TERM INVESTMENTS AND LOANS (4)

Other long-term investments and loans (in 000 EUR)	31/12/2017	31/12/2016
Long-term investments in associated companies	40,514	40,514
Long-term investments in jointly controlled companies	255	255
Available-for-sale long-term financial assets	111	111
Other long-term investments	1	1
Long-term financial receivables and loans	24,884	24,507
Total	65,764	65,388

The largest share among other long-term investments comprise the long-term investment in the associate and long-term loans granted (including interest) to Group companies.

Movements of long-term investments and loans (in 000 EUR)	Long-term investments in associates	Long-term investments in jointly controlled entities	Long-term assets available for sale	Other long-term investments	Long-term loans to Group companies	Total
Balance at 01/01/2017	40,514	255	111	1	24,507	65,388
Additions					28,886	28,886
Transfers from short-term receivables					20,000	20,000
Transfers to short-term recievbales					(1,000)	(1,000)
Share capital increase in TEŠ					(47,259)	(47,259)
Repayments					(250)	(250)
Balance at 31/12/2017	40,514	255	111	1	24,884	65,764
Balance at 01/01/2016	40,514	255	111	1	86,114	126,995
Additions					166,277	166,277
Share capital increase in TEŠ					(227,884)	(227,884)
Balance at 31/12/2016	40,514	255	111	1	24,507	65,388

A) LONG-TERM INVESTMENTS IN ASSOCIATES

No changes were recorded in 2017 with respect to investments in associates.

Significant amounts in the financial statements of associates in 2017 (in 000 EUR)	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
HESS	343,831	64,825	15,256	1,808	279,006

Data on associate 31/12/2017	Address	Activity	% of ownership
HESS	Cesta bratov Cerjakov 33a 8250 Brežice	Production of electricity in HPP	15.4%

B) LONG-TERM INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Investments in jointly controlled entities include the 25% equity interest in the company Soenergetika in the amount of EUR 255 thousand. No changes were recorded in 2017.

Significant amounts in the financial statements of the jointly controlled entity in 2017 (in 000 EUR)	Assets	Liabilities (without equity)	Revenue	Net profit or loss for the period	Total equity
Soenergetika	3,135	1,301	3,304	546	1,834

Data of jointly controlled companies 31/12/2017	Address	Activity	% of ownership	% voting rights
Soenergetika	Stara cesta 3 4000 Kranj	Production of electricity and thermal heat	25%	25%

C) OTHER LONG-TERM INVESTMENTS

Other long-term investments comprise the investment in the company Stelkom (12.13% share) at EUR 111 thousand and the contribution in Zavod CO NOT in the amount of EUR 1 thousand. No changes were recorded with these investments in 2017.

D) LONG-TERM LOANS TO GROUP COMPANIES

Long-term financial receivables and loans (in 000 EUR)	31/12/2017	31/12/2016
Long-term financial receivables and loans to Group companies, exclusive of interest	21,491	22,741
Long-term interest receivables and loans to Group companies	3,392	1,766
Total	24,884	24,507

Movement of long-term receivables and loans (in 000 EUR)	2017	2016
Balance at 01/01	24,507	86,114
Increases	28,886	166,277
Transfer from short-term receivables	20,000	
Transfer on short-term receivable	(1,000)	
Share capital increase in TEŠ	(47,259)	(227,873)
Repayments	(250)	(11)
Balance at 31/12	24,884	24,507

Long-term financial receivables and loans include loans extended to Group companies and related interest. The principal amount of the loan to PV is recorded at EUR 5,850 thousand and to TEŠ at EUR 16,642 thousand. The interest rate of approved loans is defined in accord with the transfer price methodology and ranges from 4.00% to 4.20%. The loan to the PV company is insured with bills of exchange. Loans to TEŠ mature in 2026 and 2029, whereby the maturity of loans to the PV company by 2022.

Long-term operating (in 000 EUR)	31/12/2017	31/12/2016
Long-term operating receivables	3,104	624
Total	3,104	624

Company's long-term operating receivables to others include financial coverages extended for the purpose of electricity trading.

DEFERRED TAX ASSETS (5)

Deferred tax assets (in 000 EUR)	31/12/2017	31/12/2016
Provisions	78	70
Impairment	178	5,416
Depreciation and amortisation expense	0	1
Other	12	22
Total	267	5,510

Deferred tax assets amounted to EUR 267 thousand on 31 December 2017 and were calculated by applying the tax rate of 19%. Deferred tax assets were formed in connection with expenses that impact the profit or loss of individual year but they are not fully or in part deductible for tax purposes in the current year (provisions for jubilee premiums and retirement benefits, operating amortisation/depreciation exceeding the deductible for tax purposes, impairment of investments and receivables). They are also formed from the fair value of derivatives disclosed in the hedging reserve and does not yet effect the profit or loss.

Movement of deferred tax (in 000 EUR)	Provisions	Impairment	Depreciation and amortisation expense	Other	Total
Balance at 01/01/2017	70	5,416	1	22	5,510
To debit/credit of profit or loss	8	(5,239)	(1)	(12)	(5,244)
To debit/credit of other comprehensive income				1	1
Balance at 31/12/2017	78	178	0	12	267
Balance at 01/01/2016	67	4,324	4	188	4,584
To debit/credit of profit or loss	3	1,092	(3)	(130)	961
To debit/credit of other comprehensive income				(35)	(35)
Balance at 31/12/2016	70	5,416	1	22	5,510

In 2017, changes in deferred tax assets amounted to EUR 5,242 thousand and primarily refer to derecognition of deferred taxes arising in connection with the company TET – in liquidation, for which – due to impairment and existence of deductible tax differences relating to revaluation finance costs - deferred tax receivables were formed as a result of impairing the investment during the transition from liquidation to reactivation.

SHORT-TERM INVESTMENTS AND LOANS (6)

Short-term investments and loans (in 000 EUR)	31/12/2017	31/12/2016
Short-term financial receivables due from Group companies	2,001	1,083
Short-term loans to Group companies	560	800
Short-term interest receivables due from Group companies	23	24
Total	2,584	1,906

Short-term financial receivables due from Group companies comprise receivables for repaying allowances for guarantees and guarantees to Group companies given, and the value of the principal amount of the loan extended to the subsidiary that falls due in 2018.

As at 31 December 2017, a short-term loan was extended to the company RGP in the amount of EUR 560 thousand. It matures as of 31 December 2018, bears interest pursuant to the transfer price methodology i.e. 3.00%, and is insured with bills of exchange.

Movement of short-term financial receivables and loans (in 000 EUR)	2017	2016
Balance at 01/01	1,906	7,779
Increases	21,536	2,291
Transfer on long-term receivables	(20,000)	
Transfer from long-term receivables	1,000	
Share capital increase in TEŠ		(189)
Repayments	(1,858)	(7,975)
Balance at 31/12	2,584	1,906

As at 31 December 2017, there is no indication that would require short-term financial receivables and loans to be impaired.

SHORT-TERM TRADE RECEIVABLES (7)

Short-term trade receivables (in 000 EUR)	31/12/2017	31/12/2016
Short-term operating receivables due from Group companies	22,254	6,327
Short-term operating receivables due from associates	2	10
Short-term operating receivables due from jointly controlled companies	0	0
Short-term trade receivables	113,310	110,819
Total	135,566	117,157

Short-term trade receivables in the amount of EUR 113,310 thousand refer primarily to the sale of electricity in Slovenia and abroad.

As at the balance sheet date, the value of pledged trade receivables is recorded at EUR 27,122 thousand.

Short-term operating receivables due from Group companies (in 000 EUR)	Country	31/12/2017	31/12/2016
DEM	Slovenia	98	12
SENG	Slovenia	3,523	2,687
TEŠ	Slovenia	118	43
TET - in liquidation	Slovenia	19	33
PV	Slovenia	493	633
HSE Invest	Slovenia	0	
HSE BE	Serbia	7,876	2,269
HSE Adria	Croatia	1	9
HSE MAK Energy	Macedonia	1,731	2
HSE BH	Bosnia and Herzegovina	8,393	640
Skupaj		22,254	6,327

Short-term operating receivables due from Group companies comprise receivables arising from sales of electricity and various services provided for subsidiaries (e.g. trading, financial function, IT function, etc.).

Maturities for short-term operating receivables due from Group companies are presented within credit risks (section 4.5.7.6.1.).

OTHER CURRENT ASSETS (8)

Other short-term assets (in 000 EUR)	31/12/2017	31/12/2016
Short-term advances	3	508
Short-term operating receivables to state and other institutions	20,569	20,703
Short-term operating receivables due from others	7,139	353
Accrued income	1,905	1,457
Short-term deferred costs and expenses	6,347	5,610
Total	35,963	28,630

Most of other short-term operating receivables comprise receivables due from state and other institutions, which primarily refer to the input VAT. The largest value thereunder refers to electricity-related invoices received from abroad, where self-taxation is carried out. The right to deduct VAT is gained on the date of the invoice received from abroad.

Most of accrued income in connection with invoices not yet issued refer to electricity trading.

CASH AND CASH EQUIVALENTS (9)

Cash and cash equivalents (in 000 EUR)	31/12/2017	31/12/2016
Cash in transit	751	
Bank balances	15,407	21,678
Call deposits	10,030	5,106
Deposits tied up to 3 months	540	2,168
Total	26,728	28,951

For the purposes of carrying out its activities, the Company holds bank accounts in Slovenia and abroad and as at the year-end of 2017 recorded EUR 16,158 thousand of bank balances.

As at 31 December 2017, the Company had no approved bank overdrafts.

EQUITY (10)

Equity (in 000 EUR)	31/12/2017	31/12/2016
Called-up capital	29,559	29,559
Capital surplus	561,243	561,243
Other revenue reserves	562,745	562,745
Risk protection reserve	10,753	1,741
Fair value reserve	51	21
Reatined earnings	(258,982)	(278,731)
Total	905,369	876,577

Capital surplus (in 000 EUR)	31/12/2017	31/12/2016
Paid-in capital surplus	561,243	561,243
Amounts arising from reversal of general capital revaluation adjustment	0	0
Total	561,243	561,243

The value of share capital and capital surplus remained unchanged in 2017.

As at 31 December 2017, the Company discloses under hedging reserves totalling to EUR 10,753 thousand following items:

- results of standardized futures for electricity (forward contracts) in the amount of EUR 1,178 thousand,
- results of standardized futures for emission coupons (forward contracts) in the amount of EUR 9,625 thousand, and
- fair value of currency swaps in the amount of EUR – 49 thousand.

Movement of hedging reserves (in 000 EUR)	Standardized futures for electricity	Standardized futures for emission coupons	Interest rate swaps	Currency swaps	Total
Balance at 01/01/2017	94	1,690		(43)	1,741
Formation, increase	2,029	13,180		(49)	15,160
Decrease	(506)	(5,245)		43	(5,707)
Transfer to costs	(440)				(440)
Balance at 31/12/2017	1,178	9,625		(49)	10,753
Balance at 01/01/2016	(515)		(158)	(64)	(737)
Formation, increase	1,298	5,944		(43)	7,199
Decrease	(689)	(4,255)	158	64	(4,722)
Balance at 31/12/2016	94	1,690		(43)	1,741

The hedging reserve increased in 2017 by EUR 9,013 thousand, which is mostly attributable to higher trading with standard futures on the electricity markets and to the emission coupons.

Electricity futures contracts refer to concluding deals on purchase of electricity on foreign electricity stock exchanges for the period from 2018 to 2020, thus securing the already concluded deals for the sale of electricity in the same period. Standard futures contracts for emission coupons represent contracts of purchase and sale of emission coupons on foreign exchanges for the period from 2018 to 2020. On the basis of electricity fluctuations and emission coupon prices on the stock exchange, a cumulative positive financial effect in the amount of EUR 9,019 thousand was realised in forwards concluded in 2017. No deferred taxes were accounted in this relation, as the Group will pay an agreed-upon price during the deal's realisation.

In 2017, the Company closed the currency swaps, whose negative fair value amounted as at 31 December 2016 (inclusive of deferred taxes) to EUR 43 thousand. The Group entered in 2017 into new deals and partly already also closed them. The overall change in the fair value is negative and recorded at EUR – 6 thousand, while deferred tax assets increased by EUR 1 thousand. The negative fair value of open currency swaps amounted at the end of 2017 to EUR – 61 thousand, whereof EUR 12 thousand were accounted for deferred tax assets. Thus the closing balance, inclusive of deferred taxes, is recorded at EUR - 49 thousand.

Movement of fair value reserve (in 000 EUR)	Actuarial gains/ losses	Total
Balance at 01/01/2017	21	21
Formation, increase	44	44
Decrease	(2)	(2)
Transfer to retained earnings or losses	(11)	(11)
Balance at 31/12/2017	51	51
Balance at 01/01/2016	(30)	(30)
Formation, increase	78	78
Transfer to retained earnings or losses	(27)	(27)
Balance at 31/12/2016	21	21

The fair value reserve in the total value of EUR 51 thousand discloses at the year-end of 2017 actuarial gains arising on accounted retirement benefits paid to employees. The actuarial loss declined in 2017 by EUR 43 thousand. According to the actuarial calculation, retained earnings or losses increased due to reversal of termination benefits by EUR 13 thousand.

Retained earnings or losses (in 000 EUR)	2017	2016
Retained earnings or losses	(258,982)	(278,731)
Total	(258,982)	(278,731)

At the end of 2017, the Company discloses a negative retained result consisting of net profit for 2017 in the amount of EUR 19,738 thousand, reduced by the negative retained loss from 2016, adjusted by the utilisation of provisions for termination benefits upon retirement in 2017 in the amount of EUR 11 thousand.

Company's total capital increased in 2017 by EUR 28,792 thousand, namely:

- by the net loss for the period (EUR 19,738 thousand),
- retained net result (EUR 11 thousand),
- change in the hedging reserve (EUR 9,013 thousand), and
- change in the fair value reserve (EUR 31 thousand).

Accumulated profit or loss (in 000 EUR)	2017	2016
Net profit or loss for the period	19,738	44,360
Transfered profit or loss	(278,720)	(323,091)
Accumulated profit or loss	(258,982)	(278,731)

PROVISIONS FOR RETIREMENT BENEFITS AND JUBILEE PREMIUMS (11)

Provisions for retirement benefits and jubilee premiums include termination benefits upon retirement and anniversary bonuses. They are formed in the amount of estimated future payments for jubilee premiums, discounted at the end of the year. A calculation is made per individual employees taking into account the cost of termination benefit upon retirement and the cost of all expected anniversary benefits by the time of retirement.

Provisions for termination benefits and jubilee premiums (in 000 EUR)	31/12/2017	31/12/2016
Provisions for termination benefits upon retirement	625	550
Provisions for jubilee premiums	197	189
Total	822	738

The Company discloses provisions for termination benefits and jubilee premiums created on the basis of an actuarial calculation prepared as at 31 December 2017.

The calculation of provisions for retirement benefits and jubilee premiums is based on the actuarial calculation, observed following actuarial assumptions:

- mortality tables,
- staff fluctuation,
- retirement,
- average salary growth in accord with the Decree that anticipated a 2.0% growth from 2020 onwards,
- salary growth rate in the Company,
- discount rate, which is defined as at 31 December 2017 at 1.0%.

Movement of provisions for termination benefits and jubilee premiums (in 000 EUR)	Provisions for termination benefits upon retirement	Provisions for jubilee premiums	Total
Balance at 01/01/2017	550	189	738
Formation, increase	155	46	201
Decrease - utilisation	(36)	(23)	(59)
Decrease - reversal	(44)	(15)	(58)
Balance at 31/12/2017	625	197	822
Balance at 01/01/2016	551	200	751
Formation, increase	76	37	113
Decrease - utilisation		(30)	(30)
Decrease - reversal	(78)	(19)	(96)
Balance at 31/12/2016	550	189	738

Decrease, reversal of provisions in the amount of EUR 43 thousand arising from termination benefits upon retirement is disclosed in the movement of fair value reserve.

Sensitivity analysis for provisions for termination benefits and jubilee premiums (in 000 EUR)	Discount rate		Growth of wages	
	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	(36)	40	41	(38)
Provisions for jubilee premiums	(6)	7	7	(7)
Total 2017	(43)	47	48	(45)
Provisions for termination benefits upon retirement	(35)	39	39	(36)
Provisions for jubilee premiums	(7)	7	7	(7)
Total 2016	(42)	46	46	(43)

LONG-TERM FINANCIAL LIABILITIES (12)

Long-term financial liabilities (in 000 EUR)	31/12/2017	31/12/2016
Long-term financial liabilities to banks	219,421	236,408
Other long-term financial liabilities		0
Total	219,421	236,408

The item of long-term liabilities to banks includes Company's long-term borrowings in the total amount of EUR 220,848 thousand, reduced by the long-term deferred costs of loan approval from 2016. The value of principal amounts of relevant long-term borrowings that mature in 2018 are disclosed among short-term liabilities to banks in the amount of EUR 17,485 thousand, reduced by the short-term deferred part of costs of loan approval from 2016. In 2017, EUR 9,203 thousand of long-term loans were repaid. In addition, EUR 11,500 thousand of long-term revolving loans were drawn and repaid in 2017.

Movement of long-term financial liabilities (in 000 EUR)	Long-term financial liabilities to banks	Other long-term financial liabilities	Total
Balance at 01/01/2017	**236,408**	**0**	**236,408**
Transfers to short-term liabilities	(16,987)		(16,987)
Repayments		(0)	(0)
Balance at 31/12/2017	**219,421**		**219,421**
Balance at 01/01/2016	67,537	3	67,540
Additions	180,000		180,000
Transfers to short-term liabilities	(9,203)		(9,203)
Repayments		(3)	(3)
Other	(1,926)		(1,926)
Balance at 31/12/2016	236,408	0	236,408

In 2017, the Company was approved a revolving loan in the amount of EUR 50,000 thousand, which was not drawn as at 31 December 2017.

The loans bear interest at the variable interest rate, which is based on the 3-month or 6-month Euribor, which in case of a negative Euribor equals 0 and a mark-up, ranged between 1.15% and 3.50%.

The past due instalments and related interest are paid in due time by the Company.

For the purpose of hedging against interest rate risk, the Company acts in compliance with the Rules of HSE Group's interest rate management, which defines the policy of managing interest rate risk in HSE Group companies. Moreover, the Company regularly monitors the movement of Euribor market interest rates and accordingly compiles periodical Strategies of interest rate management of the HSE company. Interest rate risk management aims to limit and reduce the risk relating to interest rate fluctuations and thereby stabilise cash flows. In 2017, the Company did not entered into new interest-related insurances.

Long-term loans to banks are insured by bills of exchange, assignment of receivables and equity interests, and by collaterals of subsidiaries.

Detailed disclosures are provided in section (4.5.7.6.4) on the interest rate risk.

SHORT-TERM FINANCIAL LIABILITIES (13)

Short-term financial liabilities (in 000 EUR)	31/12/2017	31/12/2016
Short-term financial liabilities to group companies without interest		925
Short-term financial liabilities to Group companies for interest		9
Short-term financial liabilities to banks without interest	16,987	8,705
Short-term financial liabilities to banks for interest	61	79
Short-term derivatives	61	53
Other short-term financial liabilities	93	230
Total	17,201	10,002

Most of short-term financial liabilities include the short-term portion of long-term loans' principal amounts, which mature in 2018 in the amount of EUR 17,485 thousand, reduced by short-term deferred costs of loan approval from 2016.

Movement of short-term financial liabilities (in 000 EUR)	Short-term financial liabilities to Group companies without interest	Short-term financial liabilities to Group companies for interest	Short-term financial liabilities to banks without interest	Short-term financial liabilities to banks for interest	Short-term derivatives	Other short-term financial liabilities	Total
Balance at 01/01/2017	925	9	8,705	79	53	230	10,002
Acquisitions	42,346	222		7,806		1,467	51,841
Transfers from long-term liabilities			16,987				16,987
Short-term repayments	(43,271)	(231)		(7,825)		(1,604)	(52,931)
Long-term repayments			(9,203)				(9,203)
Other					8	498	506
Balance at 31/12/2017			16,489	61	61	591	17,201
Balance at 01/01/2016	30,703	76	115,922	23	267	37	147,028
Acquisitions	23,002	963	110,000	10,619		3,817	148,401
Transfers from long-term liabilities			9,203				9,203
Short-term repayments	(52,779)	(1,030)	(215,000)	(10,562)		(3,625)	(282,996)
Long-term repayments			(10,922)				(10,922)
Other			(498)		(214)		(712)
Balance at 31/12/2016	925	9	8,705	79	53	230	10,002

SHORT-TERM TRADE PAYABLES TO SUPPLIERS (14)

Short-term trade payables to suppliers (in 000 EUR)	31/12/2017	31/12/2016
Short-term operating liabilities to group companies	40,235	42,704
Short-term operating liabilities to associates	1,792	1,071
Short-term operating liabilities to jointly controlled companies	78	74
Short-term operating liabilities to suppliers	90,601	82,035
Total	132,706	125,884

Short-term trade payables to suppliers primarily refer to liabilities for electricity purchased in Slovenia and abroad.

Short-term operating liabilities to Group companies largely include liabilities for the purchased electricity.

Short-term operating liabilities to Group companies (in 000 EUR)	Country	31/12/2017	31/12/2016
DEM	Slovenia	8,540	9,522
mHE Lobnica	Slovenia	2	2
SENG	Slovenia	7,506	7,376
TEŠ	Slovenia	21,336	24,019
TET - in liquidation	Slovenia	110	150
PV	Slovenia	9	18
HTZ I.P.	Slovenia	20	7
HSE Invest	Slovenia	69	19
HSE BE	Serbia	13	1,219
HSE Adria	Croatia		17
HSE MAK Energy	Macedonia	797	
HSE BH	Bosnia and Herzegovina	1,835	354
Total		40,235	42,704

OTHER SHORT-TERM LIABILITIES (15)

Other short-term liabilities (in 000 EUR)	31/12/2017	31/12/2016
Short-term operating liabilities from advances	25	524
Short-term operating liabilities to employees	1,166	952
Short-term operating liabilities to state and other institutions	17,349	15,527
Short-term operating liabilities to others	12	14
Short-term deferred income		21
Short-term accrued costs and expenses	27,013	31,012
Total	45,565	48,049

Other short-term liabilities mainly comprise payables to the state and other institutions, and accrued costs and expenses.

Short-term liabilities to the state and other institutions comprise VAT liabilities, customs duty liabilities, liabilities for December contributions for salaries and contributions on other employment-related income payable by the employer. The largest value thereunder refers to VAT and represents electricity-related invoices received from abroad, where self-taxation applies. The right to deduct VAT is gained on the date of the invoice received from abroad.

Accrued costs are costs and expenses referring to 2017 and included in the income statement, but the Company did not receive the relevant bills or invoices in the reporting year. Most thereof includes purchases of electricity for 2017 from the subsidiary. The residual amount includes deviations from commuter schedules for December 2017 and interest on borrowings, which were not yet accounted for by the Company in 2017.

CONTINGENT LIABILITIES AND ASSETS (16)

Contingent liabilities (in 000 EUR)	31/12/2017	31/12/2016
Guarantees and parent guarantees granted to subsidiaries in Slovenia	146,348	162,200
Guarantees granted to subsidiaries in Slovenia	235	3,965
Guarantees and parent guarantees granted to subsidiaries abroad	3,311	4,602
Guarantees granted to others	6,861	11,409
Total	156,756	182,176

Contingent liabilities include the guarantees granted and parent guarantees.

The item of guarantees granted to others includes the estimate on possible liabilities under the replacement Unit 6 in the amount of EUR 6,861 thousand. This refers to Company's obligation under the loan agreement between TEŠ and the EBRD to provide additional financing to settle all liabilities in the event of higher costs for the Unit 6 at TEŠ.

Guarantees and parent guarantees granted for subsidiaries in Slovenia
(in 000 EUR)

Beneficiary	Debter	Type of guarantee	Validity	Contingent liability at 31/12/2017	Contingent liability at 31/12/2016
EBRD*	TEŠ	Guarantee for EBRD loan	Effective for the period of contract's validity	145,714	151,314
Unicredit banka	TEŠ	Guarantee for short-term borrowing	31 December 2016		10,000
NLB	RGP	Collateral for bank guarantee	period of contract's validity	283	431
Petrol	HSE	Guarantee for liabilities of PV, TEŠ, SENG and DEM provided to Petrol	31 December 2020	243	355
Geoplin	Geoplin	Guarantee statement	30 January 2017	108	100
Total				146,348	162,200

* The principal amount of the borrowing is disclosed as continegnt liability.

Granted suretyships and parent company guarantees decreased compared over the 2016 balance due to the repayment of short-term loans to Unicredit bank and due to the repayment of principal amount's part to EBRD.

As at 31 December 2017, the Company is not aware of any circumstances that could give rise to possible material liability in this respect.

4.5.7.2 Income Statement

REVENUE (17)

Revenue (in 000 EUR)	2017	2016
On the domestic market	470,118	447,123
Electricity	468,170	445,091
Other merchandise and material	415	422
Other services	1,532	1,609
On the foreign market	1,140,570	787,310
Electricity	1,128,116	779,734
Other merchandise and material	13	482
Other services	12,442	7,094
Total	1,610,688	1,234,433

The Company generates revenue mostly through the sale of electricity. The revenue from the sale of electricity accounts in 2017 for 99.1% of total net sales revenue.

Revenue from other merchandise (domestic and foreign markets) includes the net value of emission coupons sold.

Revenue from services provided was generated through services in connection with electricity (transfer capacities, contribution for allocation of transfer capacities, guarantee of origin), services provided for the subsidiaries and other companies, and rents.

OTHER OPERATING INCOME (18)

Other operating income (in 000 EUR)	2017	2016
Income on reversal of provisions		3,030
Reversal of impairment of receivables		862
Income from damages and contractual penalties	90	9
Default interest	29	71
Gains on sale of fixed assets	8	13
Other	0	0
Total	127	3,985

COST OF GOODS, MATERIALS AND SERVICES (19)

Costs of goods, material and services (in 000 EUR)	2017	2016
Costs of goods sold	*1,500,609*	*1,129,895*
Dependent costs of goods sold	*42,640*	*27,422*
Total costs of goods sold	1,543,249	1,157,317
Costs of energy	*42*	*42*
Costs of small tools	*7*	*4*
Office stationary	*16*	*33*
Professional literature	*207*	*185*
Other	*8*	*14*
Total costs of material	281	279
Maintenance costs	*1,662*	*1,943*
Rentals	*1,117*	*1,150*
Insurance of bank services	*1,022*	*856*
Professional and personal services	*3,183*	*1,628*
Fairs, advertising and entertainment	*400*	*312*
Services rendered by individuals	*297*	*280*
Other	*528*	*414*
Total costs of services	8,209	6,582
Total	1,551,739	1,164,179

Costs of goods sold, which account 98.7% of total operating income, include mainly costs of purchasing electricity and accompanying expenses thereof.

The largest amounts among costs of material refer to professional literature, costs of fuel and costs of office stationary.

Costs of services to a large extent include professional services, maintenance costs of computer hardware and software, costs of renting premises, costs of insurance and bank services. The increase in costs of professional services refers to lawyer services in connection with the latest developments in court proceedings field by the audited company.

Costs of auditor (in 000 EUR)	2017	2016
Audit of the Annual Report	15	14
Other services of providing assurance		71
Total	15	85

*solely costs of auditing the HSE parent company (exclusive of costs of auditing the HSE Group)

Apart from the fee for auditing the financial statements, no other payments were made to the audit company KPMG Slovenija d.o.o. in 2017.

EMPLOYEE BENEFITS EXPENSE (20)

Employee benefits expense (in 000 EUR)	2017	2016
Wages and salaries	7,400	6,167
Pension insurance costs	989	832
Other insurance costs	560	458
Other labour costs	949	685
Total	9,898	8,143

Employee benefits expense comprises costs of salaries and other earnings by employees, including employer's contributions. Costs of compensations for unused vacation days in 2017, which can be utilised by 30 June 2018, are accounted as well.

Number of the Group employees and average number of employees by education	01/01/2017	31/12/2017	Average number of employees
4	1	0	1
5	12	12	12
6/1	17	17	17
6/2	32	40	36
7	68	76	72
8/1	24	27	26
8/2	3	2	3
Total	157	174	166

WRITE-DOWNS IN VALUE (21)

Write-downs in value (in 000 EUR)	2017	2016
Amortisation of intangible assets	313	280
Depreciation of property, pant and equipment	494	477
Allowances for or write-offs of receivables	28	6
Write-offs of property, plant and equipment	1	
Sale of property, plant and equipment and investment property	9	2
Total	845	766

Write-offs of value comprise the amortisation and depreciation of Company's assets, write-off of receivables, and loss on the sale of equipment.

OTHER OPERATING EXPENSES

Other operating expenses (in 000 EUR)	2017	2016
Fee for building site use	11	11
Donations	25	28
Other operating expenses	836	322
Total	872	361

Increase in operating costs refers to the court fees paid with respect to the on-going court proceedings, filed by the Company.

FINANCE INCOME (22)

Finance income (in 000 EUR)	2017	2016
Dividends and other profit shares	41,155	50,322
Finance income on loans granted and deposits	1,905	3,820
Income on derivatives relating to trading with electricity and emission coupons	3,749	46
Other finance income	1,004	1,084
Total	47,814	55,271

Finance income from shares and interests comprises profit pay-outs of subsidiaries DEM, SENG and HSE Adria in the total value of EUR 41,005 thousand and the jointly controlled entity Soenergetika in the amount of EUR 150 thousand.

Finance income from loans granted and deposits mostly relate to accounted interest on loans to Group companies.

The amount of EUR 3,749 thousand relates to profits generated on trading with standardized futures contracts for electricity and emission coupons. Company's other finance income include mostly income on parent guarantees granted to Group companies.

FINANCE COSTS (23)

Finance costs (in 000 EUR)	2017	2016
Interest expenses	7,991	11,144
Loss on derivatives arising from trading with electricity and emission coupons	1,040	807
Finance costs for impairment of investments	48,461	49,373
Other finance costs	4,822	6,490
Total	62,314	67,813

Financial costs for interest comprise interest on short-term and long-term borrowings received from banks (EUR 7,768 thousand), and interest on short-term borrowings from HSE Group companies (EUR 222 thousand).

EUR 1,040 thousand refers to the loss incurred in connection with standardized futures contracts with electricity and emission coupons.

Loss on impairment of investments refers to the impairment of the investments in the company TEŠ and TET - in liquidation.

Other finance costs refer to the guarantee given by DEM, costs of the withholding tax and costs of raising long-term borrowings.

TAXES (24)

Taxes (in 000 EUR)	2017	2016
Current tax	7,980	9,029
Deferred taxes	5,244	(961)
Total income tax disclosed in income statement	**13,224**	**8,067**
Deferred taxes recognised in equity	12	10

The Company is subject to the Value Added Tax Act, the Excise Duty Act, the Financial Services Tax Act, and the Corporate Income Tax Act. The branch office in the Czech Republic is liable to pay corporate income tax.

In accordance with the Corporate Income Tax Act, the tax for 2017 amounted to 19% of the tax base reported in the Company's tax return.

The Company's current tax in 2017 amounted to EUR 7,980 thousand. Based on the 2016 tax return, the Company made an advance payment of the income tax for 2017 in the amount of EUR 10,091 thousand. At the end of 2017, the Company discloses a receivables in the amount of EUR 1,270 thousand.

Deferred taxes include deferred tax assets. The values of deferred taxes created and used are presented in the table showing deferred tax assets (Note 5 to the Income Statement).

In establishing the base for current tax, revenue and expenses established in accordance with IFRS were corrected in terms of decrease and increase in tax base, as shown in the table below.

Effective tax rate calculation (in 000 EUR)	2017	2016
Profit or loss before tax	32,964	52,427
Tax calculated at applicable tax rate	6,263	8,913
Tax on income reducing tax base	(7,823)	(8,705)
Tax on tax relief	(186)	(97)
Tax on expenses reducing tax base	(6)	(6)
Tax on non-deductible expenses	9,342	8,489
Tax on other changes in tax calculation	396	435
Current taxes	**7,983**	**9,029**
Deferred tax	**5,239**	**(961)**
Total tax	**13,221**	**8,067**
Effective tax rate in %	**40.13%**	**15.39%**

As at 31 December 2017, temporary deductible differences for which deferred tax assets were not formed are recorded at EUR 548,051 thousand; they arise from impairment of investments made in subsidiaries. Pursuant to IAS 12 – Income tax, deferred tax assets are recognised only if it is possible that temporary difference can be eliminated in the foreseeable future. The Company did not form deferred tax assets in this relation as it has no intention to dispose these investments in the foreseeable future.

NET PROFIT FOR THE PERIOD (25)

Net profit or loss (in 000 EUR)	2017	2016
Gross operating yield	1,610,815	1,238,417
Operating profit or loss	47,462	64,969
Financial result	(14,500)	(12,542)
Profit or loss before tax	32,962	52,427
Net profit or loss fot the period	**19,738**	**44,360**

The Company ended the fiscal year 2017 with a profit in the amount of EUR 19,738 thousand. Without the impairment of investments made in TEŠ and TET – in liquidation, the Company would complete the reporting period with a profit at EUR 68,199 thousand.

4.5.7.3 Related companies

Related companies are entities, which the HSE controls directly or indirectly via its subsidiaries.

The columns of sales and purchases represent the turnover of all transactions (exclusive of VAT) between the HSE company and related entities in 2017. As for loans granted and received, the balance at the end of 2017 is presented (principal amount with interest). Income from parent guarantees granted in 2017 are disclosed separately in the net amount (exclusive of VAT). The value of parent guarantees is disclosed in section Contingent liabilities and assets (Note 17 to the Income Statement).

The balance of outstanding operating receivables due from related entities is disclosed in section 4.5.7.1. (7) Short-term trade receivables, while the balance of outstanding operating liabilities is disclosed in section 4.5.7.1. (15) Short-term trade payables to suppliers.

Data on related entities (in 000 EUR)	Disposals	Acquisitions	Granted loans including interest	Income on guarantees issued
DEM	52	58,450		
mHE Lobnica		6		
SENG	12,770	37,783		
TEŠ	2,218	199,275	21,028	995
TET - in liquidation	85	1,390		
PV	3,084	87	5,872	
HTZ I.P.		56		
RGP	21		562	4
HSE Invest		138		
HSE BE	28,410	687	5	5
HSE Adria	2	14	0	0
HSE MAK Energy	10,226	8,266		
HSE BH	62,425	18,941		
Total	119,293	325,094	27,467	1,004

Sales and purchase prices for services are defined on the basis of the applicable internal price list of HSE Group companies, rentals and sales prices for electricity on the basis of comparable free prices, and purchase prices for electricity on the basis of cost mark-up method and sales prices achieved on the market.

HSE is fully (100%) owned by the Republic of Slovenia. In 2017, the Company did not enter into any transactions with the Government of the Republic of Slovenia and did not pay out any dividends to the owner.

Transactions with Republic of Slovenia and entities which are directly owner by the Republic of Slovenia (in 000 EUR)	Outstanding receivables as at 31/12/2017	Outstanding liabilities 31/12/2017	Income in 2017	Expenses in 2017
BORZEN	111	1,326	840	8,291
BSP	223	52	95,312	28,389
ECE	11,288	824	102,475	3,662
ELES	3,771	516	25,740	2,575
ELEKTRO MARIBOR ENERGIJA PLUS	5,238	40	43,040	830
E3	5,245	119	45,300	2,759
GEN ENERGIJA	660	25	4,169	505
GEN-I	3,452	164	77,537	61,948
PETROL	1,425	2,425	14,289	13,337
Energy sector - total	31,413	5,491	408,700	122,296
TALUM	1,845	4	17,707	26
Aluminium production	1,845	4	17,707	26
SID		49,333		5,815
Banks - total		49,333		5,815
Total	33,258	54,828	426,407	128,137

The table shows transactions with entities, which are directly or indirectly majorly owned by the Republic of Slovenia (more than 50%) and are important for HSE from the perspective of significance of transactions (income or expenses in 2017 exceed EUR 2 million), except banks where all transactions are disclosed. Other transactions with companies, ministries, agencies and other legal entities, where the Republic of Slovenia is a majority or minority owner, are irrelevant in terms of reporting.

4.5.7.4 Operating lease

The Company is renting business premises, garages, parking lots, server lockers and a secure system computer room.

The table below outlines liabilities arising from the operating lease (Company as lessee) in the notice period, which represents the minimum amounts of lease payments:

Operating leases (in 000 EUR)	31/12/2017	31/12/2016
Less than one year	351	325
Total	351	325

Costs for the operating lease amounted in 2017 to EUR 1,117 thousand.

4.5.7.5 Remuneration

Remuneration of managers and employees who are not subject to the tariff part of the collective agreement comprises:

- gross compensation included in the income tax return statement,
- other allowances (meals, transportation, per diems), and
- premiums paid for voluntary supplementary pension insurance.

Remuneration of Supervisory Board members includes gross attendance fees of all members, including travel expenses related to the performance of tasks in the Supervisory Board and the Audit Committee.

In 2017, the Company provided no advances, loans or guarantees to these groups of persons and records at the year-end of 2017 no receivables due from the management and members of the Supervisory Board.

Short-term operating liabilities include payables for December wages paid to the Company's Management and employees who are not subject to the tariff part of the collective agreement, and attendance fees for December paid to members of the Supervisory Board and its Committees.

Remuneration (in 000 EUR)	Gross salary	Other earnings	Bonuses	Refund of costs	Attendance fees	Total
Members of the Managament Board	251	77	13	3	7	352
Members of the Supervisory Board and the Audit Committee				4	233	237
Employees who are not subject to the tariff part of the collective agreement	394	73	20	12		498
Total 2017	645	150	33	19	240	1,087
Members of the Managament Board	266	72	10	4	7	358
Members of the Supervisory Board and the Audit Committee			3	9	238	249
Employees who are not subject to the tariff part of the collective agreement	344	11	13	6		375
Total 2016	610	84	25	19	244	982

Earning received by Managament Board members (in 000 EUR)	Gross salary	Other earnings	Bonuses	Refund of costs	Attendance fees	Total
Nikolić Stojan	129	4	4	2	6	144
Skubin Gorazd	42	71	3	0		117
Marovt Matjaž	80	2	6	1	2	91
Total 2017	251	77	13	3	7	352

In case of Management Board members Stojan Nikolić and Matjaž Marovt, the disclosed amounts include also attendance fees received as Supervisory Board members in the PV company.

Remuneration of members of Supervisory Boards (in 000 EUR)	Gross attendance fee/sessions	Gross attendance fee/basic payments	Gross attendance fee	Net attendance fee	Travel costs	Total
Jančar Boštjan - SB member of HSE	3	11	14	10		14
Cukrov Vesna - SB member of HSE	1	3	3	2	0	3
Markoli Boštjan - Vice Chairman of the SB of HSE	3	12	15	11	0	15
Otič Jernej - SB member of HSE	2	11	14	10	1	15
Pantoš Miloš - SB member of HSE	3	11	14	10	0	14
Slokan Črt - SB member of HSE		3	3	2	0	3
Štefe Drago - SB member of HSE	2	9	11	8	0	11
Perović Milan - SB Chairman of HSE	3	17	20	15	0	20
Vračar Viktor - SB member of HSE	3	11	15	11	0	15
Marovt Matjaž - SB member of HSE	1	4	5	4	0	6
Lipuščček Damjan - SB member of HSE	3	11	15	11	1	15
Živanić Jovanović Vanja - SB member of HSE	2	9	11	8		11
Gorjup Barbara - SB member of HSE	3	11	15	11	0	15
Total 2017	30	124	155	112	3	157

Remuneration of Audit Committee members of Supervisory Board (in 000 EUR)	Gross attendance fee/sessions	Gross attendance fee/basic payments	Gross attendance fee	Net attendance fee	Travel costs	Total
Jančar Boštjan - AC member of HSE	2	3	5	3		5
Markoli Boštjan - AC member of HSE	2	3	5	3	0	5
Gorjup Barbara - AC President of HSE	2	4	6	5	0	6
Zaman Groff Maja - AC external member of HSE	3	11	14	10	0	14
Total	9	21	30	22	0	30

Remuneration of members of the Human Resources Committee of HSE's Supervisory Board (in 000 EUR)	Gross attendance fee/sessions	Gross attendance fee/basic payments	Gross attendance fee	Net attendance fee	Travel costs	Total
Markoli Boštjan - member of the Human Resources Committee	0	2	2	2	0	2
Otič Jernej - member of the Human Resources Committee	0	3	3	2	0	3
Slokan Črt - member of the Human Resources Committee	0	1	1	1		1
Perović Milan - President of the Human Resources Committee	1	4	5	4	0	5
Marovt Matjaž - member of the Human Resources Committee	0	1	1	1		1
Gorjup Barbara - members of the Human Resources Committee	0	2	2	2	0	2
Total 2017	2	12	15	11	0	15

Remuneration of members of the Restructuring Committee (in 000 EUR)	Gross attendance fee/sessions	Gross attendance fee/basic payments	Gross attendance fee	Net attendance fee	Travel costs	Total
Cukrov Vesna - member of the Restructuring Committee		0	0	0		0
Otič Jernej - member of the Restructuring Committee	0	1	1	1		1
Pantoš Miloš - member of the Restructuring Committee	1	3	4	3	0	4
Vračar Viktor - President of the Restructuring Committee	1	4	5	4	0	5
Marovt Matjaž - member of the Restructuring Committee	1	1	2	1	0	2
Živanić Jovanović Vanja - member of the Restructuring Committee	1	2	3	2		3
Total 2017	3	11	**14**	10	**0**	**15**

Remuneration of members of the Marketing and Investments Committee (in 000 EUR)	Gross attendance fee/sessions	Gross attendance fee/basic payments	Gross attendance fee	Net attendance fee	Travel costs	Total
Markoli Boštjan - member of the Marketing and Investment Committee	1	3	3	3	0	3
Pantoš Miloš - President of the marketing and Investment Committee	1	4	5	4	0	5
Štefe Drago - member of the Marketing and Investment Committee	1	2	3	2	0	3
Vračar Viktor - member of the Marketing and Investment Committee	1	3	4	3	0	4
Lipušček Damjan - member of the Marketing and Investment Committee	1	3	4	3	0	4
Total 2017	4	15	**19**	14	**0**	**19**

4.5.7.6 Financial instruments and risk management

This section refers to section Financial Risk Management of the accounting report, as well as to the chapter about financial risks in the business report.

4.5.7.6.1 Credit risk

An important part of activities where we face the risk of partners' non-fulfilment of obligations results from electricity trading where the majority of these activities are represented by contractual relations with partners with high credit rating. Activities for managing credit risks are subject to the Company's Credit risk management policy and the Policy of obtaining and maintaining the partner status, which clearly defines the procedures and due diligence applied while selecting the business partners. We decide upon the form of business relationship with other partners on the basis of prior analysis of partner's credit rating, which further defines the possible volume and time frame of operations, elements of contractual relationship and particularly the necessary volume of additional collateral for complying with contractual liabilities in form of bank and corporate guarantees, advances received and other adequate forms of insurance.

Credit exposure to individual partners is monitored on a daily basis. An essential measure for reducing credit risk in conclusion of contractual frameworks i.e. general and framework agreements (e.g. EFET), which determine monthly financial offsets of receivables and liabilities, as well as an offset of the maximum possible volume of mutual receivables and liabilities in case of premature termination of a contract due to the partner's possible insolvency.

Company's maximum exposure of its short-term operating and financial receivables to credit risk lies in the carrying amount of short-term receivables' individual items, decreased by financial security.

Credit risk estimate at 31/12/2017 (in 000 EUR)	Receivables	Collateralised receivables	Uncollateralised receivables	LGD *
Short-term operating receivables due from Group companies	22,254	6,759	15,495	9
Short-term operating receivables due from associates	2	2		
Short-term operating receivables due from jointly controlled companies	0		2	
Short-term trade receivables	113,310	86,681	26,628	1,057
Total 31/12/2017	135,566	93,441	42,126	1,067

LGD = loss in case of non-payment

The estimate of the credit risk took account of the possibility of failing to meet contractual obligations with respect to the partner's credit rating, the type of collateral received as well as the credit rating of its issuer.

The risk's impact is estimated in the aggregate by taking into account possible non-payment in view of the partner's credit rating and amounts to 0.79% of total receivables' value as of 31 December 2017.

Unsecured part of receivables is the sum of portion of sales to partners on open account within the framework of defined credit limits. Open account sale is possible according to the applicable policy of credit risks management within the framework of approved credit limits to partners with regard to their financial capacity and risk. The most frequent among unsecured receivables are the receivables from partners with good credit rating and from partners which belong to a highly regulated activity and are frequently state-owned (e.g. providers of system services).

The probability of loss in individual credit rating grade is defined on the basis of transition matrix of credit rating agencies. Even the secured receivables carry a certain risk of non-fulfilment with regard to the guarantor's credit rating. Receivables due from partners are secured with bank and corporate guarantees, pledge of receivables from contracts on management of bank accounts, deposits and enforcement drafts.

In 2017, our partners have regularly complied with their obligations with rare exceptions.

In case of delays, the customers in Slovenia and abroad are charged default interest at the contractual rate.

The share of Company's receivables due from domestic customers declined over the 2016 balance and as at the reporting date accounts for 30% of total trade receivables, which is however not the result of lower receivables due from customers in Slovenia but mostly the increase of Company's operating receivables by 16% as at 31 December 2017 if compared to 31 December 2016 balance.

At the year-end of 2017, the Company recorded EUR 850 thousand of doubtful receivables due from the sale of electricity to the company Korlea Invest a.s., formed in 2012 in the amount of EUR 824 thousand. In 2017, the Company formed allowances for receivables referring to the sale of electricity to the company S.C. Transenergo com S.A. in the amount of EUR 26 thousand.

Movement of allowances for short-term operating receivables (in 000 EUR)	2017	2016
Balance at 01/01	824	1,686
Collected written-off receivables		(862)
Formation of allowances for receivables	26	
Balance at 31/12	850	824

Long-term operating and financial receivables by maturity (in 000 EUR)	Due date: up to 2 years after the date of the statement of financial position	Due date: from 3 to 5 years after the date of the statement of financial position	Due date: over 5 years after the date of the statement of financial position	Total
Long-term financial receivables and loans to Group companies	21,491			21,491
Long-term interest receivables and loans to Group companies	3,392			3,392
Long-term operating receivables due from others			3,104	
Total 31/12/2017	24,884		3,104	24,884
Long-term financial receivables and loans to Group companies	1,250	3,000	18,491	22,741
Long-term interest receivables and loans to Group companies			1,766	1,766
Long-term operating receivables due from others			624	624
Total 31/12/2016	1,250	3,000	20,881	25,131

Short-term operating and financial receivables by maturity (in 000 EUR)	Due date					
	not yet due	overdue up to 3 months (90 days)	overdue from 3 to 6 months (from 91 days to 180 days)	overdue from 6 to 9 months (from 181 days to 270 days)	overdue more than one year (more than 361 days)	Total
Short-term operating receivables due from Group companies	22,254					22,254
Short-term operating receivables due from associates	2					2
Short-term operating receivables due from jointly controlled companies	0					0
Shor-term trade receivables	110,656	2,367	8	4	1,125	114,160
Short-term trade receivables	3					3
Short-term operating receivables due from state and other institutions	20,569					20,569
Short-term operating receivables due from others	7,139					7,139
Short-term financial receivables and loans to Group companies	2,561					2,561
Short-term interest receivables and loans to Group companies	23					23
Total 31/12/2017	163,207	2,367	8	4	1,125	166,712
Short-term operating receivables due from Group companies	6,138	189				6,327
Short-term operating receivables due from associates	10					10
Short-term operating receivables due from jointly controlled companies	0					0
Shor-term trade receivables	110,525	19			1,099	111,643
Short-term trade receivables	508					508
Short-term operating receivables due from state and other institutions	20,703					20,703
Short-term operating receivables due from others	353					353
Short-term financial receivables and loans to Group companies	1,883					1,883
Short-term interest receivables and loans to Group companies	24					24
Total 31/12/2016	140,143	208			1,099	141,451

4.5.7.6.2 Liquidity risk

Company's and Group's liquidity risk is largely linked and connected due to the mutual relationships arising from the purchase contracts for electricity and coal, and from the provision of finance sources relating to financing of investments in the Unit 6.

Liquidity risk is subject to implementation of the policy of regular cash flow planning and liquidity management at the Company and HSE Group level based on which the liquidity situation and cash flows are monitored on a daily, monthly and annual level. Much of attention in 2017 was paid to the preparation of cash flow plans, as only in this way an optimum liquidity management is ensured, in addition to a timely forecast on using possible liquidity surpluses or coverage of deficits. The risk of short-term liquidity was effectively reduced by the Company also by means of adjusting the maturity of receivables and liabilities on an on-going basis, and a consistent collection of receivables.

At the year-end of 2017, the Company's liquidity reserve, which consists of unused approved credit lines and available bank balances, amounted to EUR 76,728 thousand and is earmarked to balancing the cash flows and significantly reduces the liquidity risk of the HSE company and Group.

Company’s overdue short-term liabilities were all settled as at 31 December 2017.

Maturity of the Company’s long-term operating and financial liabilities in the next years is shown in the table below. A portion of long-term borrowings, which matures within a year is disclosed among short-term financial liabilities.

Long-term operating and financial liabilities by maturity (in 000 EUR)	Due date			Total
	up to 2 years after the date of the statement of financial position	from 3 to 5 years after the date of the statement of financial position	over 5 years after the date of the statement of financial position	
Long-term financial liabilities to banks	26,987	165,525	26,909	219,421
Total 31/12/2017	26,987	165,525	26,909	219,421
Long-term financial liabilities to banks	16,511	188,503	31,394	236,408
Other long-term operating liabilities	0			0
Total 31/12/2016	16,511	188,503	31,394	236,408

Company's exposure to liquidity risk as at 31 December 2017 and arising from financial liabilities to banks is shown in the table below. The relevant amounts disclosed are not discounted and include the contractually anticipated interest and costs of insurance.

Exposure to liquidty risk arising on financial liabilities to banks (in 000 EUR)	Expected cash flows					Total
	up to 2 months after the date of statement of financial position	2 to 12 months after the date of statement of financial position	1 to 2 years after the date of statement of financial position	2 to 5 years after the date of statement of financial position	more than 5 years after the date of statement of financial position	
Financial liabilities to banks without interest rate hedging						
Long-term borrowings	61	29,168	38,331	182,906	29,118	279,585
Total	61	29,168	38,331	182,906	29,118	279,585

The Company secured additional liquidity in 2017 within the framework of HSE Group's cash management, relating to the free cash flows of DEM and SENG. Borrowings from subsidiaries were repaid in form of set-off i.e. pay-out of the accumulated profit of DEM and SENG.

In order to ensure an appropriate structure of sources of financing, the Company has sufficient long-term resources. The depreciation plans of the EIB and EBRD loans, extended to TEŠ in connection with the Unit 6, imply a large liquidity burden for the Group mainly from 2017 onwards, when the repayment of principal amounts for both loans begins. As for the liquidity reserve, the Company has a long-term revolving loan of EUR 50,000 thousand for the period of up to 2019.

Based on the centralized cash flow planning, implemented measures for restructuring and optimizing debt's maturity, proper liquidity reserve provided, an active attitude towards the financial markets and by maintaining the credit rating, the Company's liquidity reserve was under control and ensured in 2017 and thus the liquidity reserve appropriately managed.

4.5.7.6.3 Currency risk

Currency risk is a risk associated with transactions involving foreign currencies and is subject to changes in exchange rates. Currency risk in operations is smaller, since the majority of inflows and outflows are in domestic currency - euro. Within the framework of trading with electricity, the Company was in 2017 exposed to certain other currencies (HUF, TRY, RON), whereby it applied derivatives for hedging if required.

Other currencies are present in minimum amount and therefore the Company does not perform sensitivity analysis for the change in foreign exchange rates, since the change in exchange rate would not significantly affect the profit or loss.

The Company constantly monitors the currency risk and reports to the management on a regular basis. In addition, the Company continuously follows developments on the money market, changes in prices and values of currency hedging contracts.

The following exchange rates were used to convert assets and liabilities as at 31 December 2017:

Exchange rate

Country	Currency designation	Closing exchange rate in EUR for 2017	Closing exchange rate in EUR for 2016
Czech Republic	CZK	25.5350	27.0210
Hungary	HUF	310.3300	309.8300
Romania	RON	4.6585	4.5390
United States	USD	1.1993	1.0541
United Kingdom	GBP	0.8872	0.8562
Bulgaria	BGN	1.9558	1.9558
Turkey	TRY	4.5464	3.7072
Croatia	HRK	7.4400	7.5597
Serbia	RSD	118.6600	123.6000
Macedonia	MKD	61.2150	61.8000

Exposure to currency fluctuation risk (in 000 EUR)	EUR	HUF	Other currencies	Total
Long-term financial receivables and loans	24,884			24,884
Long-term operating receivables	2,539		565	3,104
Short-term financial receivables and loans	2,584			2,584
Short-term operating receivables	163,089	2	187	163,278
Long-term financial liabilities	(219,421)			(219,421)
Short-term financial liabilities	(17,201)			(17,201)
Short-term operating liabilities	(149,727)	(650)	(395)	(150,771)
Net exposure of the statement of financial position at 31/12/2017	(193,253)	(648)	357	(193,544)
Long-term financial receivables and loans	24,507			24,507
Long-term operating receivables	341		282	624
Short-term financial receivables and loans	1,906			1,906
Short-term operating receivables	137,743		977	138,720
Long-term financial liabilities	(236,408)			(236,408)
Short-term financial liabilities	(10,002)			(10,002)
Short-term operating liabilities	(140,680)	(333)	(1,518)	(142,530)
Net exposure of the statement of financial position at 31/12/2016	(222,591)	(333)	(259)	(223,183)

Currency swaps contracts by maturity (in 000 EUR)	31/12/2017	31/12/2016
up to 12 months	4,494	4,200
Total	4,494	4,200

Effect of currency swaps (in 000 EUR)	2017	2016
Unrealised loss on effective swaps	(49)	(53)
Realised profit on effective swaps	5	66
Realised loss on effective swaps	(89)	(13)

4.5.7.6.4 Interest rate risk

For the purpose of hedging against interest rate risk, the Company acts in compliance with the Rules of HSE Group's interest rate management, within which it monitors the circumstance on the money market, the interest rate fluctuations and the movement of prices of derivatives, aimed at proposing measures for timely hedging against interest rate risk. The value of Euribor still remains on a historical low level and was throughout 2017 negative and has additionally dropped. The decision on interest rate hedging is grounded on the forecast on the interest rate development and the impact on the amount of finance costs. No new interest-related insurance was concluded by the Company in 2017. The Company namely concluded contracts for long-term borrowings in a way that the variable interest rate equals 0 if the EURIBOR is negative (i.e. zero floor) and is exposed to Euribor growth into the positive area. Hedging of short-term maturity rates would in circumstances that apply to the money market and interest rate development additionally increase costs of financing and expose the Company to the risk of a decline in interest rates.

Interest rate risks are regularly monitored and reported about.

Interest-bearing and non-interest bearing financial assets and liabilities are outlined in the table below:

Financial instruments at variable interest rate (v 000 EUR)	31/12/2017
Financial liabilities	238,333
Financial assets	

CASH FLOW SENSITIVITY ANALYSIS WITH FINANCIAL INSTRUMENTS BEARING A VARIABLE INTEREST RATE

The change in the variable interest rate for 50 base points on the reporting date would increase (decrease) the net profit or loss for the values stated below. The analysis prepared assumes that all variables, particularly foreign currency rates, remain unchanged. In the calculation, the receivables/liabilities at variable interest rate are reduced by the total amount of IRS transactions concluded. Due to negative values of EURIBOR interest rates in 2017, we used solely considered the mark-up/increase + 0.50 b.p. (base point). As for borrowings concluded based on the Euribor zero floor interest rate, the mark-up + 0.50 b.p. to the Euribor's average value in 2017 was take into account (average value of the 3-month Euribor – 0.33%; average value of the 6-month Euribor – 0.26%).

Fixed interest rates are agreed for the financial assets, thus the sensitivity analysis has not been conducted for this part.

Financial instruments bearing the variable interest rate (in 000 EUR)	Net profit or loss 2017		Net profit or loss 2016	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial instruments at variable interest rate	(460)	n/a	(743)	n/a
Financial liabilities	(460)	n/a	(743)	n/a

4.5.7.6.5 Price risk

FUTURE (FORWARD) CONTRACTS FOR ELECTRICITY

The Company trades with futures with the purpose to protect long-term positions against price risks. In sales and purchase of electricity with physical purchase, the Company simultaneously concludes futures contract with the position contrary quantity and the same maturity. In this way, the Company financially fixes the revenue from a sales or purchase transaction, meaning that loss arising from the purchase of forward contracts is compensated with revenue from physical contract on sales of electricity. In this connection the Company recorded as at the year-end of 2017 futures contracts worth EUR 14,519 thousand. Disclosures of respective transactions are provided in section 4.5.7.1 (10) Equity.

The purchase or sales of futures contract with the purpose of position trading in the time of open position increases the price exposure of the Company since it is concluded with the intention to generate revenue on the account of changes in the prices of electricity. The price exposure is reduced only in case of concluding diametric futures contract. Disclosures of respective transactions are provided in section 4.5.7.1 (10) Equity. As at the year-end of 2017, the Company recorded EUR 51,539 thousand of open future contracts held for trading.

Concluded standard call futures for hedging purposes (in 000 EUR)	31/12/2017	31/12/2016
for electricity - purchase hedging	8,779	2,814
for electricity - sales hedging	5,740	
Total	14,519	2,814

Concluded standard call futures for trading (in 000 EUR)	31/12/2017	31/12/2016
for electricity - trading (purchase)	29,440	2,989
for electricity - trading (sale)	22,098	2,596
Total	51,539	5,585

EMMISSION COUPONS

Implementation of the strategy of selling own production is based on expected electricity production of subsidiaries. Thus, in the current year the HSE company sells electricity produced by its subsidiaries for some years in advance, while the main goal of the strategy is to maximise profit and to ensure stable revenue from electricity sales.

In 2017, the Company concluded forward contracts for the purchase and sale of emission coupons in order to insure quantities of emission coupons, relating to own production requirements; the Company concluded forward contracts in a limited scope also in connection with the trading activity, which was not linked to own production. As at the year-end of 2017, the Company recorded in this respect EUR 44,019 thousand of open contracts for insuring the purchase and sale of emission contracts.

Concluded standard call futures for hedging purposes (in 000 EUR)	31/12/2017	31/12/2016
for emission coupons - purchase hedging	41,949	9,224
for emission coupons - sales hedging	2,070	2,070
Total	44,019	11,293

4.5.7.6.6 Capital management

Capital management (in 000 EUR)	31/12/2017	31/12/2016
Long-term financial liabilities	219,421	236,408
Short-term financial liabilities	17,201	10,002
Total financial liabilities	236,622	246,410
Equity	905,369	876,577
Financial liabilities/ Equity	0.26	0.28
Cash and cash equivalents	26,728	28,951
Net financial liability	209,894	217,458
Net debt/ Equity	0.23	0.25

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

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

The ratio shows the relationship between the Company's debt and equity. The ratio at the end of 2017 has improved over the 2016 year-end balance due to lower indebtedness.

4.5.7.6.7 Fair values

The Company estimates that the carrying amount is a sufficient approximation for its financial instruments, except derivatives, which are recorded at fair value.

Book values and fair values of financial instruments (in 000 EUR)	31/12/2017		31/12/2016	
	Book value	Fair value	Book value	Fair value
Non-derivative financial assets at fair value	112	112	112	112
Availabe-for-sale financial assets	112	112	112	112
Non-derivative financial assets at amortised cost	220,577		194,709	
Financial receivables	27,467		26,414	
Trade and other receivables	166,382		139,344	
Cash	26,728		28,951	
Total	220,689	112	194,820	112
Derivative financial liabilities at fair value	61	61	53	53
Derivatives (liabilities)	61	61	53	53
Non-derivative financial liabilities at amortised cost	387,942		390,718	
Bank borrowings	236,468		245,192	
Other financial liabilities	215		1,155	
Trade and other payables	151,259		144,370	
Total	388,003	61	390,771	53

Financial instruments at fair value by hierarchy (in 000 EUR)	31/12/2017	31/12/2016
Financial assets at the fair value - Level 2	61	53
Financial liabilities at the fair value - Level 3	112	112

4.5.8 Events after the balance sheet date

Events that had an impact on the financial statements for 2017 and related notes after the date of the statement of financial position:

The TET company started liquidation proceedings in 2014. Due to the existence of deductible tax differences arising from revaluation financial expenses as a result of impairment of investments during the transition to liquidation, the controlling company HSE formed deferred tax assets. These were reversed in the financial statements for 2017, as the company TET - in liquidation started operations again at the start of 2018. Consequently, the chances of the controlling company to use the stated deductible tax differences within the tax returns are thus lower.

4.5.9 Additiona disclosures pursuant to Energy Act

The Company started producing electricity in SPP Velenje in 2011. In accordance with provisions of the Energy Act, the Company is required to monitor its activity of electricity production in the SPP separately.

The statement of financial position for the activities of electricity production in SPP is composed based on the following rules:

- carrying amount of the SPP is disclosed under the production plant within property, plant and equipment,
- receivables due from buyers of electricity and input VAT are recorded among short-term operating receivables,
- operating result of the individual activity and the difference between items of assets and liabilities in the statement of financial position, are disclosed within equity,
- trade payables relating to operations and maintenance of the SPP and the output VAT are disclosed among short-term operating liabilities.

4.5.9.1 Statement of Financial Position as at 31 December 2017 (Energy Act)

Statement of Financial Position - Energy Act (in 000 EUR)	Electricity trading	SP production	Total
ASSETS	1,320,896	189	1,321,085
A. LONG-TERM ASSETS	1,118,883	91	1,118,974
I. Intangible assets	26,839		26,839
II. Property, plant and equipment	12,335	91	12,426
IV. Long-term investments in subsidiaries	1,010,573		1,010,573
V. Other long-term investments and loans	65,764		65,764
VI. Long-term operating receivables	3,104		3,104
VIII. Deferred tax assets	267		267
B. SHORT-TERM ASSETS	202,013	98	202,111
III. Short-term investments and loans	2,584		2,584
IV. Short-term trade receivables	135,564	1	135,566
V. Current tax assets	1,270		1,270
VI. Other short-term assets	35,963		35,963
VII. Cash and cash equivalents	26,631	96	26,728
EQUITY AND LIABILITIES	1,320,896	189	1,321,085
A. EQUITY	905,182	187	905,369
I. Called-up capital	29,412	146	29,559
II. Capital surplus	561,243		561,243
III. Revenue reserves	562,745		562,745
IV. Hedging reserve	10,753		10,753
V. Fair value reserve	51		51
VI. Retained earnings or losses	(259,023)	41	(258,982)
B. LONG-TERM LIABILITIES	220,243		220,243
I. Provisions for termination benefits and jubilee premiums	822		822
IV. Long-term financial liabilities	219,421		219,421
C. SHORT-TERM LIABILITIES	195,471	2	195,473
II. Short-term financial liabilities	17,200	2	17,201
III. Short-term operating liabilities	132,706		132,706
V. Other short-term liabilities	45,565		45,565

4.5.9.2 Income Statement for 2017 (Energy Act)

Income Statement - Energy Act (in 000 EUR)	Electricity trading	SP production	Total
OPERATING INCOME	1,610,794	20	1,610,815
1 Revenue	1,610,667	20	1,610,688
4. Other operating income	127		127
GROSS OPERATING YIELD	1,610,794	20	1,610,815
OPERATING EXPENSES	1,563,346	7	1,563,353
5. Costs of goods, material and services	1,551,736	2	1,551,739
6. Employee benefits expense	9,898		9,898
7. Write-downs in value	840	5	845
8. Other operating expenses	872		872
OPERATING PROFIT OR LOSS	47,449	13	47,462
9. Finance income	47,814		47,814
10. Finance costs	62,314		62,314
FINANCIAL RESULT	(14,500)		(14,500)
PROFIT OR LOSS BEFORE TAX	32,948	13	32,962
TAX	13,221	2	13,224
12. Income tax expense	7,978	2	7,980
13. Deferred tax	5,244		5,244
NET PROFIT OR LOSS FOR THE PERIOD	19,727	11	19,738
Majority owner	19,727	11	19,738

The income statement for the activities of electricity production in SPP is composed based on the following rules:

- value of invoices issued to clients for the SPP electricity is disclosed in net operating income,
- costs of maintenance and operations of the SPP are recorded among costs of materials and services,
- depreciation costs refer to depreciation of the SPP,
- current tax is calculated as corporate income tax based on the operating result of the activity.

4.5.9.3 Statement of Cash Flows (Energy Act)

Statement of Cash Flow - Energy Act (in 000 EUR)	Electricity trading	SP production	Total
CASH FLOWS FROM OPRATING ACTIVITIES			
Profit or loss for the period	19,727	11	19,738
Adjustements for:			
Amortisation of intangible assets	313		313
Depreciation on property, plant and equipment	488	5	494
Write-off of property, plant and equipment	1		1
Write-off of trade receivables	28		28
Loss on sale of property, plant and equipment	9		9
Finance income	(47,814)		(47,814)
Finance costs	62,314		62,314
Gain on sale of property, plant and equipment	(8)		(8)
Income tax paid	13,221	2	13,224
Cash generated from operating activities before change in net current assets and taxses	48,280	18	48,299
Change in net current assets and provisions			
Change in:			
Trade and other receivables	(28,252)	0	(28,251)
Trade and other payables	13,356	1	13,357
Provisions	114		114
Income tax paid	(10,717)	(2)	(10,720)
Cash from operating activities	22,782	17	22,799
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	277		277
Income from other financing activities	1,087		1,087
Dividends received	41,155		41,155
Proceeds from sale of property, plant and equipment	29		29
Proceeds from sale of intangible assets	36,587		36,587
Proceeds from decrease in short-term loans given	240		240
Receipts from decrease in long-term loans given	47,509		47,509
Proceeds from settlement of derivatives	3,749		3,749
Acquisitions of property, plant and equipment	(1,197)		(1,197)
Acquisitions of intangible assets	(36,305)		(36,305)
Acquisitons of subsidiaries	(47,259)		(47,259)
Costs for increasing short-term loans	(20,000)		(20,000)
Costs for increasing long-term loans	(27,259)		(27,259)
Costs for settlement of derivatives	(1,040)		(1,040)
Net cash used in investing activities	(2,426)		(2,426)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of interest on borrowings	(8,018)		(8,018)
Costs for other financial liabilities	(5,375)		(5,375)
Repayment of long-term borrowings	(9,203)		(9,203)
Repayment of other short-term financial liabilities	(0)		(0)
Dividends paid			
Net cash used in financing activities	(22,597)		(22,597)
OPPENING BALANCE OF CASH AND CASH EQUIVALENTS	28,872	79	28,951
Financial result	(2,241)	17	(2,224)
CLOSING BALANCE OF CASH AND CASH EQUVALENTS	26,631	96	26,728

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[2] Since 1 January 2018 TET – in liquidation has operated as a normal company that is now named HSE – Energetska družba Trbovlje d.o.o.

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Abbreviations

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
PSPP	Pumped storage power plant
DDV	Value added tax
DEM	Dravske elektrarne Maribor d.o.o.
FFC	Family-Friendly Company
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EE	Electricity
ECS	Energy Concept of Slovenia
ELES	ELES d.o.o., transmission network system operator
ETS	Emissions trading system
EU	European Union
EUR / €	Euro
EA	Energy Act
HSE	Holding Slovenske elektrarne d.o.o.
HSE Adria	HSE Adria d.o.o.
HSE BE	HSE Balkan Energy d.o.o.
HSE BH	HSE Bosna in Hercegovina d.o.o.
HSE Mak	HSE Mak Energy DOOEL
HTZ	HTZ harmonija tehnologije in znanja invalidsko podjetje d.o.o. Velenje
SFP	Statement of financial position
ISO	International Organisation for Standardisation
IT	Information technology
KK	Personnel Committee
KP	Restructuring Committee
KTI	Marketing and Investment Committee
mHE	Small hydro power plant
IAS	International Accounting Standards
IFRS	International Standards of Financial Reporting
NS	The Supervisory Board
OHSAS	Occupational Health and Safety Assessment Series
IFRIC	International Financial Reporting Interpretations Committee
OVE	Renewable sources of energy
PSU	Field of Depression Remediation
PV	Premogovnik Velenje d.o.o.
RK	Audit Committee
SDH	Slovenski državni holding d.d.
SE	Solar power plant
SENG	Soške elektrarne Nova Gorica d.o.o.
TEŠ	Termoelektrarna Šoštanj d.o.o.
TET – in liquiadtion	Termoelektrarna Trbovlje d.o.o. – in liquidation
VE	Wind power plant
VZD in PV	Health and safety at work and fire safety