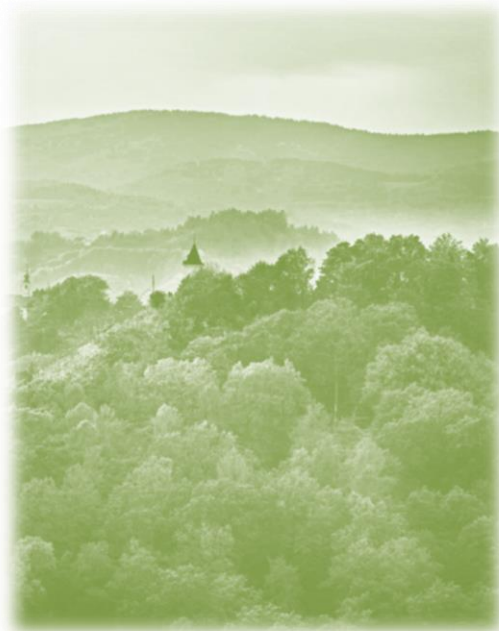


*Energy from the nature for mankind **and the nature***



ANNUAL REPORT

2015

May 2016

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01 INTRODUCTION

*FOREWORD BY THE MANAGING DIRECTOR
OPERATING HIGHLIGHTS IN 2015
OVERVIEW OF RELEVANT EVENTS IN 2015*

1.1 FOREWORD BY THE MANAGING DIRECTOR

Stability is one of the characteristics that bring success, as we have learned from our extensive experience. After the record year 2014 the Drava River Drava stabilised in 2015 and returned to the long-term average flow rates; the total production of the DEM company amounted to 2,544,380,808 kWh. The annual plan was implemented up to 90% and was determined with a 50% probability of median monthly flows. With respect to the hydrological conditions our employees worked hard and achieved the objectives set.

Almost a quarter, exactly 24.47% of the Slovene electricity produced is an achievement that proves the great importance and reliability of DEM under consideration of the supply of Slovenia with electricity from renewable sources. The percentage is even higher in the HSE Group, whose member is also DEM, as we contributed 36.80% of electricity to the total production.

Careful planning of activities and appropriate control mechanisms help us manage the production, business, and other risks to a great extent as we face them when accomplishing our basic mission. Considerable flexibility to internal and external factors that have impact on the business and consequently the operations has become almost a requirement, a rule that we observed also in the year 2015. Our major concern was devices that were optimally maintained in scope of the funds available. We also searched for solutions for increasing the quantity of removed sludge from reservoirs of our hydropower plants. Undoubtedly, we will have to intensively deal with this project also in future when we will have to carry out quick and extensive interventions in order to be able to maintain the useful accumulation that is needed for the production of electricity.

It is undisputed that the new circumstances constantly appear in the energy industry and we have to adjust to them fast. The K factor of device availability amounts to 0.9988 and is lower than in the past, but only due to the changed method of its calculation that considers also the agreed unavailability of generating units (maintenance, inspections and overhauls).

As gravitation is crucially important for the life on our planet, the global market affects all the spheres of the business environment. And this applies also to the energy sector: prices of electricity in the world stock markets conform prices in the domestic market. As we act with reasonable care and diligence we also take care for the optimisation and streamlining of sources. We are aware how important socially responsible engagement in the local environment is, where our facilities are located, as no one is an island – and our company is no exception, we are all a part of a whole.

As the leading company in the field of electricity production from renewable sources in Slovenia we devote undivided attention to the professional development of our employees. Specific expertise and experience of the employees help us improve the items in the balance sheets, as good results are closely linked with their commitment.

In strict conditions of operation we strongly encourage also a dialogue with the Workers' Council and the DEM Trade Union. It is a fact that only with constructive convergence of views and exchange of opinions we can jointly look for answers to all the questions posed in relation to minor investments and a reduction in total costs of operation.

Based on positive experience from the past I strongly believe that we will manage to continue a good dialogue in future, which is also a guarantee for the successful further operation of DEM.

Viljem Požeb, MSc
Managing director



1.2 OPERATING HIGHLIGHTS IN 2015

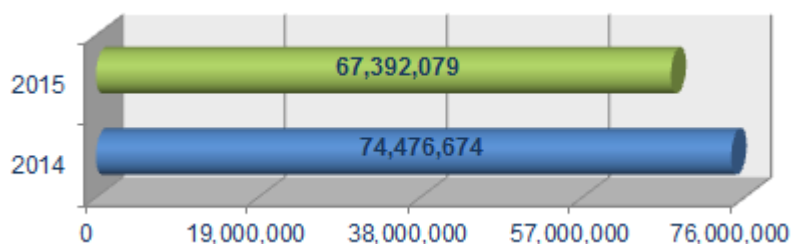
*In 2015, Dravske elektrarne Maribor d.o.o. (hereinafter referred to as DEM) operated **successfully**. The Company continued to follow the course of action specified, achieved the majority of the objectives set and even exceeded some of them.*

*In spite of poorer hydrology we managed to **increase** profit or loss when compared to the previous year.*

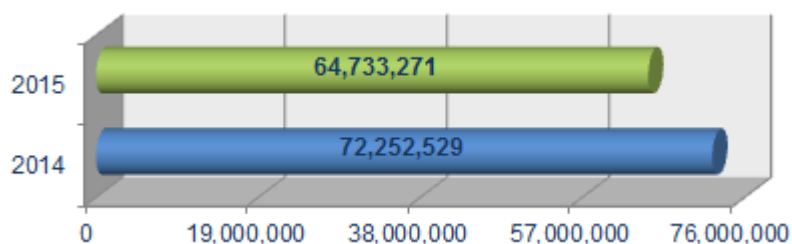
Key achievements of the year 2015:

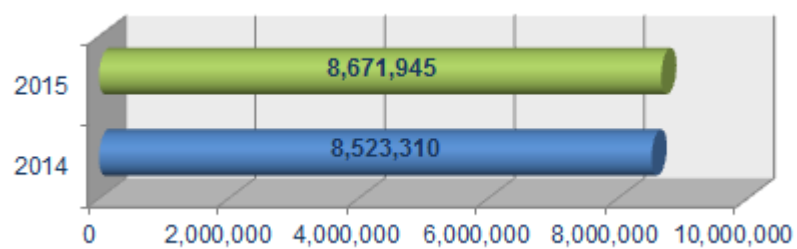
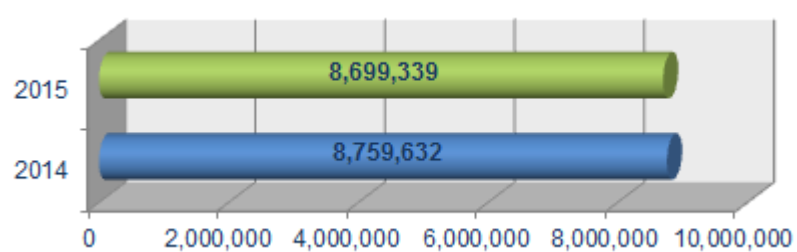
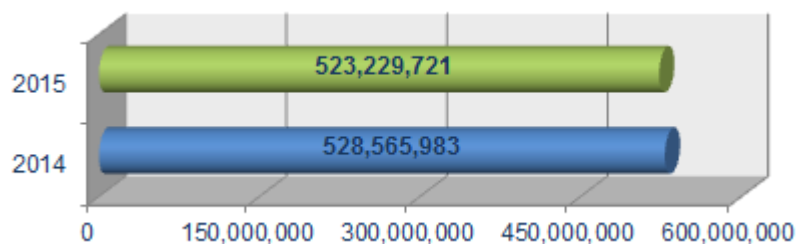
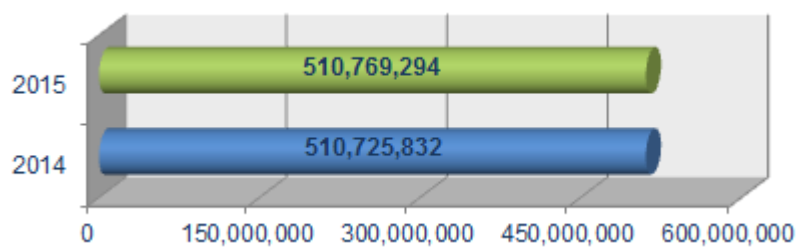
	2015	2014	2015/2014
Revenue generated through sale in EUR	64,733,271	72,252,529	89.59
Net profit or loss in EUR	8,671,945	8,523,310	101.74
Income in EUR	67,392,079	74,476,674	90.49
Expenses in EUR	57,269,175	64,183,946	89.23
EBIT in EUR	8,699,339	8,759,632	99.31
EBITDA in EUR	23,956,492	23,436,219	102.22
Assets in EUR	523,229,721	528,565,983	98.99
Equity in EUR	510,769,294	510,725,832	100.01
Cash flows from operating activities in EUR	22,574,441	30,222,614	74.69
Produced electricity in GWh	2,544	3,919	64.93
Number of employees at the end of period	266	276	96.38

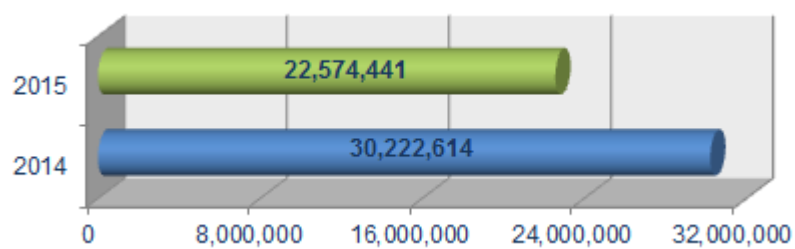
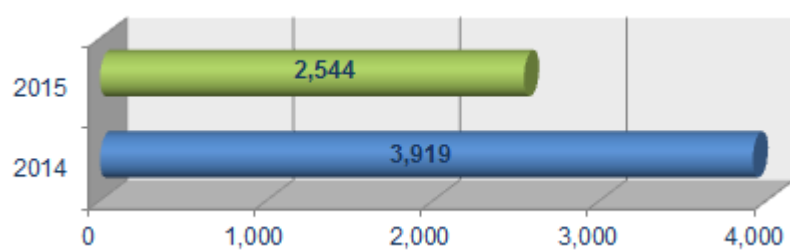
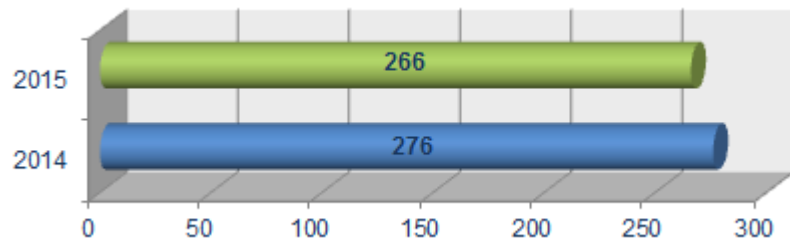
TOTAL REVENUE IN EUR



REVENUE IN EUR



PROFIT OR LOSS IN EUR***E***BIT IN EUR***A***SSETS IN EUR***E***QUITY IN EUR

CASH FLOW FROM OPERATING ACTIVITIES IN EUR**P**RODUCED ELECTRICITY IN GWh**N**UMBER OF EMPLOYEES AT THE END OF PERIOD

1.3 OVERVIEW OF RELEVANT EVENTS IN 2015

JANUARY

OVERHAULS AND INSPECTIONS IN 2015

A maintenance cycle lasted from **5 January** to **6 April** during which 13 inspections, 6 overhauls of generating units and two refurbishments were carried out. Generally, overhauls last from 15 to 24 working days and depend on the scope of works and inspections have to be conducted in 10 working days. In 2015, the overhauls lasted 18.3 working days on average and inspections 10.4 working days. In a period of three years an overhaul and two inspections of each generating unit are performed. The majority of works were carried out by our maintenance teams in 2015. As a rule, external contractors are engaged only for the works and services for which the provision of our own staff, equipment and services would be inefficient.



RELIEF OF THE GENERATING UNIT AT HPP ŽLATOLIČJE WITH THE FLOW REGULATION

FEBRUARY

ADOPTED BUSINESS PLAN OF DEM FOR THE YEAR 2015

Based on the decision taken in the general meeting of shareholders of **4 February** HSE as the sole shareholder of DEM adopted the Business plan of DEM for the year 2015 with the additional plan for the years 2016 and 2017.

MARCH

ECOLOGICAL PROJECT MODRI JAN IN POMURJE

On **22 March** on the World day of water DEM in cooperation with HSE and under the auspices of the Modri Jan trade mark announced the winning assignments of the Ecological project of Pomurje for primary schools and kindergartens. The project was advertised at the beginning of the school year 2014/15. Twenty-five classes or groups from primary schools and the kindergartens from the Pomurje region applied for the project and 20 classes or groups sent the final reports. The decision of organisers was very difficult, as each report confirmed that the young seriously worked on the project and with great creativity.

The first prize and the donation of DEM in the amount of EUR 1,500 by will be presented to Primary School II Murska Sobota thanks to the Ecological Club that wrote two stories »On a stork and the Mura River« and »Stork's route«.

MAY

VISIT OF THE PRESIDENT OF THE NATIONAL COUNCIL AT HPP VUZENICA

On Tuesday **26 May** the President of the National Council Mitja Bervar and the delegation visited the Municipality of Vuzenica and the hydropower plant Vuzenica. Deputy managing director Vili Vindiš presented the DEM company to the guests and emphasised the great importance of DEM's electricity production in the Slovene area. The guests, and among them also the Mayor of the Municipality Vuzenica Franjo Golob, visited the production facility of the power plant that is ranked second in HPP Slovene chain of power plant in the Drava River.

JUNE

CONTROL AUDIT

This year's control audit relating to standards 9001, 14001, 18001 and 27001 was conducted in DEM on **3rd** and **4th June**. It followed the internal audits that were performed in April and included all the processes. The control audit was mainly focused on the processes in the technical field, in the field of environmental management and occupational health and safety; it was carried out also at HPP Ožbalt, HPP Dravograd, HPP Vuhred and HPP Vuzenica.



MEETING WITH THE REPRESENTATIVES OF AUDITORS

THE MUSEUM AT HPP FALA AGAIN MANAGED BY DEM

Following a long period of the management of the HPP Fala Museum by Eldom, d.o.o., DEM decided to start managing it again. After the expiry of the notice period we took over the museum and started managing it at the end of **June**. A lot of work was done to the take-over; the museum was continuously open and accepted visitors. We slightly improved the appearance of the reception hall at HPP Fala by signs, our own tickets and other small details.



OLD POWERHOUSE AT HPP FALA

15TH ANNUAL GAMES OF DEM, SEL AND SENG SPORT CLUBS

On **6 June** the members of the DEM Sports Club organised the 15th annual games of sports clubs of DEM, SEL and SENG in the Ruše Sports park. They were organised for the fifteenth time in a row, but they could be also named the first ones, as they were organised in a completely new way if compared to the previous ones. Sportswomen and sportsmen competed in seven disciplines: bowling, football, darts, beach volleyball, table tennis and shooting and men and women were divided into groups. We proved again we were excellent organisers and hosts and even better sportsmen. We won five first and two second places in the disciplines, and achieved the first place among the teams.



TEAM OF THE DEM SPORTS CLUB

AUGUST

ADOPTED ANNUAL REPORT OF DEM FOR THE YEAR 2014

Based on the decision adopted by the general meeting of shareholders of **27 Augusta** HSE as the founder and sole shareholder of DEM adopted the audited Annual report of DEM for the year 2014.

SEPTEMBER

REPLACEMENT OF AUTOMATIC SWITCHING FOR THE PROVISION OF DRIVE VOLTAGE AT HPP MARIBORSKI OTOK

At the end of **September** and at the beginning of **October** the automatic switching was replaced at HPP Mariborski otok. The task of these devices is coordinated switching of individual sources of the drive voltage, which is urgent for the hydropower plant operation. It became evident again we had extensive expertise and were able to control processes and equipment in the hydropower plant. Excellent coordination among all the participants enabled safe and relaxed work that was completed successfully and in the term agreed.



TEAMWORK BRINGS SUCCESS

OCTOBER

15TH HYDRO 2015 INTERNATIONAL CONFERENCE ON HYDRO POWER

This year's 15th Hydro 2015 international conference on hydropower with the title »ADVANCING POLICY AND PRACTICE« took place from 26 – 28 October in Bordeaux in France. The venue of the three-day conference was in the Palais des Congres de Bordeaux congress centre. The conference was organised in forums in 34 sections that discussed all key fields of hydropower, such as safety, efficiency and economy.



CLIMATE CHANGES WERE AMONG THE RELEVANT TOPICS

NOVEMBER

FAMILY – FRIENDLY COMPANY

In scope of the 'Family-friendly company' certificate workshops were organised for the employees in **November**. The topics covered in the workshops involved self-confidence, self-respect, and self-image. This year's novelty in the organisation of workshops that lasted from 17 – 20 November was four different locations, namely in HPP Dravograd, HPP Fala, in the head office and in HPP Zlatoličje.



A WORKSHOP FOR THE EMPLOYEES FROM HPP SREDNJA DRAVA WAS ORGANISED AT HPP FALA



02 MANAGEMENT REPORT

COMPANY PROFILE

PURCHASING, SALES AND PRODUCTION

MAINTENANCE, INVESTMENTS AND INFORMATION SCIENCE

ANALYSIS OF BUSINESS PERFORMANCE AND PLANS FOR THE FUTURE

2.1 COMPANY PROFILE

DEM: nationally important hydropower company

DEM is the largest producer electricity from renewable sources in Slovenia.

DEM generates 23% of electricity in Slovenia in eight hydropower plants on the Drava River, three small hydropower plants and four solar power plants. This accounts for 80% of Slovene electricity, which conforms to the criteria of renewable sources and standards of the internationally recognised RECS certificate (Renewable Energy Certificates System). High quality energy is provided in an environmentally friendly way and in line with the principles of sustainable development.

COMPANY PROFILE

Company name:	DRAVSKE ELEKTRARNE MARIBOR d.o.o.
Shortened corporate name:	DEM d.o.o.
Legal form:	družba z omejeno odgovornostjo
Code of activity:	35.111
Registered office:	Obrežna ulica 170, 2000 Maribor, Slovenija
Telephone:	02 300 50 00
Fax:	02 300 56 55
Entry no.:	1/278/000
Share capital:	395,011,180 EUR
Size:	large company
Year of establishment:	1918
Registration number:	5044286 / 5031000010
ID for VAT:	SI96254459
Bank accounts:	04515-0000337195 with NKBM 0294 4026 0098 306 with NLB
Website:	http://www.dem.si

DEM is a limited liability company entered into the Companies register of the Maribor District Court under entry no. 1/278/000.

The company has no subsidiaries.

OWNERSHIP STRUCTURE OF THE COMPANY

Pursuant to the resolution of the Government of Slovenia on the transfer of the Government's share to HSE, HSE became DEM's 100% owner on 21 August 2007. As at 31 December 2015, HSE's share in DEM's equity amounted to EUR 395,011,180.

ACTIVITY OF THE COMPANY

Activities of the company are:

- ❖ 35.111 Production of electricity in hydropower plants;
- ❖ 35.119 Other production of electricity;

- ❖ 45.200 Maintenance and repair of motor vehicles.

MANAGEMENT OF THE COMPANY

By the adoption of the Articles of Association of Dravske elektrarne Maribor d.o.o., a limited liability company, on 29 April 2014 that were adopted by HSE as the sole shareholder (founder) of DEM, the managing director is determined as the management body of the company.

The founder has the role and all the competencies of the general meeting of shareholders in line with the Articles of Association of the DEM company and the applicable legislation as it is applicable for limited liability companies with a one member.

COMPETENCIES OF THE MANAGING DIRECTOR

The Managing Director decides on all matters of the organisation and company management. He especially organises and manages the work process, is responsible for the legality of the company, implements the decisions of the founder and performs other tasks in line with the regulations.

The Managing Director is Viljem Pozeb, M.Sc. who was reappointed for the following four-years after the expiry of the first term of office. The new term of office started on 30 September 2013 and will end on 29 September 2017.

STATEMENT ON COMPANY MANAGEMENT

Pursuant to Article 70, Paragraph 5 of the Companies Act Dravske elektrarne Maribor d.o.o., Obrežna ulica 170, 2000 Maribor (DEM) gives the following statement on the company management for the period from 1 January 2015 to 31 December 2015.

I, Managing Director of DEM declare that the management of the company in the year 2015 was conducted in compliance with the laws and other regulations, the applicable Articles of Association of the limited liability company of DEM, internal acts of the company and in line with good business practice.

Pursuant to Article 60a of the Companies Act I, Managing Director of DEM declare that the annual report and all its components, including the statement on company management, were prepared and published in line with the Companies Act and the International Financial Reporting Standards.

THE STATEMENT ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE COMPANIES WITH THE EQUITY INVESTMENT OF THE STATE –SLOVENIAN SOVEREIGN HOLDING AND THE RECOMMENDATIONS AND EXPECTATIONS OF THE SLOVENIAN SOVEREIGN HOLDING

I, Managing Director of DEM declare that the management of the DEM company in the year 2015 was in line with the Corporate Governance Code of the companies with the equity investment of Slovenian Sovereign Holding – Slovenski državni holding d.d. (Code) and in accordance with the Recommendations and expectations of the Slovenian Sovereign Holding (Recommendations of the SSH).

Pursuant to Point 3.4.1 of the Code I, Managing Director of DEM declare that DEM decided to voluntarily use the Code. The Code is available on the website of the Slovenian Sovereign Holding.

ORGANISATIONAL STRUCTURE OF THE COMPANY WITH THE ORGANISATIONAL CHART

The company has the following organisational units:

- ❖ Management of the company;
- ❖ Technical Sector;
- ❖ General business sector;
- ❖ Corporate management sector;
- ❖ Working units;
- ❖ Services;
- ❖ Departments;
- ❖ Temporary organisational units – projects.

In terms of organisation of the **management of the company** includes: the managing director, deputy-managing director(s) and/or assistants to the managing director and advisors to the managing director.

Technical sector represents an organisational unit at the first level that is directly related to the managing director. In scope of this sector the following processes take place: electricity production, professional support, maintenance of hydropower facilities and devices, IT and development.

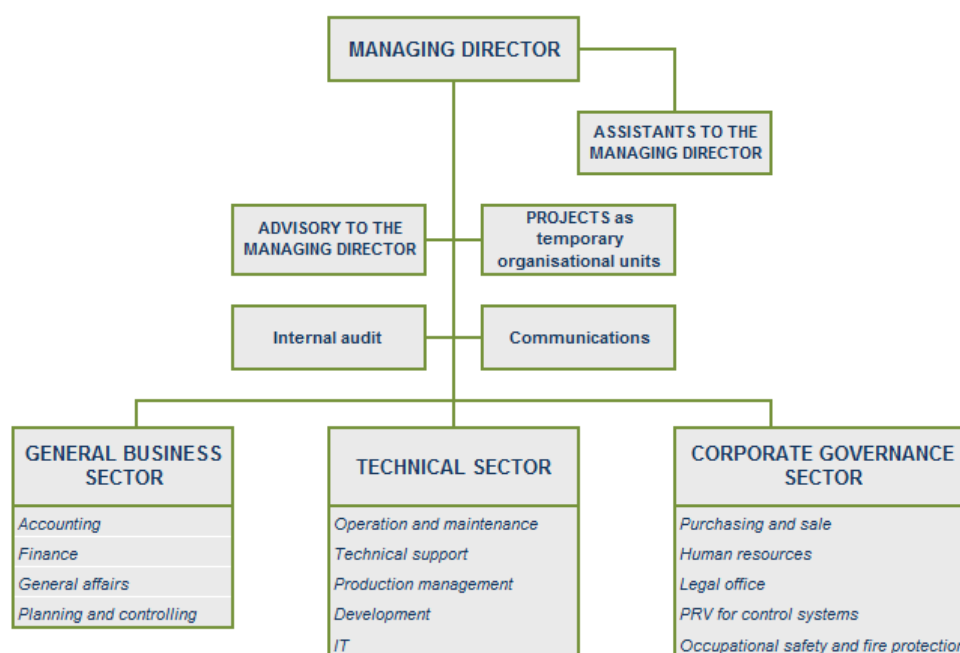
General business sector is an organisational unit at the first level that is directly related to the managing director. In scope of this sector the processes of accounting, finance, general affairs, planning and controlling take place.

Corporate governance sector represents an organisational unit at the first level that is directly related to the managing director. The processes of purchasing and sales, legal offices, human resources and occupational safety are carried out in this sector.

Organisational units can be organised within a sector in line with the following organisation levels: **working units**, **services** and **departments**.

In line with the Rules governing project management in the company and based on a decision the managing director of the company can establish **temporary organisational units – projects** for the performance of complex tasks that cannot be performed in the existing organisational units.

Organisational chart of the company as at 31 December 2015:



TRADE UNION AND WORKERS' COUNCIL

TRADE UNION

The trade union of DEM (hereinafter: the trade union) represents the basic form of organisation of the Slovene Power Sector Trade Union members. The company trade union activities are based on the company's Articles of Association, Slovene Power Sector Trade Union programme, and the company trade union's Rules. The company trade union is represented by the president or, during his absence, by the deputy president or other authorised trade union representatives.

Members of the company trade union management are listed in the table below:

FULL NAME	FUNCTION	DATE OF APPOINTMENT	DATE OF EXPIRY OF TERM OF OFFICE
Bojan Majhenič	Chairman	25.5.2015	25.5.2020
Andrej Kogelnik	Trade union representative	25.5.2015	25.5.2020
Janez Tratnik	Deputy trade union representative	25.5.2015	25.5.2020
Boštjan Kašman	Trade union representative	25.5.2015	25.5.2020
Aleš Bogovič	Deputy trade union representative	25.5.2015	25.5.2020
Marija Sok	Trade union representative	25.5.2015	25.5.2020
Zdravko Vindiš	Deputy trade union representative	25.5.2015	25.5.2020
Igor Štruc	Trade union representative	25.5.2015	25.5.2020
Helena Siebenreich	Deputy trade union representative	25.5.2015	25.5.2020
Angelca Sagadin	Trade union representative	25.5.2015	25.5.2020
Simona Krobe	Deputy trade union representative	25.5.2015	25.5.2020
Zvezdana Damijan	Trade union representative	25.5.2015	25.5.2020
Miha Horvat	Deputy trade union representative	25.5.2015	25.5.2020
Gorazd Kac	Trade union representative	25.5.2015	25.5.2020
Boštjan Kerman	Deputy trade union representative	25.5.2015	25.5.2020

WORKERS' COUNCIL

Pursuant to the Worker Participation in Management Act and on the trade union's initiative, on 9 February 1999 the first Workers' Council of the DEM company (hereinafter: workers' council) was elected, holding its inaugural meeting on 1 March that year. The workers' council responsibilities mostly comprise 'managerial' activities, while the company trade union is responsible for employment-related matters. The worker's council is represented by its president, who prepares, convenes and presides the council's sessions and organises the body's activities. The president is also authorised to give orders regarding the implementation of the workers' council financial plan in connection with the council's funds allocation. In the president's absence, his function is carried out by the deputy president.

The composition of the worker's council is presented in the table below:

FULL NAME	FUNCTION	DATE OF APPOINTMENT	DATE OF EXPIRY OF TERM OF OFFICE
Vladimir Šega	Chairman	20.4.2015	20.4.2019
Marjan Kirbiš	Deputy Chairman	20.4.2015	20.4.2019
Tadej Ažnik	Member	20.4.2015	20.4.2019
Igor Štruc	Member	20.4.2015	20.4.2019
Dragica Manfreda	Member	20.4.2015	20.4.2019
Jožef Čeru	Member	20.4.2015	20.4.2019
Danijel Gojkošek	Member	20.4.2015	20.4.2019
Miran Smolinger	Member	20.4.2015	20.4.2019
Dušan Dukarič	Member	20.4.2015	20.4.2019

CAPITAL TIES WITH OTHER COMPANIES

RELATION TO THE CONTROLLING COMPANY

DEM is a part of the Holding Slovenske elektrarne Group. On 26 July 2001, the Government of the Republic of Slovenia founded HSE with the objective of establishing a joint presence of electricity suppliers in the market, improving their competitiveness and constructing a HPP chain on the lower Sava River. Six companies were incorporated into the new company. HSE is thus the controlling company, while the other companies are its subsidiaries. Both HSE and subsidiaries are legally independent entities.

As at 31 December 2015, the company HSE, based in Ljubljana at Koprška 92, was the company's controlling (holding) company, which prepared the 2015 consolidated annual report for the group of companies under its control.

Pursuant to Article 545 of the Companies Act the management of DEM prepared a Report on relations with related parties for 2015. The report was submitted to the certified auditor, as provided by Article 546 of the Companies Act. The report shows that, in view of the circumstances known at the time legal transactions were carried out, DEM estimates that it was not disadvantaged in any such transaction with the controlling company and its related parties, and that in 2015 no legal transaction, act or omission that could be potentially damaging to the company took place as a result of the influence exercised by HSE.

RELATIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

DEM holds shares in five companies:

❖ HSE Invest	25.0% ownership share
❖ Eldom	50.0% ownership share
❖ HESS	30.8% ownership share
❖ PRI	100.0% ownership share
❖ SHPP Lobjana	65.0% ownership share

In November 2014, the company HESS withdrew from the HSE Group. Since then, it has been considered an associate of the HSE Group.

The ownership shares mentioned above are recorded under non-current assets as long-term investments.

HSE INVEST

HSE Invest d.o.o., a company for engineering and construction of energy plants, was established on 25 April 2002 with the adoption of the Articles of Association of a limited liability company. HSE Invest is thus a subsidiary, whose founders and members are HSE, DEM, SENG and SEL, all holding equal shares.

In HSE Invest d.o.o., based at Obrežna ulica 170 in Maribor, DEM holds a 25% share which represents an investment in the amount of EUR 80,000.

ELDOM

ELDOM d.o.o., a company specialised in services and tourism, was established on 1 July 1991. Its founders are Slovenian power companies:

- ❖ Dravske elektrarne Maribor;
- ❖ Elektro Maribor;
- ❖ Elektro Slovenija.

In 2004, four companies had a stake in ELDOM, namely, the three above-mentioned founders and Elektroinštitut Milan Vidmar. Each company had a 25% share in ELDOM. In January 2005, we bought a 25% share in ELDOM, which was owned by the company Elektroinštitut Milan Vidmar. Thus, we now hold a 50% share in ELDOM, based at Obrežna ulica 170 in Maribor.

The basic activity of the company is management of buildings and tourism facilities, cleaning and maintenance of premises, restaurant and catering industry, tourism and reception services.

HESS - HIDROELEKTRARNE NA SPODNJI SAVI

HESS d.o.o. was founded on 12 February 2008 by the companies HSE, DEM, SENG, Thermal power plant Brestanica and Gen Energija.

The HESS company was established with the transformation of the previous project coordinator, the so-called Joint venture, into a legal entity for the purposes of securing transparent investments and compliance with the concession agreement as well as the Concessions Act.

HESS's priority will be the construction of the remaining hydropower plants on the lower Sava River with the possibility of further construction of the HPP chain on the middle Sava River.

DEM holds a 30.8% share in HESS.

PRI - POMURSKI RAZVOJNI INŠTITUT

In June 2008, DEM established PDI with the purpose of bringing the project for the construction of HPPs on the Mura River closer to the interested public. The institute was founded with the desire to attract experts from various professional backgrounds and different areas of expertise. The institute is based in Murska Sobota.

The main responsibility of the institute is mostly informing the interested public about the implementation of expert studies on exploitation of the Mura River water potential (environmental topics, studies of flora and fauna, as well as agricultural, economic and tourism studies) and their presentation to the general public.

SHPP LOBNICA

In May 2011, DEM and Hmezad Jeklo d.o.o. established a joint company 'Mala hidroelektrarna Lobnica, družba za proizvodnjo električne energije d.o.o.

We hold a 65% share in the small hydropower plant Lobnica d.o.o. with its registered office at Obrežna ulica 170 in Maribor. The remaining share in the amount of 35% belongs to another shareholder - Hmezad Jeklo d.o.o. In 2012, Hmezad Jeklo Ruše d.o.o. was replaced with a new company, Hmezad Trgovina Žalec d.o.o. in agreement with the DEM as the majority owner.

The company's core business activity is generation of electricity in hydropower plants. Other activities include:

- ❖ other electricity production,
- ❖ transfer of electricity,
- ❖ electricity trading,
- ❖ construction of water facilities.

On the basis of the partnership agreement with the limited liability company SHPP Lobnica, the following company's bodies are appointed: general meeting and managing director. The company also has an authorised representative.

A BRIEF HISTORY OF THE DRAVA RIVER POWER PLANT CONSTRUCTION

Energy time flow of capacity from Fala to Formin

The chain of 8 HPP's on the Drava River was constructed between 1918 and 1978, and the already finished and planned refurbishment projects will preserve their capacities for many decades to come.

*At the time of its construction, after World War I, the first Drava River hydropower plant in Slovenia, **HPP Fala**, was the most technologically advanced and powerful hydropower plant in the eastern Alpine region and Central Europe and a driver of industrial development and electricity network in the central and northeast Slovenia.*



CONSTRUCTION OF HPP MARIBORSKI OTOK

*During World War II, pier-type power plants **HPP Dravograd** and **HPP Mariborski otok** were constructed. At HPP Dravograd, which already operated during the war, extensive renovation and completion works were carried out in 1945, by which the damages from airstrikes were repaired and the operation of the first two turbines restored. At HPP Mariborski otok, which was nothing more than an abandoned construction site after the war, the first turbine started operating in 1948 and was joined by another two by 1960.*

At the end of the war, the pier-type power plant **HPP Vuzenica** was constructed and it started operating in 1953. In 1956, it was followed by **HPP Vuhred** and then also **HPP Ožbalt** in 1960. The power plants constructed on the Drava River between Dravograd and Maribor, except HPP Fala, were pier-type power plants, where turbine piers and spillways are placed in the riverbed.

HPP Zlatoličje, constructed in the years 1964-1969, was the first channel-type power plant. The power plant, which receives water through a 17.2 km inlet channel from the Melje dam, while the water returns to the riverbed through a 6.2 km outlet channel, is the most powerful HPP in Slovenia. More than 20% of total energy that DEM supplies to the grid is generated by HPP Zlatoličje. **HPP Formin** is also a channel-type power plant that started operating in 1978. Its large reservoir allows for greater flexibility of operation and ensures larger production at peak hours.

In 1977, the capacity of the oldest power plant on the Drava River, HPP Fala, was increased through the installation of an eighth generating unit. In 1991, two more generating units were installed to replace the oldest seven, which were decommissioned. Over the past two decades, the other five upper Drava River power plants were refurbished, thus increasing their capacity and output. The overall increase in capacity is comparable to the capacity of an additional power plant.

2.2 COMPANY'S BUSINESS POLICY

Energy from the nature for mankind and the nature in present and in future

DEM's clean and environmentally friendly energy accounts for almost a quarter of electricity produced in Slovenia. The operations of the company, which performs most of its activities on the Drava River, are based on effective processes which are performed with a minimum impact on resources and the environment. The relevant principles of operation are reliability of partnership co-operation in all the areas and flexibility in facing challenges of the employees, owners and the external environment. In the field of hydropower activity, the company effectively controls and markets all the processes, but the environmental care is always the criterion of assessment of success of operations and economic success – considering the existing capacities and those to be constructed in future. **Efficiency, reliability, complexity and environmental responsibility** are fundamental values of DEM.

MISSION

DEM is the leading company in the area of efficient use of renewable sources in Slovenia. Due to its focus on the development it provides for quality and environmentally friendly energy supply with the objective of achieving economic success and ensuring sustainable development of the environment and markets in which it operates.

VISION

To maintain its position as the leading hydroelectric power system in Slovenia through the effective use of renewable resources and optimal allocation of resources and to expand, by means of strategic partnerships and sensible diversification, to other interesting market areas.

DEVELOPMENT-ORIENTED COMPANY

The future of the DEM company reflects in its strong development-orientation that includes the continuation of the reconstruction of the existing facilities, search for new development possibilities, market opportunities and the construction of new facilities on other river basins.

STRATEGIC GOALS OF THE COMPANY

The company's main strategic goals are derived from the company's Strategic development plan for the period to 2018 and the development plan of the company and the HSE Group for the period 2015 to 2019 and long-term projections of operations of DEM for the period 2016 - 2030. The Supervisory Board of DEM discussed and adopted the long-term plan of renovation and development for the period 2003 to 2018 at its 13th regular meeting on 6 May 2003.

Key strategic goals of DEM for the period until 2018 are as follows:

Goals pertaining to **safe and reliable production and construction of additional production capacities**:

- ❖ *Provision of reliable and smooth electricity production:*
 - ❖ Provision of availability of plant and equipment,
 - ❖ Reliability of operation,
 - ❖ Maximum exploitation of the water potential.
- ❖ *Implementation of optimal and joint maintenance policy:*
 - ❖ Maintenance of the majority of HPP facilities in the HSE Group,
 - ❖ Ensuring safe operation of HPPs,
 - ❖ Monitoring of the facilities and equipment
- ❖ *Carrying out of the planned investments in new production capacities:*
 - ❖ Construction of PSP Kozjak,
 - ❖ Construction of a HPP chain on the Mura River,
 - ❖ Renovation of the existing capacities and increase in the power.
 - ❖ Construction of SHPPs and utilisation of other renewable energy sources
- ❖ *Care for sustainable development;*
- ❖ *Maximum exploitation of natural potential of the Drava River and its tributaries;*
- ❖ *Rational utilisation of the hydroelectric potential through the use of small HPPs;*
- ❖ *To become the core hydroelectric pillar in the HSE Group;*
- ❖ *Provisions of all the conditions (human resources, organisation, finance) for the implementation of strategic projects.*

Goals pertaining to **streamlining of operations**:

- ❖ *Ensuring of competitiveness by lowering operating costs.*

Goals pertaining to **human resources management**:

- ❖ *To provide for educated, competent, satisfied and motivated employees;*
- ❖ *To maintain the optimal staff number;*
- ❖ *To maintain the optimal staff structure;*
- ❖ *To provide for continuous training;*
- ❖ *To care for the quality of working life.*

Goals pertaining to **financial management**:

- ❖ *To ensure short- and long-term solvency;*
- ❖ *To manage financial risks;*

- ❖ *To secure optimal financing sources;*
- ❖ *To pursue an optimal financial policy;*
- ❖ *To optimise the structure of financing sources and equity structure.*

2.3 MANAGEMENT SYSTEM POLICY

QUALITY SYSTEM

MANAGEMENT SYSTEM

In 2015, the activities in the field of the maintenance of the management system were mainly focused on the increase in efficiency and elimination of weaknesses of the management systems.

An increase in efficiency was achieved by the following activities:

- ❖ appointment of a supervisor for each standard;
- ❖ conduct of an internal-control audit;
- ❖ conduct of an external control audit;
- ❖ performance of activities due to the necessary transition to the new versions of standards;
- ❖ coordination of the system operation at the Management Council of DEM;
- ❖ inspection of indicators, their efficiency and change in indicators at the company level and on this basis the changed indicators by process;
- ❖ supplement of the management system in cooperation with the HSE company.

OTHER CHANGES IN THE FIELD OF MANAGEMENT SYSTEMS

- ❖ cancellation of the HACCP standard as the canteen services were outsourced;
- ❖ elimination of the psycho-social support in relation to the family-friendly company as the employees were not interested in this kind of aid and thus the reduction in costs;
- ❖ approximately 40% of funds were saved in the field of management systems with respect to the activities planned and the needs for streamlining of operation in an individual in 2015 (over the previous year).

All process supervisors prepared annual reports for their processes in 2015. The internal audit was conducted in the period from 13 to 16 April 2015 and involved all processes in the company and all the standards - 9001, 14001, 18001 and 27001. Several audit teams were organised for the audit that was conducted in a very short period of time and so the audit of several different processes could be carried out at the same time. The audit teams worked very intensively and the entire working time. Seventeen internal auditors participated and spent 191 working hours on the audit. In co-operation with process supervisors, forty-one measures were confirmed during the internal audit and they are to be implemented.

The control-external audit in line with all the standards was carried out on 3 and 4 June 2015. Eleven auditors of DEM participated. Accompanying persons were appointed for smooth performance of the external audit to help with certain audits in the power plants. Non-conformities were not established by the external audit, but certain recommendations and improvements were proposed. These recommendations and improvements were submitted to the process supervisors to be implemented.

ENVIRONMENTAL MANAGEMENT SYSTEM

Targets and tasks from the field of environmental management system were prepared in scope of planning targets and tasks for the year 2015. The required amount of funds for these tasks was estimated and a training plan was prepared. A register of framework and implementing environmental targets and programmes for the year 2015 were also prepared. The register was compiled on the basis of the revised assessment of relevant environmental aspects and legal requirements.

During this period the Management Council held several meetings and discussed the following topics:

- ❖ Preparation for the introductory meeting with the auditors for the performance of internal audits in the year 2015;
- ❖ Setting of objectives of internal audits;
- ❖ Plan of conduct of internal audits;
- ❖ Preparation of the required documents referring to the performance of internal audits.

In April, internal audits of individual processes were conducted. Based on the recommendations of internal audit a table of recommendations was prepared. It was discussed by an ecological team at the meeting held at the beginning of June and deadlines for the implementation were determined. Preparations for the external audit were made during the meeting and the audit was conducted on 3 and 4 June 2015.

The following orders were carried out in this period:

- ❖ removal of hazardous and special waste from all the locations of DEM. In line with the legislation it is necessary to collect hazardous waste separately and to hand it over to an authorised company;
- ❖ evaluation of the noise level in the environment for the source of HPP Dravograd. The operating noise monitoring has to be carried out every three years in accordance with the legislation.

Annual reporting on the generated waste and its management for the year 2014 was carried out in line with the Regulation on waste. The report was submitted to the Ministry of the Environment and Spatial Planning within the deadline.

A monitoring report with a graphic presentation of quantities pumped and ground water levels for all the wells and springs for which we obtained water permits was also submitted to the Ministry of the Environment and Spatial Planning.

In the first half of 2015 the following documents were revised in the field of the environmental management system:

- ❖ list of monitoring;
- ❖ systematisation of environmental aspects,
- ❖ evaluation of relevant environmental aspects;
- ❖ legislation from the field of environmental management system and
- ❖ plans of waste management for all the facilities.

In April, the ecological team met and discussed the annual report on the environmental management system and the register of framework and implementing environmental targets and programmes for 2015. The documents mentioned were presented during the management review.

We also expressed our view on the ecological regeneration (removal of sludge from the reservoirs). The dams of the Drava River interrupted the natural process of transporting sediments along the river and caused depositing of sediments in reservoirs. The process of depositing sediments is a continuous process and reduces the accumulating capacity of water and from a certain moment on it decreases also the production of electricity. The quantities of deposits in reservoirs already have an impact on the reduction in production. A worrying development has been established in accordance with the latest measurements of cross profiles of reservoirs; the quantity of sludge and gravel is so large that their deposits reach into the 'useful meter' of reservoirs.

Forecasts are increasingly pessimistic as the area of the Drava River is under the special protection system »Natura 2000« and the reduction in the accumulation capacity is endangered by the growth of reeds, which cannot be removed and this means a permanent loss in water surfaces. The more sludge in the useful meter, the larger are surfaces that will enable the growth of reeds, and consequently less accumulating capacities of the lakes.

The Ecological team members are unanimous and believe that great attention has to be paid to this topic and that adequate funds for implementing of annual programmes of sludge removal have to be provided.

The external audit was carried out smoothly and in line with the programme. It was established that the ecological awareness of all the participants in the audit was adequate and the level of operational control on all locations management was high. No non-conformities were detected, recommendations for improvements were presented in the report and will be discussed by the ecological team in the next meeting.

After the report on the control audit of ISO 14001:2004 the following is established:

- ❖ the audit was conducted smoothly and in line with the programme;
- ❖ the ecological awareness of all the participants in the audit is adequate and
- ❖ the operational control of the system is at a high level on all locations.

The entire system of environmental management was reviewed during the audit and the opportunities for improvement in form of recommendations are collected in the final report. Some of them were taken into account immediately, some will be discussed by the Management Council and the ecological team and will be considered and/or eliminated to the end of 2015.

In the period mentioned we devoted great attention to the newly adopted Regulation on waste management that contains many novelties in this field. An ecological incident was detected. In the area owned by DEM an unknown person deposited a large quantity of construction waste. This incident was successfully handled.

In the last quarter we performed activities that would have to be implemented on the transition to the new standard ISO 14001. The new standard ISO 14001 will include some new requirements that should help the organisations improve their environmental management so that they will comply with the requirements of the legislation to the greatest extent possible, and that they should report on their ecological success in an open, transparent, complete and non-misleading way to the public. It is estimated that the transition to the new standard will be rather challenging.

Activities relating to the implementation of recommendations of the external audit were also carried out. All reasonable opportunities for improvement have been and will be considered.

All amendments to the Waste Management Act were collected throughout the financial year 2015 and they are recorded in an appropriate list and considered in the process of environmental management system.

In December, we prepared all the required documents for the performance of a public contract for emptying of landfill sites and a takeover of deposits on DEM locations. In compliance with the requirements of the legislation and the concession agreement the company is obliged to adequately remove deposits on dam facilities and provide smooth operation.

OCCUPATIONAL HEALTH AND SAFETY AND FIRE PROTECTION

DEM devotes a lot of attention to ensuring occupational health and safety and fire safety.

Periodic activities in the area of occupational health and safety and fire safety pursued in 2015 included:

- ❖ occupational safety and fire safety training of employees, new employees, pupils, students, trainees and interns (150 employees, 32 students during holidays or obligatory practice);
- ❖ occupational safety training of persons in charge of fire and evacuation (41 attendees);
- ❖ occupational safety training in the area of lifting machinery (240 attendees);
- ❖ occupational safety training in the area of heavy constructional mechanisation use (22 attendees);
- ❖ occupational safety training in the area of forklift use (40 attendees);
- ❖ occupational safety training in the area of chainsaw use (11 attendees);
- ❖ occupational safety training concerning the use of wood processing machinery (2 attendees);
- ❖ occupational safety training in the area of tractor use (22 attendees);
- ❖ occupational safety training organised for executives and the management (10 attendees);
- ❖ training in the area of an occupational health and safety coordinator on joint worksites (2 attendees);
- ❖ training in the use of phytopharmaceutical products (3 attendees)
- ❖ medical examinations of the employees (124 attendees)
- ❖ implementation of the Medical-preventive programme in scope of health promotion (34 attendees)
- ❖ publication of articles on the topic of a healthy lifestyle – promotion of health in the internal bulletin Dravski val and on the intranet;
- ❖ inspections of working equipment;
- ❖ internal inspections of the facilities;
- ❖ coordination meetings of occupational safety and health and fire safety professionals;
- ❖ participation of professionals and coordinators of occupational health and safety on building sites in seminars;
- ❖ participation of persons responsible for fire safety in a seminar;
- ❖ analyses of accidents and incidents;
- ❖ sharing of good practices;
- ❖ successfully conducted external audit under OHSAS 18001:2007;
- ❖ cooperation with competent inspectorates;
- ❖ supply of personal safety equipment;
- ❖ supervision of waste disposal (hazardous materials, debris);
- ❖ supervision of drinking water quality in our own water sources.

OCCUPATIONAL HEALTH AND SAFETY

In 2015, the following new regulations were revised and adopted:

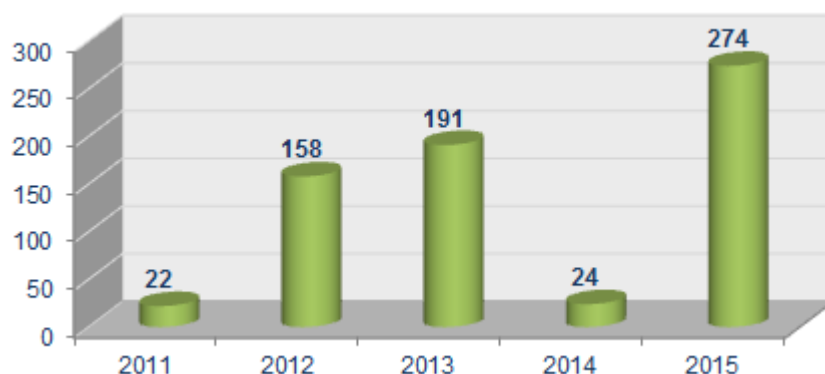
- ❖ OB 28-35 Warning on non-compliance with requirements for occupational health and safety – external contractors;
- ❖ OB 28-34 Warning on non-compliance with requirements for occupational health and safety – for the employees;
- ❖ SP 28 Occupational health and safety system and fire safety;
- ❖ SN 28-05 Programme of health promotion at a workplace in DEM for the period 2015 – 2020;
- ❖ SN 28-03-01 Programme of training in the area of a fire guard;
- ❖ SN 28-03-02 Programme of training of persons in charge of fire-fighting;
- ❖ OB 28-36 Inspection of a work platform;
- ❖ Instructions for safe work.

ACCIDENTS AT WORK

Number of accidents at work due to which the employees were absent from work:



Number of working days lost due to accidents at work:



Note: In 2015, 241 working days were lost due to a serious accident at work. The employee involved is still on sick-leave.

FIRE PROTECTION

All the employees have been trained in accordance with the legislation. Where required, evacuation drills have been executed. Fire extinguishing equipment and active fire protection systems are maintained and inspected in accordance with the legislation. In 2015, we performed a rescue exercise in cooperation with the voluntary fire brigade - PGD Radlje ob Dravi by means of a rope technique, an injured person from a cabin of a portal crane and paid a visit to the power plant with the operational group of PGD Radlje ob Dravi.

2.4 PRODUCTION AND OPERATION

After having recording an exceptional production in 2014, when the budgeted production was exceeded by 48%, the production in was lower in 2015 and close to the production determined by the balance flow rates. Due to the increased budgeted production for the year 2015 that was determined by 50% probability of the median monthly flows, we reached **90%** of the turnover. The renewal of the control system and replacement of the secondary systems of the generating unit 2 at HPP Fala were carried out.

BASIC HYDROLOGICAL DATA

The Drava River originates in Toblach, in Italy, at an altitude of 1,200 m. It flows to Slovenia in Dravograd at an altitude of 339.30 m. The total length of the riverbed is 718 km. The length of the Drava River in Slovenia is 133 km and it has a static head of 148.3 m. The average median-annual flow at the power plant Mariborski otok amounts to 297 m³/s, while the balance flow rate used for the calculation of possible production amounts to 271 m³/s. The energy potential of the river in Slovenia amounts 2,646 GWh or 31% to the total energy potential of the Drava River.



The precipitation area of the Drava River covers an area of 14,564 km². In Italy, Switzerland and Austria this area covers 10,964 km², in Slovenia 2.700 km² and the rest in Croatia. In the upper parts of the precipitation area the Drava River is mainly a mountain river, which means that its flows are particularly large in the months when the snow melts (April, May and partly June). In the lower part (in Slovenia) the river shows a character of a valley river, especially when the precipitation is taken into account that lasts longer (three or more days), when local tributary inflows appear and account for almost 50% of the inflow value from Austria (in autumn). The useful content of reservoirs amounts to 13,892,000 m³ in the allowed fluctuation in Slovenia. Additional 2,652 MWh of electricity can be obtained from the reservoirs.

THE SOURCE OF THE DRAVA RIVER IN TOBLACH

BASIC INFORMATION ON HPP FACILITIES

The table presents the general technical data on power plants:

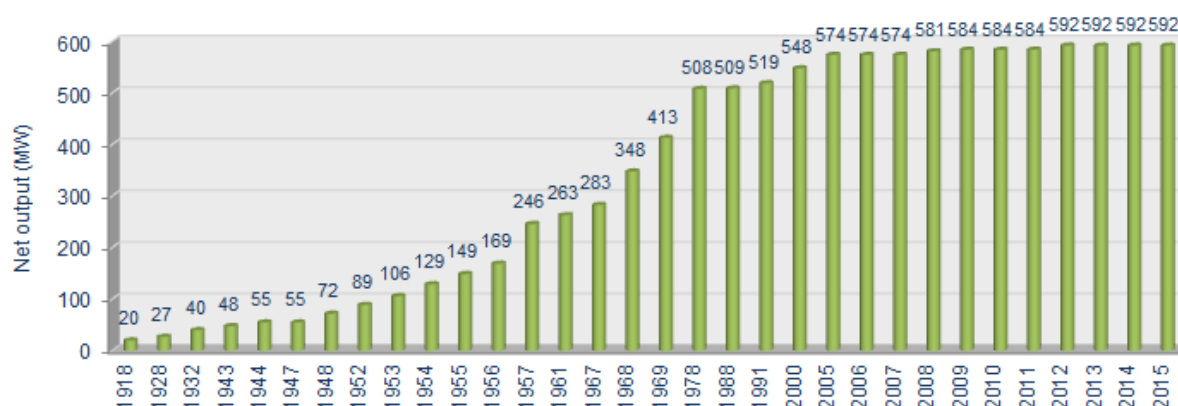
POWER PLANT	LAUNCH DATE	NO. OF GENERATING UNITS	STATIC HEAD (m)	RATED TURBINE FLOW (m ³ /s)	RATED TURBINE POWER (MW)	NET OUTPUT (MW)	APPARENT GENERATOR POWER (MVA)	ANNUAL OUTPUT (GWh)	USEFUL RESERVOIR CAPACITY (10 ⁶ m ³)
Dravograd	29.12.1943	3	8.94	405	25.6	26.2	36	142	1.034
Vuzenica	30.12.1953	3	13.73	550	56	55.6	78	247	1.806
Vuhred	6.6.1956	3	17.41	550	73.7	72.3	90	297	2.229
Ožbalt	17.9.1960	3	17.42	550	74.2	73.2	90	305	1.420
Fala	6.5.1918	3	14.60	525	59.8	58	74	260	0.533
Mariborski otok	5.9.1948	3	14.20	550	61.5	60	78	270	2.188
Zlatoličje	13.10.1968	2	33.00	530	136.5	126	170	577	0.183
Formin	1.7.1978	2	29.00	500	118	116	148	548	4.499
Total		22	148.3		605.2	587.3	764	2,646	13.892
SHPP Melje	1988	2	8.20	33	2.63	2.260	3.420	8.69	
SHPP Markovci	2012	2	10.70	10	0.90	0.775	1.112	4.06	
SHPP Ceršak	1955	2	3.00	27.3	0.74	0.650	1.000	4.32	
Total SHPPs		6			4.27	3.685	5.532	17.07	
SPP Dravograd	2012					0.041	0.041	0.042	
SPP OCV 3	2013					0.026	0.026	0.028	
SPP Zlatoličje	2011					0.777	0.777	0.893	
SPP Formin	2012					0.112	0.112	0.123	
Total SPPs						0.955	0.955	1.086	
TOTAL DEM		28			609.45	591.950	770.487	2,664.06	13.892
SHPP Ruše*	2012	2	10.00	1.4	0.106	0.100	0.159	0.53	

* Small HPP Ruše is a separate legal entity, owned by DEM and Hmezad Trgovina Žalec d.o.o..

INCREASE IN POWER OF THE DRAVA POWER PLANTS

The power of generating units at HPPs on the Drava River increased from the year 1918, when the first generating units of HPP Fala started operating to the year 2000, and when the first stage of the refurbishment of power plants on the Drava River was completed (the power plants: Dravograd, Vuzenica and Mariborski otok), it went up from 20 MW to 548 MW. In the year 2005, the refurbishment of the generating units in the power plants Ožbalt and Vuhred was completed and the net output amounted to 574 MW. From July 2007 to June 2009 the refurbishment of generating unit 2 at the power plant Zlatoličje was carried out. After the refurbishment the net output at HPP Zlatoličje increased by 6 MW. In 2008, a new generating unit on the Melje dam started operating with a net output of 1.6 MW. At the end of 2011, the net output of generating units amounted to 584 MW. In 2012, the refurbishment of generating unit 1 at HPP Zlatoličje was completed and thus the output power of HPP Zlatoličje increased to 126 MW. Two generating units in SHPP Markovci started operating with a net output of 0.775 MW in 2012. At the end of the year 2012 the net output together with the solar power plants amounted to 592 MW, which applies also the year 2015.

Increase in power of generating units:



PRODUCTION IN THE YEAR 2015

The production of power plants that has been planned in the electricity balance is the production that the power plants can achieve, if they are permanently operational and if the monthly inflow equals the inflow that complies with the 57% probability of median monthly flows. The production was planned with a 50% probability of median monthly flows for 2015.

The total production of all generating units of the hydropower plants on the Drava River and their supply to the grid amounted to **2,544,380,808 kWh** or **90.27%** of the budgeted production in 2015.

The large generating units produced and supplied to the grid 2,522,528,813 kWh or 90.10%, generating units of SHPP produced and supplied to the grid 20,769,747 kWh or 117.21% of the budgeted production and the solar power plants produced and supplied to the grid 1,082,248 kWh or 99.57% of the budgeted production. Total electricity was supplied to HSE. The production by month in 2015 is shown in the table below:

MONTH	PRODUCTION (kWh)			TOTAL
	Large HPPs	Small HPPs	SPPs	
January	198,782,696	1,797,558	39,383	200,619,638
February	150,373,227	1,189,902	50,456	151,613,585
March	152,824,699	1,656,600	98,977	154,580,276
April	151,673,460	2,061,099	126,226	153,860,784
May	267,708,713	2,186,374	113,044	270,008,132
June	276,517,087	2,091,817	135,975	278,744,879
July	237,417,795	2,107,038	129,865	239,654,698
August	253,002,359	2,149,880	132,413	255,284,652
September	227,326,767	1,922,083	89,561	229,338,411
October	299,364,692	1,665,771	58,090	301,088,553
November	179,793,643	889,962	61,460	180,745,063
December	127,743,675	1,051,665	46,799	128,842,139
TOTAL	2,522,528,813	20,769,747	1,082,248	2,544,380,808

The budgeted production was exceeded in January, February and October, and it was lower than budgeted in all the other months; the production was lowest in April when it accounted for only 62.35% of the budgeted production.

Production in 2015 by month and comparison with the plan:

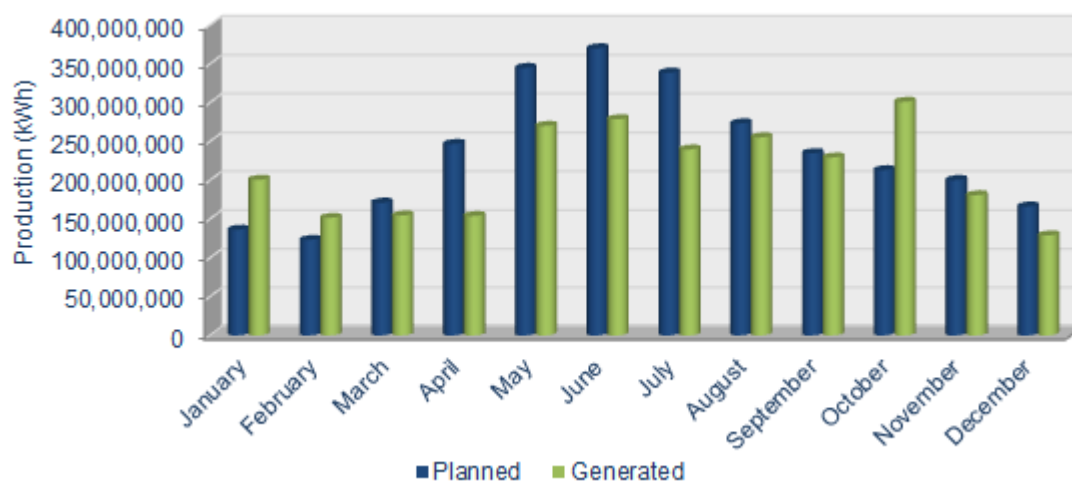
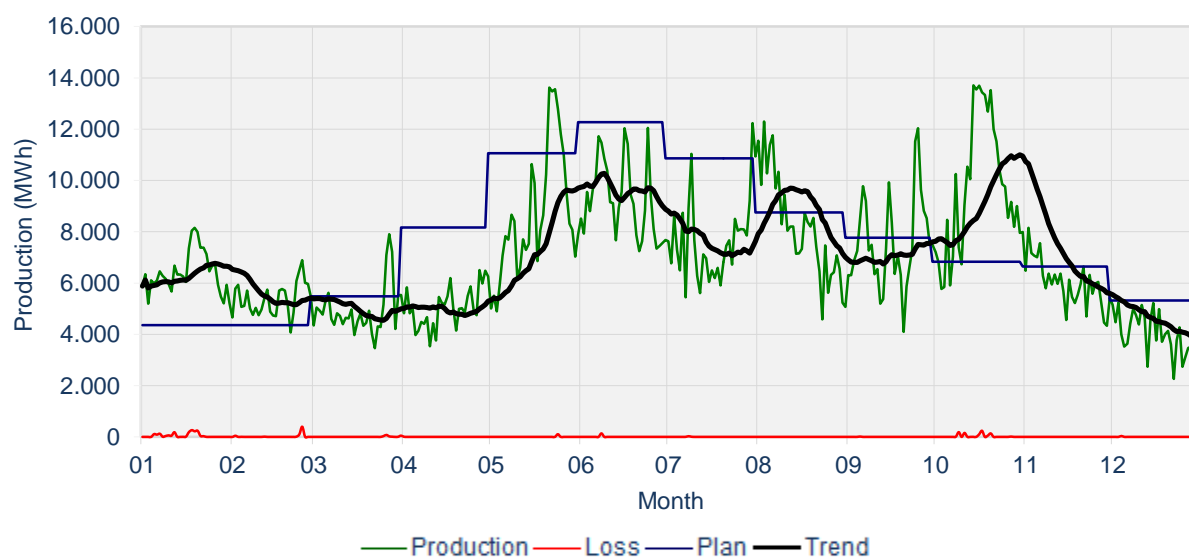


Diagram of daily production in 2015:



Data about the produced and used electricity in power plants in 2015:

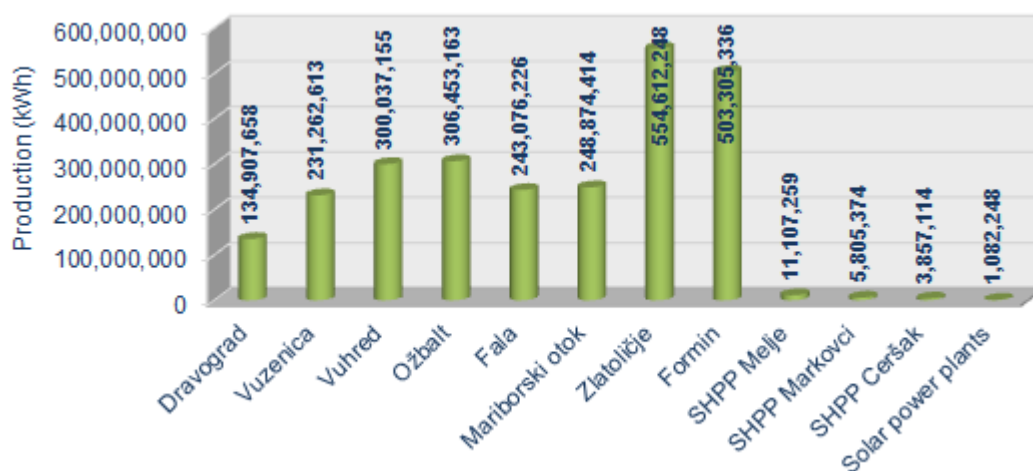
		DRAVOGRAD	VUZENICA	VUHRED	OŽBALT	FALA	MARIBORSKI OTOK	ZLATOLIČJE	FORMIN	SMALL HPPs	SOLAR PPs	TOTAL LARGE HPPs	SUPPLIED TO HSE
Balance	[kWh]	148,300,000	259,900,000	316,400,000	325,000,000	273,100,000	284,200,000	609,500,000	583,300,000	17,720,000	1,086,956	2,799,700,000	2,818,506,956
Generator production	[kWh]	137,243,479	234,956,541	302,922,635	309,728,458	248,596,057	254,329,201	563,449,550	509,987,451	21,248,854	1,209,434	2,561,213,372	2,583,671,660
Output	[kWh]	134,907,658	231,262,613	300,037,155	306,453,163	243,076,226	248,874,414	554,612,248	503,305,336	20,769,747	1,082,248	2,522,528,813	2,544,380,808
Consumption	[kWh]	2,335,821	3,693,928	2,885,480	3,275,295	5,519,831	5,454,787	8,837,302	6,682,115	479,109	127,190	38,684,559	
Own consumption - own source	[kWh]	615,472	1,033,700	1,081,441	1,016,144	1,141,427	2,112,152	672,272	0	93,899	0	7,672,608	
Own consumption from 110 kV	[kWh]	195,515	140	447	477	462,482	858,629	538,927	457	0	0	2,057,074	
Balance of supply from 110 kV	[kWh]											571,205	
Own consumption from distribution	[kWh]	21,280	198,538	199,596	207,596	0	14,215	378,831	601,977	44,360	10,224	1,622,033	
Idle production	[kVArh]	5,080,023	1,887,178	-4,008,699	-4,286,334	-3,825,409	-2,059,000	-26,910,244	-8,659,802	20,247	-248,790	-42,782,287	
Realisation	[%]	91	89	95	94	89	88	91	86	117	100	90	

Production indicators and K factor in 2015:

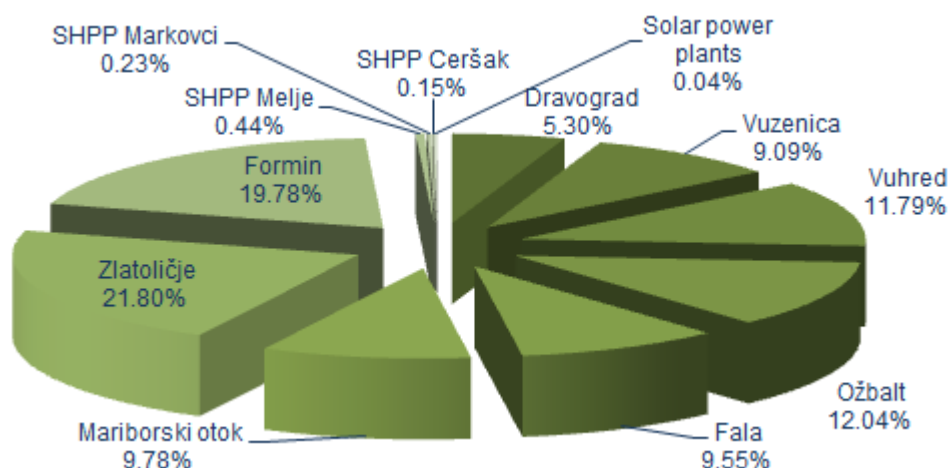
		DRAVOGRAD	VUZENICA	VUHRED	OŽBALT	FALA	MARIBORSKI OTOK	ZLATOLIČJE	FORMIN	DEM	MONTH	K FACTOR
Net head	[m]	8.48	13.1	16.56	16.43	13.89	13.63	31.81	28.08	142	1	0.99460
Total flow	[m ³ /s]	237	244	242	245	252	252	263	255	247	2	0.99390
Turbine flow	[m ³ /s]	235	242	240	243	249	249	243	243	243	3	0.99800
Water yield		99.99	99.96	99.96	99.96	99.87	99.95	99.92	99.73	100	4	1.00000
Loss due to overhauls	[MWh]	3	0	1	1	36	1	258	1,843	2,143	5	1.00000
Loss due to refurbishment	[MWh]	0	0	0	0	205	0	0	0	205	6	1.00000
Loss due to failure	[MWh]	0	38	19	21	58	73	0	0	208	7	1.00000
Energy surplus	[MWh]	10	75	128	114	123	86	101	163	800	8	1.00000
Loss due to cleaning	[MWh]	3	3	3	1	3	0	238	0	250	9	1.00000
Loss due to reservoir	[MWh]	2,507	8,717	7,976	8,405	4,614	9,752	2,178	7,541	51,690	10	0.99990
Loss due to channel	[MWh]	0	0	0	0	0	0	13,134	9,085	22,219	11	1.00000
Loss due to bottom water	[MWh]	7,135	6,957	11,458	13,350	12,075	3,260	12,911	6,462	73,608	12	0.99950
Specific water comsupt.	[MWh/m ³]	0.0658	0.1093	0.1429	0.144	0.1117	0.114	0.2608	0.2373	1.1857	median	0.9988

PRODUCTION SHARES OF INDIVIDUAL POWER PLANTS

A share of production of an individual power plant in the chain depends on the installed power of a power plant, flow and head. Power plants constructed in the river bed (Dravograd, Vuzenica, Vuhred, Ožbalt, Fala and Mariborski otok) produced 57.56%, the channel-type power plants (Zlatoličje and Formin) produced 41.58% of total electricity supplied to the grid. The remaining 0.86% of electricity supplied to the grid was produced by SHPPs Melje, Markovci and Ceršak and the solar power plants Zlatoličje, Formin, Dravograd and OCV3.

Production of an individual HPP in 2015:

A share of an individual power plant in the production of the power plants on the Drava River in 2015 is presented in the chart below:



Since the launch of operation at the first HPP in 1918 until the end of 2015, DEM supplied a total of 139,690,030,749 kWh of electricity to the grid. In view of the current consumption, Slovenia could be supplied with that amount of energy for almost 11 years.

The following table presents total production of individual power plants from the beginning of their operation until (including) 2015 and their share in the total production. It is worth mentioning here that this is the share of electricity supplied to the grid.

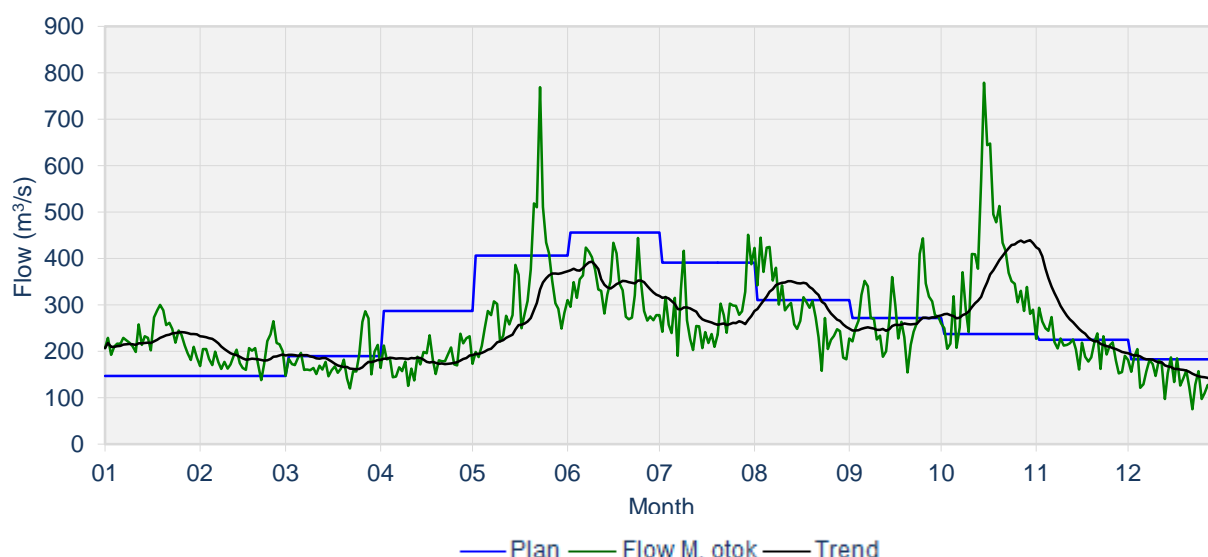
HYDROPOWER PLANT	PRODUCTION FROM THE BEGINNING OF OPERATION TO 2015 (kWh)	PRODUCTION IN 2015 (kWh)	PRODUCTION FROM THE BEGINNING OF OPERATION INCLUDING 2015 (kWh)	SHARE (%)
Dravograd	8,843,369,294	134,907,658	8,978,276,952	6.43
Vuzenica	13,526,760,725	231,262,613	13,758,023,338	9.85
Vuhred	17,686,725,609	300,037,155	17,986,762,764	12.88
Ožbalt	16,200,692,119	306,453,163	16,507,145,282	11.82
Fala	18,670,856,600	243,076,226	18,913,932,826	13.54
Mariborski otok	16,045,072,429	248,874,414	16,293,946,843	11.66
Zlatoličje	26,551,809,582	554,612,248	27,106,421,830	19.40
Formin	19,429,516,070	503,305,336	19,932,821,406	14.27
Melje	145,051,850	11,107,259	156,159,109	0.112
Markovci	10,201,193	5,805,374	16,006,567	0.011
Ceršak	33,473,221	3,857,114	37,330,335	0.027
LARGE POWER PLANTS	136,954,802,428	2,522,528,813	139,477,331,241	99.848
SMALL POWER PLANTS	188,726,264	20,769,747	209,496,011	0.150
SOLAR POWER PLANTS	2,121,249	1,082,248	3,203,497	0.002
TOTAL	137,145,649,941	2,544,380,808	139,690,030,749	100

FLOWS AND HIGH WATER LEVELS

The annual average flow of HPPs on the Drava River in 2015 amounted to 247 m³/s, accounting for 91.14% of the flow balance, and the annual average of flows at HPP Mariborski otok was 252 m³/s, representing 92.99% of the flow balance, which amounts to 271 m³/s in both cases. If median turbine flows are stated that amount to 243 m³/s for the Drava River HPPs and to 249 m³/s for HPP Mariborski otok, it is evident that 98.38% of water was exploited for electricity production on average at all eight HPPs and 98.81% at HPP Mariborski otok.

In 2015, the flows were lower than planned, except in January, February, and October.

Flows at HPP Mariborski otok in 2015 (median daily values):



In 2015, the measures planned for high water levels were implemented twice:

- ❖ on 23 May 2015 when the highest flow from Austria amounted to 692 m³/s (at 4 a.m.) and in Slovenia to 1,030 m³/s (at 6 a.m.) at HPP Fala and
- ❖ from 14 to 16 October 2015 when the flow from Austria exceeded 600 m³/s on 14 October from 10 p.m. to 15 October until 4 p.m. In Slovenia, the highest flow amounted to 958 m³/s on 15 October at 4 p.m. at HPP Zlatoličje.

FAILURES AND MAJOR OUTAGES

Some minor maintenance works on generating units and other plants and elimination of failures were carried out by the power plant maintenance teams in accordance with the operating programme and during night time.

The most frequent failures were as follows:

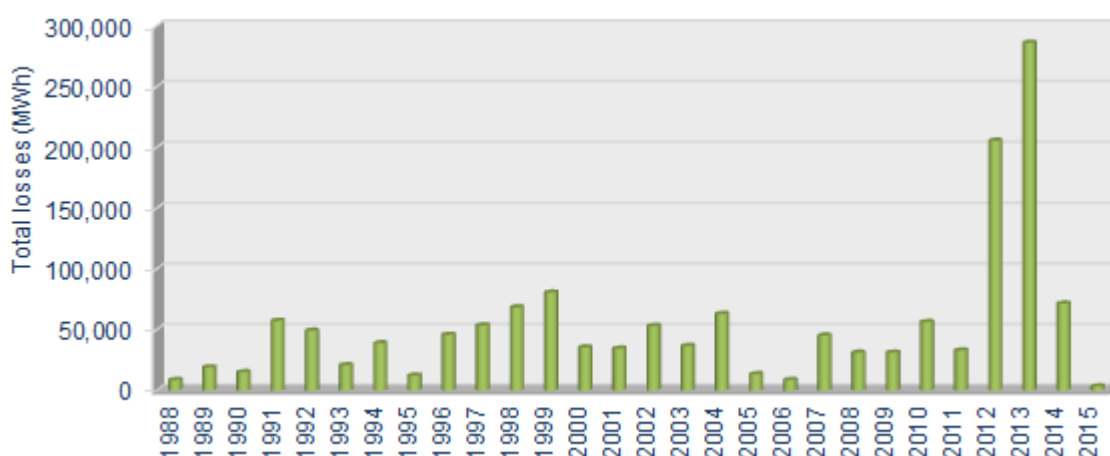
- ❖ issues with the cooling water for a turbine shaft seal and bearings (Vuzenica, Vuhred, Ožbalt, Fala, Mariborski otok),
- ❖ problems with oil levels, cooling and measuring temperature on turbine bearings (Dravograd, Vuzenica, Vuhred, Ožbalt, Fala, Mariborski otok, Zlatoličje, SHPP Ceršak),
- ❖ failures of turbine regulators (Vuzenica, Vuhred, Ožbalt, Fala, Mariborski otok, SHPP Ceršak),
- ❖ problems with pressure and levels in a turbine pressure unit (Dravograd, Vuzenica, Vuhred, Fala, Mariborski otok, Formin, SHPP Ceršak),
- ❖ failures of excitation systems (Dravograd, Vuzenica, Vuhred),
- ❖ problems with own use (Ožbalt, Fala, Formin),
- ❖ various external factors (Dravograd, Vuzenica, Vuhred, Ožbalt, Fala, Mariborski otok, Zlatoličje, SHPP Melje, SHPP Markovci, SHPP Ceršak).

PRODUCTION LOSSES IN 2015

Production losses include the energy lost. It could have been produced, but water was spilled over the locks for various reasons.

Losses occurred also because of defects, overhauls, refurbishments, cleaning of turbine inlets and surplus.

Total loss of large HPPs from 1988 to 2015:



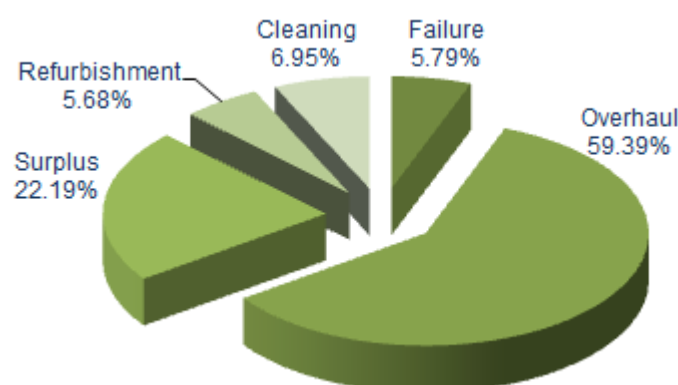
The majority of losses incurred in 2015 at HPP Formin at the beginning of the year due to the inspection of the generating unit and at HPP Fala due to the works relating to the replacement of the control system and the secondary systems of generating unit 2. Several losses incurred also due to cleaning of deposits at all power plants, but the majority at HPP Zlatoličje.

In 2015, total loss amounted to 0.143% of electricity supplied to the grid. The loss of 2015 was again minimal, as the major works on generating units were completed and the generating units operated with high reliability.

Losses (MWh) in 2015 by month and power plant:

MONTH	DRAVOGRAD	VUZENICA	VUHRED	OŽBALT	FALA	MARIBORSKI OTOK	ZLATOLIČJE	FORMIN	DEM
January	3	0	1	1	45	1	258	1,338	1,647
February	8	15	12	8	5	1	6	508	563
March	0	0	0	0	192	0	0	0	192
April	0	0	0	0	7	0	0	0	7
May	0	0	0	0	0	0	105	0	105
June	0	24	19	21	19	33	0	0	116
July	3	3	3	1	0	27	0	0	37
August	0	0	0	0	0	0	0	0	0
September	0	14	0	0	0	0	0	0	14
October	2	60	116	107	121	98	228	161	893
November	0	0	0	0	0	0	0	0	0
December	0	0	0	0	36	0	0	0	36
TOTAL	16	116	151	138	425	160	597	2,007	3,610

A share of individual losses in 2015 is presented in the chart below. It is evident that the majority of losses occurred due to overhauls, and inspections and electricity surpluses.



DEFECT RELATED LOSSES

Defect related losses occur when available water cannot be utilised for electricity production due to a generating unit failure, which results in spilling of water over the locks. In 2015, such losses were not recorded at HPPs Dravograd, Zlatoličje and Formin. In January, losses occurred at HPP Fala due to an outage of generating unit 3 after the operation of the differential unit protection, where the cause of the operation was not detected. In June, losses occurred in HPPs Vuzenica, Vuhred, Ožbalt, Fala and Mariborski otok due to a defect at DTS Pekre, when the Drava valley and Carinthia remained without voltage. In July, losses occurred due to water penetration at a 10 kV reservoir of generating unit 2 at HPP Mariborski otok. In September losses incurred due to the defect of an off-switch of the excitation system of generating unit 1 at HPP Vuzenica and in October due to the defect of a hydraulic valve of the locks on the guide wheel of turbine 2 at HPP Mariborski otok. Water that could have produced 209 MWh of electricity was spilled due to defects.

OVERHAUL RELATED LOSSES

Overhaul-related losses occur when water flows during overhauls and inspections are larger than the intake capacity of operating generating units. As a rule, works are carried out in the first two months of the year, when water flows are statistically at their lowest.

At the beginning of the year the inspections and overhauls started and due to higher water flows and the needs of the power system some losses of energy, mainly on channel-type power plants occurred; when one generating unit is stopped the fluidity is reduced by 50% and is lower than fluidity of power plants in the riverbed, where stopping of one generating unit results in a reduction of fluidity by 30%. In December, losses occurred at HPP Fala due to an inspection of generating unit 3 after the expiry of the guarantee period.

LOSSES RELATED TO THE CLEANING OF TURBINE INLETS

Losses as a result of cleaning turbine inlets occur when turbine inlets need to be cleaned due to jammed grates, while the water cannot be accumulated in the power plant reservoirs. In 2015, losses due to cleaning were recorded at all HPPs, except HPP Mariborski otok and Formin. The majority of losses because of cleaning incurred at HPP Zlatoličje, where the entire debris had to be removed from the water.

GRID SURPLUS RELATED LOSSES

Grid surplus related losses occur when power plant reservoirs are full and there is an excess of energy that cannot be sold in the market. In such cases, the grid is controlled by spilling water over the locks. DEM has no control over such losses. In 2015, a total of 801 MWh of electricity was lost due to grid surpluses.

REFURBISHMENT RELATED LOSSES

In 2015, refurbishment related losses occurred at HPP Fala due to the replacement of the control system and secondary systems of generating unit 3.

2.5 MAINTENANCE

In 2015, the amount of **EUR 2,124,211** was invested in the maintenance of equipment and facilities, which is an increase of 4.78% or EUR 96,835 over the year 2014. The amount of **EUR 226,477** was used for spare parts and materials for the fixed asset maintenance and the amount of **EUR 1,897,734** was used for maintenance services.

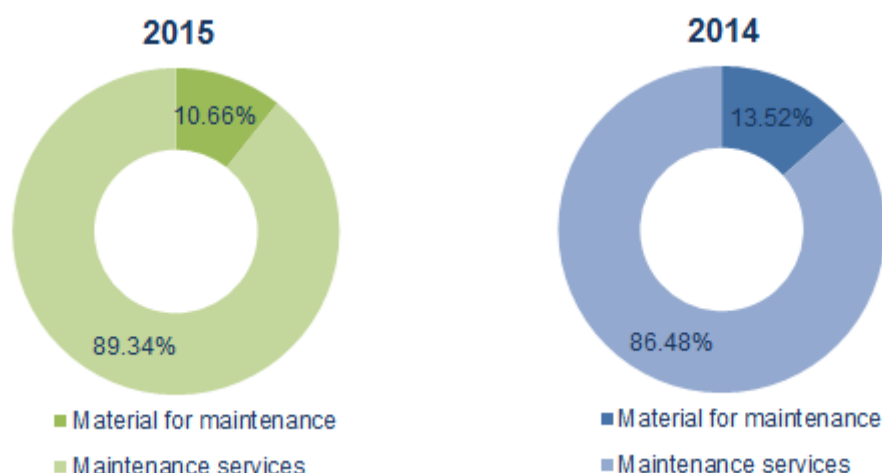
Overview of realised maintenance costs in the years 2015 and 2014:

	REALISATION 2015 (EUR)	%	REALISATION 2014 (EUR)	%	RE 2015/ RE 2014
SPARE PARTS AND MATERIAL FOR MAINTENANCE OF FIXED ASSETS	226,477	10.66	274,159	13.52	82.61
MAINTENANCE SERVICES	1,897,734	89.34	1,753,217	86.48	108.24
Costs of maintenance of property, plant and equipment	1,843,737	86.80	1,720,665	84.87	107.15
Costs of maintenance of intangible assets	53,997	2.54	32,552	1.61	165.88
TOTAL COSTS OF MAINTENANCE	2,124,211	100.00	2,027,376	100.00	104.78

All the planned overhauls and inspections of generating units, switchyards and lock were carried out in the scope planned.

In addition to the works carried out, some major works planned were performed by the employees in specialist services and by the workers of maintenance teams as well as various maintenance works on shared plants and systems of power plants in line with the plan of maintenance works.

Structure of maintenance costs in the years 2015 and 2014:



The costs of maintenance of constructions represent the majority of maintenance costs, of which the major share includes costs arising from obligations under a concession agreement (monitoring of dams, channels, maintenance works on the water infrastructure facilities) that increase due to growing demands of the environment.

Movement of maintenance costs from 2011 to 2015:



The objective of our quality maintenance of the production equipment and facilities is to provide long-term carrying out of the functions planned by the projects in the useful life of the equipment.

One of the relevant factors having impact on the quality of maintenance is also financial resources, which decreased in the last years and in the long-term this will have a direct impact on the operational readiness of production generating units. To some extent, the impact of reducing financial resources is tried to be off-set by the optimisation of maintenance and introduction of new maintenance strategies (maintenance in line with the condition), which also requires investments in the necessary additional equipment and IT support systems.

2.6 MARKET POSITION

CHARACTERISTICS OF THE ECONOMIC ENVIRONMENT IN 2015¹

The values of the majority of short-term indicators of the economic activity in Slovenia remained at the level reached towards the end of the year.

¹ Source: Institute of Macroeconomic Analysis and Development

The real export of goods and production volume of processing activities were higher by approx. 5% in 11 months of 2015, but their growth slightly moderated in the last months of the year. In 2015, they grew under the impact of positive influences from abroad and due to the improvement of competitiveness of the Slovene economy in recent years.

The growth of working population continued towards the end of the year, the reduction in the number of registered unemployed persons stopped in December and January.

The increase in the average gross salary was observed at the end of the year and it remained considerably lower in eleven months when compared to the previous year.

At the end of the year, deflation was recorded in Slovenia (-0.6%), while the prices at the level of the entire European slightly increased (0.2 %). Lower prices of energy products mostly contributed to the deflation. Their negative contribution was higher in Slovenia than in the average euro area due to a larger share in the structure of household consumption. Along with the slow recovery of the household consumption the prices of non-energy products were also lower in Slovenia during the year; the non-energy prices were the main reason for the basic inflation at a significantly lower level in Slovenia. The prices of food and services were higher in Slovenia and the entire euro area.

In the second half of 2015 the improvement in the price and cost competitiveness continued and it was mainly the result of a decrease in nominal effective exchange rate, partly of a reduction in relative prices and costs of labour per unit of product. In 2015, Slovenia was ranked in the middle among the euro area members when considering the price and costs competitiveness, measured by a real effective exchange rate.

Surplus in the current account of the payment balance still increased and amounted to 7.7% of the estimated GDP in twelve months – to November 2015. Also in 2015, the increasing surplus in trade of goods contributed most to the growth in the surplus, which is a result of the improvement in trade conditions along with the favourable export movements.

A fall in the volume of loans of the Slovene non-bank sectors was smaller, and net repayment of foreign liabilities of companies and banks was also lower.

ELECTRICITY QUANTITY BALANCE²

In 2015, a total of 10,306.95 GWh of electricity was produced in Slovenia. In the production of electricity in the Nuclear power plant Krško only the portion taken over by Slovenia was considered. The production of thermal power plants accounted for a total of 62.99 % (thermal power plant burning coal 36.98%, NEK-Slovene portion 26.01%), the production at HPPs accounted for 35.98%, of which generating units of HPPs on the Drava River, excluding small HPPs, produced 2,522.6 GWh or 24.47% of the totally produced electricity in Slovenia. Small HPPs and other power plants in Slovenia, using renewable energy sources and power plants in co-production generated 105.8 GWh or 1.03% of total electricity produced in Slovenia. The production and the share of an individual company in total production of Slovenia is presented in the following table:

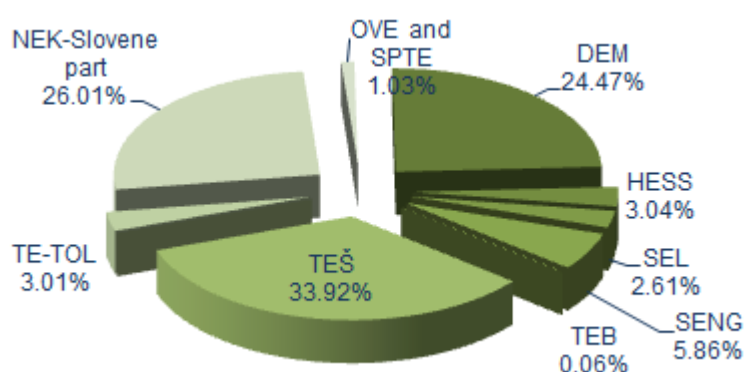
² Source: ELES – Monthly report on operation in December 2015

PRODUCERS	SUPPLIED TO THE GRID (GWh)	SHARE (%)
DEM*	2,522.60	24.47
HESS	313.00	3.04
SEL	268.70	2.61
SENG**	604.20	5.86
TEB	5.80	0.06
TEŠ	3,496.20	33.92
TET	0.00	0.00
TE-TOL	309.90	3.01
NEK***	2,680.75	26.01
OVE and SPTE	105.80	1.03
TOTAL	10,306.95	100

* The production presented does not include the production in SHPPs and solar power plants

** The production presented includes also the production of PSP Avče

***A half of production belonging to Slovenia is presented



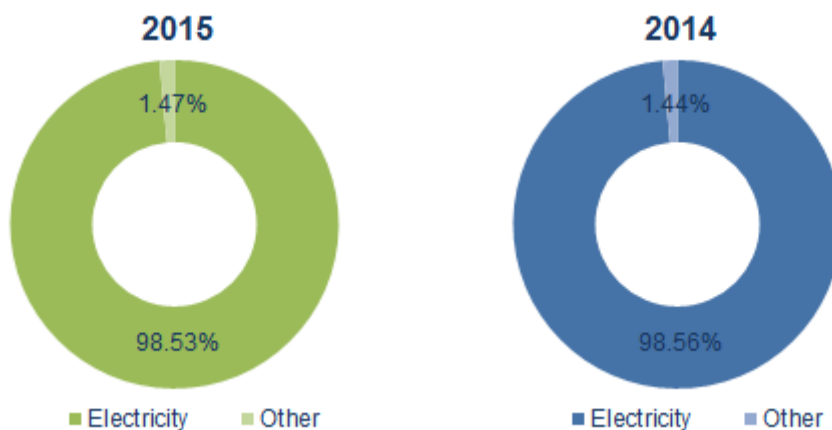
SALES AND CUSTOMERS

REVENUE STRUCTURE

In 2015, DEM generated revenue amounting to **EUR 64,733,271**, which is a decrease of 10.41% less than in 2014, when it amounted to EUR 72,252,529. In the domestic market, we generated 99.94% of revenue and the remaining 0.06 % in a foreign market.

The sale of electricity accounting for 98.53% is most important in the revenue structure; the revenue from the sale of other products and services accounted for 1.47 % of revenue.

Revenue structure in the years 2015 and 2014:



ELECTRICITY

The company generates the majority of revenue by the sale of electricity. Electricity is sold to the customers: **HSE** (the revenue generated by the electricity sold in 2014 amounted to EUR 63,319,165) and **Borzen** (the revenue generated by the electricity sold in 2014 amounted to EUR 463,730).

Revenue generated by the sale of electricity in the years 2015 and 2014:

	REALISATION 2015 (EUR)	REALISATION 2014 (EUR)
ELECTRICITY SALE FROM HPP ON THE DRAVA RIVER	62,400,320	70,073,998
ELECTRICITY SALE FROM SHPP	870,252	898,244
SHPP Melje	465,394	565,292
SHPP Markovci	243,245	234,245
SHPP Ceršak	161,613	98,707
ELECTRICITY SALE FROM SOLAR POWER PLANTS	48,593	46,402
SPP Dravograd	1,749	1,666
SPP OCV3	1,076	31
SPP Zlatoličje	44,101	42,919
SPP Formin	1,667	1,787
INCOME FROM OPERATING SUPPORT FROM SHPP AND SPP (BORZEN)	463,730	196,663
TOTAL	63,782,895	71,215,306

OTHER SALES

In 2015, DEM generated revenue from the sale of other products and services in the amount of EUR 950,376, which was a decrease of EUR 86,847 or 8.37% over the year 2014, when it amounted to EUR 1,037,223. Other revenue includes revenue generated on the foreign markets, revenue from services, rents, canteen and the sale of other merchandise and material.

Revenue generated by other sale in the years 2015 and 2014:

	REALISATION 2015 (EUR)	REALISATION 2014 (EUR)
Revenue generated on other merchandise and material	7,183	280
Revenue from rents	548,271	502,333
Revenue generated on other services	357,051	497,802
Revenue generated on foreign markets	37,871	36,619
Other revenue	0	189
TOTAL	950,376	1,037,223

PURCHASING AND SUPPLIERS

Adequately qualified and quality suppliers play an increasingly important role in the implementation of development and strategic goals. DEM's purchasing procedures are governed by the rules on purchasing procedures. The Act regulating Public Procurement in the Water, Energy, Transport and Postal Services Sectors applicable to companies active in the energy field is followed in the implementation of orders.

In order to efficiently execute orders in line with the Act regulating Public Procurement in the Water, Energy, Transport and Postal Services Sectors the company faces several challenges at the strategic and implementing levels. Good organisation and cooperation of individual services requiring good knowledge of legislation from the field of public procurement and the knowledge about the Government Review Committee are required for the operations in line with the Public Procurement Act as well as complete control of the purchasing procedures.

Under consideration of the principles of ensuring competition, equal treatment of bidders and transparency; putting contractors on the list of approved bidders is no longer possible.

When executing public contract, adequate economic, financial, and technical qualifications are established by special conditions, requirements and criteria that are reasonably related with a separate object of public procurement.

DEM strives for centralisation of the purchasing function to the greatest extent possible, but due to the nature of our work this cannot be always fully achieved. In order to be able to reduce splitting of orders and to achieve better economic effects and consequently streamlining of operations we are strongly focused on the decrease in the number of contractors.

In 2015, an agreement on the policy of implementing the procedures of joint procurement was concluded among the HSE companies. The performance of joint procurement procedures relating to goods, services and construction is one of the instruments of optimisation and streamlining of costs and investments at the level of an individual company and the HSE Group.

Due to better utilisation of the existing sources in the HSE Group, including human resources and equipment, we place orders with the related parties in the HSE Group in line with the Act regulating Public Procurement in the Water, Energy, Transport and Postal Services Sectors in order to positively contribute to the economic result of the HSE Group.

The main tasks of purchasing include adequate and legal performance of purchasing procedures with the aim to select the most favourable service provider or equipment supplier with respect to the criteria defined.

The quality of supply of materials and services of individual contractors has a direct impact on the smooth operation of our devices, which is a condition for smooth electricity production. The selection of quality contractors is of a vital importance due to the importance of providing smooth production of electricity.

2.7 INVESTMENTS

The value of investments planned in 2015 amounted to **EUR 7,365,574** (in 2014, the investments amounted to EUR 7,886,719) and reached **74.99%** of the budgeted investments in 2015.

Overview of investments realised in 2015:

ITEM	REALISATION 2015 (EUR)
NEW FACILITIES	1,505,226
INVESTMENTS IN RELIABILITY OF PRODUCTION	3,599,885
CONTROL CENTRES AND TELECOMM. NETWORKS	473
SECURITY SYSTEMS	9,822
RECONSTRUCTIONS	1,682,567
STUDIES, INVESTMENTS, PROJECT DOCUMENTS	56,677
SEISMIC MONITORING	28,227
METERING SYSTEM	6,989
LOW-VALUE INVESTMENTS	156,325
BUSINESS INFORMATION SYSTEM	140,191
OTHER	179,193
TOTAL	7,365,574

The investments in **new constructions** accounted for 51.37%, investments in the **reliability of production** accounted for 86.48%, investments in **control centres and the grid** for 1.43%, %, investments in **security systems** for 32.74%, investments in **reconstructions** for 126.03 %, %, investments in **studies, investments and project documentation** for 25.08%, investments in **seismic monitoring** for 24.98%, investments in the **metering system** for 69.89%, investments in **low value assets** for 51.76%, investments in the **business information system** for 27.33% and **other** investments for 107.30%.

DEM made also investments in the items that were not included in the business plan for 2015 and amounted to EUR 2,887,081; they included items from previous years and the regeneration after the floods that was not planned. The majority of the amount (EUR 2,360,976) includes other investments relating to the regeneration after the floods of 2012 and ecological regeneration. The remaining amount of EUR 526,105 was allocated to other categories.

Overview of realised investments in the period 2011 - 2015:



DESCRIPTION OF INDIVIDUAL MAJOR INVESTMENTS

NEW CONSTRUCTIONS

CONSTRUCTION OF PSP KOZJAK

The spatial planning phase of the facility in accordance with the National Spatial Plan was completed for the project of PSP on the Drava River and the power-line connection to DTS Maribor. The Government of the Republic of Slovenia published a Decree on National Spatial Plan for a pumped-storage power plant on the Drava River and power transmission line between the PSP and DTS Maribor in the Official Gazette no. 12 of 25 February 2011.

IBE prepared a preliminary design for the national spatial plan. The inspection of the preliminary design was conducted by Lahmeyer and suggested studying an option of powerhouse construction in the cavern. The cavern version of the powerhouse is prepared on the basis of the preliminary design in order to be able to approve the most favourable technical-economic performance on the discussed location (shaft/cavern). In 2014, an expert review of the study was conducted and it confirmed the conclusions of the research study for the vertical pressure tunnel by the proposed amendments. The conclusions will serve as the baseline for the amendment of the preliminary design if the project continues a phase of the complete environmental impact assessment and a phase of obtaining the environmental consensus that has not been issued for this project yet.

In accordance with the decision of the DEM management the project has been stopped and all the contracts concluded were cancelled.

CONSTRUCTION OF HPPs on the MURA RIVER

After the appointment of DEM as concessionaire for the Mura River (December 2005), the programme 'Possibilities for the utilisation of the Mura River for energy production' was prepared. Based on the mentioned programme, various options for technical solutions were prepared and the impact of HPP on all three constituents of sustainability in the area was discussed.

It can be concluded that on the whole concession area the concept of HPPs as multi-functional facilities needs to be subjected to the environmental sensitivity, where environmental protection is the main element to be considered within the planning and operating processes. Limiting conditions that will arise from the environment protection programme for the discussed area will have to be fully taken into account. In accordance with the decision of the DEM management the project has been stopped, but the current phase of the project has to be completed.

HPP HRASTJE MOTA

The initiative for the National Spatial Plan was published on the internet on 9 May 2012. Preliminary solutions and the document of identifying the investment project were prepared. A regional consultation was held on 6 June 2012 in Radenci. The latter was aimed at the persons responsible for spatial planning before issuing guidelines. After adopting the spatial planning guidelines, their analysis was carried out and the preparations for the spatial planning conference began. The procedure of content scoping was carried out in relation to expert assessments for the Environmental Report. The procedure lasted from September 2012 to April 2013. In this context, we need to underline that we followed the EU directives which were not implemented in the Slovenian legislation. On 16 May 2013, the Government of the Republic of Slovenia adopted a decision on starting the National spatial planning implementation. By October 2013, the project assignments were prepared and aligned for the EP technical bases and options analysed. In 2014, relevant expert bases and a study of variants were ordered. Detailed preliminary solutions were prepared and they will determine certain conditions and limitations for the performance of HPP Mota. In 2015, the expert bases for the Environmental report were completed. In accordance with the decision of the DEM management the project has been stopped, but the current phase of the project has to be completed.

Area of small HPP CERŠAK

Within the project for energy exploitation of the area between SHPP Ceršak and Sladki vrh as a replacement facility for HPP Ceršak, conceptual solutions were presented to the public and the International Commission for the Mura River in 2011. Only after the International Commission meeting in 2012, some progress was made by the Austrian counterpart and the proposal was discussed. In the mentioned area, issues regarding demolition (partial reconstruction of the Ceršak dam) and the DEM's proposition for a new HPP location go hand in hand. During the last hearing before the Austrian authorities in 2013, DEM managed to obtain a possibility to submit the complete proposals for the solution of connecting the Ceršak dam and the energy exploitation to Sladki vrh and to verify the possibility of energy utilisation by options prepared for this area as the replacement facility for HPP Ceršak. Technical solutions are prepared and include the baseline for the HPP facility spatial planning based on 5 options. The preliminary assessment of the acceptability evaluation for different options in the environment was made for each country. The conclusions show that individual options of a HPP are acceptable in the environment. The preparation of the initiative on both sides of the border can start. The documents for the initiative for the National Spatial Plan in Slovenia and documents for the registration of the project in Austria are prepared. In Austria, the documents have been submitted after their procedure and an opinion has to be obtained. The Austrian experts say that they want to keep the present small HPP, which is not acceptable to the investor from the economic – technical aspect. The full proposal will be discussed by a transnational committee concerning the Mura River in the year 2016.

WIND POWER STATIONS – Project of wind power stations in the region of Styria and Carinthia

A project of wind power stations has been developed with the aim to increase a share of electricity generated from other renewable sources in DEM. It discusses the area of northern Slovenia – the regions of Styria and Carinthia.

The verifications were made above Dravograd and concerned the wind power station project Ojstrica, and new locations on the Radlje pass and Primož na Pohorju that were assessed as having only poor potential. Therefore a new location on Konjiška gora has been prepared where the wind potential will be verified.

WIND POWER STATION OJSTRICA

The measurements of velocity and wind directions, temperature, air pressure, relative humidity were made on the selected location on Ojstrica above Dravograd and an estimate of the measured values was prepared and evaluated the wind potential for the possibility of electricity production. Preliminary solutions and the document for the identification of the investment project were elaborated. The project was confirmed by the HSE Committee for investments. An initiative for the beginning of integration into space has been prepared.

SHPP JOSIPDOLSKI POTOK

Only the process of obtaining a water permit has been carried out at this stage. The Ministry of Agriculture, Forestry and Food and the Ministry of the Environment and Spatial Planning and the Slovenian Environment Agency issued the water permit for the SHPP in August 2014. Now, a project for the preparation of the investment and project documents and the documents required for the performance of processes of investment approval in line with the Rules on evaluation and monitoring of investments in HSE are in preparation.

SHPP ROGOZNICA

A water permit for the SHPP was obtained and a building permit was issued in September 2014. In 2015, a decision was taken to try a different technical solution and make the project cheaper. We selected a technical solution that significantly reduced the price of project implementation and achieved positive financial effects by the change in the connection point at SHPP to our own utilisation of the Markovci dam. The changed performance will most certainly result in a change in the design for obtaining the construction permit and the building permit. The document for the identification of the investment project will be prepared on the basis of the selected technical solution and a procedure for the approval of the investment in line with the Rules on evaluation and monitoring of investments in HSE will be conducted.

SHPP MEŽA & MISLINJA

The complete documentation needed for the decision-making and obtaining of a water permit was prepared. Water permits for SHPP Ravne and SHPP Dobrije were obtained. At the beginning of 2015, an application for obtaining another water permit on the Mislinja River was submitted to the Ministry of the Environment and Spatial Planning. At the end of the year 2015, the preliminary design for SHPP Otiški vrh was prepared.

SHPP DOBRIJE

A Partial water permit for the SHPP was obtained in April 2014. The preliminary design of the facility was prepared in May 2015. In the last three months of the year activities relating to the project conditions for the preparation of the design for obtaining the construction permit were carried out. Preparations for the elaboration of the document for the identification of the investment project have been in progress.

SHPP RAVNE

In 2012, the preliminary design was made for the SHPP, and a water permit was obtained in February 2015. In the last three months of the year activities relating to the project conditions for the preparation of the design for obtaining the construction permit were carried out. Preparations for the elaboration of the document for the identification of the investment project have been in progress.

SHPP PESNICA

The preliminary solutions (made by VGB) were prepared for the SHPP in 2011. In October 2013 a Partial water permit was obtained. The design for obtaining the construction permit has been made. During the preparation of the design for obtaining the construction permit and/or at the stage of obtaining consents the contractor presented some additional requirements for the increase in the ecological acceptable flow.

We studied the impact of additional requirements on the possible production of the SHPP and on the technical implementation of the project.

The optimisation of the project implementation has been carried out with the aim to achieve technically and economically the most favourable implementation of the facility. The document for the identification of the investment project will be made at the following stage and the process of investment approval in line with the Rules on evaluation and monitoring of investments in HSE will be conducted.

INVESTMENTS IN THE RELIABILITY OF PRODUCTION

RESTORATION OF SPILLWAYS – PHASE I

Planning of the spillway restoration dates back to the year 2007, when the IBE company and the experts from DEM prepared a preliminary study for the restoration of spillways on the Drava River and on the basis of which the DEM management decided to restore spillways at the oldest power plants Dravograd, Vuzenica and Mariborski Otok in the following years.

In June 2009, the restoration works on spillways started by the reconstruction of the operating lock of spillway 2 at HPP Vuzenica. The operating lock was put into operation in May 2011. In the period from August 2011 to May 2013 the reconstruction of the operating lock on spillway 4 of HPP Vuzenica was carried out.

From July 2012 to August 2014 the restoration of the operating lock on spillway 1 at HPP Dravograd was carried out.

In March 2015, the operating lock of spillway 3 HPP Vuzenica was again put into operation that was restored under the joint agreement for the restoration of operating locks of spillways 1 and 3 at HPP Vuzenica. The restoration of the last operating lock at HPP Vuzenica on the spillway started immediately after the completion of the restoration on spillway 3 in March 2015 and is at the stage of re-assembly of the restored equipment.

At the beginning of June 2015, an invitation to tender relating to the restoration of operating lock of spillway 2 at HPP Dravograd was published on the Public Procurement Portal and was repeated three times to the end of the year because of incomplete bids.

RESTORATION OF SPILLWAY 3 AT HPP VUZENICA

The restoration of spillway 3 started in September 2013 by signing the contract for the restoration of the machine part of the operating locks of spillways 1 and 3 at HPP Vuzenica with the company Esotech from Velenje and was completed at the beginning of March 2015 by handing over the lock to normal operation.

Due to shortcomings that were established only after the dismantling of equipment and/or at the state of final testing the restoration of spillway 3 lasted longer (approx. 4 months) than it was planned. The delay was considered in the Annex to the contract for the restoration of operating locks PP1 and 3 at HPP Vuzenica by extending the contractual term to 30 April 2016.

RESTORATION OF SPILLWAY 1 AT HPP VUZENICA

The preparatory works started immediately after the restoration of spillway 3, and the dismantling of equipment on 17 March 2015 by closing the spillway by an auxiliary lock. The dismantling of equipment was completed to the end of April.

In months from May to November restoration works were carried out on both closing plates and concrete rails of a spillway and also on the equipment of driving mechanisms in factory premises of the sub-contractor SERPA d.o.o., Ravne na Koroškem. In December, the closing plates were inserted back into the spillway and hung on new chains of restored driving mechanism.

RESTORATION OF SPILLWAY 2 AT HPP DRAVOGRAD

The tender documents for the restoration of the operating lock of spillway 2 were published on the Public Procurement Portal on 3 June 2015 in the Republic and European Official Gazette.

The tender contained the restoration of the machine part of the lock, restoration of anti-corrosive protection, purchasing of electrical equipment for the control and guiding the lock and some minor construction works.

Due to the incomplete bids all the bids were eliminated and the invitation to tender was repeated in August. Then all the bids were again eliminated due to the same reason and the invitation to tender was repeated for the third time in November. At present the most favourable bidder has been selected by negotiations.

REPLACEMENT OF THE CONTROL SYSTEM AT HPP FALA (excitation systems and turbine regulators)

The investments made in the control systems belong to the investments in the reliability of production. In this field the restoration of the control system at HPP Fala has been carried out since 2012. Already in 2009 it was established that the complete secondary equipment at HPP Fala was very old, as it was 20 years old already at the beginning of the project in 2012. This applied mainly to the entire control system in the power plant, the entire electrical protection (mainly generating units and switchyards), turbine and voltage regulation on generating units, for supply systems 0.4kV, and motor drives, etc.

Between the years 2013 and 2015 restorations of generating units, joint systems and medium-voltage switchyards, spillways and the system of local and remote operation of HPP were carried out. In the years 2016 and 2017, the entire secondary equipment of protection and control of the 110kV switchyard at HPP Fala will be replaced. Almost total funds budgeted for the years 2016 and 2017 are allocated to this replacement. The reason for a slightly »late« performance of the restoration segment was the partner ELES, as the invitations to tender for equipment and contractors could be published only when ELES had approved and confirmed the project.

The project is divided into groups (batches), where processes are carried out by phase from an invitation to tender, acquisition of bids, selection of a bidder, conclusion of a contract, preparation of the basics for the project documents, delivery of equipment and services in line with the schedule.

The funds budgeted for the year 2015 were practically utilised in their total amount. In 2015, the following activities were performed:

- ❖ restoration of the (last) generating unit 2 was carried out ,
- ❖ an internal technical inspection of generating units 2 and 3 was conducted,
- ❖ all spillways: 1, 2, 3 and 4 were restored and tested,
- ❖ an invitation to tender for the main terminal block of 0.4kV was performed and a contract signed,
- ❖ a contract for the necessary reserve of the process control equipment was concluded,
- ❖ a contract for the delivery of the measuring transformers for 110 KV was signed,
- ❖ an invitation to tender relating to the contractor of works in a 110kV switchyard was prepared (assembly of equipment),
- ❖ we obtained a bidder for the SW contractor for the protection and control in 110kV

RECONSTRUCTIONS

EXPANSION OF THE DRAIN CHANNEL AT HPP ZLATOLIČJE – PERFORMANCE OF WORKS - BATCH O

Works on the expansion of the channel were carried out from July 2007. The completion of works and the landscaping were planned to the end of June 2013. The renovation of both bridges over the drain channel was completed. All the works relating to the construction of the facility were also finished. A partial technical inspection was carried out for both facilities and an operating licence was obtained.

Due to the bankruptcy of the contractor Konstruktor VGR d.o.o. the works were suspended in July 2011. The damage caused by high water in November 2012 required an amendment to the project documents on the basis of which a new contractor was selected in the public tender - RGP d.o.o. Velenje. The continuation of works started in December 2014.

The present course of works included also works relating to the completion of the drain channel and regulation of the channel after the floods in 2012.

The works carried out in 2015:

- ❖ a service road for the disposal of material, access to recreational surfaces and agricultural land was completed,
- ❖ continuous excavations are carried out from a pontoon of the material re-transported during the floods, whose estimated quantity is 73,000.00 m³ (approx. 50,000.00 m³ has already been removed),
- ❖ backfilling of an opening for the performance of a high-water wall was carried out,
- ❖ stone facing of extensive protection was made at the opening,
- ❖ excavations for the expansion of the drain channel and regulation of banks are carried out.

RESTORATION OF THE MARKOVCI DAM

In June 2015, the design engineer of HSE Invest submitted the project of preliminary solutions for the regulation of the bridge and a new cable corridor over the dam. The most favourable option of a road and reconstruction of the dam was selected. On 17 September 2015 a panel of experts in the valuation and monitoring of investments in HSE discussed the implementation plan of the project INP-006-15 and gave their consent. The project has been continued by the preparation of the investment documents and the design for obtaining the construction permit.

LOW-VALUE INVESTMENTS

In order to be able to ensure the conditions for a smooth process of production, maintenance and operation it is also necessary to make investments in the field of low-value investments in the company.

In 2015, purchases of various equipment for smooth operation were made. Various tools and devices, machines, vehicles and instruments were bought.

2.8 INFORMATION SCIENCE

In scope of the entire DEM information system the operation of the system infrastructure and information services for the needs of business processes and technical subsystems is ensured. The lessees of IT services are also the companies HSE, HSE Invest, Eldom and PRI.

The company is well aware of the IT importance for its uninterrupted operation and development. Activities for the provisions of smooth and efficient rendering of services of the complete information system of DEM are carried out continuously.

In 2015, investments in IT amounted to a total of **EUR 140,191** of which:

- ❖ user hardware and system hardware amounted to **EUR 135,367** and
- ❖ software to **EUR 4,824**.

The **costs of maintenance** of software and hardware amounted to EUR 217,281 and the **costs of maintenance materials** amounted to EUR 4,408. The **costs of one-year licences** amounted to EUR 53,997.

2.9 PERFORMANCE ANALYSIS

OPERATION IN 2015

In 2015, DEM operated in compliance with the Business plan for the year 2015 that was adopted by the decision of the sole member in the general meeting of 4 February 2015.

In 2015, the company generated **revenue** amounting to EUR 64,733,271, which was a decrease of 10.41 % over the revenue of the same period last year, due to lower revenue from the sale of electricity.

The **operating profit or loss** achieved in 2015 in the amount of EUR 8,699,339 was by 0.69% lower than the profit or loss of the year 2014.

Net profit amounting to EUR 8,671,945 was by 1.74% higher over the year 2014. Higher profit or loss was the result of higher other operating revenue and lower costs and lower costs of materials and services.

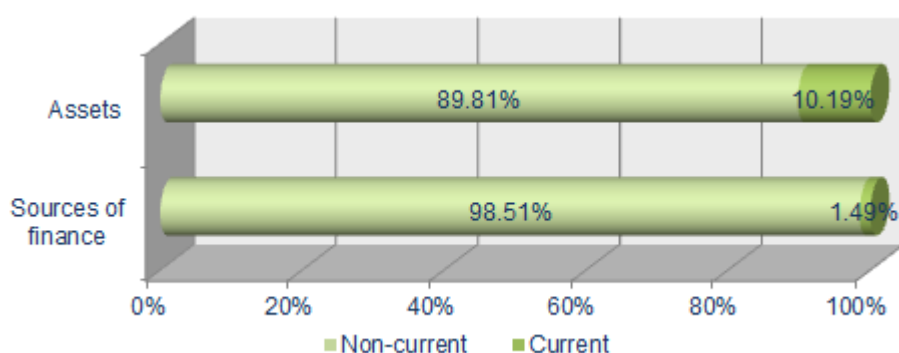
As at 31 December 2015, the **assets** of the company amounted to EUR 523,229,721, which was a decrease of 1.01% or EUR 5,336,262 when compared to the balance at the end of 2014.

As at 31 December 2015, the **equity** of the company amounted to EUR 510,769,294, which was an increase of 0.01% or EUR 43,462 over the balance at the end of 2014.

After the exceptional production in 2014, the **production** in 2015 was lower and close to the production determined by the balance flows. The generating units of DEM **produced** and supplied to the grid 2,544.4 GWh or 90.27% of the budgeted production.

In 2015, the **cash flows** from operating and investing activities of the company were positive, but the cash flow from financing activities was negative. Cash as at 31 December 2015 was lower by EUR 29,117,520 when compared to the balance at the end of 2014.

Structure of the Statement of financial position as at 31 December 2015:



It is evident from the statement of financial position of the company that the company finances non-current assets by long-term sources of finance as at 31 December 2015.

CAPITAL ADEQUACY

Capital adequacy can be defined as the company's investment capabilities. The company complies with capital adequacy requirements, since it disposes of sufficient long-term financing sources given the volume and type of transactions, and an adequate policy to manage risks we are exposed to in our operations.

in EUR

CAPITAL ADEQUACY	2015	2014
1. Net profit or loss for the period	8,671,945	8,523,310
2. Retained losses	-1,892	0
3. Retained earnings (1 + 2)	8,670,053	8,523,310
4. Capital surplus	0	0
5. Revenue reserve	107,213,269	107,213,269
6. Total (3 + 4 + 5)	115,883,322	115,736,579
7. Share capital	395,011,180	395,011,180
Capital adequacy = 6/7	0.29	0.29

DEBT LEVELS

Debt levels are an important indicator of business-financial position of the company.

Ratio of equity to debt as at 31 December 2015 and 31 December 2014:



The share of debts (long-term and short-term operating liabilities from the statement of financial position are taken into account) in the financing of the company accounts for 1.31% as at 31 December 2015 and it accounted for 1.33% as at 31 December 2014.

PERFORMANCE INDICATORS OF THE COMPANY

in EUR

EQUITY FINANCING RATE	31 Dec 2015	31 Dec 2014
1. Equity and liabilities	523,229,721	528,565,983
2. Equity	510,769,294	510,725,832
Equity financing rate = 2 / 1	97.62	96.62

At the end of 2015, the company's equity accounted for 97.62 % of its total equity and liabilities. The company's operations were thus almost entirely financed by its own sources, which translates into high security of creditors' investments and a stable return for owners. The equity financing rate slightly increased when compared to the end of 2014.

in EUR

LONG-TERM FINANCING RATE	31 Dec 2015	31 Dec 2014
1. Equity	510,769,294	510,725,832
2. Long-term liabilities	4,670,180	5,103,698
3. Total (1 + 2)	515,439,474	515,829,530
4. Equity and liabilities	523,229,721	528,565,983
Long-term financing rate = 3 / 4	98.51	97.59

The rate is slightly higher than the equity financing rate. 98.51% of the company's assets were financed from long-term sources, and 1.49% was financed from short-term sources. Compared to the end of 2014, the long-term financing rate slightly increased.

in EUR

OPERATING FIXED ASSETS RATE	31 Dec 2015	31 Dec 2014
1. Property, plant and equipment	387,203,149	395,767,003
2. Intangible assets	679,560	900,407
3. Total fixed assets at carrying amount (1 + 2)	387,882,709	396,667,410
4. Assets	523,229,721	528,565,983
Operating fixed assets rate = 3 / 4	74.13	75.05

The company's total assets include 74.13% of property, plant and equipment and intangible assets. When compared to the end of the previous year, the ratio decreased due to lower total assets.

in EUR

LONG-TERM ASSETS RATE	31 Dec 2015	31 Dec 2014
1. Property, plant and equipment	387,203,149	395,767,003
2. Intangible assets	679,560	900,407
3. Investment property	0	0
4. Long-term investments in subsidiaries	488,241	488,241
5. Other long-term investments and loans	81,139,789	81,139,789
6. Long-term operating receivables	0	0
7. Other non-current assets	111,675	99,799
8. Total (1 + 2 + 3 + 4 + 5 + 6 + 7)	469,622,414	478,395,239
9. Assets	523,229,721	528,565,983
Long-term asset rate = 8 / 9	89.75	90.51

The company's non-current assets account for 89.75% of its total assets. Compared to the end of 2014, the ratio slightly decreased due to lower total assets.

in EUR

EQUITY TO OPERATING FIXED ASSETS	31 Dec 2015	31 Dec 2014
1. Equity	510,769,294	510,725,832
2. Property, plant and equipment	387,203,149	395,767,003
3. Intangible assets	679,560	900,407
4. Total fixed assets at carrying amount (2 + 3)	387,882,709	396,667,410
Equity to operating fixed assets = 1 / 4	1.32	1.29

In 2015, the company financed all its fixed assets by its own sources at carrying amount. The value of the ratio was slightly higher than in the previous year.

in EUR

IMMEDIATE SOLVENCY RATIO	31 Dec 2015	31 Dec 2014
1. Cash and cash equivalents	7,156,533	36,274,053
2. Short-term investments	34,698,094	502,482
3. Total liquid assets (1 + 2)	41,854,627	36,776,535
4. Short-term liabilities	7,790,247	12,736,453
Immediate solvency ratio = 3 / 4	5.37	2.89

The acid test ratio shows the relation between liquid assets and short-term debts. In the period under review, the company covered all its short-term liabilities with its liquid assets. The ratio was much higher when compared to 2014.

in EUR

QUICK RATIO	31 Dec 2015	31 Dec 2014
1. Cash and cash equivalents	7,156,533	36,274,053
2. Short-term investments	34,698,094	502,482
3. Short-term operating receivables	11,283,243	11,578,084
4. Total (1 + 2 + 3)	53,137,870	48,354,619
5. Short-term liabilities	7,790,247	12,736,453
Quick ratio	6.82	3.80

At the end of 2015, the company's quick ratio stood at 6.82, meaning that in the period under review the company's short-term liabilities were fully covered with its credit balances with banks (cash) and short-term operating receivables. Compared to the end of 2014, the ratio increased significantly.

in EUR

CURRENT RATIO	31 Dec 2015	31 Dec 2014
1. Current assets	53,325,588	49,830,814
2. Short-term liabilities	7,790,247	12,736,453
Current ratio = 1 / 2	6.85	3.91

At the end of 2015, the current ratio amounted to 6.85, meaning that the company fully covered its short-term liabilities by its current assets. Compared to the end of 2014, the ratio increased significantly due to lower current liabilities.

in EUR

OPERATING EFFICIENCY RATIO	2015	2014
1. Operating income	65,871,845	72,810,874
2. Operating expenses	57,172,506	64,051,242
Operating efficiency ratio = 1 / 2	1.15	1.14

In 2015, the company's operating revenue exceeded its operating expenses by 15%. The ratio slightly increased over the previous year.

in EUR

NET RETURN ON EQUITY RATIO (ROE)	2015	2014
1. Net profit or loss	8,671,945	8,523,310
2. Average equity	510,747,563	534,558,753
Net return on equity ratio = 1 / 2	0.017	0.016

In 2015, the company generated EUR 1.7 net profit per EUR 100 of equity invested. Due to lower net profit of 2015 the ratio increased over the year 2014.

in EUR

NET RETURN ON ASSETS RATIO (ROA)	2015	2014
1. Net profit or loss	8,671,945	8,523,310
2. Average assets	525,897,852	550,300,118
Net return on assets ratio = 1 / 2	0.016	0.015

Return on assets of the year 2015 amounting to 1.6% was higher over the previous year, due to lower average assets in 2015.

in EUR

ADDED VALUE	2015	2014
1. Operating income	65,871,845	72,810,874
2. Costs of goods, material and services	5,012,352	5,463,725
3. Other operating expenses	21,717,538	31,161,435
Added value = 1-2-3	39,141,955	36,185,714

The added value of the year 2015 was higher by 8.17% over the previous year due to lower other operating expenses. Lower other operating expenses were mainly the result of the decreased concession taxes and water refunds, which was due to poor hydrology and poor market price per MWh of electricity.

in EUR

ADDED VALUE / EMPLOYEE	2015	2014
1. Added value	39,141,955	36,185,714
2. Average number of employees	271	282
Added value/employee = 1/2	144,435	128,318

The added value per employee in 2015 was higher by 12.56% over the previous year due to a reduction in the number of employees and lower other operating expenses.

2.10 RISK MANAGEMENT

Risk as an option of appearance of a negative event or uncertainty of appearance of a positive event having an adverse impact on the achievement of the objectives set.

The fundamental purpose of DEM operation is the achievement of strategic and operational objectives based on efficient and successful operation in line with the provisions. The company always operates in risky conditions or faces risks from external and internal sources in its operations that have to be identified, assessed and adequately managed, which is called a risk management procedure.

DEM is aware of its exposure to various categories of risks which affect its operations, fulfilment of its mission and achievement of its strategic goals. We continuously study the existing and newly appeared risks. The company carries out the risk management procedure in scope of five working steps and they are:

- ❖ Step 1: Determination of business objectives that are exposed to risks
- ❖ Step 2: Identification of risks having impact on the achievement of objectives
- ❖ Step 3: Assessment of probability and impact or consequences caused by materialisation of risks
- ❖ Step 4: Taking decisions on response to risks
- ❖ Step 5: Determination of measures for the management of (more important) risks.

As the company is also aware of the urgency of timely identification and identification of all kinds of risks in advance at all levels, all five steps mentioned above carried out at the level of an individual organisational unit (areas, sectors and departments), projects and at the level of the company as a unit. The appointed persons are responsible for the performance of all the required steps and for an individual activity or organisational unit. A project manager is in charge of its project and the managing director (or assistant to

the managing director) of the company as a unit. The aim of the performance of all steps of risk management is the preparation of risk registers by activity or organisational unit, project and for the company as a unit.

A precondition for the efficient risk management is the determination of objectives that are defined at the level of the company, individual activities, organisational units, projects, or lower organisational units and they are interrelated at all levels of the operation. The objectives at the level of the company, and the objectives at the level of individual activities, organisational units, projects, investments are basically summarised from the strategic and annual business plan of the company. Each organisational unit has also the so-called general objectives (following of regulations, transparent operation, improvement in efficiency and effectiveness, respect of ethical principles, etc.) and other specific objectives.

The criteria for measuring efficiency in the achievement of objectives set are determined by the performance of an individual organisational unit, or activity that are monitored in scope of Methodology of quality indicators.

Due to the fact that the indicators are identified at the level of the company, individual activities, organisational units, projects and investments a set of risks is quite extensive. Basically, the risks identified in the company, can be divided into four groups; internal and external risk factors have to be considered in all the groups:

- ❖ **Strategic risks** the company is exposed to in its vision, mission, values, strategic objectives and plans:
 - ❖ External risk factors (risks of competitiveness, economic changes, changes in market requirements, acquisitions, mergers, macroeconomic changes, unfavourable demographic movements, changes in legislation, technological risks, risks of disasters, political risks, legal risks,...);
 - ❖ Internal risk factors (risks in R&D, information system risks, changes in the management staff, risks of internal capital – employees).

In scope of this risk group, the largest risk is the **hydrology of the Drava River** that can cause fluctuations in the production amounting to +/- 10 % when the average of many years is taken into account. It can happen that the production volume will not be achieved and thus the profit reduced.

Danger of damages caused to the property is also an important risk. It is reduced by the policy of property insurance. The insurance of property includes: fire insurance, burglary insurance and machinery breakdown insurance, liability insurance, computer insurance, etc.

The fact that the company has only customer, who is also its owner, poses a high risk. We also face the risk of the entire HSE Group.

- ❖ **Operational risks** that occur during the performance of the activity:
 - ❖ External risk factors (risk of management competence, risk of culture and ethics, risk of legality or compliance with regulations and legislation);
 - ❖ Internal risk factors (risks of information system and risk of accounting controls, employment risk, risks of supply chains).

The quality of maintenance of fixed assets of the company is the most important risk among the operational risks that include also the related outages and overhauls. Until now, we have managed to provide sufficient funds for such a level of maintenance that ensures safe and smooth operation. The required maintenance activities are planned in long-term in order to be able to timely avoid the major risks.

- ❖ **Financial risks** that appear as a result of unfavourable movements in various categories of the financial market
 - ❖ External risk factors (interest rate changes, exchange rates, raw material prices, securities, financial instruments, i.e. currency and credit risks);
 - ❖ Internal risk factors (risk of realisation, i.e. liquidity risk and cash flow risk).

Financial risks are related to the ability to generate financial revenue and manage financial expenses, and the ability to settle financial obligations and ensure solvency. Next to the legally prescribed activities, management of financial risks is also of great importance for the existence of the company in the current market conditions. Some of the most important financial risks are presented below:

Credit risk is a risk that one party to a financial instrument will fail to discharge an obligation to the company. DEM minimises credit risk by:

- ❖ Generating more than 90% of revenue on the basis of cooperation with a single, reliable customer (the annual contract for the sale of electricity, which contains elements of credit insurance).

Liquidity risk is the risk of reduced liquidity and changing prices of securities.

As the amount of investments in securities is minimal, only the risk of reduced liquidity has been identified, which is assessed as low given the predictability and security of payments made by our largest customer. Trade and financing liabilities are known in advance.

Liquidity risks are well managed because:

- ❖ cash flows are monitored on a daily, weekly and monthly basis;
- ❖ surplus liquidity is deposited with established banks according to the principles of risk diversification and profit maximisation;
- ❖ adequate liquidity reserve is set aside.

Interest rate risk in DEM is considered low, which is why no active policies for the management of such risks have been prepared for 2015.

Inflation risk was managed by entering into fixed price contracts with suppliers.

❖ Other risks

- ❖ Reduction in operational availability – due to significant reduction in funds available in the field of maintenance, the risk consequently increase in the field of operational availability and reliability of devices.
- ❖ External risk factors (risks of the natural environment, supplier risk and contract risks);
- ❖ Internal risk factors (risks of goods and services, property risk, risk of employees and risk of access to the public or loss of reputation).

In order to be able to achieve the efficient response and identification, risks have to be assessed (measured, evaluated.) Risks are assessed by the probability of their occurrence and the impact or consequences for the objectives set. The purpose of evaluation – risk analysis or establishment of the impact, consequences and importance (as a product of impact and consequences) of an individual risk is the management of exposure of the company operations to risks and limitation of the risks to an acceptable level.

When analysing the risks and consequently establishing a risk register, an analysis of the risks relating to the company operation is to be performed if no measures are taken (operational risk) as well as the analysis of the risks that the company faces when all the measures have been taken (the remaining risk).

A risk register is established when risks haven been determined and assessed. The risk register is an important and efficient risk management mechanism. It is a tool used for systematic risk management and at the same time it is the evidence that the management adequately manages the operations of the company.

The risk register is prepared in form of a table and contains a set of all identified risks faced in the operations of the company that may endanger the achievement of objectives. The risks are classified regarding their importance. It encompasses adequate bases for the determination of response to identified risks and consequently the determination of the company measures for the management of important risks (usually, these are internal controls).

The preparation of the risk register is carried out in three steps:

- ❖ Phase 1 or a priority phase includes the preparation of the risk register in the field of projects/contracts;
- ❖ Phase 2 involves the preparation of the risk register by individual company (in the general business sector, in the technical sector and in the head office);
- ❖ Phase 3 or the final phase includes the preparation of the risk register of the company that contains all the risks identified that were assessed as medium or high risks in the previous two phases.

In July 2011, a committee of DEM d.o.o. responsible for risk management (hereinafter the Committee) was appointed for better and more transparent monitoring and active participation in the field of risk management. Its basic task is to ensure the establishment of the complete system for the control and management of company risks. The Committee obliged to prepare the risk register of the company, and therefore all the risk registers of the departments, sectors are to be submitted to the specialist team of the Committee that will join all the risk registers in a uniform risk register of the company. In December 2015, the Committee approved the umbrella risk register of the company that includes the list of all the risks the company is exposed to and the assessment of significance of an individual risk.

The company is not exposed to any substantial uncertainty relating to the performance, development and property, because:

- ❖ 99% of revenue is generated by the sale of electricity to the customer HSE. An annual contract for the sale of the complete electricity production is concluded with it and;
- ❖ the price of our product is competitive and the product is of high-quality and the needs for electricity increase every year;
- ❖ the efficiency of operations is provided by the highly qualified employees and good organisation of the operations;
- ❖ we are committed to introduce continuous improvements and complete quality of operations due to the certified and standardised operations;
- ❖ state-of-the-art technological equipment and care for regular maintenance, investments in the increase of capacity of the existing equipment and facilities and numerous new options increase our competitive advantage;
- ❖ we regularly monitor and control operating costs.

2.11 COMMUNICATIONS AND PUBLIC RELATIONS

In 2015, communications of DEM with the shareholders and the public were organised in line with the strategy of company's social responsibility whose main aim is to increase the:

- ❖ reputation;
- ❖ recognition and
- ❖ understanding of business and development decisions of DEM.

Many activities were related to the sustainable development that represented the basis for the communication support to the restoration of the existing facilities and new projects (small HPPs, PSP Kozjak, power plants on the Mura River ...).

An adequate selection or a mix of communication tools was designed for this purpose and some of them are worth mentioning:

- ❖ **press releases;**
- ❖ **occasional events;**
- ❖ **updating of internet content and intranet page**, which allows fast, quality and rational information of internal and external public;
- ❖ **sponsorship and donation strategy** as the form of implementation of social responsibility, especially in the field of DEM operation. This includes the financial support to cultural, sports and other activities in scope of sponsorship and donation funds.

In 2015, we regularly monitored and analysed press clippings.

In the field of **internal communications** we continued publishing the internal paper Dravski val (2 volumes were issued). We also prepared the most important information about the events in the company for the paper of the HSE Group - Energija and the journal of the Slovene energy sector - Naš stik.

Due to a wide geographical distribution of DEM's employees, joint events of DEM's employees are of utmost importance. In June, we organised a traditional meeting of employees – the DEM Day - and the meeting of DEM pensioners.

2.12 RESEARCH AND DEVELOPMENT

DEM as the promoter of important development projects

The increase in the share of electricity production from renewable energy is the basic orientation of the energy policies in the European Union and also in Slovenia. DEM as the largest and most important producer of electricity from renewable sources is particularly committed to the implementation and pursuit of these policies. Our basic task is to find a reasonable compromise between the energy and the environment. When creating and implementing our development projects, we try to follow this basic principle.

One of the foundations for providing the existence and development of the modern company is reliable supply with energy, also electricity with the minimum negative impact on the environment.

How can this be provided in the field of electricity supply? Slovenia has no rich natural resources. There is less and less coal, there are no gas fields or oil deposits, the possibilities for alternative energy sources (solar and wind energy) are modest. Hydro energy is the Slovene largest reserve of energy sources. The share of hydro energy in total electricity production in Slovenia accounts for approx. 30%. At the same time, it is established that the exploitation of the hydro potential in Slovenia amounts to less than 50%.

Better exploitation of the hydro energy potential represents the best development option of DEM and therefore we are mostly focused on the following fields of development:

- ❖ restoration of old production spillways whose power and production can be increased;
- ❖ preparation of the HPP construction on the Mura River;
- ❖ financial and human resources involvement in the construction of HPPs on the Sava River;
- ❖ preparation of the pumped-storage power plant Kozjak;
- ❖ construction of small HPPs on the Drava River and its tributaries.

By the implementation of this ambitious development plan important quantities of reliable, safe and competitive electricity from renewable and ecologically clean energy sources would be provided to Slovenia.

With the aim to maintain the position of the leading producer of electricity from renewable energy sources in Slovenia we expand our activity of electricity generation from water to other fields of renewable energy sources, such as solar, geothermal and wind energy and to simultaneous production of electricity and heat.

2.13 PLANS FOR THE FUTURE

We, at DEM are aware that a competitive price of electricity and its safe, high-quality and reliable supply are crucial for the company's successful market appearance.

In 2016 and in future years, we will continue to carry out tasks in accordance with our strategic plans.

Until 2018, we will continue to develop our business in the following strategic areas:

Ensuring additional production capacities including two development areas:

- ❖ electricity production – safe, high-quality and reliable electricity production represents the company's main objective for the long-term period concerned. We wish not only to maintain, but also to increase the existing production capacities;
- ❖ maintenance of the equipment and facilities – through high-quality maintenance we wish to make sure that over the long-term production facilities and buildings are in a condition to operate throughout their useful lives in the manner for which they were designed.

Ensuring economic efficiency of the company, which includes the development of human resources and trainings, the company's organisation, quality management systems, the company's reputation, organisation of the sale of products and services, cooperation of DEM in the HSE system and preservation of the technical and cultural heritage.

Ensuring safe and reliable functioning and operations, which includes operational safety, management of environmental requirements, occupational health and safety and fire safety.

In accordance with the 2016 Business Plan, our plans in 2016 are the following:

- ❖ revenue amounting to EUR 65.08 million
- ❖ net profit amounting to EUR 10.52 million
- ❖ electricity production amounting to 2,825 GWh;
- ❖ investments amounting to EUR 6.20 million
- ❖ 255 of employees at the end of the period.

2.14 IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

The beginning of the year 2016 was marked by the following important business events:

- ❖ On 10 February 2016 a sales agreement with the PITOBO d.o.o company was signed in the notary's office. It refers to the purchase of a 50% ownership share of Eldom d.o.o. Based on public bidding Pitobo d.o.o. was selected as the best bidder and when it paid the total purchase money, it became the owner of the 50% of Eldom d.o.o. on 15 February 2016; the other owners of the company are Elektro Maribor d.d. (25 %) and ELES d.o.o. (25 %).



03 SOCIAL RESPONSIBILITY REPORT

*RESPONSIBILITY TO THE EMPLOYEES
RESPONSIBILITY TO THE NATURAL ENVIRONMENT
RESPONSIBILITY TO THE BROAD COMMUNITY*

3.1 RESPONSIBILITY TO THE EMPLOYEES

*The centre of the DEM operations is the employees that importantly contribute to the implementation of the strategic objectives of the company. In line with the strategic objectives of the company our key objective in scope of the human resources management is to **take care of the educated, competent, satisfied and motivated employees.***

The objective set is implemented by taking care of the organisation of training and professional development of the required professional staff as we are all well aware of the fact that the knowledge of employees is one of the key factors for the achievement of the objectives set. By offering various forms of education and training courses we take care for the employees and their satisfaction in their working environment.

HUMAN RESOURCES POLICY

As at 31 December 2015, the company employed **266 persons**, who all had employment contracts concluded for an indefinite period of time.

NUMBER OF EMPLOYEES	31 Dec 2015	31 Dec 2014
Definite period of time	0	1
Indefinite period of time	266	275
TOTAL	266	276

NUMBER OF EMPLOYEES	31 Dec 2015	31 Dec 2014
Excl. of trainees	266	276
Trainees	0	0
TOTAL	266	276

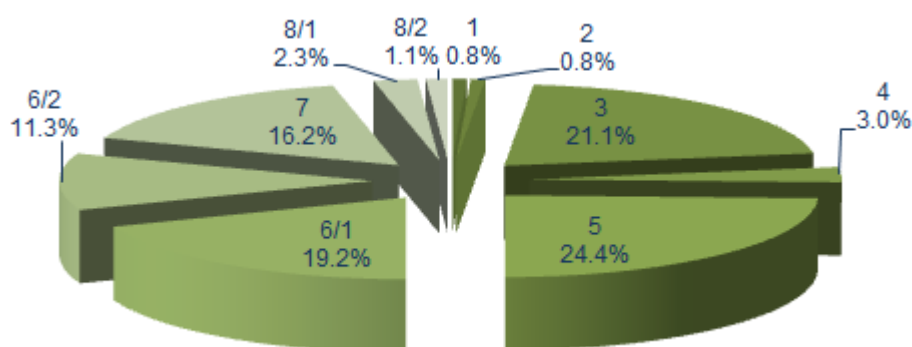
NUMBER OF EMPLOYEES	31 Dec 2015	31 Dec 2014
Collective agreement	262	271
Individual employ.contract	4	5
TOTAL	266	276

When compared to the balance as at 31 December 2014 the number of employees decreased by 10 persons or 3.62%. In the year 2015, one employee died and the employment contracts of nine persons were terminated.

In 2015, 258 employees worked full time, 1 person worked 6 hours a day and 7 persons part time.

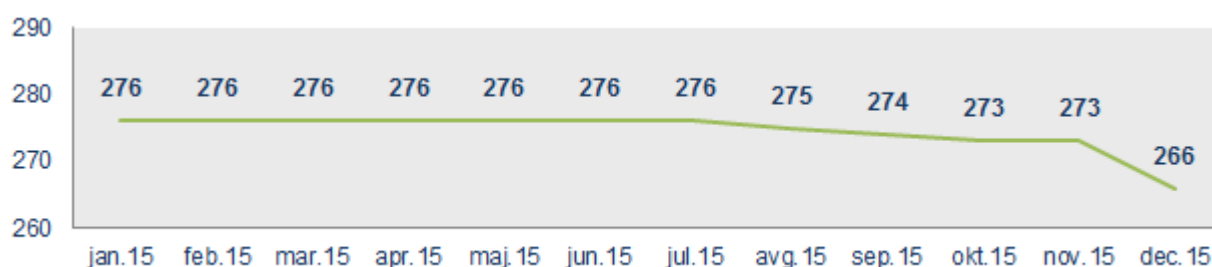
At the end of the year 2015, the company employed 81.58% men and 18.42% women, which was comparable to the previous years. The average age of employees as at 31 December 2015 was 48 years and 1 month.

Education structure of the employees as at 31 December 2015:



When compared to the previous year the education levels slightly changed. The number of employees with 1, 3, 5, 7 and 8/1 level of education decreased, and the number of employees with 6/2 and 8/2 level of education increased.

Movement of the number of employees by month from January 2015 to December 2015:



EDUCATION

We, at DEM are aware that the employees are a strategic advantage of the company and that the performance of the company depends on the employees and therefore we constantly invest in the development of employees. In 2015, special attention was paid to the education and additional training of the employees. Our priorities were trainings from the field of electrical equipment and trainings from the field of legislative changes and other recent novelties. Particular attention was given to the training in occupational health and safety, the field of changes in tax legislation, and advanced software.

OFF-THE-JOB STUDY

At the end of 2015, the company employed 10 off-the-job students. And there are no new off-the-job students in this period.

Out of the existing off-the-job students 5 finished the studies. Out of them one employee finished its PhD studies, two finished the university, one employee finished college and one of them finished secondary school.

SCHOLARSHIPS

At the beginning of the year 2015, there were 61 scholarship contracts concluded, of which 16 were dormant. No new scholarship contracts were concluded during the year.

As at 31 December 2015, there was a total of 24 scholarship contracts, of which 13 were dormant. A total of 21 scholarship were concluded, of which 2 for postgraduate studies, 10 for university studies and 9 for secondary school education.

FAMILY-FRIENDLY COMPANY CERTIFICATE

The DEM company is well aware that the successful operations of the company is not only the result of the professionalism and good work, but to a great extent also a result of good relationships and satisfaction of each and every employee. An important key to the satisfaction of the employees is certainly successful harmonization of the professional and family life and thus we wanted to obtain the **family-friendly company certificate**.

In November 2011, we obtained the basic certificate of the family-friendly company. In a period of three years we implemented the measures adopted: some of them successfully, and some less successfully. At the end of a three year period we conducted a survey on the satisfaction of the employees with the implemented measures. On the basis of the received proposals for improvement we adopted new measures in line with the agreement of the company management and on 5 March 2015 we obtained the full family-friendly company certificate.

3.2 RESPONSIBILITY TO THE NATURAL ENVIRONMENT

Perpetuum mobile of the life river

Raging and apparent peace, rising and falling of water is as perpetuum mobile of life – the continuously moveable principle of energy renewal.



The places where the water rages and where it stops, are the sources of life. The co-existence of the natural rhythm and new challenges allows for both.

The dammed water on the Drava River allows the exploitation of the energy caught in the most important river that is extremely rich in water in Slovenia. Newly constructed nesting islands for water birds and regulated embankments of the river and its lakes bring back the natural biodiversity to the entire area. The electricity production that influenced the changes of the river life once, has now established the watercourse of natural cohabitation. By our sound conduct renewable energy sources will be available to many generation of our successors.

Responsible to the environment: for the quality of natural and human life

Everything that works has an impact on the environment. And the environment has an impact on the activities.

Interventions in the landscape are made in places where a man searches for energy in the nature. Pier-type power plants, installed in a river bed, have a minor impact on the environment than channel-type power plants. In case of the latter ones, the interventions in the environment are extensive, but well-thought solutions can protect and enrich the landscape. In the past, the industrial development and exploitation of the Drava River influenced the pollution of the watercourse, but the quality of water has improved for the last decade.

The operation of power plants based on suitable technological solutions does not burden the environment, but the construction can influence the appearance of the countryside, changes in the water regime and the living environment of the river.

Some of the impacts cannot be completely avoided and therefore the care for the elimination of their consequences has become increasingly important. Responsible environmental management starts with the planning of technological solutions, prevention of adverse effects and continuous control of possible consequences of the power plant operation on the environment.

With the aim to systematically monitor the impacts of energy exploitation of the water potential of the Drava River and to reduce their consequences, the company has performed activities for the environmental protection in line with the requirements of standard ISO 14001 for over a decade. The environmental aspects are regularly identified in accordance with the requirements of the standard, measures are taken and programmes for the reduction in negative impacts on the environment implemented.

3.3 RESPONSIBILITY TO THE BROAD COMMUNITY

ENVIRONMENTAL PROJECTS

Matter continuously circulates in the nature, which is subject to constant regulations, re-directions and returning to originality. Sound environmental projects of DEM are focused on water preservation by the restoration of lakes, embankments, by the provision of habitat for flora, fauna and the mankind. It is not only the implementation that is important, but also the method of performance of certain works that have to be designed in a way that does not impose any new ecological burden.

FUNCTIONAL CHANGE OF THE FISHWAY AT HPP MARIBORSKI OTOK

In 2014, a project and tender were prepared. A contractor was selected. Operational works started in January 2015.



COMPLETION OF THE DISCHARGE SECTION AND CONSTRUCTION OF THE ADDITIONAL INLET CHANNEL THAT WILL PROVIDE CONTINUOUS WATER FLOW

RENOVATION OF THE BRIDGE OVER THE INLET CHANNEL (STARŠE – PREPOLJE)

Another 9 bridges have to be renovated on inlet and outlet channels. As two bridges can be renovated every year, drawing up of the Report on the examination of the materially technical condition of bridges was ordered. The report was prepared by IRMA, d.d. – the Institute for the research of materials and applications and on the basis of the situation examined the order of renovations was determined. Initially, the renovation of the bridges on the local road Trniče – Starše in km 13+957 and the bridge Prepolje – Starše in km 15+042 is planned. The renovation projects are prepared by HSE Invest (PG 13-0302).

RECONSTRUCTION OF WOOD AND CONCRETE FOOTBRIDGES FOR THE ACCESS TO THE EMBANKMENT OF THE LAKE PTUJ

In 2015, the documents for the reconstruction of the footbridge were prepared, on the basis of which the most favourable contractor could be selected. The procedure of selecting a contractor was stopped as the municipalities of Ptuj and Markovci did not adopt the plan for the regulation of the Lake Ptuj.

When the plan is adopted and the activities of individual shareholders of the Lake Ptuj determined, it will be possible to start the works relating to the reconstruction of the footbridge.



DEVELOPMENT OF THE DETAILED CONSTRUCTION DESIGN OF THE PROJECT FOR CLEANING OF SEDIMENTS - OUTLET SECTION – ERHAT STREAM – VAS II.

A contractor was selected by the public tender at the end of 2014, the detailed construction design for the project was made and submitted.

DETAILED CONSTRUCTION DESIGN FOR CLEANING OF SEDIMENTS IN THE RESERVOIR AT HPP OŽBALT

The documents of a detailed construction design were prepared in 2015 and referred to the cleaning of sediments in the reservoir at HPP Ožbalt, in the area from the P210 profile to the dam barrier.

DETAILED CONSTRUCTION DESIGN FOR CLEANING OF SEDIMENTS IN THE RESERVOIR AT HPP MARIBORSKI OTOK

The documents of a detailed construction design were prepared in 2015 and referred to the cleaning of sediments in the reservoir at HPP Mariborski otok, in the area from the outlet section of Brestrniški stream and the outlet section Blažovnica.

CLEANING OF THE BAY - VAS 1 PHASE 2

The works were not carried out due to the requirements of the company management. They wanted the works to be performed by the RGP company within the HSE Group.

CLEANING AND RESTORATION OF THE BAY VAS 2 – PHASE 1 ERHAT STREAM IN THE RESERVOIR AT HPP VH

The works were not carried out due to the requirements of the company management. They wanted the works to be performed by the RGP company within the HSE Group.

CLEANING OF SEDIMENTS IN THE RESERVOIR AT HPP OŽBALT

The works were not carried out due to the requirements of the company management. They wanted the works to be performed by the RGP company within the HSE Group.

CLEANING OF SEDIMENTS – RESERVOIR AT HPP MO BEFORE THE POWER PLANT

In 2014, the first phase of sludge cleaning was carried out in the reservoir at HPP Mariborski otok in the amount of EUR 550,557.80. The left bank was regulated between HPP Mariborski otok and the Sidro boatman club, de-leveling of the bed and regulation of the island and cleaning of sludge in the Koblar's bay were carried out. In 2015, the continuation of works was foreseen in the section mentioned.

In October 2015, a contract was concluded with FIRA d.o.o. for the performance of the 1B phase. Approx. 30% of contractually agreed works in the amount of EUR 224,525.00 excluding VAT was made to the end of the year. The works had to be completed to the end of the year 2016. In the period from 15 March to 15 August the works should not be carried out in line with the issued permit for the intervention in the nature.

CLEANING OF SEDIMENTS IN THE LAKE PTUJ AND CONSTRUCTION OF ISLANDS

The works were not carried out due to the requirements of the company management. They wanted the works to be performed by the RGP company within the HSE Group.

CARE FOR SUSTAINABLE DEVELOPMENT

Care for sustainable development is the care for the quality of life of the present and future generations. It is right to be near the nature that allows our existence and close to people we cohabitate with.

We want to help create the social environment we work in, to be responsible and constructive, and therefore our attention is focused on numerous projects in the entire area of the DEM operation.

In accordance with the economic possibilities we support several humanitarian, sports, cultural, educational and other projects and socially beneficial activities of the local, regional and national character.

Donations of DEM in 2015:

DONATIONS	REALISATION 2015 (EUR)	%
Humanitarian purposes	26,300	14.75
Disabled persons	1,400	0.79
Health purposes	0	0.00
Education	17,600	9.87
Sports	91,672	51.42
Culture	10,200	5.72
Ecology	3,000	1.68
Other donations	20,800	11.67
Accident protection	7,300	4.09
TOTAL	178,272	100.00

Sponsorships of DEM in 2015:

SPONSORSHIP	REALISATION 2015 (EUR)	%
Sports	118,260	60.40
Culture	54,697	27.93
Other sponsorships	22,850	11.67
TOTAL	195,807	100.00

In 2015, DEM allocated EUR 195,807 to sponsorships and EUR 178,272 to donations. As it is evident from the tables above sports activities received the major share of sponsorship funds and donations.



04 ACCOUNTING REPORT

AUDITOR'S REPORT

STATEMENT OF THE MANAGING DIRECTOR

INTRODUCTORY NOTES

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

4.1 AUDITOR'S REPORT



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+386 (0) 1 420 11 80
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Independent Auditor's Report

To the Shareholder of Dravske elektrarne Maribor, d.o.o., Maribor

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

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

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SI reg. vr. 36112012100
poslovni register SI 36112012100
ID za DDV: SI36112012100
matična št. 3648333

***Opinion***

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

Report on Other Legal and Regulatory Requirements

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

On behalf of the audit company

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

Boštjan Mertelj
Certified Auditor

Boris Drobnic
Partner

KPMG Slovenija, d.d.
1

Ljubljana, 27 May 2016

4.2 MANAGEMENT RESPONSIBILITY STATEMENT

The Managing Director is responsible for preparing the financial statements for each individual financial year in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the applicable legislation so that they present a true and fair view of the operations of the DEM company.

The Managing Director reasonably expects that adequate resources for the continuation of operations will be available to the company in near future and therefore the financial statements are prepared on a going concern basis.

When preparing the financial statements the responsibility of the Managing Director includes the following:

- ❖ accounting policies are appropriately selected and consistently applied,*
- ❖ judgements and estimates are reasonable and prudent.*

The Managing Director is responsible for keeping proper accounting records, which, at any moment, present the financial position of the company with reasonable accuracy and for the compliance of the financial statements of the company with IFRS. He is also responsible for safeguarding the assets of the company and, hence, taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Managing Director confirms that the financial statements are prepared in accordance with the provisions of IFRS without reservation about their use.

On 30 March 2016 the Managing Director adopted the financial statements of the DEM company for the financial year that ended on 31 December 2015.

Maribor, 27 May 2016

Managing Director:

Viljem Požeb, MSc



4.3 INTRODUCTORY NOTES TO THE PREPARATION OF FINANCIAL STATEMENTS

On the basis of the decision adopted at the 2nd general meeting of the owner of DEM held on 22 April 2011, the company's financial statements and notes to the financial statements after 1 January 2011 are prepared in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the EU.

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

4.4 FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

in EUR

	NOTE	31 Dec 2015	31 Dec 2014
ASSETS		523,229,721	528,565,983
A. LONG-TERM ASSETS		469,904,133	478,735,169
I. Intangible assets	1	679,560	900,407
II. Property, plant and equipment	2	387,203,149	395,767,003
IV. Long-term investments in subsidiaries	3	488,241	488,241
V. Other long-term investments and loans	4	81,139,789	81,139,789
VII. Other long-term assets	5	111,675	99,799
VIII. Deferred tax assets	6	281,719	339,930
B. SHORT-TERM ASSETS		53,325,588	49,830,814
I. Assets (disposal groups) held for sale	7	3,250	3,251
III. Short-term investments and loans	8	34,698,094	502,482
IV. Short-term operating receivables	9	9,509,730	10,958,143
V. Current tax assets	28	84,499	0
VI. Other short-term assets	10	1,873,482	2,092,885
VII. Cash and cash equivalents	11	7,156,533	36,274,053
LIABILITIES AND EQUITY		523,229,721	528,565,983
A. EQUITY	12	510,769,294	510,725,832
I. Called-up capital		395,011,180	395,011,180
III. Revenue reserves		107,213,269	107,213,269
V. Fair value reserve		(125,208)	(21,927)
VI. Retained earnings and losses		8,670,053	8,523,310
B. LONG-TERM LIABILITIES		4,670,180	5,103,698
I. Provisions for termination benefits and jubilee premiums	13	2,793,468	3,185,261
II. Other provisions	14	1,871,505	1,871,505
III. Other long-term liabilities	15	3,857	0
V. Long-term operating liabilities	16	1,350	46,932
C. SHORT-TERM LIABILITIES		7,790,247	12,736,453
III. Short-term operating liabilities	17	3,326,677	3,657,944
IV. Current tax liabilities		0	88,653
V. Other short-term liabilities	18	4,463,570	8,989,856

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

INCOME STATEMENT*in EUR*

	NOTE	2015	2014
OPERATING INCOME		65,871,845	72,810,874
1. REVENUE	20	64,733,271	72,252,529
3. CAPITALISED OWN PRODUCTS AND OWN SERVICES		58,818	114,299
4. OTHER OPERATING INCOME	21	1,079,756	444,046
GROSS OPERATING YIELD		65,871,845	72,810,874
OPERATING EXPENSES		57,172,506	64,051,242
5. COSTS OF GOODS, MATERIAL AND SERVICES	22	5,012,352	5,463,725
6. EMPLOYEE BENEFITS EXPENSE	23	11,556,778	12,415,635
7. WRITE-DOWNS IN VALUE	24	18,885,838	15,010,447
a) Depreciation and amortisation		15,257,153	14,676,587
b) Impairments/write-offs/sales of intangible assets, property, plant and equipment		3,628,668	333,860
c) Impairments/write-offs of receivables		17	0
8. OTHER OPERATING EXPENSES	25	21,717,538	31,161,435
OPERATING PROFIT OR LOSS		8,699,339	8,759,632
9. FINANCE INCOME	26	1,520,234	1,665,800
10. FINANCE EXPENSES	27	96,669	132,704
FINANCIAL RESULT		1,423,565	1,533,096
PROFIT OR LOSS BEFORE TAX		10,122,904	10,292,728
TAX	28	1,450,959	1,769,418
11. Income tax expense		1,392,748	1,611,542
12. Deferred taxes		58,211	157,876
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	29	8,671,945	8,523,310
Owner of the parent company		8,671,945	8,523,310

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

STATEMENT OF OTHER COMPREHENSIVE INCOME*in EUR*

	NOTE	2015	2014
13. Net profit or loss for the period	29	8,671,945	8,523,310
17. Actuarial gains and losses of employee defined benefit plans		(105,173)	(46,373)
Items that will not be transferred to profit or loss		(105,173)	(46,373)
23. Total comprehensive income for the period	30	8,566,772	8,476,937
Owner of the parent company		8,566,772	8,476,937

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

CASH FLOW STATEMENT*in EUR*

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit or loss for the period	8,671,945	8,523,310
Adjustments for:		
Amortisation of intangible assets	555,004	462,528
Depreciation of property, plant and equipment	14,702,149	14,214,059
Impairment of property, plant and equipment, intangible assets and investment property	329,285	0
Formation of provisions	0	1,871,505
Reversal of provisions and accrued costs	(621,378)	(50,150)
Reversal of accrued revenue	0	239,000
Write-off of property, plant and equipment, intangible assets and investment property	3,298,336	332,733
Write-offs of operating receivables	17	0
Loss on sale of property, plant and equipment, intangible assets and investment property	1,047	1,127
Finance income	(1,520,234)	(1,665,800)
Finance costs	96,669	132,704
Gains on sale of property, plant and equipment	(181,761)	(165,418)
Tax expense	1,450,959	1,769,418
Cash generated from operating activities before change in net current assets and taxes	26,782,038	25,665,016
Change in net current assets and provisions		
Change in:		
Inventories	0	686
Trade and other receivables	1,571,458	2,353,711
Assets held for sale	0	21,880
Trade and other payables	(4,533,573)	2,274,590
Provisions	(129,333)	(12,997)
Income tax paid	(1,565,900)	(2,232,459)
Cash from operating activities	22,124,690	28,070,427
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	648,776	1,474,330
Dividends received	14,298	9,727
Proceeds from sale of property, plant and equipment	276,617	515,033
Proceeds from sale of other financial assets	0	207,000
Proceeds from decrease in short-term loans	30,718,385	70,000,000
Proceeds from decrease in long-term loans	0	24,000
Proceeds from decrease in other short-term investments	0	21,000,000
Acquisition of property, plant and equipment	(9,780,434)	(11,304,651)
Acquisition of intangible assets	(334,157)	(459,912)
Costs for increasing short-term investments	(64,262,385)	(59,500,000)
Costs for increasing other long-term investments	0	(5,198)
Net cash used in investing activities	(42,718,900)	21,960,329
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(8,523,310)	(56,142,778)
Net cash used in financing activities	(8,523,310)	(56,142,778)
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	36,274,053	42,386,075
Financial result	(29,117,520)	(6,112,022)
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	7,156,533	36,274,053

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

STATEMENT OF CHANGES IN EQUITY

in EUR

	CALLED-UP CAPITAL		REVENUE RESERVES		FAIR VALUE RESERVE	RETAINED EARNINGS OR LOSSES		TOTAL
	Share capital	Legal reserves	Other revenue reserves			Retained earnings or losses	Net profit or loss for the period	
Balance at 1 January 2014	395,011,180	39,501,118	67,712,151	24,446		50,085,874	6,056,904	558,391,673
B.1. Transactions with owners	0	0	0	0		(56,142,778)	0	(56,142,778)
Dividend pay-out	0	0	0	0		(56,142,778)	0	(56,142,778)
B.2. Changes in total comprehensive income	0	0	0	(46,373)		0	8,523,310	8,476,937
Net profit or loss for the reporting period	0	0	0	0		0	8,523,310	8,523,310
<i>Items that will not be transferred to profit or loss</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>(46,373)</i>		<i>0</i>	<i>0</i>	<i>(46,373)</i>
Actuarial gains and losses of employee defined benefit plans	0	0	0	(46,373)		0	0	(46,373)
B.3. Changes within equity	0	0	0	0		6,056,904	(6,056,904)	0
Allocation of the remaining portion of net profit of the comparable period to other equity components	0	0	0	0		6,056,904	(6,056,904)	0
Balance at 31 December 2014	395,011,180	39,501,118	67,712,151	(21,927)		0	8,523,310	510,725,832
Balance at 1 January 2015	395,011,180	39,501,118	67,712,151	(21,927)		0	8,523,310	510,725,832
B.1. Transactions with owners	0	0	0	0		(8,523,310)	0	(8,523,310)
Dividend pay-out	0	0	0	0		(8,523,310)	0	(8,523,310)
B.2. Changes in total comprehensive income	0	0	0	(103,281)		(1,892)	8,671,945	8,566,772
Net profit or loss for the reporting period	0	0	0	0		0	8,671,945	8,671,945
<i>Items that will not be transferred to profit or loss</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>(103,281)</i>		<i>(1,892)</i>	<i>0</i>	<i>(105,173)</i>
Actuarial gains and losses of employee defined benefit plans	0	0	0	(103,281)		(1,892)	0	(105,173)
B.3. Changes within equity	0	0	0	0		8,525,202	(8,525,202)	0
Allocation of the remaining portion of net profit of the comparable period to other equity components	0	0	0	0		8,523,310	(8,523,310)	0
Covering of loss as deduction item of equity	0	0	0	0		1,892	(1,892)	0
Balance at 31 December 2015	395,011,180	39,501,118	67,712,151	(125,208)		0	8,670,053	510,769,294
Accumulated profit								8,670,053

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

4.5 NOTES TO THE FINANCIAL STATEMENTS

REPORTING COMPANY

DEM is a company with its registered office in Slovenia. Its registered office is located at Obrežna ulica 170, Maribor.

The financial year equals the calendar year.

In further sections, individual financial statements of the company are presented for the year that ended on 31 December 2015.

The consolidated financial statements for HSE Group are prepared by the company HSE. The consolidated annual report for the HSE Group is available at the registered office of HSE.

The core activity of the DEM company is production of electricity in hydropower plants.

BASIS FOR PREPARATION

In the preparation of financial statements as at 31 December 2015, the company considered:

- ❖ IFRS, which include International Accounting Standards (IAS), Interpretations issued by the Standing Interpretations Committee (SIC), International Financial Reporting Standards (IFRS) and Interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (hereinafter: the "EU");
- ❖ the Companies Act;
- ❖ Energy Act;
- ❖ Corporate Income Tax Act and its implementing regulations;
- ❖ Accounting Rules of the company DEM; and
- ❖ other applicable legislation.

The financial statements of the company are prepared under consideration of the fundamental accounting assumptions:

- ❖ accrual and
- ❖ going concern.

The effects of transactions and other events are recognised on accrual and not when they are paid. They are recorded and reported in the periods they refer to. The financial statements include also the information about obligations for cash payments in future and about assets that will generate cash in future.

The financial statements are also prepared under consideration of the assumption the company will not significantly reduce the volume of its operations or even eliminate it, so it will operate also in the foreseeable future.

The following qualitative characteristics of the financial statements are taken into account:

- ❖ Fair presentation and compliance with IFRS: the financial statements fairly present the financial position, financial performance and cash flows of the company.
- ❖ Consistency of presentation: presentation and classification of items in financial statements are equal in all periods. Some items are disclosed in more in the financial report for the year 2015 when compared to the financial report for the year 2014, and therefore the comparative data were adjusted. Changes in disclosures are as follows:

- ❖ short-term trade receivables and short-term trade payables are presented separately. Other operating receivables and obligations are recorded under other current assets and/or liabilities (in the financial report for 2014 receivables were presented under short-term operating receivables, and liabilities under short-term operating liabilities);
- ❖ liabilities of the company for untaken holiday are presented under short-term payables to employees under other short-term liabilities (in the financial report for 2014 they were presented under short-term accrued costs and expenses);
- ❖ the cash flow statement is changed in the section referring to the operations; profit or loss is corrected by the effects of transactions that have no-cash nature, by deferred revenue and expenses and items of revenue and expenses that are related with cash flows of investing and financing activities. In previous years, the company presented this section by disclosing revenue and expenses and changes in inventories, operating receivables and liabilities for the period.
- ❖ Materiality and aggregation: each material group consisting of similar items is separately presented in the financial statements. Items of different nature or relevance are presented separately, unless they are immaterial.
- ❖ Offset: neither assets nor liabilities and equity, neither revenue nor expenses are set off, unless a standard or an interpretation requires or allows offsetting.
- ❖ Comparative information: unless the standard or interpretation allows or requires otherwise, comparative information from the previous period is disclosed for all the amounts presented in the financial statements. Comparative information is included the narrative and descriptive information, if required for the understanding of financial statements of the period discussed.

Standards and interpretations issued by IASB and adopted by the EU and not yet effective

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

- ❖ *Amendment to IFRS 11: Accounting for acquisitions of interests in joint operations* (effective for annual periods beginning on 1 January 2016; to be applied retrospectively. Early application is permitted.)

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

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

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

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

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

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

- ❖ Immaterial information can detract from useful information.
- ❖ Materiality applies to the whole of the financial statements.
- ❖ Materiality applies to each disclosure requirement in an IFRS.

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

- ❖ Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements.

- ❖ Clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

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

- ❖ *Amendment to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation* (Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.)

Revenue-based depreciation banned for property, plant and equipment.

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

New restrictive test for intangible assets.

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

It is expected that the amendments, when initially applied, will not have material impact on the Group's financial statements as it does not apply revenue-based methods of amortisation/depreciation.

- ❖ *Amendment to IAS 16 Property, plant and equipment and IAS 41 Agriculture* (Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.)

These amendments result in bearer plants being in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture, to reflect the fact that their operation is similar to that of manufacturing.

The company does not expect that the amendments, when initially applied, will have material impact on its financial statements as it has no bearer plants.

- ❖ *Amendment to IAS 19 – Defined benefit plans: Employee contributions* (Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.)

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- ❖ set out in the formal terms of the plan,
- ❖ linked to service; and
- ❖ independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The company does not expect the amendment to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

- ❖ *Amendment to IAS 27: Equity method in the separate financial statements* (Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.)

These amendments allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The company does not expect that the amendments, when initially applied, will have material impact on the financial statements as the company intends to continue to carry its investments in subsidiaries, associates or joint ventures at cost.

Annual improvements

Annual Improvements to IFRSs 2010-2012 were issued by the IASB in December 2013 and introduce six amendments to six standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The Annual Improvements to IFRSs 2010-2012 cycle of amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Annual Improvements to IFRSs 2012-2014 were issued by the IASB in September 2014 and introduce four amendments to four standards and standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The Annual Improvements to IFRSs 2012-2014 cycle of amendments are applicable to annual periods beginning on or after 1 January 2016, with earlier adoption permitted.

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

The company does not expect the provisions to have a significant impact on its financial statements.

IFRS 3 Business combinations

The amendment to IFRS 3 Business Combinations (with consequential amendments to other standards) clarifies that when contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to IAS 32, rather than to any other standard. It also clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

The company does not expect that the amendments, when initially applied, will have material impact on the financial statements as it does not record any such case.

IAS 19 Employee benefits

The amendments to IAS 19 clarify that the discount rate used in calculating employee benefit obligations should be based on high quality corporate bonds or government bonds in the same currency in which the benefits are to be paid.

The discount rate used in the actuarial calculation for accounting of payables arising under jubilee premiums and termination benefits upon retirement, is already now founded on highly- quality corporate bonds, thus the amendment will not have an impact on the disclosure of liabilities arising from premiums and termination benefits.

BASIS FOR MEASUREMENT

The financial statements of the company are prepared on the basis of historical amounts of balance sheet items.

CURRENCY REPORTINGS

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements contained in this Report are presented in euro (EUR) without 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.

TRANSLATION OF FOREIGN CURRENCIES

Transactions expressed in a foreign currency are translated into the relevant functional currency at the exchange rate applicable on the date of transaction. Cash and liabilities expressed in a foreign currency at the end of the reporting period are converted into functional currency at then applicable exchange rate.

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

Foreign exchange differences are recognised in the income statement, according the net principle (the difference between positive and negative foreign exchange differences is disclosed under revenue, while the difference between negative and positive foreign exchange differences is disclosed under expenses).

USE OF ESTIMATES AND ASSESSMENTS

The preparation of financial statements requires that the Managing Director forms certain estimates and assumptions which affect the disclosed amounts of assets and liabilities, revenue and expenses and disclosures of contingent assets and expenses in the reporting period.

Estimates and assessments are based on past experience and other factors that are considered reasonable in the given circumstances and on the basis of which the assessments on the carrying amount of assets and liabilities are expressed.

Since the estimates and assumptions are subject to a subjective assessment and a certain level of uncertainty, subsequent actual results can differ from the estimates. Estimates are examined on a regular basis. Changes in accounting estimates are recognised in the period in which the estimates 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 least at the following judgements:

- ❖ estimate of useful life of amortisable assets;
- ❖ test of impairment of assets (section 4.6, disclosure 2);
- ❖ estimate of realisable values of receivables (disclosure of financial instruments and risks – credit risk – page 103)
- ❖ estimate of provisions for jubilee premiums and termination benefits (section 4.6, disclosure 13);
- ❖ estimate of other provisions (section 4.6, disclosure 14);

BRANCH AND REPRESENTATIVE OFFICES

The company has no branches.

SIGNIFICANT ACCOUNTING POLICIES

The company's financial statements are prepared on the basis of accounting policies presented below. These accounting policies are used for both years presented, unless otherwise indicated.

The comparative data were adjusted when needed so that they are in accordance with the presentation of data in the current year.

INTANGIBLE ASSETS

Intangible assets are non-current assets enabling performance of the company's registered activities, whereas physically they do not exist. Among intangible assets the company records concessions, patents, licences, trademarks, and similar rights.

Upon initial recognition, an intangible asset is measured at cost. The cost also includes import duties and non-refundable purchase taxes after the commercial and other discounts have been deducted and all costs directly attributable to the preparation of an asset for the intended use.

Borrowing costs that are directly attributed to the purchase of an intangible qualifying asset (until its capitalisation) are recognised as a part of cost of such an asset.

Intangible assets are subsequently measured using the cost model.

Amortisation is accounted for on a straight-line basis, taking into account the useful life of each individual (integral) part of an intangible asset. Amortisation shall begin when the asset is available for use.

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

Intangible assets with indefinite useful life shall not be amortised, but impaired.

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

Individual items of intangible assets have the following useful lives:

<i>Amortisation rates - intangible assets</i>	
	in % from - to
Software	33.30
Licenses	33.30
Other concessions, patents, trademarks and similar rights	20.00

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 shall be recognised in profit or loss under expenses as soon as they are incurred.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are non-current 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 property, plant and equipment in the course of construction.

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated losses from impairments, except land and other assets that are not amortised and are presented at cost less all impairments. The 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 attributed 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 cost model is used for later measurement of property, plant and equipment.

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

Individual items of property, plant and equipment have the following useful lives:

Depreciation rates - property, plant and equipment

	in % from - to
Buildings	1.30 - 10.00
Parts of buildings	3.00 - 7.14
Production equipment	1.54 - 10.00
Computer equipment	5.00 - 25.00
Furniture	3.00 - 12.50
Low-value assets	20.00
Passenger cars	15.00
Other vehicles	6.67 - 14.30
Other plant and equipment	3.00 - 20.00

Depreciation methods, useful lives and residual values of groups of assets are verified at the end of each financial year and adjusted, if needed. In case useful life is extended, the company decreases accrued depreciation costs in the discussed financial year. If 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 a change in the accounting estimate and it affects solely the period in which the accounting estimate was changed and every following period of the remaining useful life.

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

The residual value of an asset is an estimated amount the company would receive upon disposal of such an asset, after the reduction by the estimated costs of disposal, if such an asset were old enough and if its condition reflected the end of its useful life. The company has no property, plant or equipment, for which it would record the residual value when purchased.

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

LONG-TERM INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are the investments, where the company has the controlling influence. It usually also prepares consolidated financial statements for this group of companies.

In the financial statements, investments in subsidiaries are valued at cost.

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

Additional inputs in subsidiaries increase the cost of investments.

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 the present value of anticipated future cash flows discounted at the market interest rate for similar financial assets, and is recognised as operating expense.

LONG-TERM INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

Investments in associates are investments in which the company has an important influence and usually its share in such company 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.

FINANCIAL INSTRUMENTS

Financial instruments include the following items:

- ❖ non-derivative financial assets;
- ❖ non-derivative financial liabilities;

NON-DERIVATIVE FINANCIAL ASSETS

Non-derivative financial assets comprise investments, receivables and loans, cash and cash equivalents.

A 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They are recorded under current assets, unless their maturity exceeds 12 months after the date of the statement of financial position. In this case, they are recorded under non-current assets. Loans and receivables are recorded under operating, financial and other receivables at amortised cost under consideration of the effective interest rate in the statement of financial position.

Cash and cash equivalents

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

NON-DERIVATIVE FINANCIAL LIABILITIES

Non-derivative financial liabilities comprise operating and financial liabilities. On initial recognition, 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.

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are assets for which it can be reasonably assumed that their value will be settled by the sale in the following 12 months and not by their further use.

Available-for-sale financial assets shall be measured at the lower of the carrying amount or fair value, less selling costs.

IMPAIRMENT OF ASSETS

FINANCIAL ASSETS

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

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

Impairment of receivables and loans granted

The company individually estimates the evidence on impairment of receivables. If estimated that the carrying amount of receivable exceeds its fair value (realisable value), the receivable is impaired.

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

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

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

In case all actions were performed in accordance with due care, with the intention to repay certain unsettled receivables and in case that due to the amount of receivables it would not be economical for the company to enter the collection procedure through court, the receivables are fully written-off, on the basis the managing director's decision.

The company assesses the evidence on loan impairment for each loan.

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

NON-FINANCIAL ASSETS

On each reporting date the company verifies the carrying amount of significant non-financial assets in order to establish whether there are any indications of impairment. If such signs exist, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or a cash-generating unit is the higher of the two: the value in use or the fair value less selling costs. When determining the value of an asset in use, the expected future cash flows are discounted to their present value by using the discount rate before taxation that reflects current market estimates of the time value of money and risks that typically occur in relation to the asset. For the purpose of an 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).

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

At the end of the reporting period, the company evaluates losses due to impairment in previous periods and thus establishes whether the loss has decreased or even disappeared. Loss due to impairment is reversed in case there has been a change in estimates, on the basis of which the 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.

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.

Equity represents the owners' cash contribution.

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. The adjustment due to the transition to the new Slovene Accounting Standards was transferred to capital surplus.

Legal and other revenue reserves comprise the amounts that are intentionally retained from the earnings of previous years, especially for covering potential future losses. They are created on the basis of the decision taken by a relevant management and supervisory body.

The fair value reserve includes revaluation of provisions for termination benefits.

Retained profit or loss includes the unappropriated of the current year.

PROVISIONS FOR TERMINATION BENEFITS AND JUBILEE PREMIUMS

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 pension liabilities.

Provisions are created in the amount of estimated future payments for termination benefits 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 is prepared by the actuary using the projected unit. The actuary is selected at the level of the group. Payments for termination benefits on retirement and jubilee premiums decrease the created provisions.

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.

OTHER PROVISIONS

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

The amount of the provision is to be equal to the present value of the expenditure expected to be required to settle the liability. Since provisions are intended for covering probable, but not certain liabilities, the amount recognised as a provision is merely the best estimate of expenditure needed for the settlement of a liability 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 such costs or expenses no longer appear in the profit or loss of the financial year.

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

OTHER ASSETS AND LIABILITIES

Other assets include long-term and short-term accrued revenue and deferred costs.

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

Accrued revenue is revenue that is taken into account in the profit or loss, although it has not been charged yet.

Other liabilities include long-term and short-term accrued costs and deferred revenue.

Accrued costs are amounts that have not occurred yet, but they will in the future and are already influencing the profit or loss.

CONTINGENT LIABILITIES AND ASSETS

A 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 liability arising from past events, which is not recognised, since it is not probable that the outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be reliably measured.

A contingent asset is a possible asset 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.

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

The guarantees given are presented under contingent liabilities.

REVENUE

Sales revenue is recognised at fair value of the received repayment or receivable arising from this repayment decreased by repayments and discounts, rebates for further sale and quantity discounts. The revenue is disclosed when the customer assumes all significant kinds 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 the products sold.

Sale of goods is 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 have more positive than negative operating foreign exchange differences, they are recorded under net revenue from the sales of goods.

Sale of services is recognised in the accounting period in which the services are performed as regards the completion of the transaction estimated on the basis of actually performed service as the proportional portion of all services.

Revenue arising from **default interest** charged and related receivables are recognised on accrual if it is probable that the economic benefits related to transaction will inflow 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 payment. Recording of default interest is considered individually.

Other operating revenue related to operating effects includes revenue from utilisation of deferred revenue, gains arising from sales of fixed assets, reversal of impairment of receivables, received compensations and contractual penalties, and similar revenue

Financial revenue comprises revenue from investment shares, interest on loans granted and deposits, and revenue from the sale of investments.

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, products and work in progress or once merchandise has been sold. Costs that cannot be held in inventories of products and work in progress are recognised as operating expenses on accrual.

Costs of materials are historical costs of materials purchased that are directly used for creating products and services (direct costs of materials as well as costs of material that do not have such nature and are included in relevant purpose (functional) groups of indirect operating costs. The first subgroup includes costs of raw materials, other materials and purchased parts and semi-finished products whose consumption can be related to creating products and services. The second subgroup includes costs of auxiliary materials for maintenance of property, plant and equipment, low value assets, the useful life of which does not exceed one year, office supplies, technical literature and other items.

Costs of services are historical costs of purchased services that are directly used for creating products and services (costs of direct services) as well as costs of services that do not have such nature and are included in adequate purpose (functional) groups of indirect operating costs.

The first group mostly includes the costs of services for production of goods, while the second group includes mainly the costs of transport services, maintenance services, advertising costs, costs of entertainment, insurance premiums, payment transactions and 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.

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

Finance costs comprise other finance costs (interest expenses).

TAXATION

Taxes include current and deferred tax liabilities. Current tax is included in the income statement. Deferred tax is recognised in the income statement and in 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 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 company's current tax liabilities are calculated with tax rates applicable on the reporting date.

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 the financial statements. Deferred tax is determined by the use of tax rates (and legislation) applicable on the date of the statement of financial position and for which it is expected to apply 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 corporate income tax of deductible temporary differences.

In 2015, the effective corporate income tax rate was 17 %. In compliance with the legislation in force it remains unchanged in the following years.

STATEMENT OF OTHER COMPREHENSIVE INCOME

The statement of other comprehensive income comprises all changes in equity in the current period, which arose from all transactions and events, except those resulting from transactions with the owner.

CASH FLOW STATEMENT

Cash flow statement represents changes in cash and cash equivalents of the financial year, for which it is prepared.

Cash of the company includes cash in bank, deposits at call and deposits tied up to three months.

SEGMENT REPORTING

The company does not disclose operations by segment in the annual report. Segment reporting is to be disclosed by the companies whose treasury or debt securities are publicly traded and companies which are issuing treasury or debt securities in public security markets.

DETERMINING FAIR VALUE

Financial instruments are disclosed at their fair value. Fair value is the amount at which an asset can be sold, or a liability exchanged 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 same 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 an 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 the financial instrument is not quoted in the regulated market or the market is assessed as inactive, the second and third level input data are used to assess the fair value of the financial instrument.

FINANCIAL RISK MANAGEMENT

Financial risks the company is exposed to are credit risks, liquidity risk, interest rate risk and inflation risk. All kinds of risks are determined in detail in the management section of the annual report (Section 2.10 – Risk measures). In notes to financial statements, risks are presented in relation to the items in the financial statements (Section Financial instruments and risks).

4.6 NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE STATEMENT OF FINANCIAL POSITION

INTANGIBLE ASSETS (1)

Intangible fixed assets comprise:

- ❖ easement,
- ❖ computer software,
- ❖ licences, and
- ❖ other intangible assets.

in EUR

	31 Dec 2015	31 Dec 2014
Other concessions, patents, licences, trademarks and similar rights	679,560	900,407
TOTAL	679,560	900,407

An increase in intangible assets in 2015 in the amount of EUR 334,157 was related to the increase in concessions, patents, licences, trademarks and similar rights and increase in intangible assets being acquired.

A decrease in intangible assets referred to the retirement of the old and useless software and licences in the amount of EUR 1,062,330.

Movement of intangible assets*in EUR*

	Other concessions, patents, licences, trademarks	TOTAL
Cost at 1 Jan 2014	4,068,128	4,068,128
Acquisitions	459,912	459,912
Disposals	(412,320)	(412,320)
Transfers - restatements	(37,231)	(37,231)
Cost at 31 Dec 2014	4,078,489	4,078,489
Write-downs at 1 Jan 2014	3,127,874	3,127,874
Disposals	(412,320)	(412,320)
Amortisation	462,528	462,528
Write-downs at 31 Dec 2014	3,178,082	3,178,082
Carrying amount at 1 Jan 2014	940,254	940,254
Carrying amount at 31 Dec 2014	900,407	900,407

in EUR

	Other concessions, patents, licences, trademarks	TOTAL
Cost at 1 Jan 2015	4,078,489	4,078,489
Acquisitions	334,157	334,157
Disposals	(1,062,330)	(1,062,330)
Cost at 31 Dec 2015	3,350,316	3,350,316
Write-downs at 1 Jan 2015	3,178,082	3,178,082
Amortisation	555,004	555,004
Write-downs	(1,062,330)	(1,062,330)
Write-downs at 31 Dec 2015	2,670,756	2,670,756
Carrying amount at 1 Jan 2015	900,407	900,407
Carrying amount at 31 Dec 2015	679,560	679,560

PROPERTY, PLANT AND EQUIPMENT (2)

In 2015, property, plant and equipment increased in the amount of EUR 9,918,498.

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Land	13,307,807	13,483,501
Buildings	211,255,512	214,044,791
Production equipment	140,017,022	143,536,234
Other equipment	183,668	176,986
Property, plant and equipment and equipment being acquired	22,439,140	24,525,491
TOTAL	387,203,149	395,767,003

LAND

The increase in value of land refers to the purchase of land in the amount of EUR 435.

The decrease in value of land refers to the sale of land and entry of ownership titles to land in the amount of EUR 176,129.

BUILDINGS AND FACILITIES

The company owns the following types of buildings:

- ❖ dams;
- ❖ canals, backfills, embankment protection;
- ❖ HPP production facilities;
- ❖ cable lines;
- ❖ office buildings;
- ❖ residential buildings;
- ❖ recreational facilities
- ❖ other buildings.

In 2015, the increased values of buildings and facilities, as part of the increase in property in course of construction amounting to EUR 6,302,955 included:

- ❖ restoration of the machine workshop at HPP Dravograd in the amount of EUR 69,477;
- ❖ rehabilitation of the embankment protection at HPP Vuhred in the amount of EUR 275,149;
- ❖ renovation works in the engine-dam facility at HPP Fala in the amount of EUR 56,293;
- ❖ reconstruction of a fishway at HPP Mariborski otok in the amount of EUR 179,193;
- ❖ expansion of the outlet channel and renovation of the outlet channel at HPP Zlatoličje after the floods in the amount of EUR 2,870,156;
- ❖ renovation of the outlet channel after the floods at HPP Formin in the amount of EUR 143,262;
- ❖ maintenance of the energy potential at HPP Vuhred, HPP Ožbalt and HPP Mariborski otok in the amount of EUR 338,157;
- ❖ construction of PSPP Kozjak in the amount of EUR 93,247;
- ❖ construction of HPP on the Mura River in the amount of EUR 1,365,779;
- ❖ other construction works.

Decrease in value of buildings includes a transfer of a water supply connection to MOM in the amount of EUR 107,481.

PLANT AND EQUIPMENT

An increase in the value of plant and equipment as part of the increase in fixed assets being acquired in 2015 in the amount of EUR 3,615,108 included:

- ❖ restoration of spillways 1 and 3 at HPP Vuzenica in the amount of EUR 1,127,682;
- ❖ replacement of turbine grids at HPP Vuzenica in the amount of EUR 91,672;
- ❖ restoration of servomotors of guide wheels at HPP Vuzenica, HPP Ožbalt in the amount of EUR 64,596;
- ❖ restoration of the overhead travelling crane at HPP Vuhred in the amount of EUR 28,841;
- ❖ renovation of the control system at HPP Fala in the amount of EUR 661,836;
- ❖ extension of a cooling system at HPP Zlatoličje in the amount of EUR 39,653;

- ❖ replacement of an excitation system and protection devices at HPP Formin in the amount of EUR 241,445;
- ❖ purchase of equipment for monitoring of generating units at HPP Dravograd, HPP Vuzenica, HPP Mariborski otok and HPP Formin in the amount of EUR 458,382;
- ❖ restoration of generating unit 2 at SHPP Melje in the amount of EUR 212,106;
- ❖ upgrade of a video control system in the amount of EUR 45,854;
- ❖ purchase of new passenger cars in the amount of EUR 29,112;
- ❖ other plant and equipment.

A decrease in the value of equipment in the amount of EUR 1,218,761 mostly includes the retirement of:

- ❖ control devices for generating unit 2 at HPP Fala in the amount of EUR 171,090;
- ❖ distribution of own consumption of generating unit 2 and lock at HPP Fala in the amount of EUR 27,541;
- ❖ a 5 t-overhead travelling crane at HPP Vuhred in the amount of EUR 33,383;
- ❖ video control devices at HPP Dravograd and HPP Vuzenica in the amount of EUR 158,584;
- ❖ hardware of the control centre in the amount of EUR 311,589;
- ❖ the computer network devices in the amount of EUR 252,093;
- ❖ other computer equipment in the amount of EUR 74,088;
- ❖ sale of passenger cars in the amount of EUR 57,068
- ❖ sale of a truck in the amount of EUR 77,673;
- ❖ other worn-and-torn fixed assets.

In 2015, other transfers of property, plant and equipment in acquisition amounting to EUR 138,064 mainly included the transfer to costs.

PROPERTY, PLANT AND EQUIPMENT BEING ACQUIRED

In 2015, the company presented the closing balance of property, plant and equipment being acquired under property plant and equipment in course of construction:

- ❖ property in course of construction in the amount of EUR 19,302,083;
- ❖ plant and equipment in course of construction in the amount of EUR 3,137,057.

Carrying amounts of property in course of construction or production in the amount of EUR 19,302,083 refer to:

- ❖ restoration of a machine workshop at HPP Dravograd in the amount of EUR 69,477;
- ❖ maintenance of energy potential in front of HPP Mariborski otok in the amount of EUR 263,525;
- ❖ reconstruction of bridges at HPP Zlatoličje, HPP Formin and the Markovci dam in the amount of EUR 157,386;
- ❖ reconstruction of a fish way at Markovci dam in the amount of EUR 95,680;
- ❖ construction of PSP Kozjak in the amount of EUR 10,839,913;
- ❖ construction of a HPP the Mura River in the amount of EUR 3,009,310;
- ❖ construction of HPP Hrastje Mota in the amount of EUR 4,055,455;
- ❖ construction of small HPPs in the amount of EUR 427,860;
- ❖ utilization of geothermal energy in the amount of EUR 39,603;
- ❖ construction a wind power plant Ojstrica in the amount of EUR 114,757;
- ❖ other property in construction.

When preparing the financial statements the company assessed that the investment projects are most probably not endangered in spite of a slowdown in investments due to present unfavourable circumstances from the aspect of anticipated returns on investment projects (construction of PSP Kozjak an HPP on the Mura River) (also due to the commitments of Slovenia relating to the increase in production of energy from renewable sources), and there are no reasons for impairment of investment projects in progress as at 31 December 2015. Conclusions suggesting that impairment as at 31 December is not necessary are presented in further sections.

The investment in the construction of PSP Kozjak is still topical. The Environmental Impact Report and the expert bases for the Environmental Impact Report in the field of EMS, noise, vibrations and archaeology have been prepared. The most important approval is represented by the Environmental Impact Report as the end of the Comprehensive Environmental Impact Assessment (CEIA) of this project or its continuation. The tasks have been postponed to the next year.

In spite of the slow-down of the investment due to the unfavourable economic circumstances from the aspect of anticipated returns of the investment project it is expected in a period of 3 –5 years that the economic situation will improve and that the construction will be again economically feasible. The project was stopped in 2015 in accordance with the decision of the DEM management and all the contracts concluded were cancelled. The project was prepared in phases and a phase can start if the economic indicators improve.

The investment project of HPP construction on the Mura River foresees the construction of two or three HPPs. Various options of technical solutions were prepared under consideration of the programme "Verification of possibilities of exploitation of the Mura River"; the impact of the HPPs on the sustainability of the environment was discussed from the aspect of all three pillars of sustainability. It was concluded that the concepts of HPPs as multi-purpose facilities should be subordinated to the sensitivity of the environment in the entire concession area and the environmental protection should be taken into account in planning and operation to the greatest extent possible. The preparation of investments is in progress and we are focused on two potential locations - Hrastje Mota and Ceršak. Technical solutions for Ceršak were already prepared and include starting points for the spatial planning of the HPP facility in 5 options. The preliminary evaluation of the assessment of acceptability in various options in the environment was prepared for each country separately. The conclusions of the assessment show that individual options of HPPs are acceptable in the environment. Preparations for the initiative on both sides of the border can begin.

Relevant expert bases were ordered for HPP Hrastje Mota in 2014. They will determine the conditions and limits for the construction of HPP Hrastje Mota and the elaboration of the preliminary design. In 2015, the expert bases for the Environmental Report were completed. In accordance with the decision of the DEM management the project will be stopped after this phase and should be ready to be started when the economic indicators improve.

Carrying amounts of plant and equipment being acquired in the amount of EUR 3,137,057 refer to:

- ❖ restoration of spillways at HPP Dravograd and HPP Vuzenica in the amount of EUR 1,187,018;
- ❖ replacement of turbine grids at HPP Vuzenica in the amount of EUR 91,672;
- ❖ replacement and extension of cooling systems at HPP Vuzenica, HPP Mariborski otok and HPP Zlatoličje in the amount of EUR 130,499;
- ❖ refurbishment of HPP Fala in the amount of EUR 200,695;
- ❖ restoration of generating unit 2 at SHPP Melje in the amount of EUR 178,225;
- ❖ replacement of the excitation system and protection devices at HPP Formin in the amount of EUR 558,910;
- ❖ verification of heat use in generators in the amount of EUR 50,891;
- ❖ delivery of a micro gas turbine set in the amount of EUR 248,380;
- ❖ other plant and equipment being acquired.

A write-off of investments in progress in the amount of EUR 1,161,670 was made in scope of write-offs of investments in progress; the company adopted a decision that these investments would not continue for different reasons in future as they are no longer topical and/or economically unjustified. In scope of investments in progress a write-off in the amount of EUR 1,851,746 refers to the elimination of inadequate capitalisation of costs of communications activities related to the investments made in additional production capacities (PSP Kozjak and HPP on the Mura River).

Signs of impairment were identified for the boathouse facility and impairment was made in the amount of EUR 329,285.

Based on the assessment made signs of impairment were identified as at 31 December 2015. The purpose of the assessment of value is the fair value assessment of the discussed facility for the needs of financial reporting and testing of impairment in line with the International Valuation Standard. Fair value was considered as the basis for value. Due to the fact that the impairment was made as at 31 December 2015 no changes were made in the costs of depreciation in 2015. In 2016, the annual depreciation will amount to EUR 4,082 and will be lower by EUR 6,059 over the year 2015. If the asset were presented at the cost model, the depreciation would amount to EUR 471,285 as at 31 December 2015.

No mortgages are written on real estate, plant and equipment of the company and no equipment is acquired under finance lease. As at 31 December 2015, the company has contractual liabilities for the acquisition of assets in the amount of EUR 2,926,462.

*Movement of property, plant and equipment**in EUR*

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
Cost at 1 Jan 2014	13,768,338	384,995,719	348,259,858	13,975,863	26,954,334	787,954,112
Acquisitions	0	0	0	0	11,454,172	11,454,172
Disposals	(315,848)	(49,318)	(937,441)	(378)	0	(1,302,985)
Transfers from investments	0	8,832,459	4,899,739	1,296	(13,733,494)	0
Transfers - restatements	31,011	146	0	0	(149,521)	(118,364)
Cost at 31 Dec 2014	13,483,501	393,779,006	352,222,156	13,976,781	24,525,491	797,986,935
Write-downs at 1 Jan 2014	0	173,038,508	202,110,239	13,800,173	0	388,948,920
Disposals	0	(30,542)	(912,273)	(378)	0	(943,193)
Transfers - restatements	0	146	0	0	0	146
Depreciation	0	6,726,103	7,487,956	0	0	14,214,059
Write-downs at 31 Dec 2014	0	179,734,215	208,685,922	13,799,795	0	402,219,932
Carrying amount at 1 Jan 2014	13,768,338	211,957,211	146,149,619	175,690	26,954,334	399,005,192
Carrying amount at 31 Dec 2014	13,483,501	214,044,791	143,536,234	176,986	24,525,491	395,767,003

in EUR

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
Cost at 1 Jan 2015	13,483,501	393,779,006	352,222,156	13,976,781	24,525,491	797,986,935
Acquisitions	0	0	0	0	9,918,498	9,918,498
Disposals	(21,578)	0	(139,362)	0	0	(160,940)
Transfers from investments	435	4,624,762	4,221,490	6,682	(8,853,369)	0
Transfers - restatements	0	0	0	0	(138,064)	(138,064)
Write-offs	(154,551)	(107,481)	(1,079,399)	(56)	(3,013,416)	(4,354,903)
Cost at 31 Dec 2015	13,307,807	398,296,287	355,224,885	13,983,407	22,439,140	803,251,526
Write-downs at 1 Jan 2015	0	179,734,215	208,685,922	13,799,795	0	402,219,932
Disposals	0	0	(128,110)	0	0	(128,110)
Depreciation	0	6,980,720	7,721,429	0	0	14,702,149
Impairment	0	329,285	0	0	0	329,285
Write-offs	0	(3,445)	(1,071,378)	(56)	0	(1,074,879)
Write-downs at 31 Dec 2015	0	187,040,775	215,207,863	13,799,739	0	416,048,377
Carrying amount at 1 Jan 2015	13,483,501	214,044,791	143,536,234	176,986	24,525,491	395,767,003
Carrying amount at 31 Dec 2015	13,307,807	211,255,512	140,017,022	183,668	22,439,140	387,203,149

LONG-TERM INVESTMENTS IN SUBSIDIARIES (3)*Investments in subsidiaries**in EUR*

	31 Dec 2015	31 Dec 2014
SHPP LOBNICA d.o.o.	407,241	407,241
POMURSKI RAZVOJNI INŠTITUT	1,000	1,000
HSE INVEST d.o.o.	80,000	80,000
TOTAL	488,241	488,241

Data about subsidiaries at 31 December 2015

Company	Address	Activity	% of ownership	% voting rights
SHPP LOBNICA d.o.o.	Obrežna ulica 170, 2000 Maribor	Electricity production in hydropower plants	65.0%	65.0%
POMURSKI RAZVOJNI INŠTITUT	Slovenska ulica 43, 9000 Murska Sobota	Research and development	100.0%	100.0%
HSE INVEST d.o.o.	Obrežna ulica 170, 2000 Maribor	Other technical design and consulting	25.0%	25.0%

*Significant amounts in the financial statements of subsidiaries for the year 2015**in EUR*

Company	Assets	Liabilities (excl. of equity)	Revenue	Net profit or loss for the period	Total equity
SHPP LOBNICA d.o.o.	633,440	2,180	28,861	2,851	631,260
POMURSKI RAZVOJNI INŠTITUT	58,343	10,869	75,256	(1)	47,474
HSE INVEST d.o.o.	2,982,012	1,250,577	5,423,094	428,872	1,731,435
TOTAL	3,673,795	1,263,626	5,527,211	431,722	2,410,169

Investments in subsidiaries in the total amount of EUR 488,241 include:

- ❖ a 100 % share in Pomurski razvojni inštitut Murska Sobota in the amount of EUR 1,000; pursuant to Article 56 of the Companies Act the consolidated annual report is prepared for the controlling company and the controlled companies organised as capital companies. Pomurski razvojni inštitut Murska Sobota was established as a private institute based on the Institutes Act. Pomurski razvojni inštitut Murska Sobota is not included in the consolidation, as the results of the Institute are not relevant for the fair presentation.
- ❖ a 65 % share in the company SHPP Lobnica d.o.o. amounting to EUR 407,241.
- ❖ a 25 % share in HSE Invest d.o.o. in the amount of EUR 80,000.

<i>Movement of long-term investments in subsidiaries</i>		<i>in EUR</i>
	2015	2014
Cost at 1 Jan	488,241	488,234
Acquisitions	0	7
Cost at 31 Dec	488,241	488,241
Write-downs at 1 Jan	0	0
Write-downs at 31 Dec	0	0
Carrying amount at 1 Jan	488,241	488,234
Carrying amount at 31 Dec	488,241	488,241

OTHER LONG-TERM INVESTMENTS AND LOANS (4)

INVESTMENTS IN ASSOCIATES

<i>Investments in associates</i>		<i>in EUR</i>
	31 Dec 2015	31 Dec 2014
HIDROELEKTRARNE NA SPODNJI SAVI d.o.o., Brežice	81,027,886	81,027,886
ELDOM d.o.o.	106,712	106,712
TOTAL	81,134,598	81,134,598

Data about associates at 31 December 2015

Company	Address	Activity	% of ownership	% voting rights
HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.	Cesta bratov Cerjakov 33a, 8250 Brežice	Electricity production in hydropower plants	30.8%	30.8%
ELDOM d.o.o.	Obrežna ulica 170, 2000 Maribor	Real estate management	50.0%	50.0%

Significant amounts in the financial statements of associates for the year 2015

Company	Assets	Liabilities (excl. of equity)	Revenue	Net profit or loss for the period	Total equity
HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.	304,099,007	29,080,435	14,508,678	2,269,919	275,018,572
ELDOM d.o.o.	416,885	146,865	770,618	12,613	268,915
TOTAL	304,515,892	29,227,300	15,279,296	2,282,532	275,287,487

Investments in associates amounting to a total of EUR 81,134,598 include:

- ❖ a 50 % share in the company Eldom d.o.o. amounting to EUR 106,712 (increase in capital in 2009 amounting to EUR 100,000). Eldom is not included in the consolidation due to immateriality,
- ❖ a 30.8 % share in the company HESS d.o.o. amounting to EUR 81,027,886.

<i>Movement of long-term investments in associates</i>		<i>in EUR</i>
	2015	2014
Cost at 1 Jan	81,134,598	81,134,598
Cost at 31 Dec	81,134,598	81,134,598
Write-downs at 1 Jan	0	0
Write-downs at 31 Dec	0	0
Carrying amount at 1 Jan	81,134,598	81,134,598
Carrying amount at 31 Dec	81,134,598	81,134,598

OTHER LONG-TERM INVESTMENTS

Other long-term investments amounting to EUR 5,191 include funds invested in the Krvavec holiday facility (replacement of the roofing).

The company has long-term investments in holiday facilities in Portorož, Krvavec and Rab at cost of EUR 154,890, but in the past they were impaired in the amount of EUR 149,699.

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Other long-term investments	5,191	5,191
TOTAL	5,191	5,191

<i>Movement of other long-term investments</i>		<i>in EUR</i>
	2015	2014
Balance at 1 Jan	5,191	0
Acquisitions	0	5,191
Balance at 31 Dec	5,191	5,191

OTHER NON-CURRENT ASSETS (5)

Other non-current assets include the reserve fund SZ Smreka amounting to EUR 2,164, the reserve fund of Stanovanjsko podjetje Ravne amounting to EUR 820, the reserve fund of Staninvest amounting to EUR 4,100, other long-term deferred costs amounting to EUR 104,590, out of which the largest portion includes long-term accruals and deferrals for the turbine oil.

	<i>in EUR</i>	
Other long-term assets	31 Dec 2015	31 Dec 2014
SZ SMREKA	2,164	1,791
Stanovanjsko podjetje Ravne	820	590
Staninvest	4,100	3,463
Other long-term deferred costs	104,590	93,955
TOTAL	111,675	99,799

DEFERRED TAX ASSETS (6)

Deferred tax assets of the company include deferred receivables for provisions for jubilee premiums amounting to EUR 47,232, provisions for termination benefits upon retirement amounting to EUR 180,439, impairment of investments amounting to EUR 25,449 and impairment in trade receivables amounting to EUR 28,599.

in EUR

	Provisions	Impairment	TOTAL
Balance at 1 Jan 2014	302,566	195,241	497,807
To debit/(credit) of profit or loss	(16,684)	(141,193)	(157,877)
Balance at 31 Dec 2014	285,882	54,048	339,930
Balance at 1 Jan 2015	285,882	54,048	339,930
To debit/(credit) of profit or loss	(58,211)	0	(58,211)
Balance at 31 Dec 2015	227,671	54,048	281,719

AVAILABLE-FOR SALE FINANCIAL ASSETS (7)

At the end of 2015, available-for-sale financial assets that include property for sale amounted to EUR 3,250.

SHORT-TERM FINANCIAL RECEIVABLES AND LOANS (8)

At the end of the year 2015, the company presented the following short-term financial receivables and loans:

- ❖ short-term financial receivables and loans to group companies in the amount of EUR 34,697,143 and
- ❖ short-term financial receivables and loans to others in the amount of EUR 951.

in EUR

	31 Dec 2015	31 Dec 2014
Short-term financial receivables and loans to group companies	34,697,143	501,531
Short-term financial receivables and loans to others	951	951
TOTAL	34,698,094	502,482

Short-term financial receivables and loans to group companies include a short-term loan granted to the HSE company in the amount of EUR 30,000,000, other loans in the Group and interest receivables for loans granted.

in EUR

Short-term financial receivables and loans to group companies	AMOUNT
Loans granted	33,838,452
Interest receivable for loans	156,156
Interest receivable for guarantee	702,534
TOTAL	34,697,143

Loans granted to companies as at 31 December 2015 are presented below:

BORROWER	PRINCIPAL AMOUNT IN EUR	MATURITY	TYPE OF SECURITY	INTEREST RATE in %	INTEREST RECEIVABLE in EUR
HSE d.o.o.	30,000,000	31 Dec 2016	enforcement order	3.00	76,438
RGP d.o.o.	294,452	30 June 2015	bills of exchange, receivables under contract PG14-0117, LOT O	2,77 or legal default interest rate for late repayment	2,191
TET d.o.o. - in liquidation	3,544,000	31 Dec 2015	lien on movable and immovable property	3.00	77,527
TOTAL	33,838,452				156,156

Short-term financial receivables and loans to others include funds pooled for the maintenance of apartments in the amount of EUR 951.

<i>Movement of short-term financial receivables and loans</i>		<i>in EUR</i>
	2015	2014
Balance at 1 Jan	502,482	32,027,739
Acquisitions	65,740,400	60,706,732
Repayments	(31,544,788)	(92,231,989)
Balance at 31 Dec	34,698,094	502,482

As at 31 December 2015, there were no reasons for impairment of short-term financial receivables and loans.

SHORT-TERM TRADE RECEIVABLES (9)

		<i>in EUR</i>
Short-term operating receivables due from customers	31 Dec 2015	31 Dec 2014
Short-term operating receivables due from group companies	9,183,432	10,888,798
Short-term operating receivables due from associates	5,526	9,681
Short-term operating receivables due from customers	320,772	59,664
TOTAL	9,509,730	10,958,143

Short-term operating receivables due from group companies mainly include the receivables due from the company HSE for the electricity sold and the receivables for services relating to certain functions of the companies HSE, HSE Invest and SHPP Lobjana.

<i>Short-term operating receivables due from group companies</i>		<i>in EUR</i>
	31 Dec 2015	31 Dec 2014
HOLDING SLOVENSKE ELEKTRARNE d.o.o., Ljubljana	9,109,758	10,814,884
SHPP LOBNICA d.o.o.	366	366
HSE INVEST d.o.o., Maribor	73,308	73,548
TOTAL	9,183,432	10,888,798

Short-term operating receivables due from associates include receivables due from Eldom in the amount of EUR 5,526.

Short-term trade receivables comprise receivables due from Slovene customers amounting to EUR 320,772.

At the end of the year 2015, outstanding short-term operating receivables included receivables not yet due amounting to EUR 9,453,921, receivables due up to 3 months amounting to EUR 55,809.

OTHER CURRENT ASSETS (10)

		<i>in EUR</i>
Other short-term assets	31 Dec 2015	31 Dec 2014
Short-term advances	5,361	36,690
Short-term operating receivables due from state and other institutions	1,751,662	534,596
Short-term operating receivables due from others	16,490	48,655
Accrued income	0	1,428,416
Short-term deferred costs and expenses	99,969	44,528
TOTAL	1,873,482	2,092,885

Short-term operating receivables due from state and other institutions include receivables for the input VAT and other receivables in the total amount of EUR 1,751,662.

Short-term advances in the amount of EUR 5,361 and receivables *due from others* in the amount of EUR 16,490 are also recorded under short-term operating receivables.

Liabilities for insurance premiums paid in advance in the amount of EUR 2,645 and subscriptions paid in advance and other liabilities in the amount of EUR 97,324 are recorded under other current assets.

At the end of 2015, the company had no receivables due from the management and members of the management board.

CASH AND CASH EQUIVALENTS (11)

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Cash in hand and cheques received	20	0
Bank balances	2,156,513	274,053
Call deposits	5,000,000	36,000,000
TOTAL	7,156,533	36,274,053

Cash and cash equivalents include:

- ❖ EUR 20 – the maximal cash in hand for the operation of the Fala museum;
- ❖ cash in accounts with NLB in the amount of EUR 140,024;
- ❖ cash on the HSE treasury account in the amount of EUR 2,016,488;
- ❖ deposits at call (BKS bank AG in the amount of EUR 5,000,000).

EQUITY (12)

The company's total equity consists of called-up capital, revenue reserves, fair value reserve and retained profit or loss.

In comparison with the year 2014 the value of equity remained at the same level.

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Called-up capital	395,011,180	395,011,180
Revenue reserves	107,213,269	107,213,269
Fair value reserve	(125,208)	(21,927)
Retained earnings and losses	8,670,053	8,523,310
TOTAL	510,769,294	510,725,832

The share capital of the company amounts to EUR 395,011,180 and did not change when compared to the year 2014.

Revenue reserves amount to EUR 107,213,269 of which:

- ❖ legal reserves amount to EUR 39,501,118 and
- ❖ other revenue reserves amount to EUR 67,712,151.

At the end of 2015, *the fair value reserve* of the company amounting to a total of EUR -125,208 presented actuarial loss relating to termination benefits upon retirement. The actuarial loss increased in 2015 by EUR 105,173 and reduced by EUR 1,892, which complies with the proportion of utilization of provisions for termination benefits.

<i>Movement of fair value reserve</i>		<i>in EUR</i>
	ACTUARIAL GAINS/LOSSES FOR RETIREMENT BENEFITS	TOTAL
Balance at 1 Jan 2014	24,446	24,446
Formation, allocation	(46,373)	(46,373)
Balance at 31 Dec 2014	(21,927)	(21,927)
Balance at 1 Jan 2015	(21,927)	(21,927)
Formation, allocation	(105,173)	(105,173)
Transfer to retained profit or loss	1,892	1,892
Balance at 31 Dec 2015	(125,208)	(125,208)

Retained profit or loss, in the amount of EUR 8,670,053 is represented by net profit or loss for the financial year, reduced by covering of loss in the amount of EUR 1,892 that accounted for a proportional share of utilisation of provisions for termination benefits in 2015.

The relevant data about the balance and movement of the components of equity is presented in the Statement of changes in equity.

PROVISIONS FOR TERMINATION BENEFITS UPON RETIREMENT AND JUBILEE PREMIUMS (13)

<i>Provisions for termination benefits and jubilee premiums</i>		<i>in EUR</i>
	31 Dec 2015	31 Dec 2014
Provisions for termination benefits	2,237,791	2,176,995
Provisions for jubilee premiums	555,677	1,008,266
TOTAL	2,793,468	3,185,261

At the end of 2015, the company presented the following provisions:

- ❖ provisions for jubilee premiums amounting to EUR 555,677 and
- ❖ provisions for termination benefits amounting to EUR 2,237,791.

Provisions for termination benefits and jubilee premiums were created on the basis of the actuarial calculation as at 31 December 2015.

The actuarial calculation considers the following:

- ❖ the number of employees as at 31 December 2015;
- ❖ data about the employees (sex and date of birth, total and pensionable service and years of service in the company as at 30 September 2015, gross and net salary for September 2015);
- ❖ the method of calculating termination benefits and jubilee premiums in the company;
- ❖ growth in salaries (estimated future long-term growth in salaries amounting to 0.5 % in 2016, 2017 and 2018 and 2 % annually from the year 2019 on);
- ❖ staff turnover by age class;
- ❖ nominal long-term interest rate of 2.25%

Movement of provisions for termination benefits and jubilee premiums*in EUR*

	Provisions for termination benefits	Provisions for jubilee premiums	TOTAL
Balance at 1 Jan 2014	2,144,943	1,006,941	3,151,884
Formation - increase	215,333	223,840	439,173
Decrease - utilisation	(183,281)	(222,515)	(405,796)
Balance at 31 Dec 2014	2,176,995	1,008,266	3,185,261
Balance at 1 Jan 2015	2,176,995	1,008,266	3,185,261
Formation - increase	248,670	56,962	305,632
Decrease - utilisation, reversal	(187,874)	(509,551)	(697,425)
Balance at 31 Dec 2015	2,237,791	555,677	2,793,468

in EUR

	Provisions for termination benefits	Provisions for jubilee premiums	TOTAL
Balance at 31 Dec 2014	2,176,994	1,008,266	3,185,261
Costs of interest (IS)	67,220	29,449	96,669
Costs of current years of service (IS)	76,277	27,513	103,790
Costs of previous years of service (IS)	(35,140)	(332,493)	(367,633)
Payments of benefits (-)	(152,734)	(175,981)	(328,714)
Actuarial gains/losses (IS)		(1,078)	(1,078)
Actuarial gains/losses through SFP	105,173		105,173
Balance at 31 Dec 2015	2,237,791	555,677	2,793,468

Sensitivity analysis for provisions for termination benefits and jubilee premiums*in EUR*

	2015			
	Discount rate		Growth of salaries	
	Increase by 0.5	Decrease by 0.5	Increase by 0.5	Decrease by 0.5
Provisions for termination benefits	(77,759)	83,901	83,562	(78,053)
Provisions for jubilee premiums	(17,098)	18,122	18,087	(17,224)
TOTAL	(94,857)	102,023	101,649	(95,277)

OTHER PROVISIONS (14)*in EUR*

	31 Dec 2015	31 Dec 2014
Other provisions	1,871,505	1,871,505
TOTAL	1,871,505	1,871,505

At the end of the year 2015, the company presented provisions for the obligation of transferring the property to the Farmland and Forest Fund of the Republic of Slovenia (SKZG) amounting to EUR 1,871,505 under other provisions.

	<i>in EUR</i>	
	Other provisions	TOTAL
Balance at 1 Jan 2014	9,939	9,939
Formation - increase	1,871,505	1,871,505
Decrease - reversal	(9,939)	(9,939)
Balance at 31 Dec 2014	1,871,505	1,871,505
Balance at 1 Jan 2015	1,871,505	1,871,505
Balance at 31 Dec 2015	1,871,505	1,871,505

LONG-TERM OPERATING LIABILITIES (15)

Long-term operating liabilities include assigned contributions for disabled persons in the amount of EUR 3,857.

LONG-TERM OPERATING LIABILITIES (16)

Long-term operating liabilities of the company include long-term operating liabilities from advances (long-term security) in the amount of EUR 1,350.

<i>Other long-term liabilities</i>	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Long-term liabilities from advances	1,350	1,350
Other long-term operating liabilities	0	45,582
TOTAL	1,350	46,932

SHORT-TERM TRADE LIABILITIES (17)

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Short-term operating liabilities to group companies	361,026	434,008
Short-term operating liabilities to associates	4,832	22,315
Short-term operating liabilities to suppliers	2,960,819	3,201,621
TOTAL	3,326,677	3,657,944

Short-term operating liabilities to group companies include liabilities to the companies HSE, RGP, HSE Invest, HTZ and PRI MS in the total amount of EUR 361,026.

<i>Short-term operating liabilities to group companies</i>	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
HOLDING SLOVENSKE ELEKTRARNE d.o.o., Ljubljana	13,907	6,601
HTZ IP d.o.o.	13,005	0
RGP d.o.o.	75,487	23,876
POMURSKI RAZVOJNI INŠTITUT Murska Sobota	21,983	28,668
HSE INVEST d.o.o., Maribor	236,644	374,863
TOTAL	361,026	434,008

Short-term operating liabilities to associates include liabilities to the Erico Institute in the amount of EUR 4,832.

Short-term trade liabilities include the liabilities to:

- ❖ domestic suppliers amounting to EUR 2,816,425 and
- ❖ foreign suppliers amounting to EUR 144,394.

At the end of 2015, the company recorded outstanding short-term trade payables, of which payables not yet due amounted to EUR 3,303,029 and liabilities due up to 3 month amounted to EUR 23,648.

OTHER SHORT-TERM LIABILITIES (18)

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Short-term operating liabilities from advances	0	1,704
Short-term operating liabilities to employees	1,145,170	769,559
Short-term operating liabilities to state and other institutions	2,052,643	2,160,244
Short-term operating liabilities to others	597,621	227,494
Short-term accrued costs and expenses	668,136	5,830,855
TOTAL	4,463,570	8,989,856

Short-term payables to employees include liabilities for net salaries, net allowances, taxes and contributions from gross salaries and other liabilities for salaries in the total amount of EUR 1,145,170.

Payables to state and other institutions are liabilities for the payment of VAT, concessions and taxes and contributions for salaries in the total amount of EUR 2,052,643.

Payables to others mostly include liabilities for insurance premiums, liabilities to sub-contractors, wage assignments, other liabilities to employees and other in the total amount of EUR 597,621.

Other short-term operating liabilities include also short-term accrued costs of concessions in the amount of EUR 2,039, to a legal entity in the amount of EUR 487 and other accrued costs in the amount of EUR 665,610.

The company has no short-term or long-term liabilities to the member of the management board.

CONTINGENT ASSETS (19)

<i>Contingent assets</i>	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Bank guarantees received for investments	1,831,010	2,887,859
Other (guarantee given)	215,000,000	0
TOTAL	216,831,010	2,887,859

Contingent assets include performance bonds received and guarantees for the remedy of defects during the guarantee period in the total amount of EUR 1,831,010.

In 2015, the company gave a guarantee in the amount of EUR 215 million to HSE for taking a bridge loan. The maturity of the guarantee is one year from the date of signing the contract (29 December 2015), and 10 blank bills of exchange were submitted as security.

NOTES TO THE INCOME STATEMENT

REVENUE (20)

The company generated revenue through the sale of electricity in the amount of EUR 64,733,271, which is a 10% decrease over revenue generated through sale in 2014.

Revenue from the sale includes revenue from sale in the domestic market in the amount of EUR 64,695,400 and revenue from sale in the foreign market in the amount of EUR 37,871.

98.59% of revenue from the sale in the domestic market include revenue generated through the sale of electricity (EUR 63,782,896) to the HSE company in the amount of EUR 63,319,165 and the Borzen company in the amount of EUR 463,730.

Revenue from other services provided in the amount of EUR 905,321 include revenue from services (business services, technical support services, control of the TK network,...), rents, canteen and other revenue generated through sale.

	<i>in EUR</i>	
	2015	2014
Generated on the domestic market	64,695,400	72,215,910
Electricity	63,782,896	71,215,306
Other merchandise and material	7,183	280
Other services	905,321	1,000,324
Generated on foreign markets	37,871	36,619
Other services	37,871	36,619
TOTAL	64,733,271	72,252,529

OTHER OPERATING INCOME (21)

Other operating income includes profits on the sale of fixed assets in the amount of EUR 181,761, revenue received from compensation and contractual penalties in the amount of EUR 52,326, utilisation of deferred income in the amount of EUR 59,903, revenue from reversal of provisions for termination benefits upon retirement and jubilee premiums in the total amount of EUR 368,711 and other operating income in the amount of EUR 417,055 among which the accrued costs of a Christmas bonus for 2014 account for the major portion.

	<i>in EUR</i>	
	2015	2014
Reversal of provisions	368,711	0
Reversal of deferred revenue	59,903	61,277
Profits from sale property, plant and equipment and reversal of impaired receivables	181,761	193,456
Compensations and contractual penalties	52,326	69,627
Other operating revenue	417,055	119,686
TOTAL	1,079,756	444,046

COSTS OF GOODS, MATERIAL AND SERVICES (22)

	<i>in EUR</i>	
	2015	2014
Costs of subsidiary material	47,924	117,340
Costs of energy	221,466	213,810
Costs of spare parts	226,477	274,159
Costs of low-value assets	15,639	19,883
Other costs of material	78,832	121,833
Total costs of material	590,338	747,025
Costs of services related to creating products	25,873	44,154
Costs of transport services	56,228	107,408
Maintenance	1,897,734	1,753,217
Rentals	7,143	10,869
Work-related refunds to employees	40,885	38,019
Insurance and bank services	842,922	823,836
Costs of professional and intellectual services	449,994	440,016
Costs of research and development	121,983	248,931
Costs of fairs, advertising and entertainment	263,255	427,873
Costs of services rendered by individuals	44,756	35,179
Other costs of services	671,241	787,198
Total costs of services	4,422,014	4,716,700
TOTAL	5,012,352	5,463,725

The major portion of costs of materials includes costs of energy, costs of spare parts and maintenance materials, costs of auxiliary materials, costs of office supplies and technical literature and other costs of materials.

Costs of services include costs of maintenance, costs of fairs, advertising and entertainment, costs of consulting and intellectual services, costs of insurance and bank services, costs of transport services and other costs of service.

Costs of services include also the audit fee that amounted to EUR 16,920 in 2015.

	<i>in EUR</i>	
	2015	2014
Audit of the Annual Report	16,920	18,000
TOTAL	16,920	18,000

No other amounts were paid to KPMG Slovenija d.o.o. in 2015, except the auditing of the annual report.

EMPLOYEE BENEFITS EXPENSE (23)

Employee benefit expenses were calculated in compliance with the Employment Relationship Act, collective agreement for power industry of Slovenia and/or under individual employment contracts. Employee benefit expense includes salaries and wage compensations, and other labour costs include annual leave allowance, provisions for termination benefits upon retirement and jubilee premiums, optional personal insurance, meal allowance and commuting allowance. Social security costs include employer's contributions in the amount of 16.1% and costs of supplementary pension insurance.

	<i>in EUR</i>	
	2015	2014
Wages and salaries	8,628,941	9,273,504
Pension insurance costs	1,188,152	1,244,807
Other insurance costs	638,032	683,366
Other employee benefits expenses	1,101,653	1,213,958
TOTAL	11,556,778	12,415,635

LEVEL OF EDUCATION	31 Dec 2015	31 Dec 2014
8/2	3	2
8/1	6	7
7	43	45
6/2	30	29
6/1	51	51
5	65	67
4	8	8
3	56	61
2	2	2
1	2	4
TOTAL	266	276

AVERAGE AGE OF EMPLOYEES	31 Dec 2015	31 Dec 2014
	48.1	47.4

WRITE-DOWNS IN VALUE (24)

	<i>in EUR</i>	
	2015	2014
Amortisation of intangible assets	555,004	462,528
Depreciation of property, plant and equipment	14,702,149	14,214,059
Allowances for operating receivables and impairment of inventories	17	0
Sale, write-offs and impairment of property, plant and equipment and intangible assets	3,628,668	333,860
TOTAL	18,885,838	15,010,447

Write-downs in value comprise the amortisation of intangible assets in the amount of EUR 555,004, depreciation of property, plant and equipment in the amount of EUR 14,702,149, adjustment for operating receivables in the amount of EUR 17 and expenses for the sale and write-downs in property, plant and equipment and intangible assets in the amount of EUR 3,628,668 that include the retirement of investments in progress, impairment of real property and retirement of real property and equipment.

OTHER OPERATING EXPENSES (25)

	<i>in EUR</i>	
	2015	2014
Provisions	0	1,871,505
Fee for building site use	3,252,709	3,390,648
Concessions	10,284,650	16,950,717
Environmental charges	7,691,238	7,954,337
Donations	178,272	245,232
Other operating expenses	310,669	748,996
TOTAL	21,717,538	31,161,435

Other operating expenses include:

- ❖ compensation for the use of building plot in the amount of EUR 3,252,709;
- ❖ concessions in the amount of EUR 10,284,650;
- ❖ expenses for environmental protection (expenses for water refunds and ecological rehabilitation) in the amount of EUR 7,691,238;
- ❖ donations in the amount of EUR 178,272;
- ❖ other expenses in the amount of EUR 310,669.

A decrease in costs of concessions over the previous year was a result of less favourable hydrology in 2015.

FINANCE INCOME (26)

	<i>in EUR</i>	
	2015	2014
Dividends and other profit shares	14,298	9,727
Finance income on loans granted and deposits	803,402	1,449,073
Finance income on sale of investments	0	207,000
Other finance income	702,534	0
TOTAL	1,520,234	1,665,800

Finance income comprises revenue from shares in other companies (pay-out of profit of SHPP Lobnica), interest on loans (loans granted to companies HSE, RGP and TET) and deposits given (various banks and HSE treasury account) and other income from commissions for the guarantee given to HSE.

FINANCE COSTS (27)

	<i>in EUR</i>	
	2015	2014
Other finance costs	96,669	132,704
TOTAL	96,669	132,704

Finance costs comprise borrowing costs, arising from the actuarial calculation of termination benefits upon retirement and jubilee premiums in the amount of EUR 96,669.

TAXES (28)

The company is liable to pay tax under the Value Added Tax Act and the Corporate Income tax Act.

In accordance with the Corporate Income Tax Act the tax for 2015 was paid at a tax rate of 17 % of the tax base established in the tax calculation of the company.

In 2015, the assessed corporate income tax amounted to EUR 1,392,748. On the basis of the tax calculation from 2015 the company paid EUR 1,611,542 advance payments of corporate income tax in 2015 (under consideration of the advance payment in January 2016) and at the end of 2015, it presented receivables for the tax assessed amounting to EUR 84,499.

	<i>in EUR</i>	
	2015	2014
a. Current tax	1,392,748	1,611,542
b. Deferred taxes	58,211	157,876
Total income tax recognised in the IS	1,450,959	1,769,418

Deferred taxes include deferred tax assets. The values of formation and utilisation are presented in disclosures of deferred tax assets (Note 6).

	<i>in EUR</i>	
	2015	2014
Profit or loss before tax	10,122,904	10,292,728
Tax calculated at applicable tax rate	1,720,894	1,749,764
Tax on income reducing tax base	(4,298)	(38,298)
Tax on tax relief	(394,028)	(484,433)
Tax on expenses reducing tax base	(88,499)	(131,075)
Tax on non-deductible expenses	195,309	565,038
Tax on other changes in the tax balance sheet	(36,630)	(49,454)
Current tax	1,392,748	1,611,542
Deferred taxes	58,211	157,876
Total tax	1,450,959	1,769,418
Effective tax rate	14.33	17.19

The effective tax rate for 2015 amounts to 14.33%.

NET PROFIT OR LOSS (29)

	<i>in EUR</i>	
	2015	2014
Gross operating yield	65,871,845	72,810,874
Operating profit or loss	8,699,339	8,759,632
Financial result	1,423,565	1,533,096
Profit or loss before tax	10,122,904	10,292,728
Net profit or loss for the period	8,671,945	8,523,310

The company ended the fiscal year 2015 with net profit in the amount of EUR 8,671,945.

NOTES TO THE STATEMENT OF OTHER COMPREHENSIVE INCOME

TOTAL COMPREHENSIVE INCOME (30)

The company presents actuarial losses relating to the liabilities to employees for termination benefits upon retirement in the statement of total comprehensive income under the items that will not be subsequently re-classified into profit or loss.

Under consideration of the facts mentioned above total comprehensive income amounted to EUR 8,566,772 at the end of 2015.

NOTES TO THE CASH FLOW STATEMENT

Net cash from operating activities was generated in operation amounting to EUR 22,124,690. Cash flows from operating activities were thus positive.

Cash flows from investing activities were negative, net cash from investing activities amounted to EUR 42,718,900.

Cash flows from financing activities were also negative, net cash from financing activities amounted to EUR 8,523,310.

At the end of the period under review, the company presented cash flow amounting to EUR -29,117,520.

<i>in EUR</i>		
Types of cash flows	2015	2014
Cash flows from operating activities	22,124,690	28,070,427
Cash flows from investing activities	(42,718,900)	21,960,329
Cash flows from financing activities	(8,523,310)	(56,142,778)
Net cash in the period	(29,117,520)	(6,112,022)

NOTES TO THE STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity presents changes in components of equity for the financial year.

The company prepares the statement of changes in equity in form of a table.

Total comprehensive income of the reporting period changed by EUR 8,566,772 as follows:

- ❖ it increased by net profit or loss of the current year amounting to EUR 8,671,945 and
- ❖ it decreased by the actuarial loss relating to termination benefits upon retirement amounting to EUR 105,173.

As at 31 December 2015, the company established accumulated profit amounting to EUR 8,670,053.

<i>in EUR</i>		
ACCUMULATED PROFIT	31 Dec 2015	31 Dec 2014
1. Net profit or loss for the period	8,670,053	8,523,310
2. Retained earnings / retained net loss	0	0
3. Reversal of revenue reserves	0	0
4. Allocation to revenue reserves in accordance with the decision of the management (legal reserves, reserves for own shares and own shares and statutory reserves)	0	0
5. Allocation to revenue reserves in accordance with the decision of the management and supervisory boards (other revenue reserves)	0	0
6. Accumulated profit (6=1+2+3-4-5)	8,670,053	8,523,310

OTHER NOTES

RELATED PARTIES

The company entered into transactions with related parties on the basis of the contracts concluded. The transactions between related companies complied with the market principles and rules of obligation. Individual transactions with related parties are disclosed in the report on transactions with related parties which is available at the company's headquarters.

The columns of sales and purchase present the turnover of all transactions (excluding VAT) between the company and associates in 2015. The balance at the end of 2016 is presented for granted and received loans (principal and interest).

	<i>in EUR</i>			
	Sales	Purchases	Loans granted and interest	Income from guarantees given
HSE d.o.o.	64,311,588	52,017	30,778,973	702,534
SHPP Lobjanica d.o.o.	3,600	0	0	0
TET d.o.o. - in liquidation	77,526	28,177	3,621,526	0
HTZ VELENJE I.P. d.o.o.	0	15,480	0	0
GOST d.o.o.	0	206	0	0
RGP d.o.o.	23,283	2,796,774	296,644	0
HSE Invest d.o.o.	335,338	877,975	0	0
TOTAL 2015	64,751,335	3,770,629	34,697,143	702,534

Sales and purchase prices for services are determined on the basis of the valid internal pricelist of companies within the HSE Group, rents are determined on the basis of comparable free prices, and sales prices of electricity on the basis of the cost plus method.

EMOLUMENTS

	<i>in EUR</i>				
	Salary	Other earnings	Bonuses	Refund of costs	TOTAL
Management Board	132,019	3,610	3,991	1,622	141,242
Employees who are not subject to the tariff part of the collective agreement	439,497	72,236	11,645	5,968	529,346
TOTAL 2015	571,516	75,846	15,636	7,590	670,588

Emoluments of managers and employees who are not subject to the tariff part of the collective agreement comprise:

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

Emoluments of Supervisory Board members include gross attendance fees of all members, including travel expenses related to the performance of tasks in the SB.

In 2015, the company granted no advances, loans and guarantees to these groups of persons.

FINANCIAL INSTRUMENTS AND RISKS

CREDIT RISK

The major customer of the company is the controlling company HSE that purchases the complete quantity of the electricity produced.

Credit risk that involves a danger that receivables due from customers and other legal entities will not be settled in total amounts or will not be paid at all is minimised in the company by concluding the annual contract for the sale of electricity that contains the elements of security of receivables.

The sale of electricity which accounts for the major share in our short-term operating receivables is secured by a bill of exchange statement; other short-term operating receivables are not secured.

It is estimated that these risks relating to trade receivables are managed due to the measures mentioned and that the exposure to credit risks was low in 2015.

All the loans granted to the Group were adequately secured by an enforcement order, bills of exchange, lien, and therefore it is estimated that the credit risk for the loans granted is low.

Short-term operating and financial receivables by maturity

in EUR

	MATURITY				TOTAL
	NOT DUE	PAST DUE UP TO 3 MONTHS (up to 90 days)	PAST DUE FROM 3 TO 6 MONTHS (91 - 180 days)	PAST DUE IN EXCESS OF A YEAR (from 361 on)	
Short-term operating receivables due from group companies	10,882,148	6,650	0	0	10,888,798
Short-term operating receivables due from associates	9,681	0	0	0	9,681
Short-term operating receivables due from customers	53,994	5,235	435	171,483	231,147
Short-term advances	36,690	0	0	0	36,690
Short-term operating receivables due from state and other institutions	534,596	0	0	0	534,596
Short-term operating receivables due from others	48,655	0	0	0	48,655
Short-term financial receivables and loans to group companies	501,531	0	0	0	501,531
Short-term financial receivables and loans to others	951	0	0	0	951
Balance at 31 December 2014	12,068,246	11,885	435	171,483	12,252,049

in EUR

	MATURITY				TOTAL
	NOT DUE	PAST DUE UP TO 3 MONTHS (up to 90 days)	PAST DUE FROM 3 TO 6 MONTHS (91 - 180 days)	PAST DUE IN EXCESS OF A YEAR (from 361 on)	
Short-term operating receivables due from group companies	9,176,701	6,731	0	0	9,183,432
Short-term operating receivables due from associates	5,526	0	0	0	5,526
Short-term operating receivables due from customers	308,591	10,995	1,186	168,227	488,999
Short-term advances	5,361	0	0	0	5,361
Short-term operating receivables due from state and other institutions	1,751,662	0	0	0	1,751,662
Short-term operating receivables due from others	16,490	0	0	0	16,490
Short-term financial receivables and loans to group companies	34,400,499	0	296,644	0	34,697,143
Short-term financial receivables and loans to others	951	0	0	0	951
Balance at 31 December 2015	45,665,781	17,726	297,830	168,227	46,149,564

Movement of adjustments for short-term operating receivables

in EUR

	2015	2014
Balance at 1 January 2015	171,483	818,514
Final write-off of receivables	(3,256)	(647,031)
Balance at 31 December 2015	168,227	171,483

LIQUIDITY RISK

Liquidity risk is the risk of reduced liquidity and changing prices of securities.

The company has no investments in securities and therefore the risk of reduced liquidity has been identified, which is estimated as low given the predictability and security of payments made by our largest customer. Trade and financing liabilities are known in advance.

In 2015, liquidity risks were well managed, because cash flows were monitored on a daily, weekly and monthly basis; surplus liquidity was deposited with established banks according to the principles of risk diversification and profit maximisation; adequate liquidity reserve was set aside.

Long-term liabilities by maturity*in EUR*

	MATURITY		TOTAL
	UP TO 2 YEARS AFTER THE DATE OF SFP	FROM 3 TO 5 YEARS AFTER THE DATE OF SFP	
Long-term operating liabilities from advances	0	1,350	1,350
Other long-term operating liabilities	45,582	0	45,582
TOTAL 31 December 2014	45,582	1,350	46,932

in EUR

	MATURITY		TOTAL
	UP TO 2 YEARS AFTER THE DATE OF SFP	FROM 3 TO 5 YEARS AFTER THE DATE OF SFP	
Long-term operating liabilities from advances	0	1,350	1,350
TOTAL 31 December 2015	0	1,350	1,350

Short-term operating and financial liabilities by maturity*in EUR*

	NOT DUE	MATURITY	TOTAL
		PAST DUE UP TO 3 MONTHS (up to 90 days)	
Short-term operating liabilities to group companies	405,340	0	405,340
Short-term operating liabilities to associates	22,315	0	22,315
Short-term operating liabilities to suppliers	3,217,979	12,310	3,230,289
Short-term operating liabilities from advances	1,704	0	1,704
Short-term operating liabilities to employees	769,559	0	769,559
Short-term operating liabilities to state and other institutions	2,160,244	0	2,160,244
Other short-term operating liabilities	227,494	0	227,494
TOTAL 31 December 2014	6,804,635	12,310	6,816,945

in EUR

	NOT DUE	MATURITY	TOTAL
		PAST DUE UP TO 3 MONTHS (up to 90 days)	
Short-term operating liabilities to group companies	339,043	0	339,043
Short-term operating liabilities to associates	4,832	0	4,832
Short-term operating liabilities to suppliers	2,959,154	23,648	2,982,802
Short-term operating liabilities to employees	806,007	0	806,007
Short-term operating liabilities to state and other institutions	2,052,643	0	2,052,643
Other short-term operating liabilities	597,621	0	597,621
TOTAL 31 December 2015	6,759,300	23,648	6,782,948

CURRENCY RISK

<i>Exposure to exchange rate risk</i>	<i>in EUR</i>	
	EUR	TOTAL
Short-term operating receivables and loans	502,482	502,482
Short-term operating receivables	11,578,084	11,578,084
Long-term operating liabilities	(46,932)	(46,932)
Short-term operating liabilities	(6,816,945)	(6,816,945)
Net exposure -SFP 31 December 2014	5,216,689	5,216,689

	<i>in EUR</i>	
	EUR	TOTAL
Short-term operating receivables and loans	34,698,094	34,698,094
Short-term operating receivables	11,283,242	11,283,242
Long-term operating liabilities	(1,350)	(1,350)
Short-term operating liabilities	(5,768,953)	(5,768,953)
Net exposure -SFP 31 December 2015	40,211,033	40,211,033

The company is not exposed to any currency risk since it operates solely in euro.

INTEREST RATE RISK

Interest rate risk in DEM was estimated as low, which is why no active policies for the management of such risks were prepared for 2015.

Fixed interest rates are agreed for the loans granted in the Group and therefore no sensitivity analysis was made for this section.

CAPITAL MANAGEMENT

The main purpose of capital management is to provide improved credit ratings and capital adequacy for the needs of financing of operations and investments. An adequate scope of capital enhances the confidence of creditors, the market and provides the future development of the activity.

The company monitors movement of capital by the use of the leverage ratio, calculated by the division of net liabilities and total net liabilities and total equity. Net liabilities of the company include the loans received and other financial liabilities reduced by cash.

The leverage ratio indicates the ratio of company liabilities to equity. At the end of 2015, the ratio was lower compared to 2014.

<i>Capital management</i>	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Long-term financial liabilities	0	0
Short-term financial liabilities	0	0
Total financial liabilities	0	0
Capital	510,769,294	510,725,832
Financial liabilities/capital	0.00	0.00
Net financial liability	(7,156,533)	(36,274,053)
Net debt/capital	(0.01)	(0.07)

FAIR VALUES*Carrying amount and fair values of financial instruments**in EUR*

Financial instruments	31 Dec 2015		31 Dec 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	0	0	0	0
Non-derivative financial assets at amortised cost	53,137,870	53,137,870	48,354,619	48,354,619
Financial receivables	34,698,094	34,698,094	502,482	502,482
Operating receivables	11,283,243	11,283,243	11,578,084	11,578,084
Cash	7,156,533	7,156,533	36,274,053	36,274,053
Total	53,137,870	53,137,870	48,354,619	48,354,619
Non-derivative financial liabilities at fair value	0	0	0	0
Non-derivative financial liabilities at amortised cost	6,784,298	6,784,298	6,863,877	6,863,877
Operating liabilities	6,784,298	6,784,298	6,863,877	6,863,877
TOTAL	6,784,298	6,784,298	6,863,877	6,863,877

*Financial assets at fair value with respect to hierarchy**in EUR*

	31 Dec 2015	31 Dec 2014
Financial assets at fair value of level 3	5,191	5,191
TOTAL	5,191	5,191

EVENTS AFTER THE REPORTING DATE

Events after the date of statement of financial position that may influence the financial statements for the year 2015 and notes to the financial statements in this report are:



05 APPENDICES

CONTACT DATA
LIST OF ABBREVIATIONS

5.1 CONTACT DATA

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5.2 LIST OF ABBREVIATIONS

CC	<i>Control centre</i>
PSP	<i>Pumped-storage power plant</i>
VAT	<i>Value-added tax</i>
DEM	<i>Dravske elektrarne Maribor d.o.o.</i>
NSP	<i>National spatial plan</i>
OPL	<i>Overhead power line</i>
EBIT	<i>Earnings before interest and taxes</i>
EBITDA	<i>Earnings before interest and taxes, depreciation and amortisation</i>
ES	<i>Electricity system</i>
ELES	<i>Elektro Slovenija d.o.o.</i>
EU	<i>European Union</i>
EUR	<i>Euro</i>
HPP	<i>Hydropower plant</i>
HESS	<i>Hidroelektrarne na spodnji Savi d.o.o.</i>
HSE	<i>Holding Slovenske elektrarne d.o.o.</i>
PD	<i>Preliminary design</i>
IS	<i>Information system</i>
ISO	<i>International Organisation for Standardisation</i>
SHPP	<i>Small hydropower plant</i>
IFRS	<i>International Financial Reporting Standards</i>
NEK	<i>Nuklearna elektrarna Krško d.o.o.</i>
NLB	<i>Nova ljubljanska banka</i>
SB	<i>Supervisory Board</i>
OHSAS	<i>Occupational health and safety management system</i>
ACP	<i>Anti-corrosion protection</i>
PRI	<i>Pomurski razvojni inštitut</i>
RECS	<i>Renewable energy certificate system</i>
RS	<i>Republic of Slovenia</i>
DTS	<i>Distribution transformer station</i>
SENG	<i>Soške elektrarne Nova Gorica d.o.o.</i>
SORS	<i>Statistical Office of the Republic of Slovenia</i>
IMAD	<i>Institute of Macroeconomic Analysis and Development</i>
ZGD	<i>the Companies Act</i>