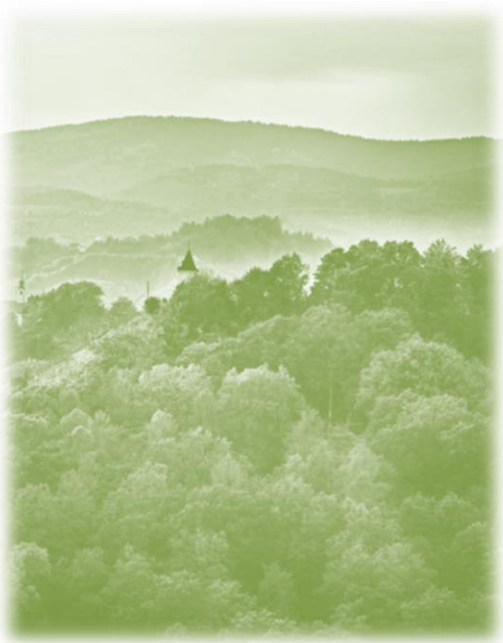
Skupina GEN dem
dravske elektrarne maribor

Energy from nature for people and nature





ANNUAL REPORT

2016

April 2017

TABLE OF CONTENTS

01 INTRODUCTION

FOREWORD BY THE MANAGING DIRECTOR

BUSINESS HIGHLIGHTS FOR 2016

OVERVIEW OF SIGNIFICANT EVENTS IN 2016

1.1 FOREWORD BY THE MANAGING DIRECTOR

The following pages represent another outstanding accolade of Dravske elektrarne Maribor, resulting in fantastic production - a good 2,800 MWh of generated electrical energy have been supplied to the owner - and a bottom line that far exceeds plans. We can take even greater pride in this achievement since it was accomplished in a year that has been anything but easy for us, as well as the entire HSE group.
The middle of the year was marked by a change in leadership of HSE, with Gorazd Skubin taking over as General Manager, who presented a programme for development and expansion that imbued everyone with optimism for the future. This feeling was then heightened by closing the leveraging for the investment in Block 6 of the Šoštanj coal fired power plant, which our company helped to achieve.

There can be no reliable generation without planned and timely overhauls and refurbishments; last year's overhaul cycle lasted two months, during which time fourteen inspections and seven overhauls took place — on average, the inspections and the overhauls took nine and twenty one business days, respectively; further attesting to the skill and commitment of every worker involved.

2016 also saw the conclusion of the wind measurements using lasers project that began in 2014, which yielded the necessary data to pinpoint the utilizable sites in northern Slovenia based on a calibrated model where, taking into account all environmental restrictions, the construction of wind power plants will be economically viable.

Towards the year's end, and as part of the preparation of the National Spatial Plan — eleven years after we have been awarded the concession for energy utilization of the Mura — , the ENVIRONMENTAL REPORT and the STUDIES OF OPTIONS for the Hrastje Mota hydro power plant have been submitted to the competent ministry. This is a comprehensive set of documents produced by experts from different fields with a view to check the environmental burden of the project. We honestly believe, considering any aspect, that we have professionally shown and proved that, if mitigation and countervailing measures are put in place, the project may be acceptable to the environment and the community.

However, our thoughts were not aimed at work exclusively. Throughout the year, and with the support of various cultural, sports and professional events in the municipalities along the Drava and the Mura, we have ensured the existence and development of organisations that in spite of the adverse financial situation in the region are labouring to organise events whose reputation stretches far beyond the national borders. We have laboured as best as we could to support associations that make daily life as easy and care-free as possible for all of us, as well as those associations that strive to help the weakest or socially most at risk.

Our employees have taken part in many professional events, both as participants and lecturers, benefiting from the dissemination of knowledge and skills that must remain the driving force of our community's development also in the future. It is only through new competencies that new solutions will come about; solutions that are pivotal in more challenging environments and situations.

Notwithstanding the above, note must be taken of the sporting endeavours of our workers, since I firmly believe that health is instrumental for good and efficient work. In addition to the many disciplines available within the sports association, this year also saw the launch of the zDravo vadimo project, which spurred many to take on recreational activities.

I am particularly pleased that we have been able to maintain a healthy dialogue with the company's trade union and the works council despite the strenuous business conditions; not only that, in certain aspects we have been able to upgrade the dialogue, which has resulted in solutions for some of challenges that have pestered us for years.

As this is the last address of the kind that I am writing, please allow me to avail myself of the opportunity and sincerely thank each and every one of you for your cooperation during my tenure, be that as it was, here at Dravske elektrarne Maribor. In the energy sector, projects do not happened overnight, but over the course of last seven years that I have been in charge of the company, we have managed to finish some, start a few, and build a solid foundation for others still that can be built upon in the coming years. I sincerely believe that with such a team and such knowledge the years to come will be a resounding success.

Viljem Pozeb, MSc
Managing Director

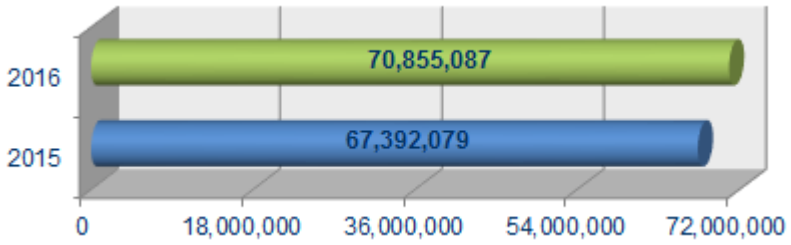
1.2 BUSINESS HIGHLIGHTS FOR 2016

*In 2016, Dravske elektrarne Maribor d.o.o. (hereinafter as DEM) performed **successfully**.*
The Company continued to follow the course of action specified, achieved the majority of the objectives set and even exceeded some of them.
*Compared to the year before, we were able to **increase** our profit by as much as **68 %**.*

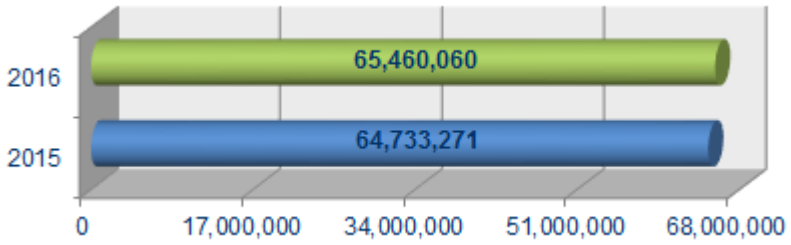
Key achievements of 2016:

	2016	2015	2016/2015
Net revenue from sales in EUR	65,460,060	64,733,271	101.12
Net profit or loss in EUR	14,603,947	8,671,945	168.40
Income in EUR	70,855,087	67,392,079	105.14
Expenses in EUR	53,497,773	57,269,175	93.41
EBIT in EUR	13,205,083	8,699,339	151.79
EBITDA (EBIT+write-offs) in EUR	29,054,837	27,585,177	105.33
Assets in EUR	495,655,581	523,229,721	94.73
Equity in EUR	481,304,147	510,769,294	94.23
Produced electrical energy in GWh	2,846	2,544	111.84
Number of employees at the end of period	237	266	89.10
Added value in EUR	40,572,298	39,141,955	103.65

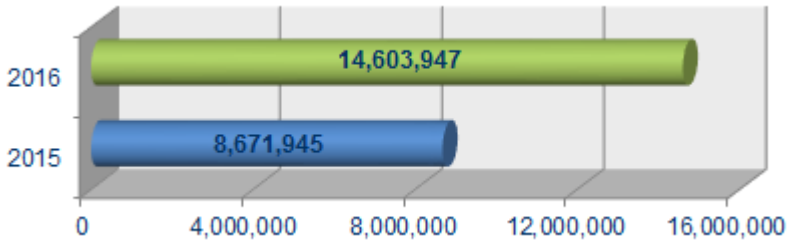
TOTAL REVENUE IN EUR



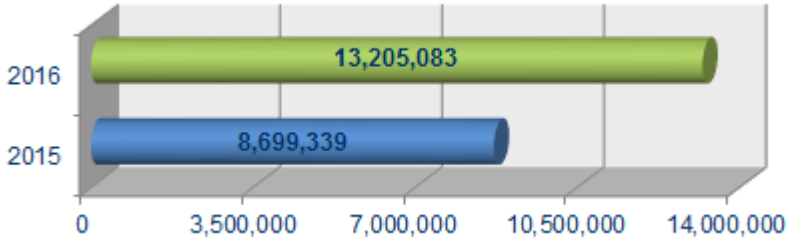
NET REVENUE FROM SALES IN EUR



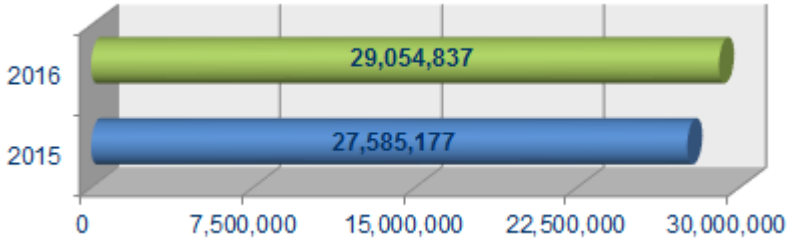
NET PROFIT OR LOSS IN EUR



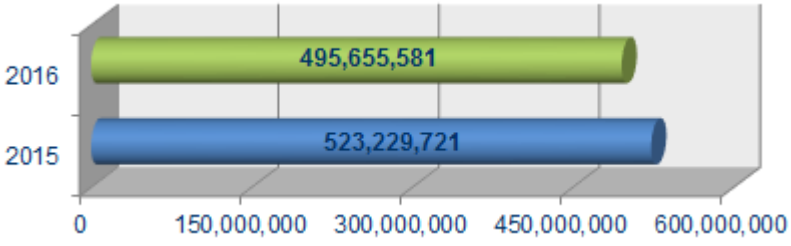
EBIT IN EUR



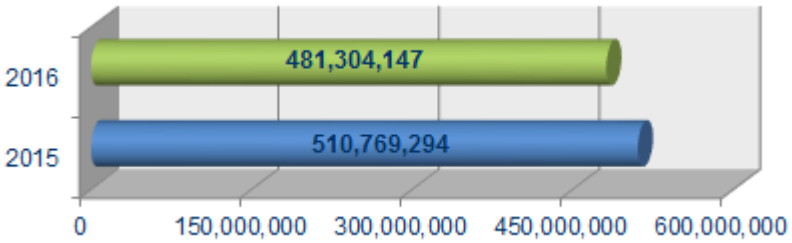
EBITDA= EBIT + WRITE-OFFS IN EUR



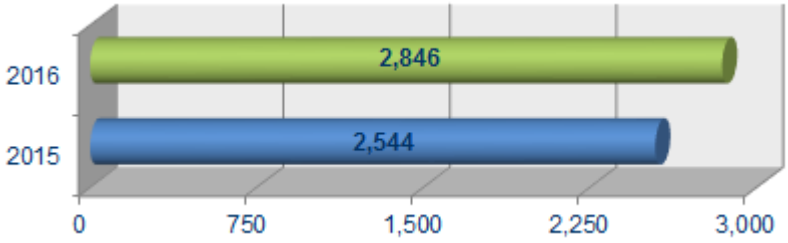
ASSETS IN EUR



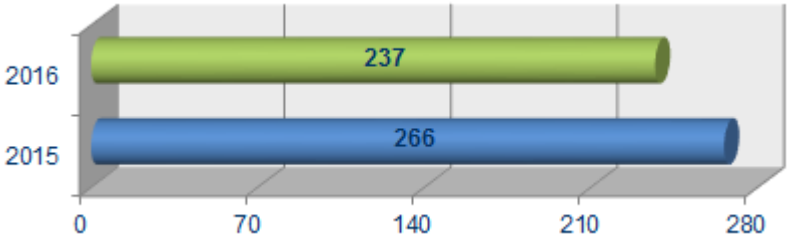
EQUITY IN EUR



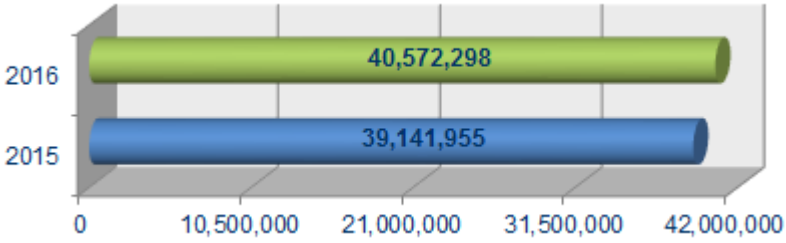
GENERATED ELECTRICAL ENERGY IN GWh



NUMBER OF EMPLOYEES AT THE END OF PERIOD



ADDED VALUE IN EUR



1.3 OVERVIEW OF SIGNIFICANT EVENTS IN 2016

JANUARY

OVERHAULS AND INSPECTIONS IN 2016

*An overhaul cycle took place from **4 January** to **3 March,** during which 14 inspections and 7 overhauls of generators were carried out. Major works were conducted as part of the generator 2 overhaul at the Formin HPP, and an excitation system and generator protection were replaced. The inspection of generator 3 at the Fala HPP was carried out as soon as December 2015 because of a post-warranty inspection following a refurbishment of the management systems and the secondary equipment. On average, the inspections and the overhauls lasted nine and 21 business days, respectively.*

REPLACMENT OF THE REGULATING OIL - GENERATOR 1 MARIBORSKI OTOK HPP

FEBRUARY

DISPOSAL OF INTEREST IN ELDOM D.O.O.

*On **10 February** an agreement on sales was signed at the public notary's with PITOBO d.o.o. on the sale of a 50 % interest in Eldom d.o.o. Pitobo d.o.o. was the winner of a public call for bids and took over the 50 % interest in Eldom d.o.o. on 15 February 2016 after the payment of the consideration in full; the two other remaining partners in the company are Elektro Maribor d.d. (25 %) and ELES d.o.o. (25 %).*

INVALUABLE EXCHANGE OF PROFESSIONAL EXPERIENCE ON A NATIONAL LEVEL

*On Thursday, **18 February**, DEM hosted the 4th working meeting of the Committee of health and safety at work and fire safety officers of companies generating electrical energy. The meeting was attended by representatives of NEK, SENG, ELES, TEB, TET, Energetika Ljubljana - TE-TOL unit and DEM. Exhaustive papers on health and safety at work and fire safety from each company helped to examine and share good practices on extraordinary or hazardous events, inspections, disability, injuries at work, fires and an assessment of management systems. Representatives of DEM brought attention to the legislative requirements and presented solutions in transport of passengers by freight lifts.*

March

2016 Business plan for DEM adopted

*HSE as the sole shareholder of DEM adopted the 2016 Business plan for DEM with the additional plan for 2017 and 2018 by the decision taken at the general meeting on **16 March.***

April

Slim production school

*The ever-growing challenges that developments in the energy sector place on us have led to the decision to participate in the Slim production school organised by SIQ from Ljubljana. The training, which lasted from **January** to **April** was attended by three DEM employees. Even though the school is primarily aimed at manufacturers, we enriched our comprehension with new knowledge that is going to keep us in good stead in these demanding times.*

THIS YEAR'S PARTICIPANTS OF THE SLIM PRODCUTION SCHOOL

Refurbishment of the spillways at the Vuzenica HPP

***26 April** marked the official conclusion of the refurbishment of the spillways at the Vuzenica HPP, which have been renovated after seven eventful years. The four operating locks are composed of a top and bottom riveted gate, which together with side shield measure 18.3m high and are over 20m wide. Each operating lock weighs around 245 tonnes. The lock gates are operated individually by 22kW electrical motors based on drive mechanisms and a complex reduction gear, which at 975rpm turn the top gate at 20cm/min and the bottom gate at 15cm/min (0.009kmph). The gate is operated locally manually, manually by remote or by remote computer.*

EXISTING CHAIN (LEFT) AND THE NEW ONE (RIGHT)

MAY

SPORTS MEETING OF DEM AND ELES

*On **14 May** enthused recreational athletes were invited by representatives of the sports association of ELES to take part in the third sports meeting of the sports associations of ELES and DEM, held at Cirkovce. We took the opponents on in nine sports events: table tennis (male and female), tennis (male and female), darts (male and female), chess, bowling (male and female), basketball, football, sports fishing and volleyball (mixed). Athletes from the sports association of DEM won the day with a score of eight to five.*

ONE CUP, TWO SPORTS ASSOCIATIONS - IT'S ALL ABOUT FRATRENISING!

JUNE

MEETING OF RETIREES AND DEM DAY

*On Thursday, **2 June** a meeting of our retired co-workers took place at the boathouse in Limbuš; the day after, on Friday **3 June** the current employees took their turn. Accompanied by the cultural programme of the truly versatile artist Jure Ivanušič, the official part of the programme went by quickly and the rest of the afternoon was spent meeting and talking with people.*

THE IDYLIC BOATHOUSE - DEM DAY

SUCCESSFUL ASSESSMENT OF BUSINESS PROCESSES

*In the beginning of the summer, on **14** and **15 June** to be precise, an external assessment was being carried out, according to the ISO 9001, 14001, OHSAS 18001 and 27001 standards. The assessment was carried out by Bureau Veritas and SIQ (27001).*

Eight specific processes were assessed plus business management, the information protection system and management system (the management's quality representative). A part of the assessment was carried out on the Lower Drava as well. The assessments came to a close at a final meeting, at which the assessing team presented their findings.

ASSESSMENT ON THE LOWER DRAVA

JULY

REMOVAL OF SILT DEPOSITS BETWEEN THE DAM OF THE MARIBORSKI OTOK HPP AND THE BAY OF THE BRODARSKO DRUŠTVO SIDRO FINISHED

*In **July** the removal of silt deposits between the dam of the Mariborski otok HPP and the bay of the Brodarsko društvo Sidro was finished. In the course of its operation the reservoir of the Mariborski otok HPP became quite silted, which has limited its energy utilization in a few individual areas. As a result, the plan was to remove or relocate the silt deposits in a manner that will also improve the ecological condition and the landscape appearance of the lake in the long term. The project design pursued a comprehensive approach to resolving the silt build up issue. The works were completed in two stages. Stage one was started in January 2014 and finished by December 2014. 12,000 m^3 of removed silt was reintroduced in a landfill at site 1. Stage two began in October 2015 and finished in July 2016. A total of 32,000 m^3 of silt were removed. The silt was reintroduced in the extended existing island.*

DREGGING OF THE SILT ON THE ISLAND

AUGUST

POETRY AND WINE DAYS AT THE FALA HPP

*The museum at the Fala HPP was the location of a cultural event, remarkable for poetry smiths presents as part of the Poetry and wine days event on **24 August**.*

The day-long poetry activities or the "poetic peregrination down the Drava" as it was named, was inspired by water as a source of life, which is and shall remain an inspiration to poets. Four poets were featured, honoured guests of the event. Veno Taufer was the honoured guest poet representing Slovenia, who presented his collected works titled Telemachus' commentary, and the three honoured guest poets from abroad featured: Ko Un (South Korea), Charles Simic (USA) and Vlada Urošević (FYRM). The guests were impressed by the old powerhouse, since listening to poetry at the heart of the museum at the Fala HPP was an once-in-a-lifetime experience.

POETS PREPARING TO READ THEIR POETRY

2015 DEM ANNUAL REPORT ADOPTED

*HSE as the only member of DEM adopted the audited Annual Report of DEM for 2015 on **30 August** by a decision of the general meeting.*

SEPTEMBER

HEALTH CARE ORIENTED PREVENTION PROGRAMME AT RADENCI SPA RESORT

*At the end of **September** and in the beginning of **October** a health care oriented prevention programme was carried out at the Radenci Spa Resort in accordance with the Rules on carrying out targeted preventative programmes. The participants of the health care oriented prevention programme were divided into two groups; each group taking a five day course. The first course was attended by 19 and the second by 14 employees.*

FIRST GROUP OF PARTICIPANTS

OCTOBER

HYDRO 2016 INTERNATIONAL CONFERENCE

*The 2016 Hydro conference took place during **10** and **12 October** in Montreux in Switzerland, in the vicinity of the border with France. The conference brought together over a thousand experts from eighty countries. In terms of the number of participants, the event was dominated by experts from Switzerland, the host and neighbouring France. The conference was organised into 32 themed sections that dealt with current issue in the fields of environment, construction, safety, operating issues and maintenance. Asia and Africa have been at the forefront in the construction of new generation units over the last few years, which was evident from the number of papers presented at the conference.*

DEM FOLLOWS GLOBAL TRENDS

02 BUSINESS REPORT

COMPANY PROFILE

PURCHASING, SALES AND PRODUCTION

MAINTENANCE, INVESTMENTS AND IT

ANALYSIS OF BUSINESS PERFORMANCE AND PLANS FOR THE FUTURE

SUSTAINABILITY REPORT

2.1 COMPANY PROFILE

DEM: a hydro power company of national importance

DEM is the largest producer of electrical energy from renewable sources in Slovenia.

With eight hydro power plants on the Drava, three small hydro plants and four solar power plants, DEM generates 23% of electrical energy in Slovenia. This represents the country's 80% of the electrical energy that conforms to the renewable sources and standards criteria of the internationally recognised RECS certificate (Renewable Energy Certificates System). High quality energy is provided in an environmentally friendly manner and in line with the principles of sustainable development.

COMPANY PROFILE

Full company name	***DRAVSKE ELEKTRARNE MARIBOR d.o.o.***
Short company name	DEM d.o.o.
Legal form	Limited liability company
Code of activity	35,111
Registered office	Obrežna ulica 170, 2000 Maribor, Slovenia
Telephone	02 300 50 00
Fax	02 300 56 55
Entry no.	1/278/000
Share capital	EUR 395,011,180
Size	large enterprise
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, registered with the Court 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, DEM is 100% owned by HSE as of 21 August 2007. At 31 December 2016, HSE's share in DEM's equity amounted to EUR 395,011,180.

ACTIVITY OF THE COMPANY

The main business activities of the company are:

- 33.110 Repair of fabricated metal products;

- 33.120 Repair of machinery;
- 33.130 Repair of electronic and optical equipment;
- 33.140 Repair of electrical equipment;
- 33.190 Repair of other equipment;
- 33.200 Installation of industrial machinery and equipment;
- 35.111 Production of electricity in HE generation facilities;
- 35.119 Other production of electricity;
- 35.300 Steam and air conditioning supply;
- 38.320 Recovery of sorted materials;
- 41.100 Development of building projects;
- 43.210 Electrical installation;
- 43.220 Plumbing, heat and air-conditioning installation;
- 43.290 Other construction installation;
- 43.3 Building completion and finishing;
- 43.990 Other specialised construction activities n.e.c.;
- 45.200 Maintenance and repair of motor vehicles;
- 49.391 Interurban and other passenger road transport;
- 49.410 Freight transport by road;
- 55.201 Children and other holiday homes;
- 56.290 Other food service activities;
- 61.100 Wired telecommunications activities;
- 61.200 Wireless telecommunications activities;
- 61.900 Other telecommunications activities;
- 62.020 Computer consultancy activities;
- 62.030 Computer facilities management activities;
- 62.090 Other information technology and computer service activities;
- 63.110 Data processing, hosting and related activities;
- 68.200 Renting and operating of own or leased real estate;
- 69.200 Accounting, bookkeeping and auditing activities, tax consultancy - excluding auditing;
- 70.220 Business and other management consultancy activities;
- 71.121 Geo-engineering and related activities;
- 71.129 Other engineering activities and related technical consultancy;
- 71.200 Technical testing and analysis;
- 72.190 Other research and experimental development on natural sciences and engineering;
- 77.110 Renting and leasing of cars and light motor vehicles;
- 77.210 Renting and leasing of recreational and sports goods;
- 77.330 Renting and leasing of office machinery and equipment (including computers);

- 77.390 Renting and leasing of other machinery, equipment and tangible goods n.e.c.;
- 78.100 Activities of employment placement agencies;
- 81.100 Combined facilities support activities;
- 81.220 Other building and industrial cleaning activities;
- 82.110 Combined office administrative service activities;
- 82.190 Photocopying, document preparation and other specialised office support activities;
- 82.200 Activities of call centres;
- 85.590 Other education n.e.c.;
- 85.600 Educational support activities;
- 93.110 Operation of sports facilities;
- 69.103 Other legal activities;
- 47.190 Other retail sale in non-specialised stores;
- 47.789 Other retail sale of new goods in specialised stores n.e.c.;
- 47.790 Retail sale of second-hand goods in stores;
- 77.120 Renting and leasing of trucks;
- 77.320 Renting and leasing of construction and civil engineering machinery and equipment;
- 77.340 Renting and leasing of water transport equipment;
- 81.300 Landscape service activities;
- 91.020 Museums activities.

MANAGEMENT OF THE COMPANY

By the adoption of the Articles of Association of Dravske elektrarne Maribor d.o.o., a limited liability company, on 3 May 2016 that were adopted by HSE as the sole member (founder) of DEM, the management body of the company is the managing director.

The founder shall have the role and exercise all the powers of a general meeting in accordance with the Articles of Association of DEM and the applicable legislation pertaining to limited liability companies with one member.

MANAGING DIRECTOR

The managing director is liable for the day to day operation of the company and represents the company. The managing director shall run the company in accordance with the applicable laws and other regulations, the Articles of Association of DEM, instructions received and other decisions of the founder.

The Managing Director decides on all matters related to the organisation and management of the company, in particular the organisation and management of the work process, the legality of the company's activities, the implementation of the founder's decisions and other tasks as provided for in accordance with the regulations.

The Managing Director is Viljem Pozeb, MSc. who after the first term was reappointed for another four-year term. 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) hereby gives the following statement on the management of the company for the period from 1 January 2016 to 31 December 2016 as provided hereunder.

I, the Managing Director of DEM, hereby declare that the management of the company in 2016 was conducted in compliance with the laws and other regulations, the applicable Articles of Association of DEM, a limited liability company, internal acts of the company and in line with good business practice.

1. STATEMENT ON COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE OF COMPANIES IN WHICH THE STATE HOLDS AN EQUITY HOLDING THROUGH SLOVENIAN SOVEREIGN HOLDING, AND THE RECOMMENDATIONS AND EXPECTATIONS THEREOF

I, the Managing Director of DEM, hereby declare that the management of DEM in 2016 was in line with the Code of Corporate Governance of companies in which the state holds an equity holding through Slovenian Sovereign Holding (Code) and in accordance with the Recommendations and expectations thereof (SSH Recommendations).
Pursuant to Point 3.4.1 of the Code I, the Managing Director of DEM, hereby declare that DEM decided to voluntarily use the Code. The Code is available to the public on the website of Slovenian Sovereign Holding. The Code applies to all recommendations relevant to the company, but cannot apply to recommendations pertaining to supervisory bodies owing to the fact that the company has no supervisory board.

Implementation of SSH Recommendations

In 2016, the company did not pursue the following SSH recommendations in their entirety:

- ***Recommendations: 4.3 and 4.4**. The company did not implement these recommendations but did report on all the payments and agreements to HSE d.o.o, the holding company, as the parent undertaking in the group.*
- ***Recommendations 5:** The recommendations were not implemented. The rationale of the implementation of EFQM will be examined in cooperation with the parent undertaking in the HSE group.*

2. CORPORATE GOVERNANCE FRAMEWORK

Management of DEM consists of a one-member management board - the managing director acting as management and the sole member. The powers of the management bodies are set forth in the Articles of Association of DEM. Any issue falling outside the scope of powers of the managing director of the company is the purview of the sole member.

3. COMPOSITION OF SUPERVISORY BODIES

The company does not have a supervisory board. Supervision is carried out by the sole member.

4. OPERATION AND REMUNERATION OF THE SUPERVISORY BOARD

The sole member is entitled to the balance sheet profit, paid out by the company after determining the amount of profit for each business year based on a decision.

5. REMUNERATION OF MEMBERS OF MANAGEMENT

The managing director is an employee of the company and is remunerated by DEM in the amount and the manner as disclosed in detail in the financial report.

6. DESCRIPTION OF THE MAIN CHARACTERISTICS OF INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT IN THE COMPANY IN RELATION TO THE FINANCIAL REPORTING PROCEDURE

Internal control system is a set of various guidelines and policies established and adopted by management with a view to manage risks related to financial reporting to the best extent possible. The purpose of internal control is to ensure the efficiency and effectiveness of operations, the reliability of financial reporting and its compliance with applicable laws and other external and internal regulations.

The accuracy, trueness and fairness of financial reporting are ensured by carrying out the following internal controls:

- *control of accuracy of accounting data, which are provided in different ways, e.g. by balancing items with buyers and suppliers;*
- *control of trueness of data compilation (e.g. sequence of documents, numbering of documents);*
- *control of separation of duties and responsibilities (e.g. separate execution of recording and payment transactions);*

• control of access restriction (access privileges to accounting records are selectively granted);
• control of supervision.

The accounting process is IT supported; therefore, the above internal controls are connected to the controls embedded in the IT framework, which encompass controls over restricted access to the network, data, and applications as well as controls over accuracy and trueness of data compilation and processing.

7. PUBLIC REPORTING

The Statement on Company Management is an integral part of the Annual Report, published on the website of the Agency of the Republic of Slovenia for Public Legal Records and Related Services.

In Maribor, 26 April 2017

Viljem Pozeb, MSc
Managing Director

STATEMENT OF THE MANAGING DIRECTOR IN ACCORDANCE WITH ARTICLE 60a OF THE COMPANIES ACT

I, the Managing Director of DEM, hereby declare that I have taken note of the content of all the integral parts of the Annual Report of DEM for 2016 and, in turn, with the Annual Report of DEM for 2016 in its entirety. I hereby approve it and confirm this fact with my signature.

Viljem Pozeb, MSc
Managing Director

ORGANISATIONAL STRUCTURE OF THE COMPANY WITH THE ORGANISATIONAL CHART

The company has the following organisational units:

- Management of the company;
- HQ services;
- Technical sector;
- General business sector;
- Corporate management sector;
- Working units;
- Services;
- Departments;
- Ad hoc organisational units - projects.

In terms of organisation, the ***management of the company*** includes: the managing director, assistant(s) managing director and advisors to the managing director.

The HQ service is run by the head of the service. The company's HQ services include: the Internal audit service and the Communications service.

Sectors represent first level organisational units that are directly related to the managing director. The company features the following sectors: the technical sector, the general business sector and the corporate governance sector. Each sector is headed by an assistant managing director or sector director. A sector can be further organised downstream to the following organisational levels: work units, services and departments.

The technical sector represents a first level organisational unit that is directly related to the managing director. The technical sector features processes in the generation of electrical energy, expert support, maintenance of hydro power plants and devices, IT and development.

The general business sector is a first level organisational unit that is directly related to the managing director. The general business sector encompasses accounting, finance, general affairs and planning, and controlling processes.

The corporate governance sector represents a first level organisational unit that is directly related to the managing director. The sector covers purchasing and sales, legal offices, human resources and health and safety at work processes.

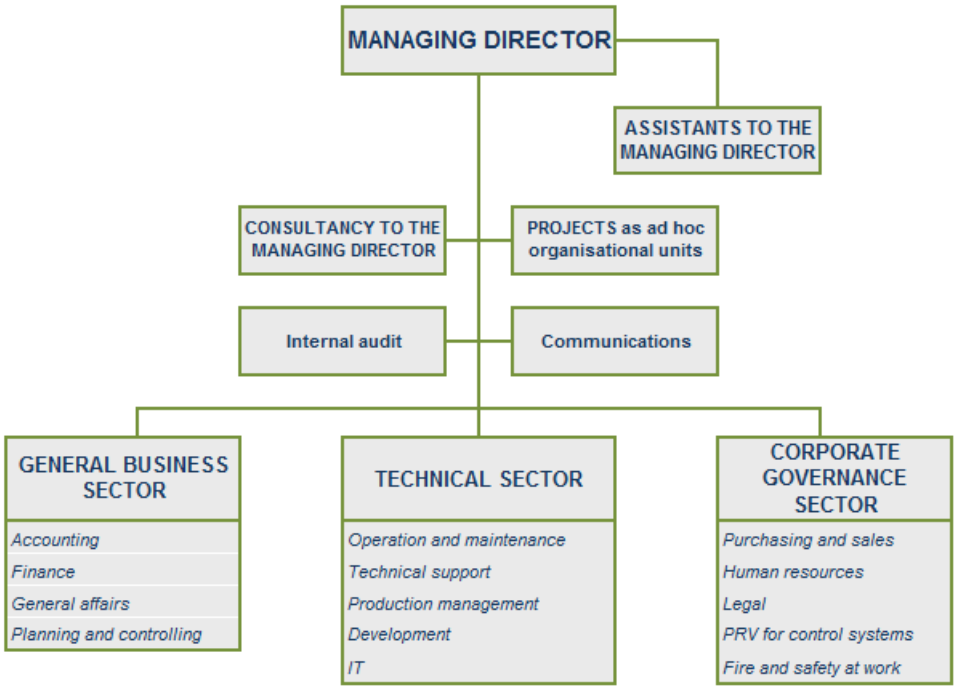
Services represent second level organisational units, while in the technical sector they are third level units. A service is led by the head of the service.

Working units are second level organisational units in the technical sector. A working unit is run by the head of the working unit.

Departments are fourth level organisational units in the technical sector. A department is run by the head of the department.

In order to carry out more challenging tasks that cannot be organisationally fit into the framework of the existing organisational units, the managing director of the company may adopt a decision to establish ***ad hoc organisational units – projects*** in accordance with the company's Rules on the management of projects.

Organisational chart of the company as at 31 December 2016:



TRADE UNION AND WORKS COUNCIL

TRADE UNION

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

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

FULL NAME	FUNCTION	DATE OF APPOINTMENT	DATE OF EXPIRY OF TERM OF OFFICE
Igor Štruc	Chairman	1.1.2017	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
Aleš Bogovič	Trade union representative	1.4.2016	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
Grega Čeru	Trade union representative	1.1.2017	25.5.2020
Melita Lep	Deputy trade union representative	1.1.2016	25.5.2020
Angelca Sagadin	Trade union representative	25.5.2015	25.5.2020
Simona Krope	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

WORKS COUNCIL

Pursuant to the Worker Participation in Management Act and based on the trade union's initiative, the first Works Council of DEM (hereinafter works council) was elected on 9 February 1999, which held its inaugural meeting on 1 March that year. The works council responsibilities mostly comprise 'managerial' activities, while the company's trade union is responsible for employment-related matters. The works council is represented by its president, who prepares, convenes and leads the council's sessions and organises its work; the president also has executive powers regarding the implementation of the works council's financial plan related to appropriation of the council's means. In the president's absence, the function is carried out by the deputy president.

The composition of the works council is given 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, HSE

DEM is a part of the Holding Slovenske elektrarne Group. On 26 July 2001, the Government of the Republic of Slovenia established HSE with a view to pool suppliers in the electrical energy market, improve their competitiveness, and construct a chain of HPPs on the Lower Sava. Six companies were incorporated into the group. HSE is thus the controlling company, while the other companies are its subsidiaries. Both HSE and its subsidiaries are independent legal entities.

HSE, having is registered office on Koprska ulica 92, Ljubljana, is DEM's controlling (holding) company as at 31 December 2016 and has prepared the consolidated annual report for 2016 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 undertakings for 2016. The report was submitted to the certified auditor as provided by Article 546 of the Companies Act. The report states: DEM, in view of the circumstances known to it at the time the legal transactions were carried out, maintains that no transaction with the controlling company and its related undertakings were concluded to its disadvantage; further, in 2016 no legal transaction, action or omission thereof were carried out that could have resulted in loss to the company that could be attributable to the conduct of HSE.

RELATIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED COMPANIES

DEM holds interests in four companies:

- HSE Invest 25.0% interest;
- HESS 30.8% interest;
- SHPP Lobnica 65.0% interest;
- PRI 100.0% interest.

In November 2014, the HESS withdrew from the HSE group; as a result, as of that date it is deemed an associate to the HSE group.
In February 2016 the 50 % interest in Eldom d.o.o. was disposed of.[1]
The interests stated above are posted under non-current assets as long-term investments.

HSE INVEST

HSE Invest d.o.o., an engineering and construction of energy plants company, 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, each holding an equal interest.

DEM holds a 25% share in HSE INVEST d.o.o, registered office on Obrežna ulica 170, Maribor, which represents an investment in the amount of EUR 80,000.

HESS - HIDROELEKTRARNE NA SPODNJI SAVI

HESS d.o.o. was founded on 12 February 2008 by HSE, DEM, SENG, Thermal power plant Brestanica and Gen Energija. HESS was established with the transformation of the previous project coordinator, the so-called Joint venture, into a legal entity for the purposes of securing the transparency of investments and compliance with the concession agreement as well as the Concessions Act.
HESS's priority will be the construction of the remaining hydro power plants on the Lower Sava and, potentially, further construction of a chain of HPP on the Middle Sava.
DEM holds a 30.8% interest in HESS.

SHPP LOBNICA

In May 2011 DEM and Hmezad Jeklo d.o.o. established a joint venture Mala hidroelektrarna Lobnica, družba za proizvodnjo električne energije d.o.o.
DEM holds a 65% share in the SHPP LOBNICA d.o.o, registered office on Obrežna ulica 170, Maribor. The remaining 35 % interest is held by Hmezad Trgovina Žalec, which in 2012 replaced Hmezad Jeklo d.o.o. as the minority member by consent of the majority interest holder, DEM.

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

- Other electricity production;
- Transmission of electricity;
- Trade of electricity;
- Construction of water projects;

In accordance with the contract of members of the SHPP Lobnica, the company features two bodies: a general meeting and a managing director. The company also has a holder of procuration.

PRI - POMURSKI RAZVOJNI INŠTITUT

In June 2008 DEM established the Pomurje Development Institute with the view of bringing the project for the construction of HPPs on the Mura closer to the interested public.

[1] *More on this in Chapter 1.3 on page 10.*

The institute was founded with the intent to bring together experts with different areas of expertise and from different walks of business. The institute is based in Murska Sobota.
Its main role is to inform all stakeholders about the implementation of expert studies on the exploitation of the water potential (environmental topics, studies of flora and fauna, as well as agricultural, business and tourism studies) on the Mura and to present such studies to the general public.

A BRIEF HISTORY OF THE CONSTRUCTION OF POWER PLANTS ON THE DRAVA

Energy time flow of capacity from Fala to Formin

The chain of 8 HPP's on the Drava 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 hydro power plant on the Drava in Slovenia, the **HPP Fala**, was the most technologically advanced and powerful hydro power plant in the eastern Alpine region and Central Europe and a driver of industrial development and the electrical energy grid in central and northeast Slovenia.*

*During World War II, pier-type power plants **HPP Dravograd** and **HPP Mariborski otok** were constructed. The HPP Dravograd, which was already operational during the war, received extensive renovation and completion works in 1945 to repair the damage from air strikes, which allowed the first two turbines to be started. At the HPP Mariborski otok, which was nothing more than an abandoned construction site after the war, the first turbine became operational in 1948 to be joined by another two by 1960.*

CONSTRUCTION OF THE HPP MARIBORSKI OTOK

*The first power plant built after the end of the war was the **HPP Vuzenica,** which became operational in 1953. In 1956, it was followed by the **HPP Vuhred** and the **HPP Ožbalt** in 1960. The power plants constructed on the Drava between Dravograd and Maribor, except the HPP Fala, are all pier-type power plants, the design of which places the turbine piers and spillways directly in the riverbed.*

***The HPP Zlatoličje**, constructed between 1964-1969, was the first channel-type power plant. The power plant with a 17.2 km penstock 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 the total energy that DEM supplies to the grid is generated by the HPP Zlatoličje. **The HPP Formin** is also a channel-type power plant, which became operational in 1978. Its large reservoir allows for greater flexibility of operation and ensures higher peak generation.*

The capacity of the oldest power plant on the Drava, the HPP Fala, was increased in 1977 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 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.

FALA - TECHNICAL HERITAGE

A heritage of energy generation on the Drava: kept for posterity

The visitor's area of the oldest hydro power plant on the Drava still operational features a monumental original powerhouse with a restored horizontal Francis turbine.

The refurbished turbine with a partially uncovered turbine plate allows for an insight into the power plant's operation and how water energy is converted into mechanical energy.

The old part of the Fala HPP was declared a technical heritage site of special significance in 1986. Once the original generators ground to their final halt 10 years later, DEM, in cooperation with the Maribor branch office of the Institute for the Protection of Cultural Heritage of Slovenia, saw to it that the powerhouse was completely restored together with all the generators and all secondary equipment. This very informative and highly educational display open its doors to visitors in 1998. Since then around 5,000 visitors see it every year, who with the help of professional guides and a video presentation can compare how the power plant used to operate in the past and how it works now. In 2008 the museum part of the HPP Fala was declared a cultural monument of national significance by decree of the Government of the Republic of Slovenia.

The special attention that DEM pays to preserving technical heritage is an important part of a socially and environmentally responsible conduct. In addition to the ecology, understanding the ties with community includes the respect for cultural and technical values.

Specifications of the first HPP on the Drava in Slovenia, the HPP Fala, past and present:
The first hydro power plant on the Drava was in 1918 initially rated at 20 MW (five generators at 4 MW each) and it was as late as in 1932 that the upgrade was finished, including two more generators at 7 MW each, taking the rated output of the plant to 34 MW. Today, the HPP Fala's rated output is 58MW.

Initially it featured horizontal Francis turbine with two turbine runners in a single casing. Today, it has three generators with a vertical Kaplan turbine.

The most powerful plant of its time was built so that the powerhouse with the generators was located along the left bank, the riverbed featured the spillways, while the lock was built along the right bank.

2.2 COMPANY'S BUSINESS POLICIES

Energy from nature for people and nature, now and in the future

DEM's clean and environmentally friendly energy accounts for almost a quarter of electrical energy produced in Slovenia. The operations of the company, which performs most of its activities on the Drava, the river of hydro power plants, are based on efficient processes running at minimal load to resources and the environment. The two most important principles underscoring operations are the reliability of partnership co-operation in all areas and flexibility in facing challenges related to the employees, owners and the external environment. In the hydro power business the company comprehensively controls and markets all processes, while concern for the environment is always the criterion against which the work and business performance is measured - at existing capacities as well as those being considered for development. ***Efficiency***, ***reliability***, ***flexibility***, ***integrity*** *and* ***environmental responsibility*** *are the fundamental values of DEM.*

MISSION

DEM is the market leader in the field of efficient use of renewable energy sources in Slovenia, whose focus on development provides for quality and environmentally friendly energy supply all the while pursuing business excellence and balanced sustainable development of the environment and the market in which it operates.

VISION

To stay the leading hydroelectric power system in Slovenia through the effective use of renewable resources and optimal allocation of own resources; and to expand, by means of strategic partnerships and prudent diversification, to become a presence in other commercially viable fields.

DEVELOPMENT-ORIENTED COMPANY

The future of DEM is reflected in its strong focus on development that includes the commitment to the refurbishment of existing facilities, the search for new development and market opportunities, and capacity building on other river basins.

STRATEGIC GOALS OF THE COMPANY

The company's key 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 2016 – 2020 period as well as long-term projections of DEM performance for the 2017 – 2030. The supervisory board of DEM took note of and adopted the long-term plan of refurbishment and development for the 2003–2018 at its 13th regular session on 6 May 2003.

The key strategic goals of DEM for the period to 2018 are as follows:

Goals pertaining to ***safe and reliable production and capacity building***:

- *Provision of reliable and uninterrupted production of electrical energy:*
  - Provision of availability of plant and equipment,
  - Reliability of operation,
  - Maximum exploitation of the given water potential.
- *Implementation of optimal and joint maintenance policy:*
  - Maintenance of the majority of the HPP facilities in the HSE Group,
  - Ensuring safe operation of the HPPs,
  - Monitoring of the facilities and equipment.
- *Implementation of the planned investments in new production capacities:*
  - Construction of the PSP Kozjak,
  - Construction of a chain of HPPs on the Mura,
  - Refurbishment of the existing capacities and an increase in the power output,
  - Construction of SHPPs and utilisation of other renewable energy sources.
- *Care for sustainable development;*
- *Maximum exploitation of the natural potential of the Drava and its tributaries;*
- *Rational utilisation of the hydroelectric potential through the use of small HPPs;*
- *To become the core hydro power pillar in the HSE group;*

- *Provisions of all the conditions (human resources, organisation, finance) for the implementation of strategic projects.*

Goals pertaining to the ***streamlining of operations***:

- *Staying competitive by lowering operating costs.*

Goals pertaining to ***human resources management***:

- *Concern for educated, competent, satisfied and motivated employees;*
- *To maintain the optimal number of employees;*
- *To maintain the optimal structure of staff;*
- *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 POLICIES

QUALITY ASSURANCE SYSTEM

MANAGEMENT SYSTEMS

In 2016 activities related to maintaining the management system were mostly aimed at maintaining the existing management system or partially updating it. New forms were designed for the production of an annual report for specific processes as well as guidelines for the preparation of a system-wide process regulation that would unify documents across processes.

A new list of measurable characteristics of individual processes was produced, which administrators must include in their system regulations and annual reports.
An internal audit carried out between 11 and 15 April 2016, which included all processes and standards, namely 9001, 14001, 18001 and 27001. Several audit teams were organised for the audit that was conducted in a very short period of time, so that the audit of several different processes could be carried out concurrently. The audit teams worked were highly focused on the audit and dedicated the full working hours to it. 30 internal auditors were involved, who spent 195 working hours in total. In total, 45 recommendations were confirmed in cooperation with process administrators as part of the internal audit, which have to be implemented in the future.

A control - external audit, checking compliance with all standards, took place between 14 and 15 June 2016. On the DEM side, 12 persons were involved (auditors). To make sure the external audit ran smoothly, the auditors were assigned liaison officers to carry out certain auditing activities (at power plants). The external audit found no non-compliance but did suggest certain recommendations and improvements. These recommendations and improvements were submitted to the process administrators to be implemented.

ENVIRONMENTAL MANAGEMENT SYSTEM

The targets and tasks related to the environmental management system were prepared within the framework of planning targets and tasks for 2016. While the expert services forecast the required resources to carry out the tasks, the training plan was produced as part of the environmental management system. A register of framework and implementing environmental targets and programmes for 2016 was also prepared.

The register was compiled on the basis of the revised assessment of the relevant environmental aspects and legislative requirements. As part of the environmental management system, the 2015 annual report with the required content was produced.

During this period the Management Council held several meetings and discussed the following issues:
- Preparation for the performance of internal audits in 2016;
- Setting the objectives of the internal audits;
- Plan of execution for the internal audits;
- Preparation of the required documents referring to the performance of internal audits and other.

Internal audits of specific processes were conducted in April and served as preparation for the external audit.

During this period a procurement contract was awarded in accordance with the Public Procurement Act for the emptying of landfills and removal of floating debris at DEM sites.
In accordance with the Decree on waste, the annual report on the generated waste and waste management for 2015 was carried out. The report was submitted to the Ministry of the Environment and Spatial Planning within the deadline.
Also, a monitoring report with a figure showing measured quantities pumped and ground water levels for all the wells and springs for which we hold water permits was submitted to the Ministry of the Environment and Spatial Planning.

With regard to the environmental management system, the following documents were revised:
- Monitoring list;
- Classification of environmental aspects;
- Evaluation of significant environment aspects and;
- Environmental management legislation.

In the beginning of April the annual report was produced for the environment management system with all the relevant content in terms of the requirements of the standard. A registry of framework and implementing environmental targets and programmes for 2016 was also prepared.

Internal audits of specific processes were carried out as planned. Questionnaires concern environmental management were designed with relevance to the idiosyncrasies of each process. Reports were compiled, featuring proposal form improvement and recommendations. Based on the reports a spreadsheet of findings or recommendations was prepared, which includes the descriptions of recommendations as well as the proposed measures plus the persons responsible for implementation and the deadlines for implementation. The spreadsheet was sent to all relevant personnel to be implemented, while also representing the starting positions for a meeting of the ecology team and the preparation for the external audit.

During the managerial inspection in May, the environmental management annual report was presented and the registry of framework and implementing environmental objectives and programmes was adopted, which was sent to the relevant expert services to be implemented.

Before the external audit a meeting of the ecology team took place, at which the following issues were addressed: the annual report on generated waste and waste management for 2015 (ODP), the review of internal environmental management system documents (OB 29-04 Monitoring list, TB 29-01-01 Classification of environmental aspects for 2016, TB 29-01-02 Evaluation of significant environmental aspects for 2016, SEZ 29-09 Environmental management legislation, OB 29-03 Plans for waste management for all facilities, DN 29-01-01 Inspection of the hazardous materials cabinet, DN 29-12 Instruction on operation and maintenance of water facilities and collection of information), the 2015 annual environmental management system report, the confirmation of the registry of framework and implementing environmental objectives and programmes for 2016, current procurement for the environmental management system, an overview of the spreadsheet of recommendations and measures suggested by the 2016 internal audit and preparation for the 2016 external audit.

The external audit took place between 14 –15 June 2016. It was conducted smoothly and in accordance with the plan that focused on major risks and targets required by the standard. It was found that the company examined all the recommendations from the previous audit and mostly took them into account. One of the findings was that there is evident progress in the functioning of the system as well as in terms of environmental effectiveness in comparison to the previous audit. The audit inspected the entire environmental management system and the opportunities for improvement in the form of recommendations are compiled in the final report.

Some of them were taken into account immediately, while others were examined by the management council and the ecological team. For this purpose, a spreadsheet was produced that includes the proposed solutions for individual observations, the deadlines and persons responsible for implementation. Implementation is being monitored in the ODOS document system, from which it is evident that the majority of the measures have been implemented; the deadline for implementation has been justifiably changed for some measures.

In September the evaluation of environmental noise levels for certain DEM facilities began. The results of measurements have shown that the noise limit value was exceeded at two production facilities (the HPPs Fala and Formin) during day and night time, which has resulted in the inclusion of a proposal for repairing both facilities into the registry of framework and implementing environmental objectives and programmes for 2017. An expert evaluation of environmental noise load was produced for the HPP Dravograd production facility, including a detailed study of noise protection. Taking into account the proposed solutions, the repair proposal will also be included in the above mentioned registry.

Environmental management legislation is being monitored and recorded continuously throughout the year. In December the SEZ 29-09 Environmental management legislation document was again revised.

2015 saw the third edition of the ISO 14001:2015 standard (Environmental management systems - Requirements including instructions for use). The transition to the new version is expected to be finished by September 2018; however, we have already begun certain activities currently, so that the transition will be timely and effective.

HEALTH AND SAFETY AT WORK AND FIRE SAFETY

Health and safety at work and fire safety are issues of great attention in DEM.

The continuous activities related to health and safety at work and fire safety that were carried out in 2016 included:

- Training of employees, new employees, pupils, students, trainees and interns concerning health and safety at work and fire safety (100 employees, 25 students during holidays, compulsory placement);
- Training for safe operation of various types of hoists (48 persons);
- Training for safe operation of forklifts (36 persons);
- Training for safe operation of chainsaws (42 persons);
- Training for safe operation of wood processing machinery (6 persons);
- Training for safe operation of tractors (11 persons);
- Training for health and safety at work coordinators at joint sites (1 person);
- Phyto-medicinal training (1 person);
- Employee check-ups (92 persons)
- Implementation of the health care prevention programme (33 persons);
- First aid at the workplace training (43 persons);
- Inspections of work equipment;
- Internal inspections of the facilities;
- Coordination meetings of health and safety at work and fire safety officers;
- Participation of health and safety at work and fire safety officers and site coordinators at a seminar;
- Participation of persons responsible for fire safety at a seminar;
- Analyses of accidents and incidents;
- Dissemination of good practices;
- Successful OHSAS 18001:2007 external audit;
- Provision of personal protection gear in accordance with the Public Procurement Act and active participation in the preparation of the technical specifications for the joint provisioning of personal protection gear on HSE group level.
- Cooperation with competent inspectorates;
- Introduction of the health at the workplace promotion programme: zDravo vadimo.

HEALTH AND SAFETY AT WORK

PROMOTION OF HEALTH AT THE WORKPLACE

Based on legislative requirements and an analysis of the health condition of the employees, DEM (health and safety at work service, DEM sports association and DEM management) designed and began implementing the s.c. health at work promotion programme titled zDravo vadimo. As part of the programme the following activities were (and are still being) carried out:

- lectures and workshops (why and how to exercise healthily, injuries at recreational sports, how to start running healthily);
- Guided water activities (water mobility exercises - every Tuesday, guided strength and dynamics exercises - every Thursday);
- Body composition measurements (periodic monitoring of employee parameters);
- Additional activities as part of the DEM sports association (there are 15 sections included in the DEM SA).

The programme is set to continue in 2017 as well.

INSPECTIONS

On 16 March 2016 the regular inspection of the labour inspectorate was carried out, during which all the documentation related to health and safety at work was inspected and the HPP Mariborski otok facility inspected and examined. As stated in the inspector's minutes, the health and safety at work conditions are being met. The only issue detected by the inspector, for which the inspector feels additional efforts are required:

- additional installation of a few first aid cabinets (to be specific: at every workshop in the facilities), since this reduces the first aid response time;
- additional (apart from the ones already qualified) qualification of employees in first aid; we must ensure that at each facility there is always an employees present that has been qualified to give first aid; therefore, I propose that every person on call is qualified (since only through this can we ensure there is always one person qualified) - the proposal will be coordinated with the heads before going ahead with it.

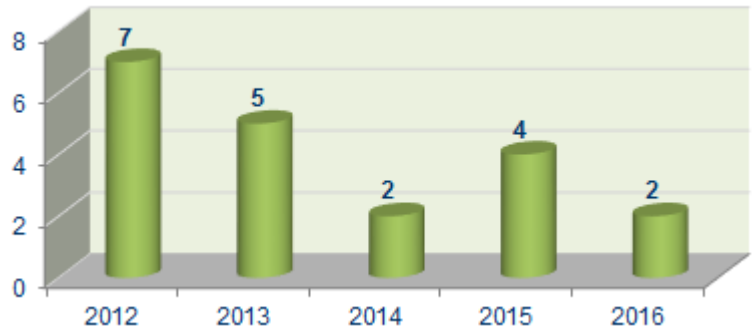
The deficiencies were dealt with and the relevant inspectorate informed thereof.

On 14 September an inspection was carried out by the labour inspectorate at the HPP Fala - refurbishment of the spillways. The agreement in writing needed to be appropriately amended.
The deficiencies were dealt with and the relevant inspectorate informed thereof.

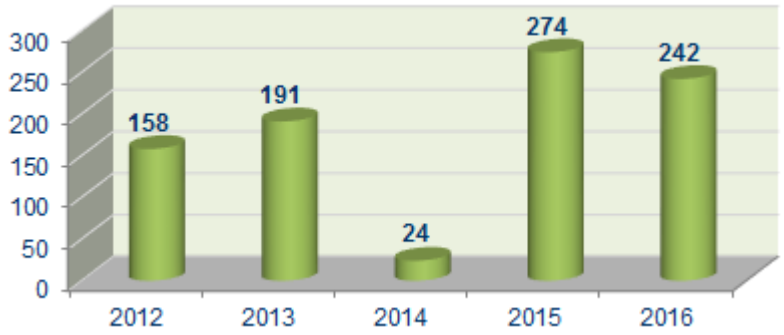
ACCIDENTS AT WORK

The number of accidents at work that resulted in the absence from work of an employee, and the number of working days lost due to accidents at work are shown in the figures below.

Number of accidents at work that resulted in absence from work:



Number of working days lost due to accidents at work:



Note: In 2016, 225 working days were lost due to a serious accident at work that happened in 2015. On account of 2 accidents at work that happened in 2016, 17 working days were lost.

LEGISLATIVE COMPLIANCE

In terms of health and safety at work legislation, DEM is compliant; apart from the Decree on the protection of workers from risks related to exposure to electromagnetic radiation (EMR), published in the Official Gazette of the Republic of Slovenia, no. 49/2016 of 7 July 2016. The new decree brings completely new requirements. Initial measurements need to be carried out.

FIRE SAFETY

DRILLS AND TRAINING

All employees are qualified in accordance with the legislation. Where required, evacuation drills have been carried out. Fire extinguishing equipment and active fire safety systems are maintained and inspected in accordance with the legislation.

In cooperation with the Ožbalt voluntary fire brigade and the Zdravstveno reševalni center Koroške medical emergency service a s.c. fire drill was carried out the HPP Ožbalt plant - rescuing an injured person from a burning building at the HPP Ožbalt and the use of defibrillator. In addition to those already listed, the on-call staff of the HPP Ožbalt, the Kapla and Brezno-Podvelka voluntary fire brigades also took part.

ACTIVE FIRE SAFETY SYSTEM AND EXTINGUISHERS

Individual system were found to be deficient and these are being remedied:

- safety lighting at the management building of DEM, the DEM hangar, the HPPs Formin and Fala;
- early fire detection and warning at the HPP Fala.

FIRES

In 2016 no fires were recorded.

LEGISLATIVE COMPLIANCE

With the exception of the deficiencies listed in the section title Active fire safety system and extinguishers, DEM is fully compliant with the fire safety regulations.

2.4 PRODUCTION AND OPERATION

Due to favourable hydrology, production in 2016 significantly exceeded the plans at the balance flow rate (57 % probability). Despite the production plan for 2016 accounting for a 50 % probability of onset of median monthly flows, we achieved **101%** planned production.

BASIC HYDROLOGICAL DATA

The Drava 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 in Slovenia is 133 km and it has a static head of 148.3 m. The average median-annual flow at the Mariborski otok power plant is 297 m^3/s, while the balance flow rate used for the calculation of possible production is 271 m^3/s. The energy potential of the river in Slovenia is 2,646 GWh or 31% of the total energy potential of the Drava.

THE SOURCE OF THE DRAVA AT TOBLACH

The drainage basin of the Drava covers an area of 14,564 km^2. In Italy, Switzerland and Austria this area covers 10,964 km^2, in Slovenia 2.700 km^2 and the rest in Croatia. In the upper parts of the drainage basin, the Drava is definitely a mountain river, which means that maximum flows are found during the snowmelt season (April, May, partially June). In the lower part (in Slovenia), the river becomes a valley river, whose character becomes especially typical during precipitation, which now last longer (three or more days) and local tributaries emerge, accounting for an additional almost 50% of the inflow from Austria (in autumn).
The reservoirs' utilizable volume is 13,892,000 m^3, taking into account the allowed fluctuation in Slovenia. The reservoirs account for an additional 2,652 MWh of electrical energy to be generated.

BASIC INFORMATION ON HPP FACILITIES

The table below gives the general technical data on the 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	

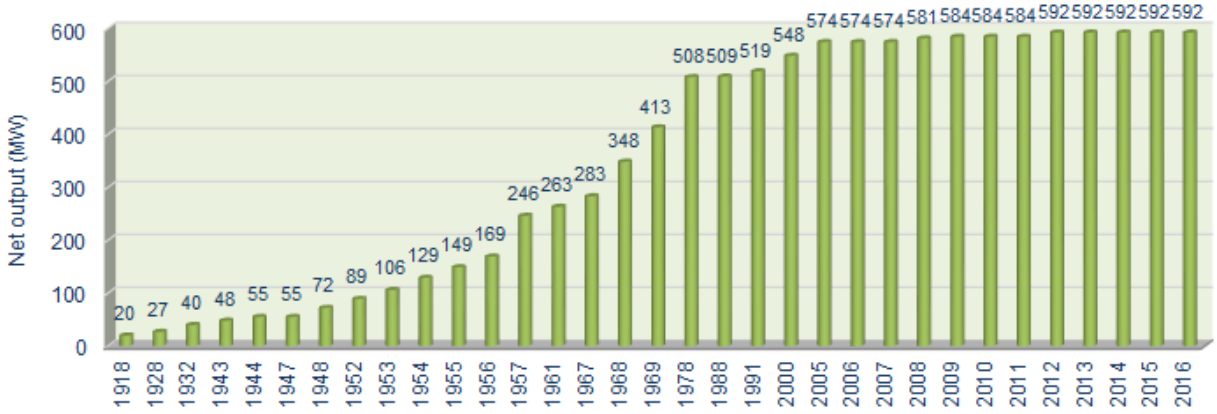
** SHPP Ruše is an independent legal entity, a joint venture of DEM and Hmezad Trgovine Žalec d.o.o.*

INCREASE IN POWER OF THE DRAVA POWER PLANTS

The power of the generating units at HPPs on the Drava River increased from 1918, when the first generating units of HPP Fala started operating to 2000, and when the first stage of the refurbishment of the power plants on the Drava was completed (the power plants: Dravograd, Vuzenica and Mariborski otok), it went up from 20 MW to 548 MW.

In 2005, the refurbishment of the generating units at 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 for 2016.

Increase in power of generating units:



PRODUCTION IN 2016

The production of power plants that has been planned in the electrical energy 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. For 2016, production was planned with a 50% probability of median monthly flows.

Production by month in 2016:

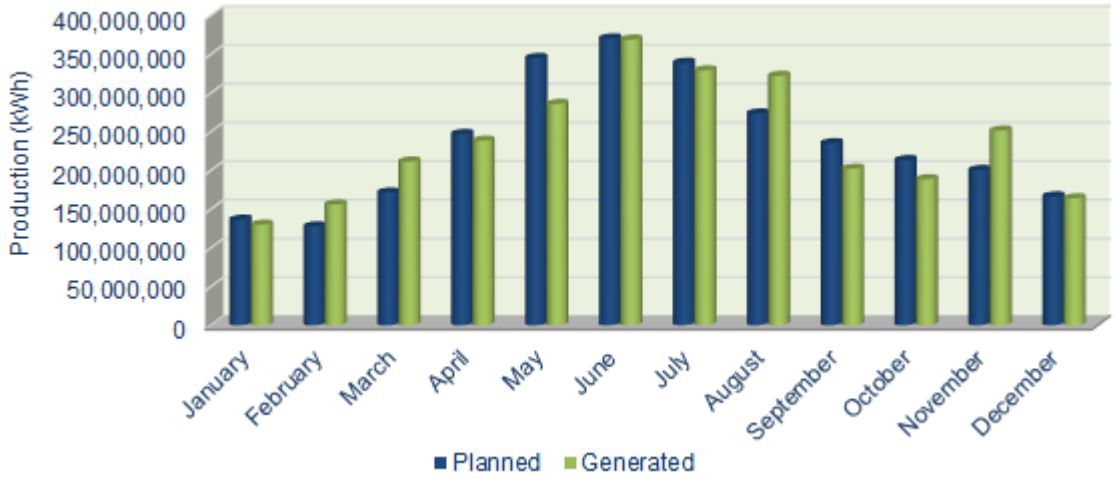
MONTH	PRODUCTION (kWh)			
	Large HPPs	Small HPPs	SPPs	TOTAL
January	128,691,270	1,036,879	46,245	**129,774,394**
February	154,737,875	1,105,937	46,262	**155,890,074**
March	209,722,609	1,537,714	79,582	**211,339,905**
April	236,284,358	1,854,035	112,303	**238,250,696**
May	283,696,100	1,858,878	122,101	**285,677,079**
June	366,760,877	1,797,004	129,547	**368,687,428**
July	327,049,131	1,762,896	133,946	**328,945,973**
August	319,841,169	1,968,481	127,958	**321,937,608**
September	200,048,392	1,949,661	113,766	**202,111,819**
October	186,831,029	1,563,342	61,791	**188,456,162**
November	250,223,700	962,129	50,128	**251,235,957**
December	162,554,224	1,254,921	51,285	**163,860,430**
TOTAL	**2,826,440,734**	**18,651,877**	**1,074,914**	**2,846,167,525**

Total production of all generating units of the hydropower plants on the Drava and their supply to the grid amounted to ***2,846,167,525 kWh*** or ***101%*** of the planned production in 2016.

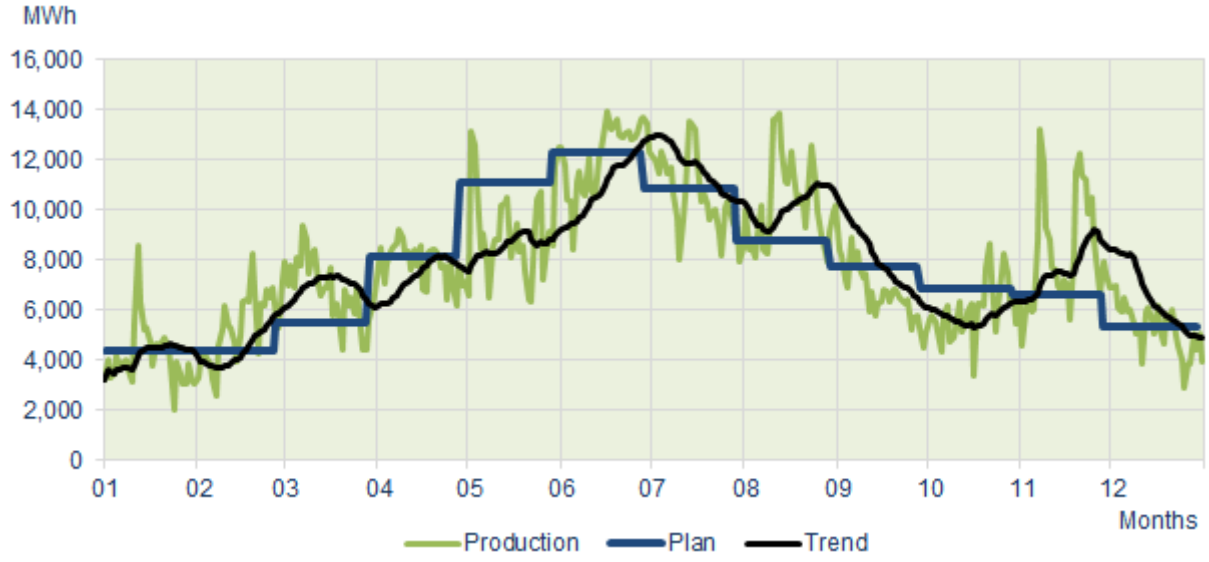
The large generating units produced and supplied to the grid 2,826,440,734 kWh, generating units of SHPP produced and supplied to the grid 18,651,877 kWh, and the solar power plants produced and supplied to the grid 1,074,914 kWh. All the electrical energy was supplied to HSE.

The planned production was exceeded in February, March, August and November; in the other months production was lower than planned.

Production in 2016 by month and comparison with the plan:



Annual production chart for 2016:



Data on produced and consumed electrical energy in power plants in 2016:

		DRAVOGRAD	VUZENICA	VUHRED	OŽBALT	FALA	MARIBORSKI OTOK	ZLATOLIČJE	FORMIN	SHPPs	SPPs	TOTAL LARGE HPPs	SUPPLIED TO HSE
Balance	[kWh]	148,600,000	260,300,000	316,900,000	325,500,000	273,500,000	284,600,000	610,500,000	584,200,000	19,400,000	1,087,000	**2,804,100,000**	
Generator production	[kWh]	149,164,535	263,149,377	337,373,074	346,959,896	277,161,989	284,633,999	639,324,299	566,759,452	19,101,761	1,196,794	**2,864,526,621**	**2,884,825,176**
Output	[kWh]	146,620,283	259,366,204	334,359,541	343,432,504	271,107,681	278,918,824	629,598,103	562,517,038	18,651,877	1,074,914	**2,825,920,178**	**2,845,646,969**
Consumption	[kWh]	2,544,252	3,783,173	3,013,533	3,527,392	6,054,308	5,715,175	9,726,196	4,242,414	449,884	121,880	**38,606,443**	
Own consumption-own source	[kWh]	776,143	888,356	1,152,714	1,032,253	1,228,286	2,211,430	976,998	0	296,919	0	**8,266,179**	
Supplied to the 110kV network	[kWh]	146,796,068	259,366,324	334,360,047	343,432,949	271,637,241	279,719,839	630,171,539	562,517,243	0	0	**2,828,001,250**	
Received from the 110kV network	[kWh]	175,785	120	506	445	529,560	801,015	573,436	205	0	0	**2,081,072**	
Own consumption from distribution	[kWh]	21,303	189,023	207,359	204,108	0	31,052	309,504	563,084	44,964	10,242	**1,525,433**	
Idle production	[kVArh]	2,838,337	-3,106,827	-14,545,530	-11,524,205	-12,499,737	-12,376,372	-48,750,630	-22,931,995	-1,885,248	-253,665	**-122,896,959**	
Realisation	[%]	99	100	106	106	99	98	103	96	96	99	**101**	
Supplied energy HSE	[kWh]											**2,826,440,734**	**2,846,167,525**
Negative balance from the 110 kV network	[kWh]											**520,556**	**520,556**

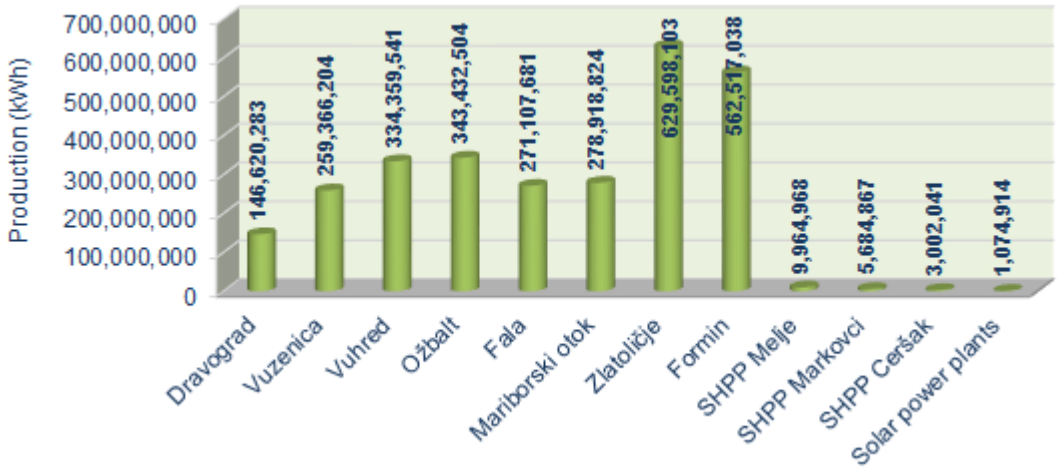
Production indicators and K factor in 2016:

		DRAVOGRAD	VUZENICA	VUHRED	OŽBALT	FALA	MARIBORSKI OTOK	ZLATOLIČJE	FORMIN	DEM	MONTH	K FACTOR
Net head	[m]	8.36	13.05	16.38	16.36	13.87	13.58	31.57	27.52	141	1	0.9942
Total flow	[m^3/s]	265	277	274	278	287	284	298	293	282	2	0.9951
Turbine flow	[m^3/s]	260	273	271	274	282	280	277	278	274	3	0.9997
Water yield	[%]	99.99	99.87	99.84	99.85	99.88	99.9	99.9	99.46	100	4	0.9999
Loss due to overhauls	[MWh]	5	94	58	122	81	86	602	4,069	5,117	5	1
Loss due to refurbishment	[MWh]	0	0	0	0	8	0	0	0	8	6	0.9999
Loss due to failure	[MWh]	0	23	93	0	22	0	24	209	372	7	0.9992
Energy surplus	[MWh]	15	355	589	581	303	302	234	116	2,494	8	1
Loss due to cleaning	[MWh]	0	0	2	12	27	24	120	1	186	9	1
Loss due to reservoir	[MWh]	2,604	9,956	9,962	10,128	5,028	10,833	1,694	8,572	58,777	10	0.9998
Loss due to channel	[MWh]	0	0	0	0	0	0	20,126	14,156	34,282	11	0.9999
Loss due to bottom water	[MWh]	11,482	9,379	17,102	16,743	19,652	5,108	17,986	17,368	114,820	12	0.9991
Specific water consumption	[MW/m^3]	0.0648	0.1089	0.1414	0.1433	0.1102	0.1135	0.2604	0.2316	1.1740	**Median**	**0.9989**

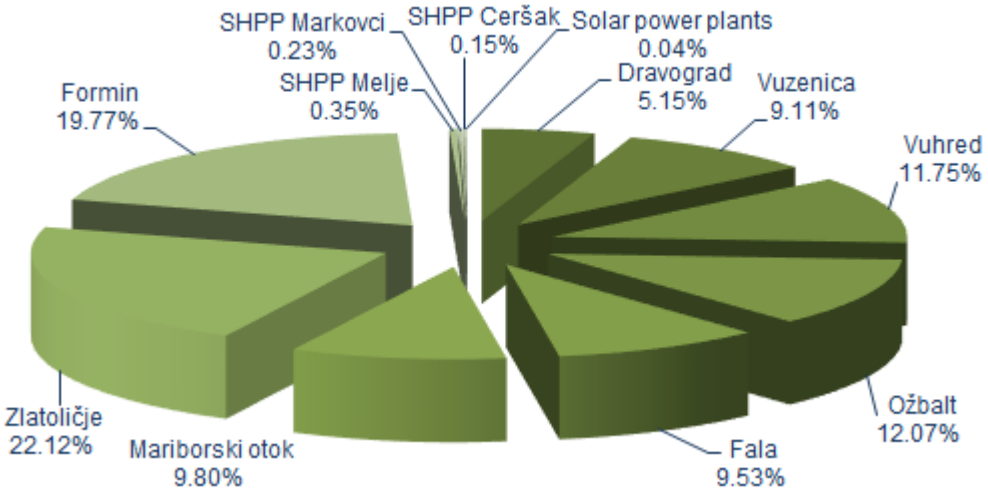
PRODUCTION SHARES OF INDIVIDUAL POWER PLANTS

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 57.41%, the channel-type power plants (Zlatoličje and Formin) produced 41.89% of total electricity supplied to the grid.
The remaining 0.70% 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 by individual HPP in 2016:



The share of individual power plants in the production of the power plants on the Drava in 2016 is presented in the chart below:



Since the launch of operation at the first HPP in 1918 until the end of 2016, DEM supplied a total of 142,535,677,718 kWh of electrical energy to the grid. At the current consumption rate, this energy would suffice for 11.5 years of national consumption

The following table shows the total production of individual power plants from the beginning of their operation until (including) 2016 and their share in total production. It must be noted that the figures below represent the share of electrical energy supplied to the grid.

POWER PLANT	PRODUCTION FROM THE BEGINNING OF OPERATION TO 2016 (kWh)	PRODUCTION IN 2016 (kWh)	PRODUCTION FROM THE BEGINNING OF OPERATION INCLUDING 2016 (kWh)	Share (%)
Dravograd	8,978,276,952	146,620,283	9,124,897,235	6.40
Vuzenica	13,758,023,338	259,366,204	14,017,389,542	9.83
Vuhred	17,986,762,764	334,359,541	18,321,122,305	12.85
Ožbalt	16,507,145,282	343,432,504	16,850,577,786	11.82
Fala	18,913,932,826	271,107,681	19,185,040,507	13.46
Mariborski otok	16,293,946,843	278,918,824	16,572,865,667	11.63
Zlatoličje	27,106,421,830	629,598,103	27,736,019,933	19.46
Formin	19,932,821,406	562,517,038	20,495,338,444	14.38
Melje	156,159,109	9,964,968	166,124,077	0.12
Markovci	16,006,567	5,684,867	21,691,434	0.02
Ceršak	37,330,335	3,002,041	40,332,376	0.03
LARGE POWER PLANT	**139,477,331,241**	**2,825,920,178**	**142,303,251,419**	**99.84**
SMALL POWER PLANT	**209,496,011**	**18,651,876**	**228,147,888**	**0.16**
SOLAR POWER PLANT	**3,203,497**	**1,074,914**	**4,278,411**	**0.003**
TOTAL	**139,690,030,749**	**2,845,646,969**	**142,535,677,718**	**100**

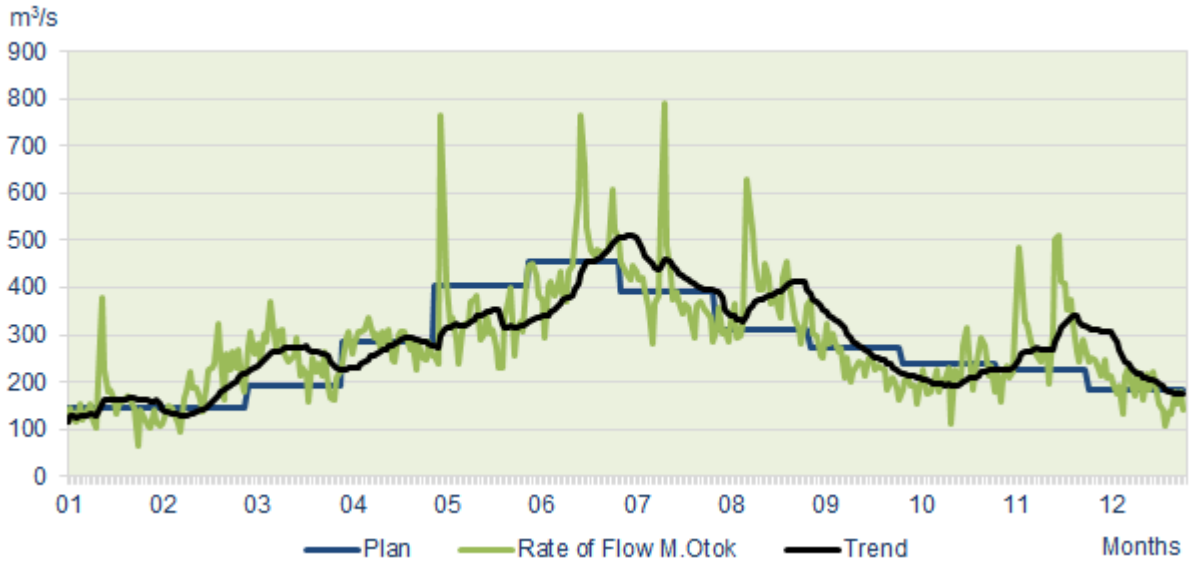
** Production of large HPP (threshold) is show without the negative balance of energy received from the 110 kV network.*

FLOWS AND HIGH WATER LEVELS

The median flow of the Drava at Mariborski otok plant in 2016 was 284 m^3/s, which represented 105 %of the balance flow of 271 m^3/s. Higher flows which required the introduction of high water measures were recorded three times in 2016.

Flows were higher than planned in 2016. The chart below shows daily flows in 2016.

Annual flow chart for 2016:



In 2016, the measures planned for high water levels were implemented three times:

- on 2 and 3 May 2016 when the highest flow from Austria was 421 m³/s and 1,154 m³/s (at 2 p.m.) in Slovenia at the HPP Zlatoličje;
- on 17 and 18 June 2016 when the highest flow from Austria was 932 m³/s and 1,000 m³/s (at 6 p.m.) in Slovenia at the HPP Zlatoličje;
- on 27 and 28 June 2016 when the highest flow from Austria was 708 m³/s and 784 m³/s (at 8 p.m.) in Slovenia at the HPP Zlatoličje.

FAILURES AND MAJOR OUTAGES

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

The most frequent failures were as follows:

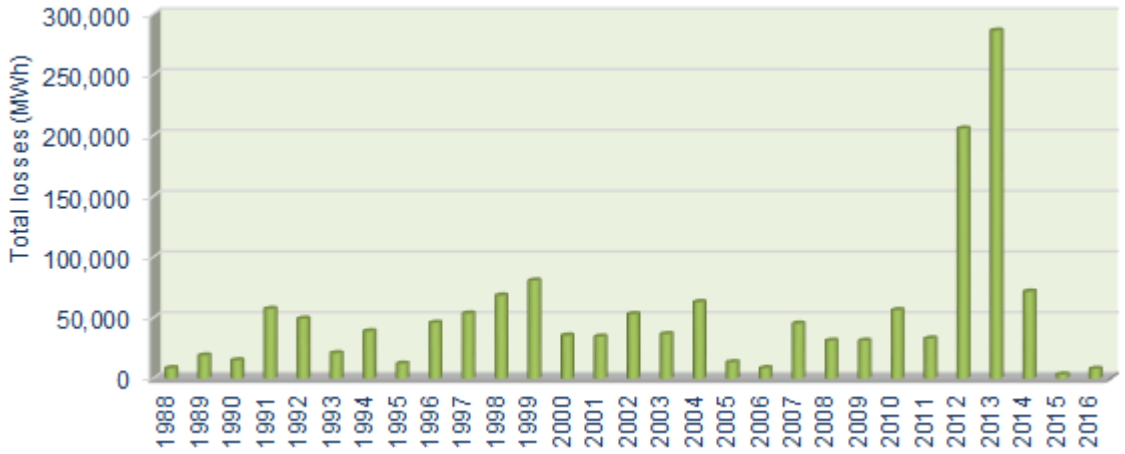
- issues with the cooling water for a turbine shaft seal and bearings,
- problems with oil levels, cooling and measuring temperature on turbine bearings,
- failures of turbine regulators,
- problems with pressure and levels in a turbine pressure unit,
- failures of excitation systems,
- problems with own use,

PRODUCTION LOSSES IN 2016

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

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

Total loss of large HPPs from 1988 to 2016:

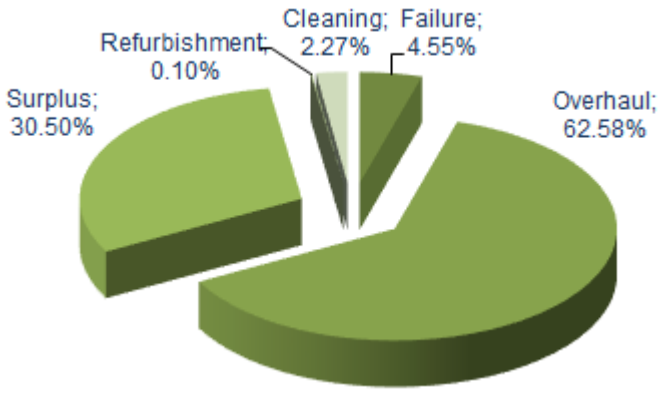


In 2016, total loss amounted to 0.289% of the electrical energy supplied to the grid. Loss in 2016 was very small since the generators were running at high reliability.

Losses (MWh) in 2016 by type of loss and power plant are given in the table below:

LOSSES (MWh)	LOSS DUE TO OVERHAULS	LOSS DUE TO REFURBISHMENT	LOSS DUE TO FAILURE	ENERGY SURPLUS	LOSS DUE TO CLEANING	TOTAL
Dravograd	5	0	0	15	0	**20**
Vuzenica	94	0	23	355	0	**472**
Vuhred	58	0	93	589	2	**742**
Ožbalt	122	0	0	581	12	**714**
Fala	81	8	22	303	27	**441**
Mariborski otok	86	0	0	302	24	**412**
Zlatoličje	602	0	24	234	120	**980**
Formin	4,069	0	209	116	1	**4,395**
DEM	**5,117**	**8**	**372**	**2,494**	**186**	**8,176**

The share of individual losses in 2016 is presented in the figure below, from which it is evident that the majority of losses occurred due to overhauls, inspections and electrical energy surpluses.



DEFECT RELATED LOSSES

Defect related loss occurs when the available water cannot be utilised for electricity production due to a generator failure, which results in spill over. In 2016, such losses were not recorded at HPPs Dravograd, Ožbalt and Mariborski otok.

OVERHAUL RELATED LOSSES

Overhaul-related loss occurs 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. The inspections and overhauls were started at the beginning of the year 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, at which the stopping of one generating unit results in a reduction of fluidity by 30%. In 2016, a total of 5.117 MWh of electrical energy was lost due to overhauls.

LOSSES RELATED TO THE CLEANING OF TURBINE INLETS

Loss as a result of cleaning turbine inlets occurs when turbine inlets need to be cleaned due to clogging of the grates, and a the same time the water cannot be accumulated in the power plant reservoirs. In 2016, losses due to cleaning were recorded at all HPPs, except HPP Dravograd. The majority of losses because of cleaning are incurred at HPP Zlatoličje, where the entire floating debris has to be removed from the water. In total 186 MWh of electrical energy was lost in 2016 due to cleaning.

GRID SURPLUS RELATED LOSSES

Grid surplus related loss occurs when power plant reservoirs are full and there is an excess of energy that cannot be sold in the market, or the price of electrical energy is negative.
In such cases, the system is “regulated” by releasing the spill over; DEM has no control over such losses. In total, 2.494 MWh of electrical energy was lost in 2016 due to grid surpluses.

REFURBISHMENT RELATED LOSSES

In 2016, refurbishment related losses occurred at HPP Fala due to the refurbishment of the control system and a test of the transition to permanent crew-less operation. In total, 8 MWh of electrical energy was lost in 2016 due to grid surpluses.

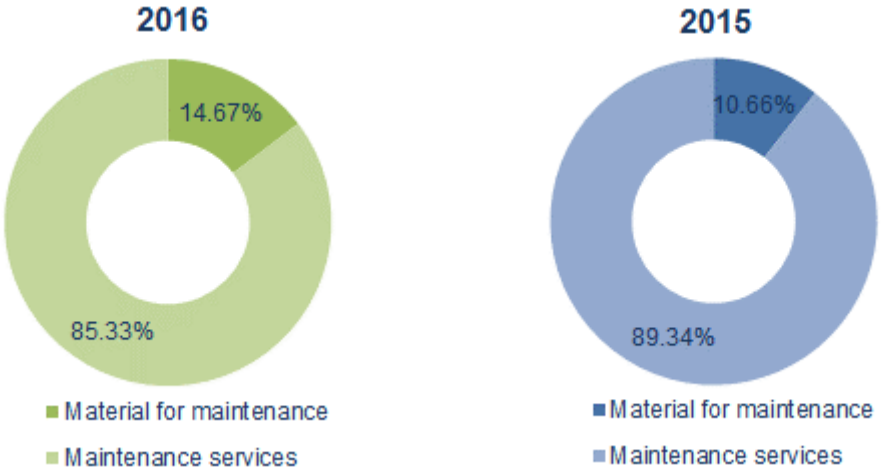
2.5 MAINTENANCE

In 2016, ***EUR 1,696,849*** *was* spent on maintenance of property and plant, which is a decrease of 20.12% or EUR 427,362 over 2015. *EUR 248,886* was spent on spare parts and materials for fixed asset maintenance and *EUR* 1,447,963 was spent for maintenance services.

Overview of realised maintenance costs in 2016 and 2015:

	2016 (EUR)	%	2015 (EUR)	%	2016/2015
SPARE PARTS AND MATERIAL FOR MAINTENANCE OF FIXED ASSETS	248,886	14.67	226,477	10.66	109.89
MAINTENANCE SERVICES	1,447,963	85.33	1,897,734	89.34	76.30
Cost of maintenance of low-voltage grid	1,339,038	78.91	1,843,737	86.80	72.63
Cost of maintenance of intangible assets	108,925	6.42	53,997	2.54	201.72
TOTAL COST OF MAINTENANCE	1,696,849	100.00	2,124,211	100.00	79.88

Structure of maintenance costs in 2016 and 2015:



All the planned overhauls and inspections of generating units, switchyards and locks were carried out in the scope planned.
In addition to the works carried out, some major works planned were performed by the employees of expert services and by the workers of maintenance teams as well as various maintenance works on shared plants and systems of power plants in accordance with the plan of maintenance works.

Major planned works at power plants:

- refurbishment of spillway 2 at HPP Dravograd;
- repair of locking mechanisms for closing the spillways and generator outlets at HPP Dravograd;
- refurbishment of spillway 1 at HPP Vuzenica;
- refurbishment of generator water levels and the water level at HPP Vuhred;
- refurbishment of auxiliary generator inlet locks at HPP Vuhred;
- production of the guide vane seals for the generating units at HPP Vuzenica;
- preparatory works for the refurbishment of spillway 2 at HPP Fala;
- replacement of the water level at the HPP Ožbalt;
- replacement and adjustment of the reduction gear of the 140t crane at HPP Fala;
- production of a new inlet lock of the production unit at SHPP Ceršak;
- refurbishment of SHPP Melje;
- review of SHPP Markovci and reprocessing of the offset of reactive power;
- replacement of the excitation system and the generator 2 protection casing at HPP Formin and;
- refurbishment of the machining shop at HPP Formin.

The above listed works are posted as investment in property, plant and equipment.

DEM also handles, insofar as staff and equipment are available, the mowing of banks, undergrowth control and removal on the banks and vegetation removal.

Larger, unplanned works were carried out to remedy defects:

- replacement of the processing water supply system pump at HPP Dravograd;
- replacement of the drainage pump for the control corridor at HPP Vuzenica;
- refurbishment of the hoist platform at HPP Dravograd;
- refurbishment of the device to transport auxiliary locks for the generator inlets at HPP Vuzenica and;
- refurbishment of the device to transport auxiliary locks for the generator inlets at HPP Vuhred.

The engineers from the expert support service also performed some market services based on one time orders or contracts:

- measurements of the depth of stator slots at the TE-TOL;
- measurement of partial discharge of the stator winding at the TE-TOL;
- test runs and release to operation of synchronisation systems, gauge measurements and testing of MV cables at the HPP Brežice facility;

- for HESS, we also carried out a test of generator 1 and the auxiliary equipment at the HPP Brežice. Taking into consideration the scope of the contract, DEM's experts are carrying out testing of MV cable network, gauge measurements and the generator-to-grid synchronisation system.

In addition to the above mentioned larger works that we carried out ourselves, one relevant fact must be brought to attention, that is that from 2013 to December 2015 the power plant operation and maintenance unit saw 26 workers retire or leave. In the above period, no new workers were employed, which is causing increasingly larger problems both in terms of maintenance as well as safe operation.

Movement of maintenance costs from 2012 to 2016:

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.

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

BUSINESS ENVIRONMENT OVERVIEW FOR 2016[2]

The Eurozone saw relatively favourable economic trends. The growth in private consumption contributed the most to the economic growth in the first three quarters of 2016, which mainly reflected a recovery in the labour market. The economic outlook for Q1 of 2017 remains favourable since mood indicators have further improved.

Slovenia also benefited from favourable trends of economic activity las year, while the conditions on the labour market continued to improve. The growth in exports and production of the processing sector was further strengthened by increased foreign demand and strengthened export competitiveness. Together with the increased foreign demand, the revenues in certain market services continued to grow. The impact of domestic spending was positive.

[2] *Source: Institute of Macroeconomic Analysis and Development*

The number of active workers increased higher than the year before, accompanied by a widely based economic growth in the first ten months of 2016. Growth year-on-year was higher in most activities of the private sector.
The number of registered unemployed dropped in 2016 (by 8.5 %), accompanied by strengthened hiring. The number came close to the levels on par with the year of stabile economic growth.

The rise in the average gross salary in the first ten months of 2016 was the highest in the last five years, but still significantly slower than before the crisis.

The higher prices of goods and services (0.5 %) in 2016 reflected supply factors an, partially, a further strengthening of demand. In terms of factors driving supply, the most important one was the rise in the price of raw materials. The price of energy products, which contributed the most to the drop in the aggregate level of prices in 2015, found themselves at the same level as the year before at the end of the year, while oil continued to rise in the global markets. The rise in the price of raw materials also contributed to a continued increase in food prices (mainly unprocessed). The price of services continued to grow with the further recovery of demand.

The price competitiveness of the Slovenia economy in 2016 remained close to the favourable levels from last year. A smaller interim drop in the first eleven months of 2016 was the result of the appreciation of the euro, as was the case in the majority of Eurozone members., but this had a relative smaller impact on Slovenia due to its geographic structure.

The surplus of the current account of the balance of payments continued to rise. In the first ten months of 2016, it was year-on-year higher due to a higher surplus in goods and services, which reflects the favourable export trends, while export competitiveness continued to improve and domestic spending was recovering at a relatively slower pace.
The year-on-year decrease in the volume of loans to the domestic non-banking sector levelled off further in November.

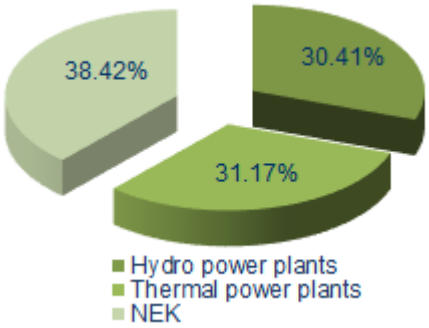
The structure of banking sources of finance is changing for the benefit of non-banking sector deposits.

QUANTITATIVE BALANCE OF ELECTRICAL ENERGY[3]

In 2016, a total of 14,116.90 GWh of electrical energy was supplied to the transmission network. Thermal power plants supplied 4,400.60 GWh or 31.17%, hydro power plants contributed 4,293.20 GWh or 30.41%, while Krško nuclear power plant supplied 5,423.10 GWh or 38.42%, as shown in the table and chart below.

[3] *Source: ELES – Monthly report on operation in December*

SUPPLY TO THE GRID (GWh)	2016	2015
DEM	2,826.00	2,522.60
HESS	391.80	313.00
SEL	342.30	268.70
SENG	733.10	604.20
TEB	3.30	5.80
TEŠ	4,061.20	3,496.20
TET	-2.00	-2.90
TE-TOL	338.10	309.90
NEK (100%)	5,423.10	5,361.50
OVE and SPTE	0.00	105.80
TOTAL	**14,116.90**	**12,984.80**



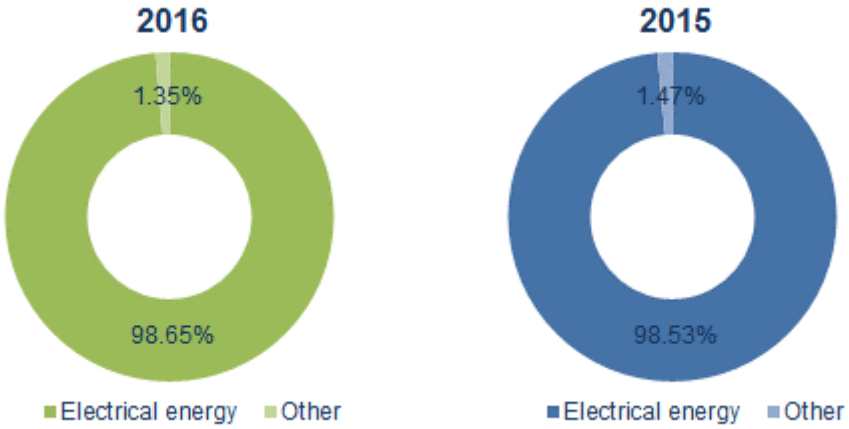
SALES AND CUSTOMERS

STRUCTURE OF NET REVENUE FROM SALES

In 2016, DEM generated net revenue from sales amounting to ***EUR 65,460,060***, which is a 1.12% increase over 2015, when it amounted to EUR 64,733,271. In the domestic market, we generated 99.94% of revenue and the remaining 0.06 % in a foreign market.

The sale of electrical energy accounting for 98.65% is most important in the revenue structure; the revenue from the sale of other products and services accounted for 1.35 % of revenue.

Structure of net revenue from sales in 2016 and 2015:



ELECTRICAL ENERGY

The company generates the majority of revenue by the sale of electrical energy. The electrical energy is sold to the buyers: ***HSE*** (the revenue generated from electrical energy sold in 2016 amounted to EUR 64,073,396) and ***Borzen*** (the revenue generated from electrical energy sold in 2016 amounted to EUR 503,043).

Revenue generated from the sale of electrical energy in 2016 and 2015:

STATED in EUR	2016	2015
SALES EL. ENERGY FROM HPP ON THE DRAVA	**63,293,151**	**62,400,320**
SALES EL. ENERGY FROM SHPP	**734,884**	**870,252**
SHPP Melje	392,620	465,394
SHPP Markovci	223,984	243,245
SHPP Ceršak	118,280	161,613
SALES EL. ENERGY FROM SPP	**45,361**	**48,593**
SPP Dravograd	1,607	1,749
SPP OCV3	988	1,076
SPP Zlatoličje	41,082	44,101
SPP Formin	1,684	1,667
INCOME FROM OPERATING SUPPORT FROM SHPP AND SPP (BORZEN)	**503,043**	**463,730**
TOTAL	**64,576,439**	**63,782,895**

OTHER SALES

In 2016, DEM generated revenue from the sale of other products and services in the amount of EUR 883,621, which was a decrease of EUR 66,755 or 7.02% over 2015, when it amounted to EUR 950.376. Other net revenue from sales includes revenue generated on the foreign markets, revenue from services, rents, and the sale of other merchandise and material.

Revenue generated from other sales in 2016 and 2015:

STATED in EUR	2016	2015
Revenue generated on other merchandise and material	206	7,183
Revenue from rents	499,167	548,271
Revenue generated on other services	345,146	357,051
Revenue generated on foreign markets	39,102	37,871
TOTAL	**883,621**	**950,376**

PURCHASING AND CONTRACTORS

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. In purchasing, we comply with the new Public Procurement Act ZJN-3, which entered into force on 1 April 2016.

To efficiently handle procurements in accordance with the PPA, the company will face many strategic and implementation challenges. 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.

When executing public procurement, adequate economic, financial, and technical qualifications are established by special conditions, requirements and criteria that are reasonably related to each item being procured.

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 reducing 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.
To better utilise 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 Agreement on business cooperation in the performance of service 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 precondition for smooth electrical energy production. The selection of quality contractors is of a vital importance due to the importance of providing smooth production of electrical energy.

2.7 INVESTMENTS

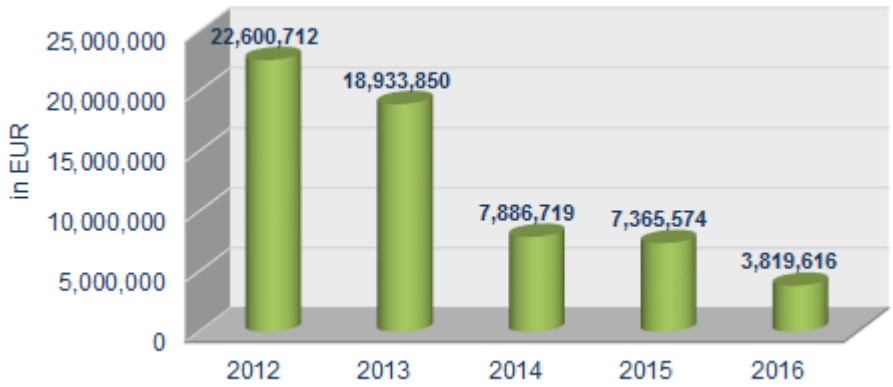
The value of investments planned in 2016 amounted to ***EUR 3,819,616*** (in 2015, the investments amounted to EUR 7,365,574) and reached ***61.57%*** of the plan for 2016.

Overview of investments realised in 2016:

STATED in EUR	REALISATION 2016	BUSINESS PLAN 2016	RE 2016/ BP 2016
NEW CONSTRUCTIONS	224,994	470,000	47.87
INVESTMENTS IN THE RELIABILITY OF PRODUCTION	2,269,468	3,454,505	65.70
SAFETY SYSTEMS	25,493	30,000	84.98
RECONSTRUCTIONS	967,720	500,000	193.54
STUDIES, INVESTMENT AND PROJECT DOSSIERS	18,707	90,000	20.79
SEISMIC MONITORING	19,600	9,000	217.78
SMALL TOOLS	121,582	150,000	81.05
IT INFRASTRUCTURE AND BUSINESS IT	106,366	400,000	26.59
MAINTENANCE OF THE ENERGY POTENTIAL OF DAMMED WATER	65,686	1,100,000	5.97
TOTAL	**3,819,616**	**6,203,505**	**61.57**

Compared to the plan, realised investments in ***new constructions*** accounted for 47.87%, realised investments in the ***reliability of production*** accounted for 65.70%, realised investments in ***security systems*** for 84.98%, realised investments in ***reconstructions*** for 193.54 %, %, realised investments in ***studies, investments and project documentation*** for 20.79%, realised investments in ***seismic monitoring*** for 217.78%, realised investments in ***small tools*** for 81.05%, realised investments in ***IT infrastructure and the business information system*** for 26.59% and realised investments in **maintaining the energy potential of reservoirs** for 5.97%.

Figure showing realised investments in the 2012 - 2016 period:



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 competed for the project of PSP on the Drava and the power-line connection to DTS Maribor. The Government of the Republic of Slovenia published a Decree on the National Spatial Plan for a pumped-storage power plant on the Drava and the power transmission line between the PSP and DTS Maribor in the Official Gazette no. 12 of 25 February 2011. A preliminary design was completed that included an option for a powerhouse of the PHP in a cavern. In 2014, an expert review of the survey was conducted and it confirmed the conclusions of the feasibility 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 to the phase of an environmental impact assessment and to obtain the environmental approval that has not been issued for this project or the EIA yet.
In 2013 and 2014 activities concerning the EIA and the grounds for the EIA were not carried out due to the agreement on the adjusted pace of the project with regard to the recommendations of HSE. The project was stopped by a decision of DEM leadership in July 2015. All the concluded contracts, except the information office, have been terminated. In 2016 there were no significant activities. Project activities have been stopped and the project itself is suspended, since the decision on the adopted NSP for the facility still applies.

CONSTRUCTION OF HPPs ON THE MURA

After the appointment of DEM as concessionaire for the Mura, the potential energy utilization of the river was tested. Various options for technical solutions were prepared and the impact of HPP on all three constituents of sustainability in the area was discussed. The conclusion is that limited energy use is possible across the concession area, taking into account limiting conditions that will arise from the environment protection programme for the examined area. Based on the energy and environmental examination of the Mura, which was carried out until 2011, a decision was made to begin separate projects for HPP Hrastje Mota and, then, the replacement facility of HPP Ceršak. The initiative for HPP Hrastje Mota has already begun, while a preliminary design was prepared for HPP Ceršak. Other activities were not carried out in 2016.

HPP HRASTJE MOTA

The initiative for the National Spatial Plan was coordinated in 2012. Preliminary solutions and the document identifying the investment project were prepared. A public regional consultation was held in Radenci in 2012. After the adoption of guidelines for the development contractors and an analysis, scoping took place for the ER. The scoping lasted to April 2013. In May 2013, the Government of the Republic of Slovenia adopted a decision on the commencement of the NSP. In 2014, the expert documentation was commissioned as well as a study of options and a detailed preliminary design produced. In 2015, the expert documentation was completed. In September 2016, the detailed preliminary design, the environmental report and the study of options were completed. Due to the demanding nature of the project and a D-rating of acceptability in the ER, documents for the development of replacement habitats and countervailing measures were produced based on the requirements and conditions of the EU.

The entire dossier was submitted to the Ministry of Infrastructure, as the initiator, and the Ministry of the Environment and Spatial Planning, as the coordinator, in December 2016.

AREA OF HPP CERŠAK

For energy exploitation of the area between SHPP Ceršak and Sladki vrh, conceptual solutions for the new SHPP Ceršak were presented to the intergovernmental committee for the Mura in 2011.
There is a close connection between issues regarding demolition (partial reconstruction of the Ceršak dam) and DEM's proposition for a new location of the replacement HPP. Preliminary technical solutions and the grounds for siting of the HPP based on 5 options have been prepared as well as a preliminary forecast of the evaluation of acceptability for different options in the environment for each country. The conclusions show that individual options of a HPP are environmentally acceptable. The documents for the initiative for the National Spatial Plan in Slovenia and documents for the registration of the project in Austria are prepared. The Ministry of Infrastructure has received the documentation for the launch of the initiative for a NSP. In Austria, the documents have been submitted in accordance with their procedure for a first environmental opinion. The Austrian experts said in the beginning of 2016 that that they want to keep the present small HPP, which is not acceptable to the investor from the economic – technical aspect. The full proposal has been discussed by the intergovernmental committee for the Mura on 10 and 11 October 2016. The committee adopted the decision that DEM should present its proposal to the Austrian side at a separate meeting of the expert group in Graz on 31 January 2017.

WIND POWER STATIONS – Wind power stations of the Štajerska and Koroška regions project

The Wind power stations of the Štajerska and Koroška regions project has been developed with the aim to increase the share of electrical energy generated from other renewable sources in DEM. Tests were carried out above Dravograd for the wind power station project Ojstrica, while the locations on the Radlje pass and Primož na Pohorju were assessed as having only poor potential. Wind measurements were carried out between May and October at the Konjiška gora site. Wind potential testing after six months showed a poor potential, so measurements were stopped. Based on the measurements carried out so far, there is sufficient data available to construct a more accurate wind potential model, so that a different, better, location for measurements may be selected for 2017.

WPP OJSTRICA

Based on the energy potential measurements carried out at the selected location at Ojstrica nad Dravogradom, an evaluation was produced, which confirms the potential for electrical energy production. Preliminary solutions and the document for the identification of the investment project were prepared. The project was confirmed by the HSE Committee for investments. An amendment of the technical parameters of the PD was performed for eight units and the documentation was prepared for the start of siting for the NSP initiative. In, the application for a NSP initiate was submitted to the Ministry of Infrastructure. The initiative was coordinated between the various departments of government and is ready for an official initiative of the initiator, the Ministry of Infrastructure. In October, the findings of the wood grouse monitoring were presented. The findings indicated that 3 wind generators may be carried out. The NSP procedure will take into account the arguments of the Bird watching and Bird Study Society of Slovenia.

SHPP JOSIPDOLSKI POTOK

A preliminary design and the document for the identification of the project have been prepared. A review of the document for the identification of project is under way, after which the document will be submitted for examination of the HSE expert committee on evaluation and monitoring of investments.

SHPP OTIŠKI VRH

The preliminary design was drafted in 2016. In October, the water permit for the SHPP was obtained. Further activities concerning the production of the project and investment dossier are planned for 2017.

SHPP DOBRIJE

The water permit for the SHPP Dobrije was obtained on 17 April 2014. The preliminary design for the SHPP was drafted in 2015.
Based on the preliminary design, the document for the identification of the investment project will be prepared, which will provide a more detailed economic evaluation that will serve as a basis for future decisions on the continuance of the project. The production of the said document is yet to start due to a cut in available funding for the investment; however, activities are planned to resume in 2017.

SHPP RAVNE

In 2012, the preliminary design was made for the SHPP, and a water permit was obtained in February 2015. The production of the document for the identification of the investment project is yet to start due to a cut in available funding for the investment.

SHPP PESNICA

Based on the preliminary design, a document for the identification of the investment project was prepared. An internal review of the document was carried out. The document will be submitted for examination of the HSE expert committee on evaluation and monitoring of investments.

SHPP ROGOZNICA

At the end of 2016, or, better, the start of 2016 a simplified technical solution for the construction of the SHPP was examined and adopted that will significantly decrease the price of the project. The altered design, however, come with a change of the DPD and construction permit. Based on the selected technical solution, the document for the identification of the investment project was produced and was examined and adopted by the HSE committee for monitoring of investments.
A revision of the DPD is currently under way as well as the preparation of the tender dossier.

SHPP LOVRENC

The water permit for the SHPP Lovrenc was obtained on 27 February 2015.
The preliminary design for the SHPP was drafted in 2013, but this will have to be revised.
Based on the preliminary design, the document for the identification of the investment project will be prepared.
The listed activities will be undertaken in 2017.

INVESTMENTS IN THE RELIABILITY OF PRODUCTION

RESTORATION OF SPILLWAYS – PHASE I

Planning of the spillway restoration dates back to 2007, when IBE and experts from DEM prepared a preliminary study for the restoration of spillways on the Drava and on the basis of which 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 and then continued on the following spillways, resulting in the current status of the project as stated below:

- Refurbishment of SW2-VZ completed, under way from September 2009 to May 2011;
- Refurbishment of SW4-VZ completed, under way from August 2011 to May 2013;
- Refurbishment of SW1-DR completed, under way from July 2012 to August 2014;
- Refurbishment of SW3-VZ completed, under way from September 2013 to March 2015;
- Refurbishment of SW1-VZ completed, under way from March 2015 to May 2016;
- Refurbishment of SW2-DR, ongoing.

RESTORATION OF SPILLWAY 1 AT HPP VUZENICA

After a complaint and the replacement of the measuring bolt, the spillway is up and running.

RESTORATION OF SPILLWAY 2 AT HPP DRAVOGRAD

Works at spillway 2 have begun in May 2016. After the disassembly of the equipment, which is finished, refurbishment works on the two lock gates have begun, which were, for this purpose, transported to the power plant level and surrounded by a scaffolding with anti-dust protection.
The majority of refurbishment works set in accordance with the inspections and the technical dossier of the designer, have finished and the contractor has begun applying anti-corrosion protection on the upper gate.
The drive mechanisms, which were disassembled last, are currently located at the contractor's plant. They are currently undergoing fault diagnostics including non-destructive testing and refurbishment works are already under way.
The emptied space of the drive mechanisms at the facility have been cleaned and are now being renovated by the construction contractor. Also, power plant staff have already begun the installation of the new electrical equipment in these facilities.

The works, for the most part, are running in accordance with the agreed plan of works. There are some delays, due to an unplanned postponement of works by the mechanical equipment refurbishment contractor and low ambient temperatures, in the application of the anti-corrosion protection on the upper gate, but the contractor for that part is going to make up for the lost time when the climate improves, presumably in March 2017.

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

For 2016, the following activities were planned:

- Office space for the HPP Fala operator;
- Transition to permanent crew-less operation;
- Refurbishment of the secondary systems at the 110kV switchyard.

With regard to the refurbishment of the 110kV switchyard, contracts were signed with the contractors, i.e. ESOTECH and HSEI. ESOTECH is going to deliver the equipment, produce the cabinets and perform the installation and disassembly, while HSEI will deliver the switchyard software. Also, a contract was signed with a contractor to renovate the operator rooms at the HE Fala control room (switchyard) during the period of transition at Fala to permanent crew-less operation.

The planned resources for 2016 were engaged in the payment of due liabilities, in particular, the activities at the 110kV switchyard, which included the following:

- activities for finishing the application for the main junction of alternating own consumption to the 0.4kV local junction;
- finishing activities in the production of software (from LOT POP);
- acquisition of the 110kV switchyard equipment (instrument transformers and equipment);
- software contractor for the 110kV switchyard software (management and safety);
- production of DPD project dossier for the generators and switchyards (particularly 110kV);
- contractor for works at the HPP control room (small contractor).

In 2016, all the project based activities at the facility were carried out. The works at all 0.4kV local junctions of the power plant, including the main junction and the 110kV switchyard. Furthermore, all activities were carried out to finalize the power plant's control room and, by doing so, hand over the old room (SCADA, control equipment panel, etc.) for museum purposes.
The old "switch room" and relay station were renovated, which are now ready to receive museum visitors on tours. The LOT POP software was also deliver, which was thoroughly checked as part of the activities for the transition of the HPP Fala to operation without a permanent crew. All testing was successfully finished; as a result the managing director of DEM adopted a decision to start crew-less operation at the HPP Fala as of 12 November 2016.

In December 2016, activities began at the 110kV switchyard with the delivery of the equipment at the facility (control cabinets and casings for the 110kV fields, instrument transformers and other equipment by the contractor ESOTECH; also, all software produced under LOT POP1 -HSEI was delivered).

The works at the switchyard began only when ELES permitted the shutdowns at the 110kV switchyard, which will include all the secondary systems of all 110kV OHL and substation fields. Activities at the 110kV switchyard will be completed at the end of the generator overhaul period that is at the end of February 2017.

This will mark the practical completion of the HPP Fala refurbishment project. The 110kV switchyard will continue to be remotely monitored and control from the DEM control centre until an agreement is reached with ELES on the handover of the switchyard and a decision adopted on the transfer of control over 110kV OHL fields (but not substation fields) from ELES' control centre.

RECONSTRUCTIONS

RECONSTRUCTION OF THE FORMIN HPP

A basic internal analysis of the condition of the mechanical equipment at the HPP was produced. Tender and technical specifications have been produced for further inspections of vital mechanical components; a tender award is ongoing. The project assignment for a hydraulic feasibility study for a potential increase of the rated flow of HPP is prepared.

RESTORATION OF THE MARKOVCI DAM

Within the framework of the project, the preliminary design and the investment programme are being drafted. The basic design for the construction permit for the replacement road is in its final stage.

SMALL TOOLS

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 small tools.
In 2016, purchases of various equipment for smooth operation were made as part of small tools investments. Also, various tools and devices, machines and instruments were acquired.

2.8 IT

DEM's comprehensive IT system ensured the operation of the systemic infrastructure and information services for the needs of business processes and technical subsystems. IT services are also leased to HSE, HSE Invest, Eldom and PRI.
The company is well aware of the importance of IT to its uninterrupted operation and development, so activities to ensure smooth and efficient rendering of services of DEM's comprehensive IT system carried out continuously.

In the beginning of 2016, the project was launched to introduce a new SAP information system, so unified SAP introduction plans were prepared for the entire HSE group; we also undertook to test the software and plan to begin using it as of 1 April 2017.
Concurrently, the project to introduce the BC document system was launched in December 2016, which has been unified at the HSE group level and which will also be implemented as of 1 April 2017.

In 2016, investments in IT amounted to a total of ***EUR 106,366***, of which:

- user hardware and system hardware amounted to *EUR 94,976* and;
- software to *EUR 11,390*.

In terms of hardware and software maintenance, ***maintenance services costs*** in the amount of EUR 210,494 and ***maintenance materials costs*** in the amount of EUR 7,306 were incurred. **Costs of one-year licences** were incurred in the amount of EUR 108,925.

Overview of realised IT in 2016 and 2015:

STATED in EUR	2016	2015	2016/2015
INVESTMENTS IN IT	**106,366**	**140,191**	**75.87**
Software	11,390	4,824	236.12
Hardware	94,976	135,367	70.16
MAINTENANCE OF IT	**326,725**	**275,687**	**118.51**
Material	7,306	4,408	165.73
Services	210,494	217,281	96.88
Other	108,925	53,997	201.72

2.9 PERFORMANCE ANALYSIS

PERFORMANCE IN 2016

In 2016, DEM operated in compliance with the Business plan for the year 2016 that was adopted by the decision of the sole member in the general meeting of 16 March 2016.

In 2016, the company generated ***net revenue from sales*** amounting to EUR 65,460,060, which was an increase of 1.12 % over the same period last year due to higher revenue from the sales of electrical energy.

The ***operating profit or loss*** achieved in 2016 in the amount of EUR 13,205,083 was by 51.79% higher than the profit or loss for the previous year.

Net profit amounting to EUR 14,603,947 was 68.40% higher over the year 2015. Higher profit or loss was the result of higher net revenue from sales and finance income and lower operating expenses.

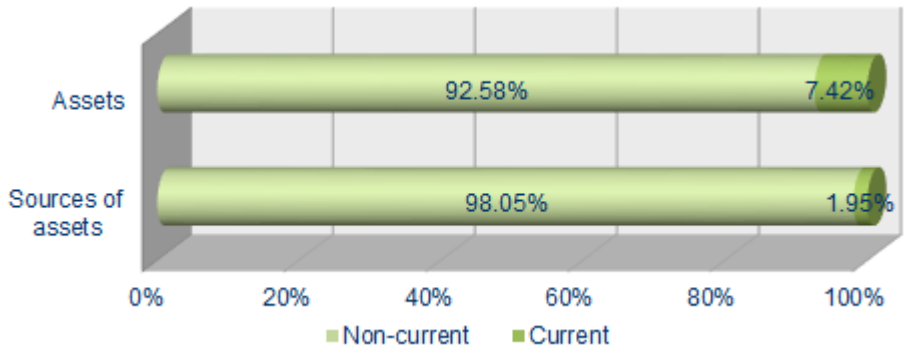
At 31 December 2016, ***assets*** of the company amounted to EUR 495,655,581, which was a decrease of 5.27% or EUR 27,574,140 when compared to the balance at the end of 2015.

At 31 December 2016, ***equity*** of the company amounted to EUR 481,304,147, which was a decrease of 5.77% or EUR 29,465,147 over the balance at the end of 2015.

Due to favourable hydrology, ***production*** in 2016 significantly exceeded the plans at the balance flow rate (57 % probability). The generating units of DEM ***produced*** and supplied to the grid 2,846,167,525 GWh or 101% of the planned production.

In 2016, the ***cash flow*** from operating and investing activities of the company was positive, but the cash flow from financing activities was negative. Cash at 31 December 2016 was higher by EUR 18,741,426 when compared to the balance at the end of 2015.

Structure of the Statement of financial position as at 31 December 2016:



It is evident from the statement of financial position of the company that, at 31 December 2016, the company finances non-current assets by long-term sources of finance.

CAPITAL ADEQUACY

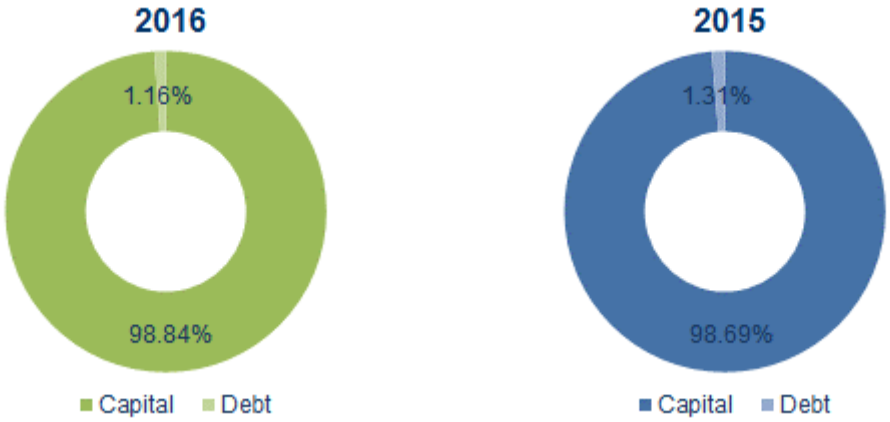
Capital adequacy can be defined as the company's investment capabilities. The company complies with capital adequacy requirements, since it disposes of sufficient long-term financing sources given the volume and type of transactions, and an adequate policy to manage risks we are exposed to in our operations.

STATED in EUR	2016	2015
1. Net profit or loss for the period	14,598,216	8,670,053
2. Net profit or loss carried forward	7,670,053	0
3. Retained earnings (1 + 2)	22,268,269	8,670,053
4. Capital surplus	0	0
5. Revenue reserve	64,213,269	107,213,269
6. Total (3 + 4 + 5)	86,481,538	115,883,322
7. Share capital	395,011,180	395,011,180
Capital adequacy = 6/7	**0.22**	**0.29**

DEBT LEVELS

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

Ratio of equity to debt at 31 December 2016 and 31 December 2015:



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 1.16% at 31 December 2016 and it accounted for 1.31% at 31 December 2015.

PERFORMANCE INDICATORS OF THE COMPANY[4]

EQUITY FINANCING RATE	31.12.2016	31.12.2015
1. Equity and liabilities	495,655,581	523,229,721
2. Capital	481,304,147	510,769,294
Equity financing rate = 2 / 1	**97.10**	**97.62**

At the end of 2016, the company's equity accounted for 97.10 % 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 decrease when compared to the end of 2015.

[4] *Stated in EUR.*

LONG-TERM FINANCING RATE	31.12.2016	31.12.2015
1. Capital	481,304,147	510,769,294
2. Long-term liabilities	4,667,625	4,670,180
3. Total (1 + 2)	485,971,772	515,439,474
4. Equity and liabilities	495,655,581	523,229,721
Long-term financing rate = 3 / 4	**98.05**	**98.51**

The rate is slightly higher than the equity financing rate, as 98.05% of the company's assets were financed from long-term sources, and 1.95% was financed from short-term sources. Compared to the end of 2015, the long-term financing rate slightly decreased.

OPERATING FIXED ASSETS RATE	31.12.2016	31.12.2015
1. Property, plant and equipment	376,509,841	387,203,149
2. Intangible assets	426,645	679,560
3. Total fixed assets at carrying amount (1 + 2)	376,936,486	387,882,709
4. Assets	495,655,581	523,229,721
Operating fixed assets rate = 3 / 4	**76.05**	**74.13**

The company's total assets include 76.05% of property, plant and equipment and intangible assets. When compared to the end of the previous year, the ratio increased.

LONG-TERM ASSETS RATE	31.12.2016	31.12.2015
1. Property, plant and equipment	376,509,841	387,203,149
2. Intangible assets	426,645	679,560
3. Investment property	0	0
4. Long-term investments in subsidiaries	408,241	488,241
5. Other long-term investments and loans	81,113,077	81,139,789
6. Long-term operating receivables	0	0
7. Other non-current assets	124,660	111,675
8. Total (1 + 2 + 3 + 4 + 5 +6 + 7)	458,582,464	469,622,414
9. Assets	495,655,581	523,229,721
Long-term asset rate = 8/ 9	**92.52**	**89.75**

The company's non-current assets account for 92.52% of its total assets. Compared to the end of 2015, the ratio slightly increased.

EQUITY TO OPERATING FIXED ASSETS	31.12.2016	31.12.2015
1. Capital	481,304,147	510,769,294
2. Property, plant and equipment	376,509,841	387,203,149
3. Intangible assets	426,645	679,560
4. Total fixed assets at carrying amount (2 + 3)	376,936,486	387,882,709
Equity to operating fixed assets = 1 / 4	**1.28**	**1.32**

In 2016, the company financed all its fixed assets at carrying amount by its own sources. The ratio was slightly lower than in the previous year.

IMMEDIATE SOLVENCY RATIO (QUICK COEFICIENT)	31.12.2016	31.12.2015
1. Cash and cash equivalents	25,897,959	7,156,533
2. Short-term investments	164,624	34,698,094
3. Total liquid assets (1 + 2)	26,062,583	41,854,627
4. Short-term liabilities	9,683,809	7,790,247
Immediate solvency ratio = 3 / 4	**2.69**	**5.37**

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 lower when compared to 2015.

QUICK RATIO (QUICK COEFICIENT)	31.12.2016	31.12.2015
1. Cash and cash equivalents	25,897,959	7,156,533
2. Short-term investments	164,624	34,698,094
3. Short-term operating receivables	10,143,057	11,283,243
4. Total (1 + 2 + 3)	36,205,640	53,137,870
5. Short-term liabilities	9,683,809	7,790,247
Quick ratio = 4 / 5	**3.74**	**6.82**

At the end of 2016, the company's quick ratio stood at 3.74.
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 2015, the ratio decreased significantly.

CURRENT RATIO (CURRENT COEFICIENT)	31.12.2016	31.12.2015
1. Current assets	36,772,897	53,325,588
2. Short-term liabilities	9,683,809	7,790,247
Current ratio = 1 / 2	**3.80**	**6.85**

At the end of 2016, the current ratio amounted to 3.80, meaning that the company fully covered its short-term liabilities by its current assets. Compared to the end of 2015, the ratio decreased significantly.

OPERATING EFFICIENCY RATIO	2016	2015
1. Operating revenues	66,649,658	65,871,845
2. Operating expenses	53,444,575	57,172,506
Operating efficiency ratio = 1 / 2	**1.25**	**1.15**

In 2016, the company's operating revenues exceeded its operating expenses by 25%. Due to lower operating expenses, the ratio increased over 2015.

NET RETURN ON EQUITY RATIO (ROE)	2016	2015
1. Net profit or loss	14,603,947	8,671,945
2. Average equity	496,036,721	510,747,563
Net return on equity ratio = 1 / 2	**0.029**	**0.017**

In 2016, the company generated EUR 2.9 net profit per EUR 100 of equity invested. The ratio was much higher when compared to 2015 due to a higher net profit.

NET RETURN ON ASSETS RATIO (ROA)	2016	2015
1. Net profit or loss	14,603,947	8,671,945
2. Average assets	509,442,651	525,897,852
Net return on assets ratio = 1 / 2	**0.029**	**0.016**

The return on assets in 2016 amounting to 2.9% was significantly higher over the previous year, due to a higher net profit.

ADDED VALUE	2016	2015
1. Operating revenues	66,649,658	65,871,845
2. Costs of goods, material and services	4,276,460	5,012,352
3. Other operating expenses	21,800,900	21,717,538
Added value = 1-2-3	**40,572,298**	**39,141,955**

The added value in 2016 was higher by 3.65% over the previous year due to higher operating revenues and lower costs of goods, material and services.

ADDED VALUE / EMPLOYEE	2016	2015
1. Added value	40,572,298	39,141,955
2. Average number of employees	252	271
Added value/employee = 1/2	**161,321**	**144,435**

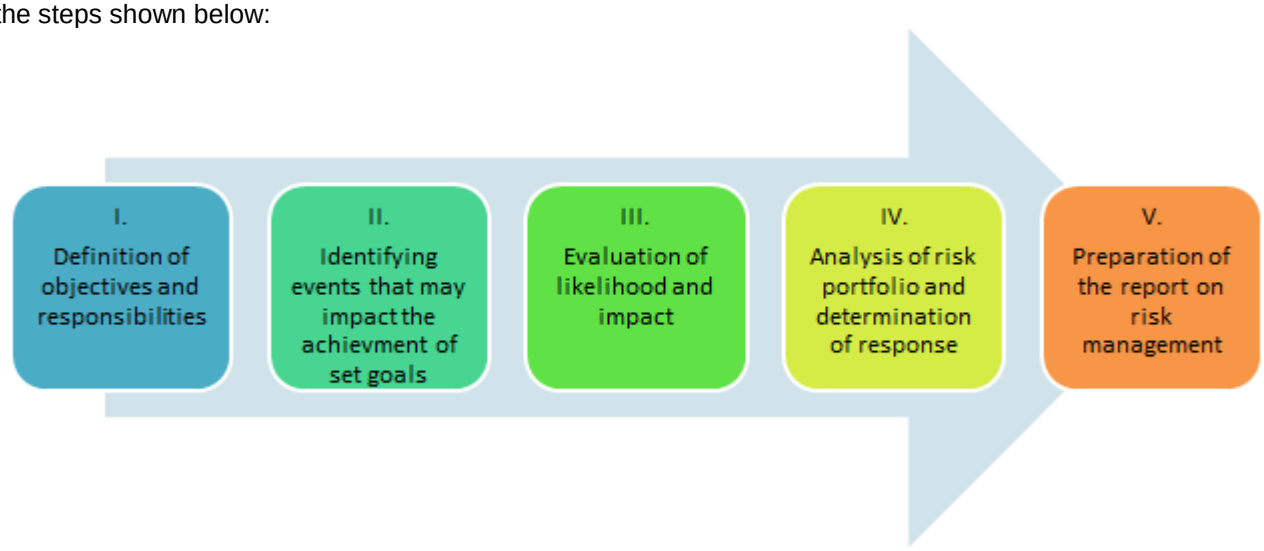
Added value per employee in 2016 was higher by 11.69% over the previous year due to a reduction in the number of employees.

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 risk assessment process is carried out in accordance with the Risk management policy of the HSE group, following the steps shown below:



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 members of the college 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. The registers are then regularly checked and amended.
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 and the HSE group.

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.
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 five groups, while taking into account both internal and external risk factors in all the groups:

- **Strategic and business risks** the company is exposed to in its vision, mission, values, strategic objectives and plans:

  The most significant risks that are part of this group of risks are risks, which present very limited management possibility:
  - macroeconomic risk, which present as a decrease in the prices of electrical energy on the global and European exchanges, resulting in lower sales prices or revenues;
  - the risk of a rise in the charge for the use of construction land, concessions and water contributions, which strongly affect costs and, in turn, the company's business performance;
  - 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.

- **Quantity and production related risks**

  In terms of quantity and production related risks, the most significant risks are as follows:
  - drought or an unfavourable hydrology of the Drava, which may, with regard to the historical average, cause a ±10 % fluctuation in generation. The results is that planned production is not met and, in turn, the profit smaller.
  - Production related risks are risks of operation failure or unavailability of key equipment and production capacities and the related outages and overhauls. Some of the most important measures to mitigate this risk include regular maintenance, overhauls, and inspections of devices and equipment. 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.

- **Safety risk**

  The most important risks as part of safety risks are the risk of natural disasters, which may cause damage or destruction of devices and equipment and result in the unavailability or reduced availability of devices and equipment; and the risk of extraordinary incidents, in particular high water risk and water spillage, floods and the resulting financial loss of the company. Safety risks are managed through measures that decrease the likelihood or risk occurrence and measures the reallocate the consequences of risk occurrence that is insurance of property and equipment.

- **Financial risks**, which appear as the result of unfavourable movements of various financial market categories and are related to the ability to generate financial revenue and manage financial expenses, and the ability to settle financial obligations and ensure solvency.

  The most significant financial risks that the company is exposed to are as follows:
  - Credit risk is a risk that one party to a financial instrument will fail to discharge an obligation to the company. Credit risk is minimized in DEM by generating more than 90% of revenue on the basis of cooperation with a single, reliable customer, while receivables are collateralised through the annual contract for the sale of electricity, which contains elements of claims insurance.
  - Insolvency risk is the risk of reduced liquidity and changing prices of securities that is acceptable. Payments by the largest buyer are predictable and stable. 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 was estimated as low, which is why no active policies for the management of such risks were prepared for 2016.

- **Operational risks** that occur during the performance of the activity: Operational risk include purchasing, environmental risks, business processes risk, non-compliance, reporting errors, inappropriate organisation, inefficient management and business environment risks. Operational risks are effectively managed at company level and are, therefore, deemed to present a low risk rate.

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. The Committee adopted the company's first comprehensive risk register in December 2014. HSE d.o.o, the parent undertaking, issued a document titled Risk management policy of the HSE group in 2016. In accordance with the HSE group policy, the Committee adopted the company's comprehensive risk register that was produced in line with the Risk management policy of the HSE group and includes a list of the risks the company is exposed to and an evaluation of the significance of each risk.

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

- 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;
- 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;
- 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 2016, 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, etc...)

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 2016, 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; and a New Year's party at the end of the year.

2.12 RESEARCH AND DEVELOPMENT

DEM is the promoter of important development projects

The increase in the share of electricity production from renewable energy sources 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 electrical energy 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, including electrical, with a minimum negative impact on the environment.

How can this be provided in the field of electrical energy supply? Slovenia is not rich in 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. Thus, hydro energy represents Slovenia's largest store of energy resources. 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;
- financial and human resources involvement in the construction of HPPs on the Sava;
- preparation of the pumped-storage power plant Kozjak;
- construction of small HPPs on the Drava and its tributaries.

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

With the aim to maintain the position of the leading producer of electrical energy from renewable energy sources in Slovenia we are expanding from electrical energy generation from water energy to other fields of renewable energy sources, such as solar, geothermal and wind energy and to cogeneration of electrical energy and heat.

2.13 PLANS FOR THE FUTURE

At DEM we are aware that a competitive price of electrical energy and its safe, high-quality and reliable supply are crucial for the company's successful market appearance.
In 2017 and in future years, we will continue to carry out tasks in accordance with our strategic plans.

By 2018 we will have developed our business in the following strategic areas:

Ensuring additional production capacities, including two development areas:

- electrical energy production – safe, high-quality and reliable electrical energy 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, health and safety at work and fire safety.

In accordance with the 2017 Business Plan, our plans in 2017 are the following:

- net revenues from sales amounting to EUR 64.07 million;
- net profit amounting to EUR 13.97 million;
- electrical energy production amounting to 2,820.15 GWh;
- investments amounting to EUR 6.20 million;
- 237 employees at the end of the period.

2.14 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The beginning of 2017 did not see any significant business developments that would have bearing on the financial statements for 2016.

2.15 SUSTAINABILITY REPORT

RESPONSIBILITY TO THE EMPLOYEES

The centre of DEM's 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

At 31 December 2016, the company employed ***237 persons***, who all had employment contracts concluded for an indefinite period of time.

NUMBER OF EMPLOYEES	31.12.2016	31.12.2015
Definite period of time	0	0
Indefinite period of time	237	266
TOTAL	**237**	**266**

NUMBER OF EMPLOYEES	31.12.2016	31.12.2015
Excl. trainees	237	266
Trainees	0	0
TOTAL	**237**	**266**

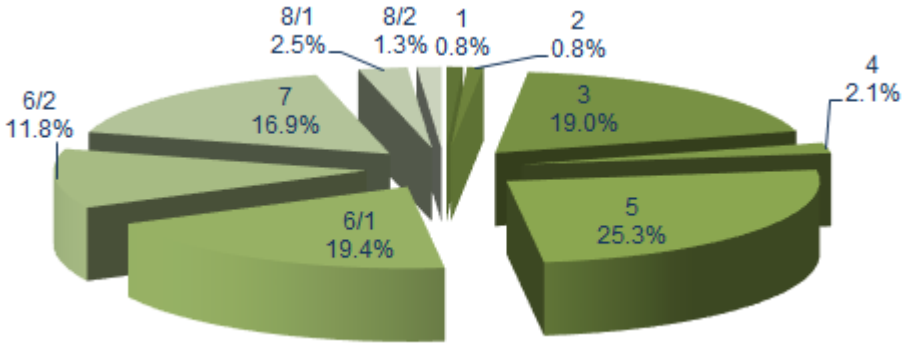
NUMBER OF EMPLOYEES	31.12.2016	31.12.2015
Collective agreement	233	262
Individual employ. contract	4	4
TOTAL	**237**	**266**

When compared to the situation at 31 December 2015, the number of employees decreased by 29 persons or 10.9%. In 2016, one employee died and 28 workers left the company.

In 2016, 231 employees worked full time, 1 person worked part time for 6 hours a day and 5 persons worked 4-hour days.

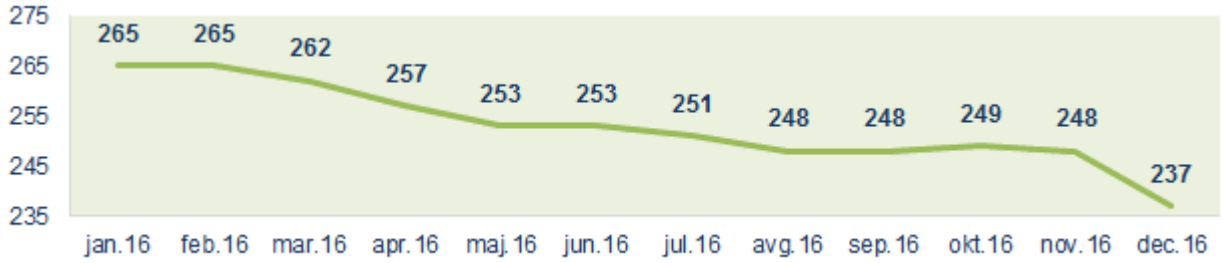
At the end of the year, the company employed 81.43% men and 18.57% women, which was comparable to the previous years. The average age of employees at 31 December 2016 was 47 years and 10 months.

Structure of employees by the level of education as at 31st December 2016:



When compared to the previous year the education levels slightly changed. The number of employees with 3, 4, 5, 6/1, 6/2 and 7 levels of education decreased, while the number of employees with 1,2, 8/1 and 8/2 levels of education stayed on the same level as the previous year.

Movement of the number of employees by month from January 2016 to December 2016:



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 2016, special attention was paid to the education and additional training of the employees. Priority was given to trainings from the field of electrical equipment, which are trainings required by law. As every year, particular attention was given to the training in health and safety at work, the field of changes in tax legislation, and advanced software.

WORKING WHILE STUDYING

At the end of 2016, the company employed 7 workers, who are also studying. During this period no new workers that would be studying have arrived.

From the existing core, three finished their studies during the period. Of which one employee received her Bachelor's degree and two employees received their Master's degree.

SCHOLARSHIPS

At the beginning of 2016, 24 scholarships were awarded. In the year, no new scholarship contract was concluded. At 31 December 2016, 9 scholarships remained.

FAMILY-FRIENDLY COMPANY CERTIFICATE

DEM 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 live 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 measured in line with the agreement of the company management and on 5 March 2015 we obtained the full family-friendly company certificate.

In 2016, the adopted measures obtained by the basic and the full family-oriented company certificates were successfully implemented, while at the same time providing guidelines to improve the atmosphere amongst the employees; guidelines that have led to a more efficient internal communication and, thus, improved reconciling family and professional life. The year was finished with challenges whose results will become clear in the coming year.

RESPONSIBILITY TO THE NATURAL ENVIRONMENT

Perpetuum mobile of river life

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

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 allows the exploitation of the energy caught in the most important river energy-wise 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 electrical energy production that impacted the river life once, has now established the watercourse of natural cohabitation. Through sound conduct, renewable energy sources will be available for many generations to come.

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 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 and to reduce their consequences, the company has performed activities for the environmental protection in line with the requirements of the ISO 14001 standard 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.

RESPONSIBILTIY TO THE WIDER 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.

REPAIR OF THE FLOOD PROTECTION WALL AT MIHELIČEVA GALERIJA IN PTUJ

During the high waters in 2012, the municipality of Ptuj raised concerns regarding the shifting of the bracing wall along the Miheličeva gallery (information by the city authorities, which also commissioned the repair project). It is believed that at high water of the Drava, the city of Ptuj is at risk. In 2016, the flood protection wall was repaired.

DRILLING FOR THE DRIVING OF AB PILOTS TO STABILIZE THE FLOOD PROTECTION WALL AT MIHELIČEVA GALERIJA IN PTUJ

COMPLETION OF THE EMERGENCY WORKS TO SECURE THE RIGHT BANK OF THE DRAINAGE CHANNEL OF THE HPP FORMIN AT CADASTRAL MUNICIPALITIES IN SLOVENIA AND CROATIA

Despite the repair of the banks of the drainage channel (after the 2012 floods) certain sections are still at risk of spill over at high water. The right bank of the channel features material landfills formed during the construction and excavation of the drainage channel. These used to be found all along the channel. From the time of construction to today, these landfills have been illegally excavated for material extraction; this resulted in gaps in the landfills whereby high waters can make their way into the drainage channel, resulting in additional threat to damage the channel.
In 2016, the gaps were repaired/filled in up to the confluence of the HPP Formin drainage channel and the Drava riverbed.

DEVELOPMENT OF THE EMBANKMENT ALONG THE DRAINAGE CHANNEL AT CADASTRAL AREAS IN THE REPUBLIC OF CROATIA.

DEVELOPMENT OF THE EMBANKMENT ALONG THE DRAINAGE CHANNEL AT CADASTRAL AREAS IN THE REPUBLIC OF SLOVENIA.

CONSTRUCTION OF THE FLOATING DEBRIS SITE FOR SHPP MARKOVCI

In accordance with the legislation, all energy plants must include floating debris disposal sites. Based on this, the building permit no. 351-731/2014-20(04065) was obtained. In 2016, the building works were completed.

FLOATING DEBRIS SITE AT SHPP MARKOVCI

MONITORING OF THE FISH PASS AT THE HPP MARIBORSKI OTOK

One of the central aims of the Water Framework Directive 2000/60/EC is the preservation and setting up of watercourse passages for aquatic organisms.
In Slovenia, downstream and transversal passage of water courses is provided for by law. Migratory types of fish, their habitats and integrity or connections between their migratory areas are protected both by international as well as Slovenian legislation. On the global scale, the migration of wild species is regulated by the Bonn (Convention on the Conservation of Migratory Species of Wild Animals; Bonn, 1979) and the Bern conventions (Convention on the Conservation of European Wildlife and Natural habitats; Bern, 1979), while on the European level it is dealt with by the Habitat Directive - FHH, Directive 92/43/EC and the Water Framework Directive.
In Slovenia, the global and European regulatory requirements related to the conservation of migrations of animal species was transposed into law that pertains the conservation of nature, fresh water fisheries and water management.
During its lifecycle, fish require different habitats, in which to live during the various stage of their life (as roe, fry, juvenile or spawner adult) and in which to perform its vital functions, such as spawning, feeding, growth and movement.
Certain habitats are required to provide shelter and hiding places, wintering areas and spaces at which they can weather adverse conditions (high summer temperatures, unfavourable hydrology, etc.). Passage between habitats is, therefore, of immense importance to fish.
Movement or spatial distribution of fish in water courses is described by two terms:

- “fish movement”, which describes the movements of fish within their living space and;
- “fish migration”, which represents movement in a particular direction that results in the change of habitat; so, the definition of migration is the passage between two or more habitats that occurs periodically and relates to the majority of the population of individual types of fish (Northcote, 1978).

In accordance with the Waters Act (ZV-1, Official Gazette of RS, nos. 67/2002, 110/2002–ZGO-1, 2/2004–ZZdrI-A, 41/2004–ZVO-1 and 57/2008), the Rules on determining and classification for water bodies on surface water as revised and amended (Official Gazette of RS nos. 63/2005, 26/2006, and 32/2011), the area of the Drava from Dravograd to Maribor is classified as a heavily modified water course:

Water body code	Water body name	Water body type
SI3VT359	Heavily modified water body Drava Dravograd - Maribor	Heavily modified water body (HMWB)

The first monitoring of the functionality of the fish pass lasts three years and includes an inspection of the composition of species, the size structure and estimate regarding the population of each fish species that enter and pass along the fish pass.
In the first year monitoring must provide the following information:

- In what manner does the repair of the outlet and the trial installation of an additional screen and diffusor at the first pass to the horizontal part of the fish pass impact the passablity of the pass?
- Which setting of the adjustable diffusing slots in the fishway allows for upstream passage to the largest number of fish?
- Does downstream migration of fish occur along the fish pass?
- Is there build-up of floating debris in the fish pass an issue or is debris retained on the outside of the wall before the entrance to the fishway?

In time, the monitoring of fish must also answer to the following questions:

- What flow in the fishway allows for the optimum upstream passage of individual fish species living in this section of the Drava?
- Is there appropriate fish attraction from the river to the fishway?

The commission for continuous three-year monitoring was carried out towards the end of 2016, when preparatory works on the fish pass also began.

TAKING STOCK OF THE FISH POPULATION IN THE RESERVOIR OF THE HPP MARIBORSKI OTOK

Research of the reservoir of the HPP Mariborski otok represents a continuation of current research (Vuzenica, Ožbalt, Vuhred and Fala reservoirs and the section of the Drava from Melje to Ptuj). The HPP Mariborski otok reservoir is located between the Fala reservoir upstream and the Zlatoličje reservoir downstream and, thus, represents a fish habitat similar to the one at the Fala reservoir.
The HPP Mariborski otok reservoir is an extensive reservoir lake and includes many tributaries to the Drava, whose streams are partially natural, thus providing different living conditions for aquatic life, aquatic habitats and, a s a result, a different distribution of fish species as in a reservoir lake.
If the riparian zone of the reservoir or the tributaries is almost entirely homogenous (by regulation), it does not provide any options in terms of fish shelters and quiet zones.
In accordance with the Water Framework Directive 2000/60/EC, an ecological status is determined for water courses, while an ecological potential is determined for heavily modified water courses.
There have been no ichthyologic research on the section of the Drava between the HPPs Fala and Mariborski otok whose aim would be to evaluate the condition of fish populations (numbers and biomass). Information on the approximate condition of fish populations are compiled in the aquaculture plans, but these contain only elements of the management of catch stock species in terms of breeding and fisheries and not professional assessments and proposals to improve the condition of the fish populations and all other aquatic organisms of the Drava as a heavily modified water course.
The wider area of the Drava is part of the Natura 2000 special conservation area - Drava (ID area SI3000220). In accordance with the Natura 2000 Management Programme 2015–2020, conservation targets and protective measures were determined for nine fish species that inhabit the examined Natura 2000 area of the Drava.
Stock taking has been divided into a two-year period in accordance with the adopted time table or programme and has finished in December 2016. The results are compiled in the final report titled “Stocks of fish populations in the HPP Mariborski otok reservoir”.

EXPERT EVALUATION OF ENVIRONMENTAL NOISE LOAD, INCLUDING A DETAILED STUDY OF NOISE PROTECTION FOR THE HPP DRAVOGRAD

With regard to the noise indicator estimates for day, evening and night time, and taking into account measuring errors, operational noise monitoring has to be carried out every three year in accordance with the Rules on initial measurements and operational monitoring of noise sources and on conditions for their implementation (Official Gazette of RS, no. 105/08).
In 2015, noise measurements were conducted at the HPP Dravograd plant. The report we received makes it evident that the measured values exceed night time limits at two measuring stations. Due to this, a professional assessment was commissioned in 2016, completed with a model calculation based on the SIST ISO 9613-2 method. Measurement of sound emissions of noise sources were carried out in accordance with the requirement of the SIST EN ISO 3744 and/or 3746, and SIST ISO 8297 standards. Based on the measured emissions of the sonic power of sources, the terrain configuration, and area development, a representative computer 3D model was produced. Based on the model, a calculation of noise propagation throughout the environment was carried out in line with the SIST ISO 9613-2 standard requirements, using verified hardware. Based on the noise propagation model, anti-noise actions were planned.
As part of the detailed plan for anti-noise protection, a current environmental noise load calculation was completed as well as an assessment of environmental noise loads including remedial measures provided separately for day time (LDAN), evening (LVEČER) and night time (LNOČ) and the comprehensive disturbance day-evening-night time (LDVN). The task will be finished in the beginning of 2017 because of the additional requirements as coordinated by the contracting authority and the contractor.

ANALYSIS OF LEGAL RESTRICTIONS AND PERMISSIONS FOR PERMANANT SEDIMENT DISPOSAL OUTSIDE OF THE DRAVA RIVERBED AREA

Alluvial deposits and silt in rivers and reservoirs of hydro power plants represent a multi-layered issue that does not receive sufficient attention. Numerous experts around the world are trying to resolve the issue of siltation due to the extremely grievous consequences. Siltation means energy shortage. Each cubic meter of gravel or silt in the useful part of the reservoir displaces an equal amount of water. Siltation occurs at every water container or reservoir once this is put into operation. For some, the agony is short-lived, other still are more resilient and resist siltation for much longer.
The purpose of the assignment is to look for alternative solutions of dredged material (sediment) management when deepening the bottom of DEM's reservoir pools by dredging, which would upgrade on existing approaches and allow for more long-term solutions to the issue at hand.
The existing conditions or status analysis. which forecasts further reduction in the volume of reservoirs, clearly outlines the issue of the impact of siltation on electrical energy production and the resulting production decrease due to sediment build up, as well as the issue of the s.c. surface reduction of reservoirs with the resulting permanent loss of these surfaces (due to reeds and other vegetation, which must not be removed). The issues stated above are usually dealt with by silt removal by pumping into a site, pumping to the edge of the riverbed and the construction of the s.c. ecological islands. The listed activities do not provide for a permanent solution to the current problem since they do not entail the removal of silt (alluvial sediments), but, in a manner of speaking, only provide "useful metres", resulting in the reduction of the surface area of the reservoir.

To find and plan long-term solutions for the management of the excavated silt when dredging the reservoir bottom, options for purposeful end use or a final destination must primarily be found, which will be completely in accordance with the applicable environmental law and other legislation and regulations governing this field. To find a long-term or permanent solution, additional analysis that will complement the analyses of sediments already carried out (project task annex) must be performed in terms of collecting information of the aggregate distribution (granulation) and other sediment properties (including geomechanical) that are of vital importance both for the planning of the technological and the technical approaches to dehydration as well as a precondition for the search for reintroduction opportunities (filling of depressed land, quarry reclamation, improving soil quality and others). At this stage, a sediment sample is collected from one of the sites specified by the contracting authority and for which the basic sediment analysis has already been completed.
The task was not carried out in 2016 since no appropriate offers were received during the tendering process. The task will be carried out in 2017; before the contract is executed, additional information on water quality must be obtained and additional sediment analyses at certain locations carried out. These information are instrumental for the above mentioned study to be appropriately conducted.

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 DEM's 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 2016:

STATED in EUR	2016	%
Donations for educational purposes	4,000	5.63
Donations to sports	33,500	47.12
Donations for cultural purposes	800	1.13
Donations - other	30,800	43.32
Donations for accident protection	2,000	2.81
TOTAL	**71,100**	**100.00**

Sponsorships of DEM in 2016:

STATED in EUR	2016	%
Sponsorships - sports	57,800	53.57
Sponsorships - culture	24,300	22.52
Sponsorships - other	25,800	23.91
TOTAL	**107,900**	**100.00**

In 2016, DEM allocated EUR 107,900 to sponsorships and EUR 71,100 to donations. As it is evident from the tables above, in 2016 sports activities received the major share of sponsorship funds and donations.

03 ACCOUNTING REPORT

3.1 AUDITOR'S REPORT

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

Telefon: +386 (0) 1 420 11 10
+386 (0) 1 420 11 60
Telefaks: +386 (0) 1 420 11 58
Internet: http://www.kpmg.si

Independent Auditors' Report

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

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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

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

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

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

KPMG

Responsibility of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of Financial Statements

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

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

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

KPMG

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

On behalf of the auditing company

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

Boštjan Mertelj
Certified auditor

Barbara Kunc
Certified auditor
Partner

Ljubljana, 26 April 2017

KPMG Slovenija, d.o.o.
1

3.2 MANAGEMENT RESPONSIBILITY STATEMENT

The Managing Director is responsible for preparing the financial statements for each individual financial year in accordance with the 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 DEM.

The Managing Director reasonably expects that adequate resources for the continuation of operations will be available to the company in the foreseeable future; 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 the IFRS. He is also responsible for safeguarding the assets of the company and preventing and detecting fraud and other irregularities.

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

The Managing Director adopted the financial statements of DEM for the financial year that ended on 31 December 2016 on 23 March 2017.

In Maribor, 26 April 2017

Managing Director:
Viljem Pozeb, MSc

3.3 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.

3.4 FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

STATED in EUR	NOTE	31.12.2016	31.12.2015
ASSETS		495,655,581	523,229,721
A. LONG-TERM ASSETS		**458,882,684**	**469,904,133**
I. Intangible assets	1	426,645	679,560
II. Property, plant and equipment	2	376,509,841	387,203,149
IV. Long-term investments in subsidiaries	3	488,241	488,241
V. Other long-term investments and loans	4	81,033,077	81,139,789
VII. Other non-current assets	5	124,660	111,675
VIII. Deferred tax assets	6	300,220	281,719
B. SHORT-TERM ASSETS		**36,772,897**	**53,325,588**
I. Assets (disposal groups) held for sale	7	291,208	3,250
II. Inventories	8	86,912	0
III. Short-term investments and loans	9	164,624	34,698,094
IV. Short-term operating receivables due from customers	10	9,768,172	9,509,730
V. Current tax assets		0	84,499
VI. Other current assets	11	564,022	1,873,482
VII. Cash and cash equivalents	12	25,897,959	7,156,533
LIABILITIES AND EQUITY		495,655,581	523,229,721
A. EQUITY	13	**481,304,147**	**510,769,294**
I. Called-up capital		395,011,180	395,011,180
III. Revenue reserves		64,213,269	107,213,269
V. Fair value reserve		(188,571)	(125,208)
VI. Retained earnings		22,268,269	8,670,053
B. LONG-TERM LIABILITIES		**4,667,625**	**4,670,180**
I. Provisions for termination benefits and jubilee premiums	14	2,787,488	2,793,468
II. Other provisions	15	1,846,835	1,871,505
III. Other long-term liabilities		0	3,857
V. Long-term operating liabilities	16	33,302	1,350
C. SHORT-TERM LIABILITIES		**9,683,809**	**7,790,247**
III. Short-term accounts payable to suppliers	17	2,281,252	3,326,677
IV. Current tax liabilities	28	1,495,183	0
V. Other short-term liabilities	18	5,907,374	4,463,570

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

INCOME STATEMENT

STATED in EUR	NOTE	2016	2015
1. Net revenue from sales	20	65,460,060	64,733,271
3. Capitalised own products		237,346	58,818
4. Other operating revenue	21	952,252	1,079,756
OPERATING REVENUE		**66,649,658**	**65,871,845**
GROSS OPERATING REVENUE		**66,649,658**	**65,871,845**
OPERATING EXPENSES		**53,444,575**	**57,172,506**
5. Cost of goods, material and services	22	4,276,460	5,012,352
6. Labour cost	23	11,517,461	11,556,778
7. Write-offs	24	15,849,754	18,885,838
a) Depreciation and amortisation		15,272,232	15,257,153
b) Impairments/write-offs/sales of intangible assets and property, plant and equipment		577,522	3,628,668
c) Impairments/write-offs of receivables		0	17
8. Other operating expenses	25	21,800,900	21,717,538
OPERATING PROFIT OR LOSS		**13,205,083**	**8,699,339**
9. Finance income	26	**4,205,429**	**1,520,234**
10. Finance expenses	27	**53,198**	**96,669**
FINANCIAL RESULT		**4,152,231**	**1,423,565**
EARNINGS BEFORE TAXES		**17,357,314**	**10,122,904**
TAX	28	**2,753,367**	**1,450,959**
12. Current tax		2,771,868	1,392,748
13. Deferred tax		(18,501)	58,211
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	29	**14,603,947**	**8,671,945**
Owner of the parent company		14,603,947	8,671,945

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

STATED in EUR	NOTE	2016	2015
Net profit or loss for the financial year		**14,603,947**	**8,671,945**
Actuarial gains and losses of employee defined benefit plans		(69,094)	(105,173)
Items that will not be transferred to profit or loss		**(69,094)**	**(105,173)**
Item that may later be transferred to profit or loss		**0**	**0**
Total comprehensive income for the period	30	**14,534,853**	**8,566,772**
Owner of the parent company		14,534,853	8,566,772

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

CASH FLOW STATEMENT

STATED in EUR	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit or loss	14,603,947	8,671,945
Adjustments for:		
Amortisation of intangible assets	411,458	555,004
Depreciation of property, plant and equipment	14,860,774	14,702,149
Impairments of property, plant and equipment	0	329,285
Reversal of provisions and accrued costs	(74,576)	(621,378)
Write-offs of property, plant and equipment	597,368	3,298,336
Write-offs of operating receivables	0	17
Loss from sale of property, plant and equipment	1,722	1,047
Finance income	(4,205,429)	(1,520,234)
Finance expenses	53,198	96,669
Gains on sale of property, plant and equipment	(257,006)	(181,761)
Taxes	2,753,367	1,450,959
Cash generated from operating activities before change in net current assets and taxes	**28,744,823**	**26,782,038**
Change in net current assets and provisions		
Change in:		
Inventory	(86,912)	0
Operating receivables + deferred income	1,038,033	1,571,458
Assets held for sale	-287,918	0
Operating liabilities + accrued liabilities	430,331	(4,533,573)
Provisions	(152,942)	(129,333)
Income tax paid	(1,192,185)	(1,565,900)
Cash from operating activities	**28,493,230**	**22,124,690**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,023,604	648,776
Cash receipts from other financing	3,928,270	0
Cash receipts from shares in profit	0	14,298
Cash receipts from disposal of property, plant and equipment	855,623	276,617
Cash receipts from the disposal of associates	97,712	0
Cash receipts from the decrease in short-term loans	43,358,200	30,718,385
Acquisition of property, plant and equipment	(5,282,470)	(9,780,434)
Acquisition of intangible assets	(158,543)	(334,157)
Disbursements for increasing short-term loans	(9,574,200)	(64,262,385)
Cash from investing activities	**34,248,196**	**(42,718,900)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares in profit	(44,000,000)	(8,523,310)
Cash from financing activities	**(44,000,000)**	**(8,523,310)**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	**7,156,533**	**36,274,053**
Exchange differences on cash	0	0
Net cash flow in the period	18,741,426	(29,117,520)
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**25,897,959**	**7,156,533**

STATEMENT OF CHANGES IN EQUITY

STATED in EUR	CALLED-UP CAPITAL	REVENUE RESERVES		FAIR VALUE RESERVES	RETAINED EARNINGS		TOTAL
	Share capital	Legal reserves	Other revenue reserves		Retained earnings	Net profit or loss for the financial year	
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					(8,523,310)		(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 period						**8,671,945**	**8,671,945**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**(103,281)**	**(1,892)**	**0**	**(105,173)**
Actuarial gains and losses of employee defined benefit plans				*(103,281)*	*(1,892)*		*(105,173)*
B.3. Changes in 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					*8,523,310*	*(8,523,310)*	*0*
Covering of loss as deduction item of equity					*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**
Balance at 1 January 2016	**395,011,180**	**39,501,118**	**67,712,151**	**(125,208)**	**0**	**8,670,053**	**510,769,294**
B.1. Transactions with owners	**0**	**0**	**0**	**0**	**(44,000,000)**	**0**	**(44,000,000)**
Dividend pay-out					(44,000,000)		(44,000,000)
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**(63,363)**	**(5,731)**	**14,603,947**	**14,534,853**
Net profit or loss for the period						**14,603,947**	**14,603,947**
Items that will not be transferred to profit or loss	**0**	**0**	**0**	**(63,363)**	**(5,731)**	**0**	**(69,094)**
Actuarial gains and losses of employee defined benefit plans				*(63,363)*	*(5,731)*		*(69,094)*
B.3. Changes in equity	**0**	**0**	**(43,000,000)**	**0**	**51,675,784**	**(8,675,784)**	**0**
Allocation of the remaining portion of net profit of the comparable period to other equity components					*8,670,053*	*(8,670,053)*	*0*
Covering of loss as deduction item of equity					*5,731*	*(5,731)*	*0*
Other changes in equity			*(43,000,000)*		*43,000,000*		*0*
Balance at 31 December 2016	**395,011,180**	**39,501,118**	**24,712,151**	**(188,571)**	**7,670,053**	**14,598,216**	**481,304,147**
Balance sheet profit/balance sheet loss					7,670,053	14,598,216	22,268,269

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

3.5 NOTES TO THE FINANCIAL STATEMETNS

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 2016.

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

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

BASIS FOR PREPARATION

In the preparation of financial statements as at 31 December 2016, 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;
- the Energy Act;
- the Corporate Income Tax Act and its implementing regulations;
- the Accounting Rules of 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.
- 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.

List of new and yet to take effect EU IFRS standards, statements and changes to the applicable standards (as at 24 January 2017) with regard to the disclosures in the financial statements prepared in accordance with the IFRS, as adopted by the European Union for annual financial reporting for the business year ending 31 December 2016.

Standards, explanations and changes to the published standards that are not in effect yet

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 2016:

- *IFRS 9 Financial instruments (2014):* (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively, with exception. A reaccounting of previous periods is not necessary and is permitted if the information is available and without the use of new knowledge. Early application is permitted.)

This standard replaces IAS 39 Financial instruments: Recognition and measurement, except when IAS 39 remains applicable in case of protection of the fair value of the portfolio of financial assets or financial liabilities before the change in interest rate; companies have the option to opt for accounting protection in accordance with IFRS 9 or the existing calculation of risk protection under IAS 39 in all accounting cases.

Even though the bases of the permitted measurement of financial assets - at amortised cost, fair value through other comprehensive income and fair value through profit or loss - are similar to IAS 39, the criteria for determining the appropriate measurement is significantly different.

A financial asset is measured at amortised cost when the following conditions are met:

- assets are managed within the framework of a business model that is aimed at collecting contractual cash flows and;
- contractual provisions include specific dates of cash flows, which are only principal payments and interest on outstanding principal.

Further, the company may irrevocably present subsequent changes in fair value (including positive and negative exchange rate differences) of an equity instrument not available for sale as part of other comprehensive income. The subsequent changes mentioned above cannot be reclassified in profit or loss in any case.

Debt instruments measured at fair value through other comprehensive income, interest revenue, expected credit loss and positive and negative exchange rate differences are recognised through profit or loss in the same manner as assets measured at amortised cost. Other profit or loss is recognised through other comprehensive income and are, upon reversal of recognition, reclassified in profit or loss.

The model for impairment accounting in accordance with the IFRS 9 replaces the incurred loss model under IAS 39, which also includes the anticipated credit loss model; the latter means, that an impairment may become recognised before the occurrence of loss.

The IFRS 9 includes a new general model for accounting hedging, which makes this type of accounting better adjusted to risk management. The different types of hedging relations - fair value, cash flow and net investments in foreign companies - remain unchanged; however, an additional evaluation is required.

The standard includes new requirements that have to be met (continued and stopped accounting of hedging) and allows for additional types of exposures to be treated as hedged items.

Additional comprehensive disclosures are required with regard to risk management and risk management activities.

The company expects that the IFRS 9 (2014) will not have a material impact on the presentation of its financial statements. The classification and the measurement of the company's financial instruments in accordance with the IFRS 9 will not change due to the nature of the company's business and the type of its financial instruments.

- *IFRS 15 Revenues from contracts with buyers:* (Effective for annual periods beginning on or after 1 January 2018. Early application is permitted.)
  Notes to the IFRS 15 Revenues from contracts with buyers are not yet confirmed by the EU; the EU did confirm the IFRS 15 Revenues from contracts with buyers, include the date of commencement of application of the IFRS 15.

The new standard provides a framework replacing the existing guidelines for the recognition of income under IFRS. Companies apply a five-level model to determine when exactly to recognise income and in what amount. The new model defines that incomes are recognised when a company transfers control over goods and services to the customer in the amount the company expects to be justified. With regard to the met criteria, incomes are recognised as follows:

- through time and in a manner reflecting the company's operation and;
- in the moment when control over goods and services was transferred to the buyer.

The IFRS 15 also introduces principles that bind the company to provide quality and comprehensive disclosures that give the users of financial statements useful information regarding the type, amount, time aspect and insecurity of revenues and cash flows originating from contracts with buyers.

Even though the initial estimate of the potential impact of the IFRS 15 on the company's financial statement is not completed entirely, the management expects that the standard will not have a material impact on the presentation of its financial statements on the first date of its application. The company does not believe that the choice in timing and measurement of its revenues under IFRS 15 will change because of the nature of its business and the type of revenues.

- *IFRS 16 Leases:* (Effective for annual periods beginning on or after 1 January 2019. Early application is permitted, if the company also applies IFRS 15.)
  Amendment yet to be confirmed by the EU.

The IFRS 16 replaces the IAS 17 Leases and the accompanying notes. The standard reverses the current model of double accounting of leases and, instead, requires the company/group to account for the majority of leases from the balance sheet by using a single model not discriminating between operating and financial lease.

In accordance with the IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new model for such contracts stipulates that lessees recognise the right-of-use asset and lease liability. The right-to-use asset is depreciated and the interest accumulated with the liability. This causes a concentrated sample of costs for the majority of leases, even though lessees pay permanent annual rent.

The new standard introduces numerous limited exception for lessees, including:

- leases where the lease term is 12 months or less, without a purchase option and;
- leases where the underlying asset has a low value (cheap/low-rent lease/'small-ticket' leases).

The introduction of the new standard does not significantly change accounting for lessors and the discrimination between operating and finance lease remains in place for lessors.

The company believes that the new standard will not have a material impact on the presentation of its financial statements on the first date of its application since the company is not a party to lease contracts that are subject to the IFRS 16 provisions.

- *Amendment to IFRS 2: Classification and measurement of share-based payment transactions:* (Effective for annual periods beginning on or after 1 January 2018. To be applied retroactively. Early application is permitted.)

Amendment yet to be confirmed by the EU.

The amendment defines share-based payments in more detail for the following areas:

- the impact of compulsory and non-compulsory conditions regarding the measurement of cash-settled share-based payment transactions;
- share-based payment transactions with an off-set option in case of liability at the deferred tax source and;
- changes to the conditions for share-based payment transaction that concern the classification of cash-settled payments to equity-settled payments.

The company believes that the new standard will not have a material impact on the presentation of its financial statements since the company does not conclude share-based payment transactions.

- *Amendment to IFRS 4: Application of IFRS 9 Financial instruments with IFRS 4 Insurance contracts:* (Effective for annual periods beginning on or after 1 January 2021. To be applied retroactively.
  Amendment yet to be confirmed by the EU.

The amendment deals with issues arising from the implementation of the IFRS 9 before the planned replacement standard, which the IASB is preparing for the IFRS 4. The amendment introduces two potential solutions. The first is the temporary exemption from applying IFRS 9, based on which the reporting of certain insurers is deferred. The other solution lists a different approach to presentation, with the help of which it may be possible to mitigate the volatility that may arise from applying IFRS 9 before the planned standard on insurance contracts.

The company will avail itself of the exemption from applying IFRS 9 and, as a result, does not anticipate any significant material impact on the presentation of its financial statements.

- *Amendment to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture:* (Date of commencment of application yet to determine by the IASB; early application is permitted.)

The amendment clarifies that, in transactions with an associate or a joint venture, the amount of recognised profit or loss depends on whether the asset sold or contributed is part of a transaction where:

- the total profit or loss is recognised when a transaction between the investor and its associate or joint venture includes the transfer of asset(s) attributed to the company (regardless of whether the asset is attributed to the associate), while partial profit or loss is recognised when a transaction between the investor and its associate or joint venture includes an asset that is not attributed to the company, even though the identified asset is attributed to the associate.

The company believes that the new standard will not have a material impact on the presentation of its financial statements since the company does not have subsidiaries, associates or joint ventures.

- *Amendment to IAS 7:* (Effective for annual periods beginning on or after 1 January 2017. To be applied retroactively. Early application is permitted.)
  Amendment yet to be confirmed by the EU.

The amendment requires additional disclosures that will help users evaluate changes in financing liabilities, including changes in cash flows and non-cash changes (e.g. impact of positive and negative exchange rate, changes in gains and losses of control over subsidiaries, change in fair value).

The company believes that the new standard will not have a material impact on the presentation of its financial statements on the first date of its application.

- *Amendment to IAS 12: Recognition of deferred tax assets for unrealised losses:* (Effective for annual periods beginning on or after 1 January 2017. To be applied retroactively. Early application is permitted.)
  Amendment yet to be confirmed by the EU.

The amendment explains in more detail how and when to do accounting for deferred tax assets and how to determine the amount of future taxable revenues for the purpose of assessment of recognition of deferred tax assets.

The company believes that the new standard will not have a material impact on the presentation of its financial statements on the first date of its application since the company already measures future taxable profits in the manner required by the amendment.

- *Changes to IAS 40 Investment property:* (Effective for annual periods beginning on or after 1 January 2019; to be applied prospectively.)
  The provisions are yet to be confirmed by the EU.

The changes consolidate the principle from IAS 40 Investment property concerning transfers to and from investment property, so that IAS 40 now determines that such a transfer may only occur if there is a change in the use of the property.
In accordance with the changes, the transfer is complement when, and only when, there is an actual change in use - i.e. the identified asset begins or ceases to fit the definition of the term investment property, and there is evidence of the change of use. Just a change in the purpose of management does not entitle transfer.

The company does not expect that the changes will not have material impact on its financial statements on the date of its first application since the company holds no investment property.

- *IFRIC 22 Foreign currency transactions and advance considerations:* (Effective for annual periods beginning on or after 1 January 2019.)
  The provisions are yet to be confirmed by the EU.

The note explains how to determine the transaction date for the purpose of determining the exchange rate applicable at the initial recognition of the underlying asset, expense or revenue (or part thereof) upon the reversal of recognition of a non-cash asset or non-cash liability related to an advance consideration given or received in a foreign currency. In such cases, the transaction date equals the date on which the company first recognises the non-cash asset or liability related to the given or received advance consideration.

The company believes that the note will not have a material impact on the presentation of its financial statements on the first date of its application since the company upon initial recognition of non-cash assets or liability related to given or received advance consideration applies the exchange rate that applies on the date of the transaction.

Annual improvements

The IFRS Annual Improvement Cycle 2014–2016 was published on December 2016 and introduced changes to two standards and the resulting changes of other standards and notes that result in accounting changes for the purposes of presentation, recognition and measurement. Changes to IFRS 12 Disclosure of interests in other entities apply to annual accounting periods beginning on or after 1 January 2017, changes to IAS 28 Investments in associates and joint ventures apply to annual accounting periods beginning on or after 1 January 2018. Early application is permitted.

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 109)
- estimate of provisions for jubilee premiums and termination benefits (section 4.6, disclosure 14);
- estimate of other provisions (section 4.6, disclosure 15);

BRANCH AND REPRESENTATIVE OFFICES

The company has no subsidiaries.

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:

	from - to
Software	3 years
Licenses	3 years
Other concessions, patents, trademarks and similar rights	5 years

Subsequent costs in relation to intangible assets are capitalised only in cases when they increase future economic benefits arising from an asset to which the costs refer. All other costs 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. Amortisation shall begin when the 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:

	from - to
Buildings	from 10 to 77 years
Parts of buildings	from 14 to 33 years
Production equipment	from 10 to 65 years
Hardware	from 4 to 20 years
Furniture	from 8 to 33 years
Small tools	5 years
Passenger vehicles	7 years
Other vehicles	from 7 to 15 years
Other plant and equipment	from 5 to 33 years

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 an investment and the present value of anticipated future cash flows discounted at the market interest rate for similar investments, 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.

Any indications of impairment of investments in associates 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 an investment and the present value of anticipated future cash flows discounted at the market interest rate for similar investments, and is recognised as operating expense.

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 in the available for sale financial assets, receivables and loans, and cash assets 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 is 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.

INVENTORY

Inventory is valued at original or net realisable value, whichever is the lower. Original value includes original cost, which is comprised of the purchase price, import duties and costs directly attributable to acquisition. The purchase price is less any discounts received.

Costs directly attributable to acquisition are transport costs, loading, handling and unloading costs, cost of monitoring the goods and other costs that might be directly attributed to the acquired merchandise and material. Discounts on the purchase price include the discounts stated on the invoice as well as those receive later that pertain to the identified acquisition.
Net realisable value is estimated based on the sales price in ordinary course of business less the estimated costs of completion and the estimated costs of sales.

If the prices of newly acquired units in the accounting period are different than the prices of units of the same type on stock, the FIFO method applies to the reduction of such quantities during the year.

Write-offs of damaged, out-of-date and unusable inventory are carried out regularly during the year as per individual item.

At least once a year, after the annual financial statements date, the evidence on the impairment of inventory is evaluated. Inventory impairment is evaluated for each individual type of inventory separately. Individual types of inventory are classified into groups of inventory sharing common characteristics, based on the time component of the movement of inventory. In the evaluation of the impairment for each individual group, professional assessment, further use or sales criteria apply.

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 JUBILEE AND SEVERANCE BENEFITS UPON RETIREMENT

In accordance with legal regulations, collective agreement and internal rules, the company is obliged to pay jubilee benefits to its employees and severance benefits upon 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 severance payments upon retirement and jubilee benefits discounted at the end of the financial year. The calculation is prepared for each employee by taking into account the costs of severance benefits upon retirement and costs of all expected jubilee benefits 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 severance benefits upon retirement and jubilee benefits decrease the created provisions.

EMPLOYEE REMUNERATION

Short-term employee remuneration 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.

REVENUES

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.

Sales 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.

Sales 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 revenues 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 revenues 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-offs include amortisation/depreciation costs related to consistent transfer of value of amortisable intangible assets and depreciable property, plant and equipment and investment property.
Write-offs 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 2016, the effective corporate income tax rate was 17 %. In 2017, the effective corporate income tax rate is 19 % in accordance with the currently applicable tax legislation.

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

The 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.

The statement of cash flow is produced under the indirect method using the information from the statement of financial position and the income statement in accordance with the IFRS.

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 management). In notes to financial statements, risks are presented in relation to the items in the financial statements (Section Financial instruments and risks).

3.6 NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE STATEMENT OF FINANCIAL POSITION

INTANGIBLE ASSETS (1)

Intangible fixed assets comprise:

- easements;
- computer software and;
- licenses.

STATED in EUR	31.12.2016	31.12.2015
Other concessions, patents, trademarks and similar rights	426,645	679,560
TOTAL	**426,645**	**679,560**

An increase in intangible assets in 2016 in the amount of EUR 158,543 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 385,105.

MOVEMENT IN 2016

STATED in EUR	Other concessions, patents, licences, trademarks	TOTAL
Cost of goods sold at 1 January 2016	**3,350,316**	**3,350,316**
Acquisitions	158,543	158,543
Write-offs	(385,105)	(385,105)
Cost of goods sold at 31 December 2016	**3,123,754**	**3,123,754**
Write-off at 1 January 2016	**2,670,756**	**2,670,756**
Depreciation and amortisation	411,458	411,458
Write-offs	(385,105)	(385,105)
Write-off at 31 December 2016	**2,697,109**	**2,697,109**
Carrying amount at 1 January 2016	**679,560**	**679,560**
Carrying amount at 31 December 2016	**426,645**	**426,645**

MOVEMENT IN 2015

STATED in EUR	Other concessions, patents, licences, trademarks	TOTAL
Cost of goods sold at 1 January 2015	**4,078,489**	**4,078,489**
Acquisitions	334,157	334,157
Write-offs	(1,062,330)	(1,062,330)
Cost of goods sold at 31 December 2015	**3,350,316**	**3,350,316**
Write-off at 1 January 2015	**3,178,082**	**3,178,082**
Depreciation and amortisation	555,004	555,004
Write-offs	(1,062,330)	(1,062,330)
Write-off at 31 December 2015	**2,670,756**	**2,670,756**
Carrying amount at 1 January 2015	**900,407**	**900,407**
Carrying amount at 31 December 2015	**679,560**	**679,560**

The company does not hold on its books the following:
- intangible assets acquired by state support;
- intangible assets given as collateral;
- contractual obligation to acquire intangible assets.

PROPERTY, PLANT AND EQUIPMENT (2)

In 2016, property, plant and equipment increased in the amount of EUR 5,655,966.

STATED in EUR	31.12.2016	31.12.2015
Property	13,201,075	13,307,807
Plant	205,882,055	211,255,512
Production equipment	136,413,064	140,017,022
Other equipment	248,350	183,668
Property, plant and equipment being acquired	20,765,297	22,439,140
TOTAL	**376,509,841**	**387,203,149**

PROPERTY

The increase in value of property refers to the purchase of land in the amount of EUR 1.

The decrease in value of property refers to the sale of land and transfer of title to the Farmland and Forestry Fund of the Republic of Slovenia and the register of title to land in the amount of EUR 109,922.

Other property transfers in the amount of EUR 3,189 pertain to the transfer from property available for sale.

BUILDINGS AND FACILITIES

The company holds the following types of plant and equipment:
- dams;
- channels, embankments, embankment protection;
- HPP production facilities;
- cable lines;
- other structures;
- commercial buildings;
- residential buildings;
- recreational buildings;
- other buildings.

In 2016, the increased values of buildings and facilities, as part of the increase in property in acquisition in 2016 amounting to EUR 3,026,104 included:

- restoration of the machine workshop at HPP Dravograd in the amount of EUR 74,466;
- reconstruction of the crane tracks at HPP Vuhred in the amount of EUR 28,906;
- renovation works in the engine-dam facility at HPP Fala in the amount of EUR 155,978;
- redevelopment of the left embankment after floods at HPP Fala in the amount of EUR 39,852;
- repair of the sewage drains at HPP Fala in the amount of EUR 32,148;
- widening and repair of the outlet channel at HPP Zlatoličje after the floods in the amount of EUR 890,463;
- repair of the outlet channel after the floods at HPP Formin in the amount of EUR 218,024;
- refurbishment of the Markovci dam in the amount of EUR 108,983;
- repair of bridge on the inlet channel at HPP Formin in the amount of EUR 25,435;
- construction of the fish pass at Lake Ptujsko jezero in the amount of EUR 38,514;
- refurbishment of the riparian zones at facilities in the amount of 144,579 EUR;
- maintenance of the energy potential at HPP Vuzenica, HPP Vuhred, HPP Ožbalt and HPP Mariborski otok in the amount of EUR 428,805;
- additional construction of the emergency lighting system at facilities in the amount of EUR 34,277;
- construction of the Ojstrica wind power plant in the amount of EUR 65,832;
- initial investment in the HPP on the Mura project in the amount of EUR 583,377;
- other construction works.

A decrease in the value of buildings in the amount of EUR 1,040,811 mostly pertains to:

- sale of the carting extension of a cooling system at HPP Zlatoličje in the amount of EUR 428,961;
- sale of the boathouse at Limbuško nabrežje in the amount of EUR 561,974;
- sale of the Obrol log cabin in the amount of EUR 11,195;
- sale of studio apartments in Ljubljana in the amount of EUR 38,681.

PLANT AND EQUIPMENT

An increase in the value of plant and equipment as part of the increase in fixed assets being acquired in 2016 in the amount of EUR 2,629,861 included:

- refurbishment of spillway 2 at HPP Dravograd in the amount of EUR 425,242;
- refurbishment of spillway 1 at HPP Vuzenica in the amount of EUR 141,354;
- replacement of turbine grids at HPP Vuzenica in the amount of EUR 18,158;
- refurbishment of the auxiliary lock at the HPP Ožbalt in the amount of EUR 22,721;
- refurbishment of the control system at HPP Fala in the amount of EUR 255,600;
- overhaul of the operating locks of spillways at the HPP Fala in the amount of EUR 332,066;
- upgrade of the cooling system at HPP Zlatoličje in the amount of EUR 32,923;
- upgrade of the management system at HPP Zlatoličje in the amount of EUR 168,507;
- replacement of the 0.4kV own consumption switches at the HPP Zlatoličje in the amount of EUR 26,359;
- reconstruction of generating unit 2 at SHPP Melje in the amount of EUR 252,903;
- replacement of the excitation system and protection devices at HPP Formin in the amount of EUR 136,467;
- purchase of equipment for monitoring of generating units at HPP Formin in the amount of EUR 87,385;
- upgrade of a video surveillance system in the amount of EUR 21,292;
- purchase of equipment for the upgrade of the management system of the HPP Zlatoličje and the Melje dam in the amount of EUR 99,424;
- provision of the friction collar of the seal at HPP Zlatoličje in the amount of EUR 18,100;
- purchase of IT equipment in the amount of EUR 87,485;
- purchase of hydrographic equipment for measurements in the amount of EUR 95,000;
- other plant and equipment.

Capitalised own services are included in the refurbishment of the spillway at HPP Vuzenica, the reconstruction of generator 2 at the SHPP Melje and the replacement of the excitation system and protective devices at HPP Formin.

A decrease in the value of plant and equipment in the amount of EUR 575,770 mostly includes the retirement of:

- main junction of general own consumption at HPP Fala in the amount of EUR 133,534;
- batteries at HPP Zlatoličje, Melje dam and the HPP Mariborski otok in the amount of EUR 100,427;
- dedicated computer equipment and computer equipment for control in the amount of EUR 55,893;
- retirement of other IT equipment in the amount of EUR 89,081;
- retirement of maintenance equipment in the amount of EUR 57,509;

- sale of passenger vehicles in the amount of EUR 55,820;
- sale of non-business equipment of the boathouse at Limbuško nabrežje in the amount of EUR 65,685;
- retirement of other worn-and-torn fixed assets in the amount of EUR 17,821.

Other plant and equipment transfers in the amount of EUR 4,500 pertain to the transfer of equipment available for sale.

PROPERTY, PLANT AND EQUIPMENT BEING ACQUIRED

In 2016, 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 19,440,187;
- plant and equipment being acquired in the amount of EUR 1,325,110.

Carrying amounts of property in course of construction or production in the amount of EUR 19,440,187 refer to:

- reconstruction of the crane tracks at HPP Vuhred in the amount of EUR 64,406;
- redevelopment of the left embankment at HPP Fala in the amount of EUR 39,852;
- refurbishment of the Markovci dam in the amount of EUR 108,983;
- reconstruction of bridges across the inlet channel at HPP Zlatoličje, HPP Formin and the Markovci dam in the amount of EUR 184,035;
- maintenance of the energy potential of the reservoir at HPP Vuzenica, HPP Vuhred, HPP Ožbalt in the amount of EUR 82,257;
- construction of a fish pass at HPP Dravograd, HPP Vuzenica, HPP Vuhred, HPP Formin-Ptujsko jezero and the Markovci dam in the amount of EUR 152,993;
- construction of PSP Kozjak in the amount of EUR 10,395,278;
- construction of HPPs on the Mura in the amount of EUR 3,060,200;
- construction of HPP Hrastje Mota in the amount of EUR 4,530,267;
- construction of the HPP border section Ceršak in the amount of EUR 178,004;
- construction of small HPPs in the amount of EUR 330,760;
- construction the Ojstrica wind power plant in the amount of EUR 180,588;
- 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 HPPs on the Mura) (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 2016. Conclusions suggesting that impairment as at 31 December 2016 is not necessary are presented in further sections.

The investment in the construction of PSP Kozjak is still topical. The plant and the OHL have been sited by means of an NSP, for which the relevant regulation has been adopted and published in the Official Gazette. Going further, an Environmental Impact Report and the expert bases for the Environmental Impact Report in the field of EMS, noise, vibrations and archaeology will have to be 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 are postponed to future years. 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 investment project of HPP construction on the Mura 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”; 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.
For the HPP Hrastje Mota all expert documents were completed and produced: The preliminary design, the environmental report and the study of options for the NSP.

DEM submitted to the Ministry of the Environment and Spatial planning in December 2016 the documentation that is to serve as the basis for the plant siting procedure, including countervailing measures and replacement habitats for the construction of the HPP Hrastje Mota.

Technical solutions for the Ceršak site have already been 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. We have begun preparing the initiative on both sides of the border (Austria and Slovenia).

The carrying amounts of plant and equipment being acquired in the amount of EUR 1,325,110 refer to:

- refurbishment of spillways at HPP Dravograd, HPP Ožbalt and HPP Fala in the amount of EUR 593,371;
- reconstruction of the crane tracks at HPP Dravograd and HPP Vuzenica in the amount of EUR 37,035;
- replacement and upgrade of cooling systems at HPP Vuzenica and HPP Mariborski otok in the amount of EUR 57,690;
- refurbishment of HPP Fala in the amount of EUR 363,741;
- upgrade of the management system at HPP Zlatoličje in the amount of EUR 168,507;
- replacement of the 0.4kV own consumption switches at the HPP Zlatoličje in the amount of EUR 26,359;
- replacement of lighting and low power at the workshops at HPP Formin in the amount of EUR 33,904;
- other plant and equipment being acquired.

In 2016, other transfers of property, plant and equipment being acquired amounting to EUR 290,757 included the transfer:

- of plant and equipment available for sale in the amount of EUR 287,983;
- to costs in the amount of EUR 2,774.

A write-off of ongoing investments in the amount of EUR 534,484 was made in scope of write-offs of investments in progress; the company adopted a decision that these investments would be discontinued or partial write-offs of ongoing investments had been made, by which investments were written-off from ongoing investments that have become useless from the perspective of investment completion.

There were no impairments.

No mortgages are attached on property, plant and equipment of the company and no equipment is acquired under finance lease. As at 31 December 2016, the company's contractual liabilities for the acquisition of assets amount to EUR 2,105,907.04.

MOVEMENT IN 2016

STATED in EUR	Property	Plant	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
Cost of goods sold at 1 January 2016	**13,307,807**	**398,296,287**	**355,224,885**	**13,983,407**	**22,439,140**	**803,251,526**
Acquisitions	1	0	0	0	5,655,965	5,655,966
Disposals	(70,476)	(1,040,811)	(110,112)	(52,973)	0	(1,274,372)
Transfers from investments	0	2,346,929	4,157,638	0	(6,504,567)	0
Transfers - restatements	3,189	0	(542,687)	538,187	(290,757)	(292,068)
Write-offs	(39,446)	0	(410,066)	(2,619)	(534,484)	(986,615)
Cost of goods sold at 31 December 2016	**13,201,075**	**399,602,405**	**358,319,658**	**14,466,002**	**20,765,297**	**806,354,437**
Write-off at 1 January 2016	**0**	**187,040,775**	**215,207,863**	**13,799,739**	**0**	**416,048,377**
Disposals	0	(519,712)	(108,033)	(46,288)	0	(674,033)
Transfers - restatements	0	0	(436,139)	434,864	0	(1,275)
Depreciation and amortisation	0	7,199,287	7,629,586	31,901	0	14,860,774
Write-offs	0	0	(386,683)	(2,564)	0	(389,247)
Write-off at 31 December 2016	**0**	**193,720,350**	**221,906,594**	**14,217,652**	**0**	**429,844,596**
Carrying amount at 1 January 2016	**13,307,807**	**211,255,512**	**140,017,022**	**183,668**	**22,439,140**	**387,203,149**
Carrying amount at 31 December 2016	**13,201,075**	**205,882,055**	**136,413,064**	**248,350**	**20,765,297**	**376,509,841**

MOVEMENT IN 2015

STATED in EUR	Property	Plant	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
Cost of goods sold at 1 January 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 of goods sold at 31 December 2015	**13,307,807**	**398,296,287**	**355,224,885**	**13,983,407**	**22,439,140**	**803,251,526**
Write-off at 1 January 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 and amortisation	0	6,980,720	7,721,429	0	0	14,702,149
Impairments	0	329,285	0	0	0	329,285
Write-offs	0	(3,445)	(1,071,378)	(56)	0	(1,074,879)
Write-off at 31 December 2015	**0**	**187,040,775**	**215,207,863**	**13,799,739**	**0**	**416,048,377**
Carrying amount at 1 January 2015	**13,483,501**	**214,044,791**	**143,536,234**	**176,986**	**24,525,491**	**395,767,003**
Carrying amount at 31 December 2015	**13,307,807**	**211,255,512**	**140,017,022**	**183,668**	**22,439,140**	**387,203,149**

LONG-TERM INVESTMENTS IN SUBSIDIARIES (3)

STATED in EUR	31.12.2016	31.12.2015
MHE 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**

INFORMATION ON SUBSIDIARIES

Company	Address	Activity	Interest in %	Voting rights in %
MHE LOBNICA d.o.o.	Obrežna ulica 170, 2000 Maribor	Production of electrical energy in hydro power 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 consultation	25.0%	25.0%

SIGNIFICANT AMOUNTS IN THE FINANCIAL STATEMENTS OF SUBSIDIARIES FOR 2016

STATED in EUR	Assets	Liabilities (excl. of equity)	Revenue	Net profit or loss for the period	Total equity
MHE LOBNICA d.o.o.	640,593	5,822	34,501	3,511	634,771
POMURSKI RAZVOJNI INŠTITUT	54,815	7,342	66,398	(1)	47,473
HSE INVEST d.o.o.	2,762,884	970,614	4,357,434	6,598	1,792,270
TOTAL	**3,458,292**	**983,778**	**4,458,333**	**10,108**	**2,474,514**

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 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. The company is presented as a subsidiary since HSE d.o.o. as the parent undertaking, and SENG d.o.o., as its subsidiary, hold an additional 50% interest in HSE Invest d.o.o..

MOVEMENT OF LONG-TERM INVESTMENTS IN SUBSIDIARIES

STATED in EUR	2016	2015
Cost of goods sold at 1 January	488,241	488,241
Cost of goods sold at 31 December	488,241	488,241
Write-off at 1 January	0	0
Write-off at 31 December	0	0
Carrying amount at 1 January	488,241	488,241
Carrying amount at 31 December	488,241	488,241

OTHER LONG-TERM INVESTMENTS AND LOANS (4)

STATED in EUR	31.12.2016	31.12.2015
Long-term investments in associates	81,027,886	81,134,598
Other non-current investments	5,191	5,191
TOTAL	81,033,077	81,139,789

INVESTMENTS IN ASSOCIATES

STATED in EUR	31.12.2016	31.12.2015
HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.	81,027,886	81,027,886
ELDOM d.o.o.	0	106,712
TOTAL	81,027,886	81,134,598

In 2016, there has been a change in investments in associates since the company sold its 50% interest in Eldom d.o.o. and therefore, only shows a 30.8 % interest in HESS d.o.o. amounting to EUR 81,027,886 in its investments in associates.

INFORMATION ON ASSOCIATES

Company	Address	Activity	Interest in %	Voting rights in %
HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.	Cesta bratov Cerjakov 33a, 8250 Brežice	Production of electrical energy in hydro power plants	30.8%	30.8%

SIGNIFICANT AMOUNTS IN THE FINANCIAL STATEMENTS OF ASSOCIATES FOR 2016

STATED in EUR	Assets	Liabilities (excl. of equity)	Revenue	Net profit or loss for the period	Total equity
HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.	354,162,299	77,638,482	14,568,448	2,467,392	276,523,817
TOTAL	354,162,299	77,638,482	14,568,448	2,467,392	276,523,817

MOVEMENT OF LONG-TERM INVESTMENTS IN ASSOCIATES

STATED in EUR	2016	2015
Cost of goods sold at 1 January	**81,134,598**	**81,134,598**
Disposals	(106,712)	0
Cost of goods sold at 31 December	**81,027,886**	**81,134,598**
Write-off at 1 January	**0**	**0**
Write-off at 31 December	**0**	**0**
Carrying amount at 1 January	**81,134,598**	**81,134,598**
Carrying amount at 31 December	**81,027,886**	**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.

STATED in EUR	31.12.2016	31.12.2015
Other non-current investments	5,191	5,191
TOTAL	**5,191**	**5,191**

MOVEMENT OF OTHER LONG-TERM INVESTMENTS

STATED in EUR	2016	2015
Balance at 1 January	**5,191**	**5,191**
Balance at 31 December	**5,191**	**5,191**

OTHER NON-CURRENT ASSETS (5)

STATED in EUR	31.12.2016	31.12.2015
SZ SMREKA	2,337	2,164
Stanovanjsko podjetje Ravne	1,033	820
Staninvest	885	4,100
Other long-term deferred costs	120,405	104,590
TOTAL	**124,660**	**111,675**

Other non-current assets include the reserve fund SZ Smreka amounting to EUR 2,337, the reserve fund of Stanovanjsko podjetje Ravne amounting to EUR 1,033, the reserve fund of Staninvest amounting to EUR 885, other long-term deferred costs amounting to EUR 120,405, of which the largest portion includes long-term accruals and deferrals for the turbine oil.

DEFERRED TAX ASSETS (6)

STATED in EUR	31.12.2016	31.12.2015
Provisions	246,172	227,671
Impairments	54,048	54,048
TOTAL	**300,220**	**281,719**

Deferred tax assets of the company include deferred receivables for provisions for jubilee benefits amounting to EUR 67,790, provisions for severance benefits upon retirement amounting to EUR 178,382, impairment of investments amounting to EUR 25,449 and impairment in trade receivables amounting to EUR 28,599.

MOVEMENT OF DEFERRED TAX ASSETS

STATED in EUR	Provisions	Impairment	TOTAL
Balance at 1 January 2016	**227,671**	**54,048**	**281,719**
Debit/credit of profit and loss	18,501	0	18,501
Balance at 31 December 2016	**246,172**	**54,048**	**300,220**
Balance at 1 January 2015	**285,882**	**54,048**	**339,930**
Debit/credit of profit and loss	(58,211)	0	(58,211)
Balance at 31 December 2015	**227,671**	**54,048**	**281,719**

The change in deferred tax assets in 2016 amounted to EUR 18,501 and is recognised through profit and loss.

AVAILABLE-FOR SALE FINANCIAL ASSETS (7)

At the end of 2016, available-for-sale financial assets that include property for sale amounted to EUR 291,208.

INVENTORY (8)

STATED in EUR	31.12.2016	31.12.2015
Material	71,552	0
Products and merchandise	15,360	0
TOTAL	**86,912**	**0**

Inventory is represented by inventory of material in the amount of EUR 71,552 and inventory of products and merchandise in the amount of EUR 15,360.

Inventory has not been pledged as collateral for liabilities. The carrying amount of inventory does not exceed its net realisable value.

CURRENT ACCOUNT RECEIVABLES AND LOANS (9)

STATED in EUR	31.12.2016	31.12.2015
Short-term financial receivables and loans to group companies excluding interest	54,452	34,697,143
Short-term financial receivables and loans to group companies for interest	110,172	0
Short-term financial receivables and loans to others excluding interest	0	951
TOTAL	**164,624**	**34,698,094**

At the end of 2016 the company's current accounts receivable and loans show:

- short-term financial receivables and loans to group companies excluding interest in the amount of EUR 54,452 and
- short-term financial receivables and loans to group companies for interest in the amount of EUR 110,172.

Short-term financial receivables and loans to group companies include a short-term loan granted to RGP in the amount of EUR 54,452, interest receivables from loans given in the amounts of EUR 172 and interest receivables from guarantees given to the parent undertaking in the amount of EUR 110,000.

MOVEMENT OF SHORT-TERM FINANCIAL RECEIVABLES AND LOANS

STATED in EUR	2016	2015
Balance at 1 January	**34,698,094**	**502,482**
Acquisitions	13,775,880	65,740,400
Repayments	(48,309,350)	(31,544,788)
Balance at 31 December	**164,624**	**34,698,094**

As at 31 December 2016, there were no reasons for impairment of short-term financial receivables and loans.

CURRENT TRADE RECEIVABLES (10)

STATED in EUR	31.12.2016	31.12.2015
Short-term operating receivables due from group companies	9,581,484	9,183,432
Short-term operating receivables due from associates	10,878	5,526
Short-term operating receivables due from customers	175,810	320,772
TOTAL	**9,768,172**	**9,509,730**

SHORT-TERM OPERATING RECEIVABLES DUE FROM GROUP COMPANIES

STATED in EUR	31.12.2016	31.12.2015
HOLDING SLOVENSKE ELEKTRARNE d.o.o.	9,521,782	9,109,758
MHE LOBNICA d.o.o.	3,034	366
HSE INVEST d.o.o.	56,668	73,308
TOTAL	**9,581,484**	**9,183,432**

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

Short-term operating receivables due from associates include receivables due from HESS d.o.o. in the amount of EUR 10,878.

Short-term trade receivables comprise receivables due from Slovene and foreign buyers amounting to EUR 175,810.

At the end of 2016, outstanding short-term operating receivables included not due receivables in the amount of EUR 9,761,939, receivables due up to 3 months in the amount of EUR 3,249, receivables due from 3 to 6 months in the amount of EUR 2,571 and receivable due from 6 to 12 months in the amount of EUR 413.

OTHER CURRENT ASSETS (11)

STATED in EUR	31.12.2016	31.12.2015
Short-term advances	500	5,361
Short-term operating receivables due from state and other institutions	352,626	1,751,662
Short-term operating receivables due from others	21,759	16,490
Short-term deferred costs and expenses	189,137	99,969
TOTAL	**564,022**	**1,873,482**

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 352.626.

Short-term advances in the amount of EUR 500 and receivables *due from others* in the amount of EUR 21,759 are also recorded under short-term operating receivables.

Liabilities for insurance premiums paid in advance in the amount of EUR 45,210 and subscriptions paid in advance and other liabilities in the amount of EUR 143,927 are recorded under other current assets.

At the end of 2016, the company had no receivables due from the management.

CASH AND CASH EQUIVALENTS (12)

STATED in EUR	31.12.2016	31.12.2015
Cash in hand and cheques received	20	20
Bank balances	147,939	2,156,513
Call deposits	25,750,000	5,000,000
TOTAL	**25,897,959**	**7,156,533**

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 12,891;
- cash on the HSE treasury account in the amount of EUR 135,048;
- deposits at call (BKS bank AG) in the amount of EUR 25,750,000.

EQUITY (13)

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

Compared with 2015, the value of equity fell by 5.77% in 2016.

STATED in EUR	31.12.2016	31.12.2015
Called-up capital	395,011,180	395,011,180
Revenue reserves	64,213,269	107,213,269
Fair value reserve	(188,571)	(125,208)
Retained earnings	22,268,269	8,670,053
TOTAL	**481,304,147**	**510,769,294**

The share capital of the company amounts to EUR 395,011,180 and did not change when compared to 2015.

Revenue reserves amount to EUR 64,213,269 of which:

- legal reserves amount to EUR 39,501,118 and;
- other revenue reserves amount to EUR 24,712,151.

Based on a resolution of HSE, as the sole member of DEM, other revenue reserves in the amount of EUR 43,000,000 were reclassified in 2016 as retained net earnings carried forward. The retained net earnings carried forward in the amount of EUR 44,000,000 was transferred to liabilities for payment of balance sheet profit. In accordance with a resolution of HSE a unilateral offset of liabilities for payment of balance sheet profit in the total amount of EUR 38,000,000 was carried out on 31 August with the receivables due from loan contracts on the framework loan and accompanying annexes in the total amount of EUR 38,000,000.

At the end of 2016*, the fair value reserve* of the company amounting to a total of EUR -188,571 presented actuarial loss in provisions for severance benefits upon retirement. The actuarial loss increased in 2016 by EUR 69,094 and reduced by EUR 5,731, which complies with the proportion of utilization of provisions for severance benefits.

MOVEMENT OF FAIR VALUE RESERVE

STATED in EUR	Actuarial gains/losses for retirement benefits	TOTAL
Balance at 1 January 2016	**(125,208)**	**(125,208)**
Formation, increase	(69,094)	(69,094)
Transfer to retained profit or loss carried over	5,731	5,731
Balance at 31 December 2016	**(188,571)**	**(188,571)**
Balance at 1 January 2015	**(21,927)**	**(21,927)**
Formation, increase	(105,173)	(105,173)
Transfer to retained profit or loss carried over	1,892	1,892
Balance at 31 December 2015	**(125,208)**	**(125,208)**

Retained earnings in the amount of EUR 22,268,269 is represented by net profit or loss for the financial year, less the settlement of loss carried forward in the amount of EUR 5,731 that accounted for a proportional share of utilisation of provisions for severance benefits in 2016 and the net retained earnings in the amount of EUR 7,670,053.

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

AVAILABLE PROFIT

STATED in EUR	31.12.2016	31.12.2015
1. Net profit or loss for the period	14,598,216	8,670,053
2. Retained earnings / retained net loss carried over	7,670,053	0
6. Accumulated profit (6=1+2+3-4-5)	**22,268,269**	**8,670,053**

As at 31 December 2016, the company shows an accumulated profit amounting to EUR 22,268,269.

PROVISIONS FOR SEVERANCE BENEFITS UPON RETIREMENT AND JUBILEE BENEFITS (14)

STATED in EUR	31.12.2016	31.12.2015
Provisions for retirement benefits	2,073,902	2,237,791
Provisions for jubilee benefits	713,586	555,677
TOTAL	**2,787,488**	**2,793,468**

At the end of 2016, the company shows the following provisions:

- provisions for jubilee benefits in the amount of EUR 713,586 and;
- provisions for severance benefits upon retirement amounting to EUR 2,073,902.

Provisions for severance benefits upon retirement and jubilee benefits have been formed based on the actuarial method at 31 December 2016.

The calculation took into account actuarial assumptions that are provided hereinafter.

- *Demographic assumptions:*

  - Mortality tables:
    Mortality tables for the population of Slovenia in 2007, male and female separately shown, less 10 % (active population).
    For employees as at 31 December 2016, this means a 0.5% mortality rate for the next business year (taking into account the number of employees).
    The average age of employees at 31 December 2016 is 47.8 years.

- Employee fluctuation - termination of employment
  Fluctuation shares are taken into consideration that have been considered in the accounting in the previous year:
  - up to 35 years 3.5%;
  - 35 to 45 years 2.5%;
  - over 45 years 1.0%;

  For employees as at 31 December 2016, this means a 1.7% turnover for the next business year (taking into account the number of employees).
- Employee fluctuation due to a higher number of terminations by the employer have not been taken into account.
- Retirement:
  - The estimated date of retirement for each employee is calculated based on the information on the sex, date of birth and total years of services at 31 December 2016 in accordance with Article 27 of the Pension and Disability Insurance Act (criteria for retirement pension apply) and line 3 Article 28 thereof (work before age of 18). At the same time the assumption is that males and females will not retire before the age of 58 and 56, respectively, regardless of the total years of service.
  - Early or later retirement is not taken into account.

Financial assumptions:

All financial assumption are stated nominally.

- The rate of growth of average salary and remuneration from Slovenian regulation:
  For 2017 and 2018, the rates of growth of average salaries in the Republic of Slovenia from the Autumn forecast of economic trends for 2016 (IMAD) are taken into account. From 2019 on, the forecast is that the average salary in Slovenia will annually grow by the 2% inflation rate and the 0.2% real growth. It is expected that the amounts from the regulation will not increase in 2017 and 2018, but later the amounts are expected to grow in line with the inflation rate.
- Salary growth rates for the company:
  - An increase of employee salaries in the company is expected to the level of 85% of the annual inflation rate.
  - An increase of average employee salaries in the company is expected to the level of 85% of the annual inflation rate plus 0.5%.
  - Growth of employee salaries due to promotions is taken into account: 0.2% per annum.
  - A bonus on total years of service amounting to 0.5% of the basic salary for each full year of service for employees employed under the collective bargaining agreement is taken into account. Female workers with over 25 years of service see a further increase in the years of service bonus of 0.25% of their salary.
  - The service bonus is not explicitly laid down for employees employed through individual contracts.
- Discount rates:
  The discount rate for accounting as at 31 December 2016 is at 1.2% (was 2.25%), based on the published yield of Slovenian government bonds as at 30 December 2016 (source: https://www.mtsdata.com), by interpolation with regard to the average weighted company commitment (10.5 years).

MOVEMENT IN 2016

STATED in EUR	Provisions for termination benefits	Provisions for jubilee benefits	TOTAL
Balance at 1 January 2016	**2,237,791**	**555,677**	**2,793,468**
Formation - increase	220,269	237,345	457,614
Decrease - utilisation	(284,358)	(66,538)	(350,896)
Decrease - reversal	(99,800)	(12,898)	(112,698)
Balance at 31 December 2016	**2,073,902**	**713,586**	**2,787,488**

MOVEMENT IN 2015

STATED in EUR	Provisions for termination benefits	Provisions for jubilee benefits	TOTAL
Balance at 1 January 2015	**2,176,995**	**1,008,266**	**3,185,261**
Formation - increase	248,670	56,962	305,632
Decrease - utilisation	(187,874)	(509,551)	(697,425)
Balance at 31 December 2015	**2,237,791**	**555,677**	**2,793,468**

STATED in EUR	Provisions for termination benefits	Provisions for jubilee benefits	TOTAL
Current value of liabilities at 31 December 2015	**2,237,791**	**555,677**	**2,793,468**
Costs of interest	41,331	11,866	53,197
Current service cost	109,843	49,656	159,499
Past service cost	(99,800)	(12,899)	(112,699)
Actuarial gains (-) and losses (+) - change in acturial assumptions	85,791	163,043	248,835
Actuarial gains - reversal	(32,999)	(7,289)	(40,288)
Aktuarski losses – formation and utilisation	16,302	20,069	36,371
Payment of remuneration in 2016	(284,358)	(66,538)	(350,895)
Gains and losses on settlement	0	0	0
Current value of liabilities at 31 December 2016	**2,073,902**	**713,586**	**2,787,488**

SENSITIVITY ANALYSIS FOR RETIREMENT SEVERANCE AND JUBILEE BENEFITS

STATED in EUR	2016			
	Discount rate		Growth of salaries	
	Increase by 0.5	Decrease by 0.5	Increase by 0.5	Decrease by 0.5
Provisions for retirement benefits	(83,259)	90,483	91,290	(86,362)
Provisions for jubilee benefits	(26,049)	27,987	28,522	(27,046)
TOTAL	**(109,308)**	**118,470**	**119,812**	**(113,408)**

OTHER PROVISIONS (15)

STATED in EUR	31.12.2016	31.12.2015
Other provisions	1,846,835	1,871,505
TOTAL	**1,846,835**	**1,871,505**

At the end of the year 2016, 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 1,846,835 under other provisions.

MOVEMENT IN 2016

STATED in EUR	Other provisions	TOTAL
Balance at 1 January 2016	**1,871,505**	**1,871,505**
Decrease - utilisation	(21,569)	(21,569)
Decrease - reversal	(3,101)	(3,101)
Balance at 31 December 2016	**1,846,835**	**1,846,835**

MOVEMENT IN 2015

STATED in EUR	Other provisions	TOTAL
Balance at 1 January 2015	1,871,505	1,871,505
Balance at 31 December 2015	1,871,505	1,871,505

LONG-TERM OPERATING LIABILITIES (16)

STATED in EUR	31.12.2016	31.12.2015
Non-current operating liabilities from advances	0	1,350
Other non-current operating liabilities	33,302	0
TOTAL	33,302	1,350

Long-term operating liabilities of the company include other long-term operating liabilities from advances (accrued liabilities for remuneration of IC employees) in the amount of EUR 33,302.

SHORT-TERM TRADE LIABILITIES (17)

STATED in EUR	31.12.2016	31.12.2015
Current operating liabilities to group companies	544,788	361,026
Current operating liabilities to associates	0	4,832
Current operating liabilities to suppliers	1,736,464	2,960,819
TOTAL	2,281,252	3,326,677

SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES

STATED in EUR	31.12.2016	31.12.2015
HOLDING SLOVENSKE ELEKTRARNE d.o.o.	11,716	13,907
HTZ IP d.o.o.	3,096	13,005
RGP d.o.o.	284,819	75,487
POMURSKI RAZVOJNI INŠTITUT Murska Sobota	19,742	21,983
HSE INVEST d.o.o.	225,415	236,644
TOTAL	544,788	361,026

Short-term operating liabilities to group companies include liabilities to HSE, RGP, HSE Invest, Pomurski razvojni inštitut MS and HTZ in the total amount of EUR 544,788.

Short-term trade liabilities include the liabilities to:

- domestic suppliers amounting to EUR 1,709,622 and;
- foreign suppliers amounting to EUR 26,842.

At the end of 2016, the company recorded outstanding short-term trade payables, of which not-due payables amounted to EUR 2,280,846 and liabilities due up to 3 month amounted to EUR 406.

OTHER SHORT-TERM LIABILITIES (18)

STATED in EUR	31.12.2016	31.12.2015
Short-term operating liabilities to employees	1,295,449	1,145,170
Short-term operating liabilities to state and other institutions	2,084,408	2,052,643
Short-term operating liabilities to others	284,027	597,621
Short-term accrued costs and expenses	2,243,490	668,136
TOTAL	**5,907,374**	**4,463,570**

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 1,295,449.

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 2,084,408.

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 284,027.

Other short-term operating liabilities include also short-term accrued costs of concessions in the amount of EUR 5,412, short-term accrued costs of the charge for the use of construction land in the amount of EUR 819,716 and other accrued costs in the amount of EUR 1,428,362. The y-o-y increase in the short-term accrued costs is the result of accrued costs of the annual leave and Christmas bonuses for 2016 (for employees).

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

CONTINGENT LIABILITIES AND ASSETS (19)

CONTINGENT ASSETS

STATED in EUR	31.12.2016	31.12.2015
Bank guarantees received for investments	1,605,819	1,831,010
TOTAL	**1,605,819**	**1,831,010**

Contingent assets include performance bonds received and guarantees for the remedy of defects during the guarantee period in the total amount of EUR 1,605,819.

CONTINGENT LIABILITIES

STATED in EUR	31.12.2016	31.12.2015
Security given to group companies	220,000,000	215,000,000
TOTAL	**220,000,000**	**215,000,000**

The guarantees given are presented under contingent liabilities.
On 20 December 2016 an agreement was signed on a guarantee given to HSE d.o.o. in the amount of EUR 220 million (EUR 40 million with a maturity to 20 December 2019 and EUR 180 million with a maturity to 20 December 2021). The guarantee was collateralised by 10 blank bills of exchange. The agreement stipulates the interest rate for guarantee fee at 1.5% p.a..

NOTES TO THE INCOME STATEMENT

NET REVENUE FROM SALES (20)

STATED in EUR	2016	2015
DOMESTIC MARKET	**65,420,958**	**64,695,400**
Electrical energy	64,576,439	63,782,896
Other merchandise and material	206	7,183
Other services	844,313	905,321
FOREING MARKET	**39,102**	**37,871**
Other services	39,102	37,871
TOTAL	**65,460,060**	**64,733,271**

The company generated net revenues from sales in the amount of EUR 65,460,060, which is a 1.12% increase y-o-y.

Net revenue from sales includes revenues from sales in the domestic market in the amount of EUR 65,420,958 and revenues from sales in the foreign market in the amount of EUR 39,102.

98.71% of the revenue from sales in the domestic market is revenues from the sales of electrical energy (EUR 64,576,439), generated through sales to HSE in the amount of EUR 64,073,396 and Borzen in the amount of EUR 503,043.

Revenues from other services provided in the domestic market in the amount of EUR 844,313 and EUR 39,102 in foreign markets include revenues from services (business services, technical support services, control of the TC network…), rents, and other revenues from sales.

OTHER OPERATING INCOME (21)

STATED in EUR	2016	2015
Reversal of provisions	3,101	368,711
Reversal of deferred revenue	81,603	59,903
Reversal of impaired receivables	0	181,761
Compensations and contractual penalties	100,984	52,326
Default interest	55,412	7,197
Profits from sale of property, plant and equipment	257,006	0
Other	454,146	409,858
TOTAL	**952,252**	**1,079,756**

Other operating income includes profits on the sale of fixed assets in the amount of EUR 257,006, revenue received from compensation and contractual penalties in the amount of EUR 100,984, utilisation of deferred income in the amount of EUR 81,603, revenue from reversal of provisions in the amount of EUR 3,101, default interest in the amount of EUR 55,412 and other operating income in the amount of EUR 454,146, the largest portion of which is the sale of gravel.

COSTS OF GOODS, MATERIAL AND SERVICES (22)

The major portion of costs of materials includes costs of energy, costs of spare parts and maintenance materials, costs of stationery 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.

Both costs of material and costs of services are lower y-o-y due to the rationalization and optimization of operation.

STATED in EUR	2016	2015
Cost of material	51,566	0
Cost of subsidiary material	0	47,924
Cost of energy	204,520	221,466
Cost of spare parts	248,886	226,477
Cost of low-value assets	17,336	15,639
Stationery	28,411	48,102
Professional literature	10,992	11,224
Cost of fire prevention	5,149	2,432
Costs of material for damage remediation	2,716	0
Other	15,412	17,074
TOTAL COST OF MATERIAL	**584,988**	**590,338**
Cost of services related to creating products	1,525	25,873
Cost of transport services	57,435	56,228
Maintenance services	1,447,963	1,897,734
Rentals	7,251	7,143
Work-related refunds to employees	27,157	40,885
Insurance and bank services	866,747	842,922
Cost of professional and intellectual services	387,194	449,994
Cost of research and development	96,832	121,983
Costs of fairs, advertising and hospitality	171,217	263,255
Costs of services rendered by individuals	32,225	44,756
Utility services	118,920	159,153
Cost of security and surveillance	148,854	147,721
Cleaning services	172,250	181,382
Membership fees	35,575	34,908
Property management	0	52,846
Advertisements	211	2,363
Design of annual reports and magazines	3,130	19,446
Cost of copying and plotting	693	14,525
Other	116,293	58,897
TOTAL COST OF SERVICES	**3,691,472**	**4,422,014**
TOTAL	**4,276,460**	**5,012,352**

Costs of services include also the audit fee that amounted to EUR 16,420 in 2016.

STATED in EUR	2016	2015
Audit of the Annual Report	16,420	16,920
TOTAL	**16,420**	**16,920**

Apart from the audit of the annual report, in 2016 the company also paid to KPMG Slovenija, d.o.o the cost of audit of the Report on relations with associates for 2015 in the amount of EUR 1,800.

EMPLOYEE REMUNERATION EXPENSE (23)

STATED in EUR	2016	2015
Wages and salaries	8,120,451	8,628,941
Pension insurance costs	1,167,514	1,188,152
Other insurance costs	624,006	638,032
Other employee benefits expenses	1,605,490	1,101,653
TOTAL	**11,517,461**	**11,556,778**

Employee benefit expenses were calculated in compliance with the Employment Relationship Act, the Collective bargaining agreement for the electrical 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.

NUMBER OF EMPLOYEES AND AVERAGE NUMBER OF EMPLOYEES BY LEVEL OF EDUCATION

LEVEL OF EDUCATION	AS AT 1 January 2016	AS AT 31 December 2016	AVERAGE No. OF EMPLOYEES
1	2	2	2
2	2	2	2
3	56	45	51
4	8	5	7
5	65	60	63
6/1	51	46	49
6/2	30	28	29
7	43	40	42
8/1	6	6	6
8/2	3	3	3
TOTAL	**266**	**237**	**252**

WRITE-OFFS (24)

STATED in EUR	2016	2015
Depreciation of intangible assets	411,458	555,004
Depreciation of property, plant and equipment	14,860,774	14,702,149
Impairments/write-offs of receivables	0	17
Impairments in property, plant and equipment and intangible assets	0	329,285
Write-offs in property, plant and equipment	575,800	3,298,336
Sales from property, plant and equipment and investment property	1,722	1,047
TOTAL	**15,849,754**	**18,885,838**

Write-downs in value comprise the amortisation of intangible assets in the amount of EUR 411,458, depreciation of property, plant and equipment in the amount of EUR 14,860,774, and expenses for the sale and write-offs in property, plant and equipment in the amount of EUR 577,522 that include the retirement of investments in progress and loss upon the retirement of property, plant and equipment.
In retirement of investments, the largest part in the amount of EUR 455,366.10 falls to write-offs of certain investments carried out for the PSP Kozjak and the OHL to the Maribor substation.

It was found that certain documentation acquired in the past is no longer needed for the current and the next stage of preparation of the project and the dossier.

OTHER OPERATING EXPENSES (25)

STATED in EUR	2016	2015
Charge for the use of construction land	3,005,252	3,252,709
Concessions	10,728,539	10,284,650
Environmental charges	7,540,712	7,691,238
Donations	71,100	178,272
Other operating expenses	455,297	310,669
TOTAL	**21,800,900**	**21,717,538**

Other operating expenses include:

- charge for the use of construction land in the amount of EUR 3,005,252;
- concessions in the amount of EUR 10,728,539;
- expenses for environmental protection (expenses for water refunds and ecological rehabilitation) in the amount of EUR 7,540,712;
- donations in the amount of EUR 71,100;
- other expenses in the amount of EUR 455,297.

FINANCE INCOME (26)

STATED in EUR	2016	2015
Dividends and other profit shares	0	14,298
Finance income on loans granted and deposits	842,186	803,402
Finance income on sale of investments	1,000	0
Other finance income	3,362,243	702,534
TOTAL	**4,205,429**	**1,520,234**

Finance income comprises interest on loans given (to HSE, RGP and TET) and deposits (BKS bank and HSE treasury account), finance revenues from sale of investments (sale of 50% interest in Eldom d.o.o.) and other finance revenues from interest or fees from the guarantee given to HSE.

FINANCE EXPENSES (27)

STATED in EUR	2016	2015
Other finance expense	53,198	96,669
TOTAL	**53,198**	**96,669**

Finance expenses comprise borrowing costs, arising from the actuarial calculation of termination benefits upon retirement and jubilee premiums in the amount of EUR 53,198.

TAXES (28)

STATED in EUR	2016	2015
a. Current tax	2,771,868	1,392,748
b. Deferred tax	(18,501)	58,211
TOTAL INCOME TAX, RECOGNISED THROUGH PROFIT AND LOSS	**2,753,367**	**1,450,959**

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 2016 was paid at a tax rate of 17 % of the tax base established in the tax calculation of the company.

In 2016, the assessed corporate income tax amounted to EUR 2,771,868. On the basis of the tax calculation from 2015, the company made advance payments of corporate income tax in 2016 in the amount of EUR 1,276,685 and it is was showing current tax liabilities in the amount of EUR 1,495,183 at the end of 2016.

Deferred taxes include deferred tax assets. The amounts formed and utilized are presented in the disclosure on the deferred tax assets (Note 6).

EFFECTIVE TAX RATE CALCULATION

STATED in EUR	2016	2015
Earnings before tax	17,357,314	10,122,904
Tax calculated at applicable tax rate	2,950,743	1,720,894
Tax on income reducing tax base	(1,561)	(4,298)
Tax on tax relief	(289,213)	(394,028)
Tax on expenses reducing tax base	(35,720)	(88,499)
Tax on non-deductible expenses	138,551	195,309
Tax on other changes in the tax balance sheet	9,068	(36,630)
ACCRUED TAX	**2,771,868**	**1,392,748**
Deferred tax	(18,501)	58,211
Total tax	2,753,367	1,450,959
EFFECTIVE TAX RATE	**15.86**	**14.33**

The effective tax rate for 2016 amounts to 15.86%.

NET PROFIT OR LOSS (29)

STATED in EUR	2016	2015
Gross operating revenue	66,649,658	65,871,845
Operating profit or loss	13,205,083	8,699,339
Financial result	4,152,231	1,423,565
Earnings before tax	17,357,314	10,122,904
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	**14,603,947**	**8,671,945**

The company ended 2016 with a net profit in the amount of EUR 14,603,947.

NOTES TO THE STATEMENT OF OTHER COMPREHENSIVE INCOME

TOTAL COMPREHENSIVE INCOME (30)

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

Under consideration of the facts mentioned above total comprehensive income amounted to EUR 14,534,853 at the end of 2016.

NOTES TO THE CASH FLOW STATEMENT

Net cash from operating activities was generated in operation amounting to EUR 28,493,230. Cash flows from operating activities were thus positive.
Cash flows from investing activities were positive, the net cash from investing amounted to EUR 34,248,196.
Cash flows from financing activities were negative, net cash from financing activities amounted to EUR 44,000,000.

At the end of the period under review, the company presented cash flow amounting to EUR 18,741,426.

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 14,534,853 as follows:

- it increased by net profit or loss of the current year amounting to EUR 14,603,947 and;
- it decreased by the actuarial loss relating to severance benefits upon retirement amounting to EUR 69,094.

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 2016. The balance at the end of 2016 is presented for granted and received loans (principal and interest).

STATED in EUR	Sales	Acquisitions	Loans granted and interest	Income from guarantees given
HSE d.o.o.	68,497,214	72,174	0	3,362,243
SHPP LOBNICA d.o.o.	5,787	0	0	0
SENG d.o.o.	111	0	0	0
HESS d.o.o.	13,290	0	0	0
TEŠ d.o.o.	195	0	0	0
TET d.o.o. - in liquidation	90,511	17,600	0	0
PV d.d.	139	0	0	0
PV Invest d.o.o.	0	6,656	0	0
HTZ VELENJE I.P. d.o.o.	0	11,547	0	0
GOLTE d.o.o.	0	616	0	0
RGP d.o.o.	5,909	1,150,157	54,624	0
HSE Invest d.o.o.	292,071	878,032	0	0
ELDOM d.o.o.	39,432	0	0	0
ELDOM RAB d.o.o.	12,600	39,365	0	0
PRI MS	0	66,398	0	0
ERICo d.o.o.	0	11,978	0	0
TOTAL	**68,957,259**	**2,254,523**	**54,624**	**3,362,243**

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.

REMUNERATION

MANAGEMENT REMUNERATION

STATED in EUR	GROSS SALARY	OTHER REMUNERATION	BONUSES	COST REIMBURSEMENT	TOTAL
Viljem Pozeb	111,909	3,620	3,227	1,650	**120,406**
TOTAL	**111,909**	**3,620**	**3,227**	**1,650**	**120,406**

Management remuneration includes:

- gross remuneration included in the income tax return statement;
- other remuneration (food, transportation, daily allowance);
- premiums paid for voluntary supplementary pension insurance.

In 2016, the company did not grant any advances, loans and guarantees to these groups of individuals.

REMUNERATION OF EMPLOYEES NOT SUBJECT TO THE TARIFF PART OF THE COLLECTIVE BARGAINING AGREEMENT

STATED in EUR	GROSS SALARY	OTHER REMUNERATION	BONUSES	COST REIMBURSEMENT	TOTAL
Employees on individual contracts	325,128	10,860	9,221	5,457	**350,666**
TOTAL	**325,128**	**10,860**	**9,221**	**5,457**	**350,666**

FINANCIAL INSTRUMENTS AND RISKS

CREDIT RISK

The major customer of the company is HSE, the controlling undertaking, which purchases the entire volume of the electrical energy 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.

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 2016.

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

STATED 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 FROM 6 TO 9 MONTHS (181 270 days)	PAST DUE IN EXCESS OF A YEAR (from 361 on)	
Short-term operating receivables due from group companies	9,581,484	0	0	0	0	9,581,484
Short-term operating receivables due from associates	10,878	0	0	0	0	10,878
Short-term operating receivables due from customers	169,577	3,249	2,571	413	168,227	344,037
Short-term advances	500	0	0	0	0	500
Short-term operating receivables due from state and other institutions	352,626	0	0	0	0	352,626
Short-term operating receivables due from others	21,759	0	0	0	0	21,759
Short-term financial receivables and loans to group companies	54,452	0	0	0	0	54,452
Short-term financial receivables and loans to group companies for interest	110,172	0	0	0	0	110,172
Total at 31 December 2016	**10,301,448**	**3,249**	**2,571**	**413**	**168,227**	**10,475,908**

STATED 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 FROM 6 TO 9 MONTHS (181 270 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	0	9,183,432
Short-term operating receivables due from associates	5,526	0	0	0	0	5,526
Short-term operating receivables due from customers	308,591	10,995	1,186	0	168,227	488,999
Short-term advances	5,361	0	0	0	0	5,361
Short-term operating receivables due from state and other institutions	1,751,662	0	0	0	0	1,751,662
Short-term operating receivables due from others	16,490	0	0	0	0	16,490
Short-term financial receivables and loans to group companies	34,400,499	0	296,644	0	0	34,697,143
Short-term financial receivables and loans to others	951	0	0	0	0	951
Total at 31 December 2015	**45,665,781**	**17,726**	**297,830**	**0**	**168,227**	**46,149,564**

MOVEMENT OF ADJUSTMENTS FOR SHORT-TERM OPERATING RECEIVABLES

STATED in EUR	2016	2015
Balance at 1 January	**168,227**	**171,483**
Receivables written-off, later collected	0	(3,256)
Balance at 31 December	**168,227**	**168,227**

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 2016, 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

STATED in EUR	MATURITY		TOTAL
	UP TO 2 YEARS AFTER THE DATE OF SFP	FROM 3 TO 5 YEARS AFTER THE DATE OF SFP	
Other long-term operating liabilities	33,302	0	33,302
Total at 31 December 2016	**33,302**	**0**	**33,302**

STATED 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 at 31 December 2015	**0**	**1,350**	**1,350**

SHORT-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY

STATED in EUR	MATURITY		TOTAL
	NOT DUE	PAST DUE UP TO 3 MONTHS (up to 90 days)	
Short-term operating liabilities to group companies	525,046	0	525,046
Short-term operating liabilities to suppliers	1,755,800	406	1,756,206
Short-term operating liabilities to employees	952,110	0	952,110
Short-term operating liabilities to state and other institutions	2,084,408	0	2,084,408
Other short-term operating liabilities	284,027	0	284,027
Total at 31 December 2016	**5,601,391**	**406**	**5,601,797**

STATED in EUR	MATURITY		TOTAL
	NOT DUE	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 at 31 December 2015	**6,759,300**	**23,648**	**6,782,948**

EXCHANGE RATE RISK

EXPOSURE TO EXCHANGE RATE RISK

STATED in EUR	EUR	TOTAL
Current financial receivables and loans	164,624	164,624
Current operating receivables	10,143,057	10,143,057
Non-current operating liabilities	(33,302)	(33,302)
Current operating liabilities	(5,601,797)	(5,601,797)
Net exposure SFP at 31 December 2016	**4,672,582**	**4,672,582**

STATED in EUR	EUR	TOTAL
Current financial receivables and loans	34,698,094	34,698,094
Current operating receivables	11,283,243	11,283,243
Non-current operating liabilities	(1,350)	(1,350)
Current operating liabilities	(6,782,948)	(6,782,948)
Net exposure SFP at 31 December 2015	**39,197,039**	**39,197,039**

The company is not exposed to any foreign currency exchange rate risk since it operates solely in Euros.

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 2016.

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.

STATED in EUR	31.12.2016	31.12.2015
Non-current financial liabilities	0	0
Current financial liabilities	0	0
Total financial liabilities	0	0
Capital	481,304,147	510,769,294
Financial liabilities/capital	**0.00**	**0.00**
Cash and cash equivalents	25,897,959	7,156,533
Net financial liability	(25,897,959)	(7,156,533)
Net debt/capital	**(0.05)**	**(0.01)**

FAIR VALUES

CARRYING AMOUNT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The company believes that the carrying amount is a close enough approximation for its fair value; therefore, the presented fair values equal carrying amounts.

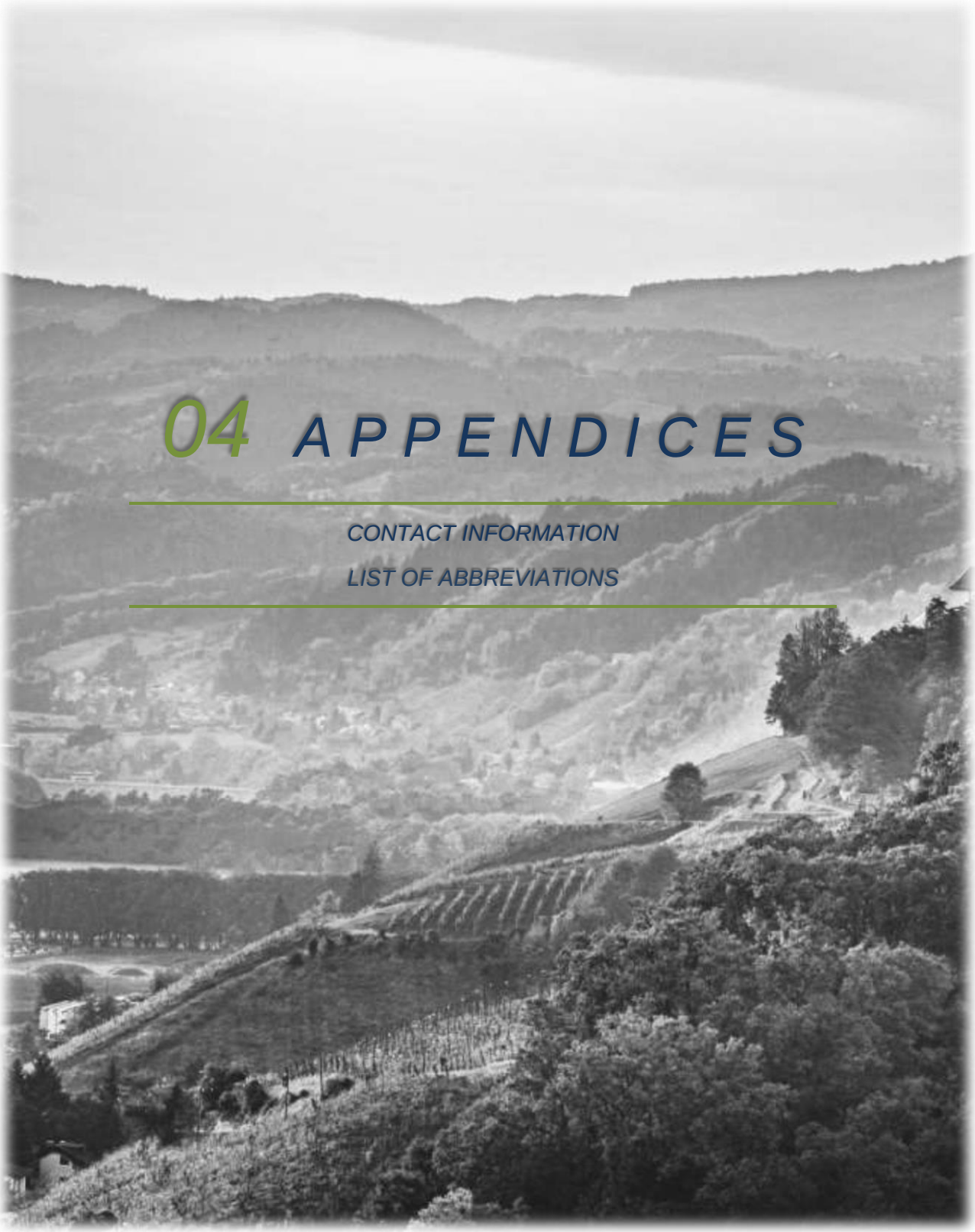
STATED in EUR	31.12.2016		31.12.2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	**5,191**	**5,191**	**5,191**	**5,191**
Available-for-sale financial assets	5,191	5,191	5,191	5,191
Non-derivative financial assets at amortised cost	**36,205,640**	**36,205,640**	**53,137,870**	**53,137,870**
Financial receivables	164,624	164,624	34,698,094	34,698,094
Operating and other receivables	10,143,057	10,143,057	11,283,243	11,283,243
Cash	25,897,959	25,897,959	7,156,533	7,156,533
Total	**36,210,831**	**36,210,831**	**53,143,061**	**53,143,061**
Derivative financial liabilities at fair value	**0**	**0**	**0**	**0**
Derivative financial instruments (liabilities)	0	0	0	0
Non-derivative financial liabilities at amortised cost	**7,473,621**	**7,473,621**	**7,127,318**	**7,127,318**
Loans	0	0	0	0
Other financial liabilities	0	0	0	0
Operating and other liabilities	7,473,621	7,473,621	7,127,318	7,127,318
TOTAL	**7,473,621**	**7,473,621**	**7,127,318**	**7,127,318**

FINANCIAL ASSETS AT FAIR VALUE BY HIERARCHY

STATED in EUR	31.12.2016	31.12.2015
Third tier financial assets at fair value	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 2016 and notes to the financial statements in this report are:



04 APPENDICES

CONTACT INFORMATION

LIST OF ABBREVIATIONS

4.1 CONTACT INFORMATION

DRAVSKE ELEKTRARNE MARIBOR d.o.o.

Obrežna ulica 170

2000 MARIBOR

Telephone: *02 300 50 00*
Fax: *02 300 56 55*
Website: *www.dem.si*
E–mail: *dem@dem.si*

COMPANY MANAGEMENT

Viljem Pozeb, MSc
Managing director

Telephone: *02 300 57 50*
E–mail: *viljem.pozeb@dem.si*

Srečko Bračko, MSc
Assistant Managing Director

Telephone: *02 300 53 60*
E–mail: *srecko.bracko@dem.si*

Vili Vindiš
Assistant Managing Director

Telephone: *02 300 57 60*
E–mail: *vili.vindis@dem.si*

Andrej Tumpej
Technical Manager

Telephone: *02 300 52 50*
E–mail: *andrej.tumpej@dem.si*

4.2 LIST OF ABBREVIATIONS

CC	*Control centre*
PSP	*Pumped-storage power plant*
VAT	*Value-added tax*
DEM	*Dravske elektrarne Maribor d.o.o.*
NSP	*National spatial plan*
OPL	*Overhead power line*
EBIT	*Earnings before interest and taxes*
EBITDA	*Earnings before interest, tax, depreciation and amortisation*
EES	*Electrical energy system*
ELES	*Elektro Slovenija d.o.o.*
EU	*European Union*
EUR	*Euro*
HPP	*Hydro power plant*
HESS	*Hidroelektrarne na spodnji Savi d.o.o.*
HSE	*Holding Slovenske elektrarne d.o.o.*
PD	*Preliminary design*
IS	*Information system*
ISO	*International Organisation for Standardisation*
SHPP	*Small hydro power plant*
IFRS	*International Financial Reporting Standards*
NEK	*Nuklearna elektrarna Krško d.o.o.*
NLB	*Nova ljubljanska banka*
SB	*Supervisory Board*
OHSAS	*Occupational health and safety management system*
ACP	*Anti-corrosion protection*
PRI	*Pomurski razvojni inštitut*
RECS	*Renewable energy certificate system*
RS	*Republic of Slovenia*
DTS	*Distribution transformer station*
SENG	*Soške elektrarne Nova Gorica d.o.o.*
SORS	*Statistical Office of the Republic of Slovenia*
IMAD	*Institute of Macroeconomic Analysis and Development*
ZGD	*the Companies Act,*