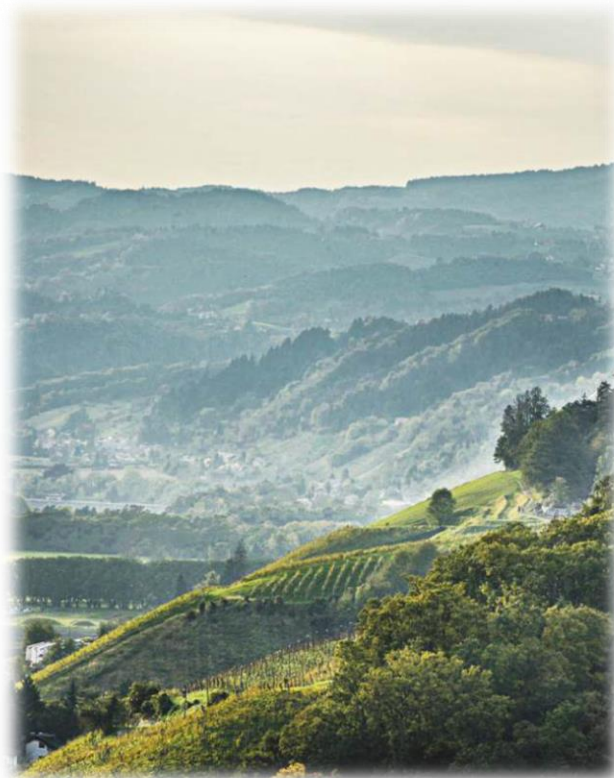


Energy from nature for people and nature



ANNUAL REPORT

2017

March 2018

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1 INTRODUCTION

ADDRESS OF THE MANAGING DIRECTOR

BUSINESS HIGHLIGHTS FOR 2017

OVERVIEW OF SIGNIFICANT EVENTS IN 2017

Foreword by the Managing Director

Although I took over the position of the Managing Director of Dravske elektrarne Maribor only at the end of September 2017 and managed it only in the last quarter of the year to which the annual report relates, I have been employed at the company long enough and have known it sufficiently to be able to write these lines with pleasure and pride.

Unfortunately, I cannot start the address as positively as my predecessor did in the year before. The operation in the year 2017 was relatively demanding, as we faced one of the lowest hydrologies in the last decade - the data evidencing that the planned production was exceeded only in September and December, speaks for itself. Accordingly, financial effects were also lower. The fact that the contract for the sale of electricity in 2017 for an equal amount as in the previous years was about seven million EUR lower should be also considered. The profit at the end of the calendar year was below plan, but mainly because of poor hydrology. Nevertheless, it can be assured that despite these facts the costs were managed, as they were also below the plan.

I can again praise the colleagues who, despite the above-average low temperatures, experienced at the beginning of the year, carried out regular maintenance work on the total of twenty-two major generating units, of which fourteen inspections and eight extended inspections in the timeframe planned. Most of the work was carried out by our own staff, this has become increasingly more difficult due to a constant decrease in the number of maintenance staff. The colleagues again showed commitment and responsibility to both the company and the production units whose key goal is reliable and sufficient production of electricity from renewable sources, which adds significant pieces to the mosaic of Slovenian energy production.

We can be also proud of some successful projects: the Fala hydro power plant switched to the operation without a permanently present crew and the secondary systems of the 110 kV switchyard were renewed, we participated in the CE-HEAT project, which represented a model for integral utilization of excess heat and in the LIFE "Drava" project, where we successfully completed the project of restoration of the river ecosystem of the lowland part of the Drava in Slovenia in cooperation with the Society for Observation and Study of Birds of Slovenia. The participants presented the examples of good practices of our company at some Slovenian and foreign professional conferences.

The year 2017 marked a significant leap made in the field of removal of sediments on the entire Drava watercourse. Special attention will be paid to this field in the coming years, as it will enable us to have an adequate energy potential of reservoirs and, consequently, a reliable production and to ensure flood safety.

As in the past few years, a lot of effort was put into the sustainable exploitation of the Mura and the energy exploitation of the wind. At the same time, we started building the first small hydroelectric power plant, out of thirteen ones planned in short-term on the tributaries of the Drava and the first phase of the reconstruction or refurbishment of the Formin hydro power plant - our youngest hydro power plant, and preparations for the celebration of an important anniversary in the year 2018 – hundred years of operation of Fala, the oldest Slovene large, still operating, hydro power plant.

The end of the years will certainly be remembered when we faced an unexpected decrease in the water level in the reservoir at the Mariborski otok hydro power plant that was carried out superbly by our employees and a new increase in the water level by almost seven meters. The activity mentioned was necessary due to the damage caused to the spillway 4, as the replacement locks could not be installed in any other way, but by decreasing the water level.

In spite of the demanding year we can be proud of our work. I believe that we will continue to follow the mission and achieve the set goals in the future - only hydrology should be more favourable.

Andrej Tumpej, Managing Director



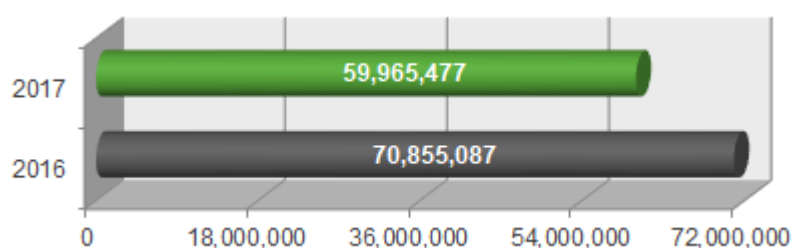
Business highlights for 2017

*In 2017, the operations of Dravske elektrarne Maribor d.o.o. (hereinafter referred to as DEM) were also focused on providing safe, quality and reliable production of electricity. By implementing the tasks in line with the objectives set the company operated **efficiently** in spite of less favourable hydrology. It continued its clearly marked out path and achieved the majority of its objectives planned and even exceeded some of them.*

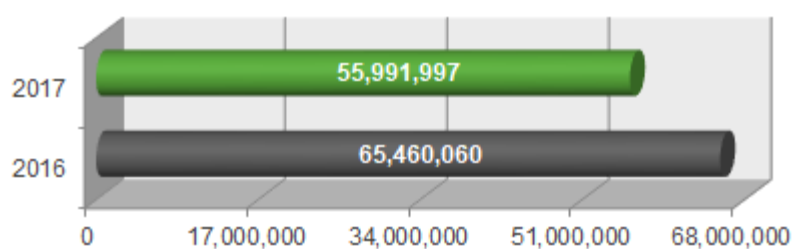
KEY ACHIEVEMENTS OF THE YEAR 2017

	2017	2016	2017/2016
Net revenue from sales in EUR	55,991,997	65,460,060	85.54
Net profit or loss in EUR	7,716,732	14,603,947	52.84
Revenue in EUR	59,965,477	70,855,087	84.63
Expenses in EUR	50,705,987	53,497,773	94.78
EBIT in EUR	5,808,620	13,205,083	43.99
EBITDA (EBIT+write-downs) in EUR	21,537,958	29,054,837	74.13
Assets in EUR	478,991,438	495,655,581	96.64
Equity in EUR	466,958,963	481,304,147	97.02
Electricity produced in GWh	2,333	2,846	81.97
No. of employees at the end of period	241	237	101.69
Added value in EUR	32,337,900	40,572,298	79.70

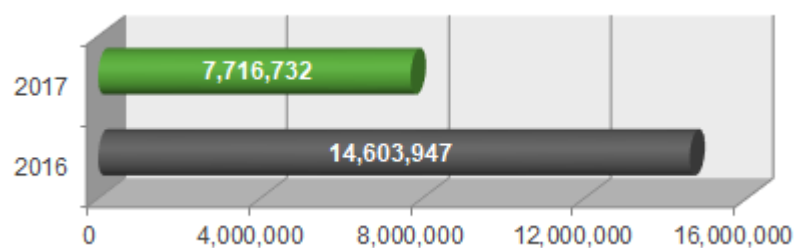
TOTAL REVENUE IN EUR



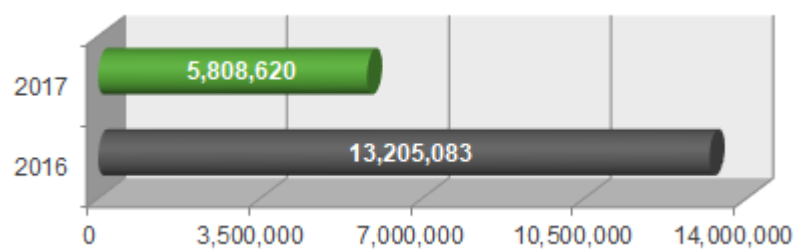
NET REVENUE FROM SALES IN EUR



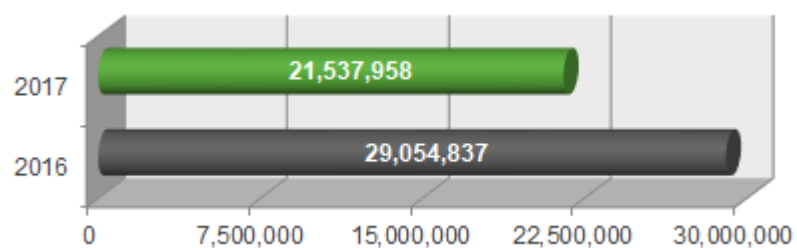
NET PROFIT OR LOSS IN EUR



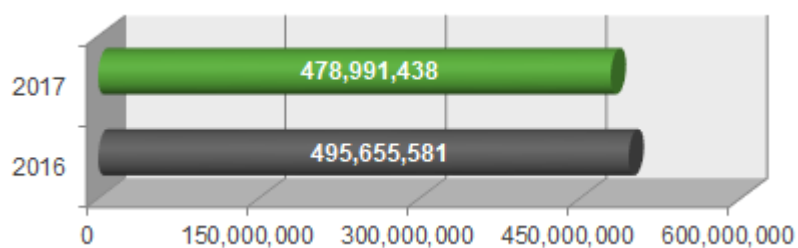
EBIT IN EUR



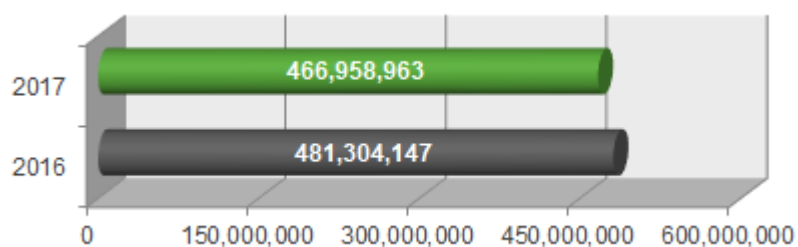
EBITDA = EBIT + WRITE-DOWNS IN EUR



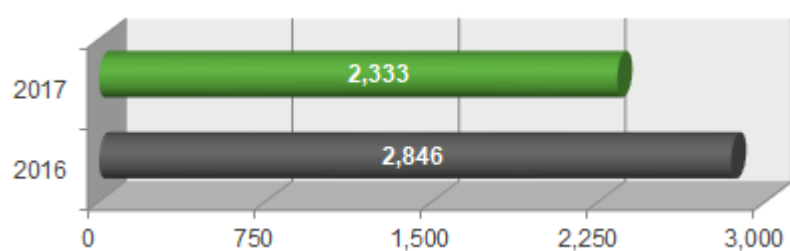
ASSETS IN EUR



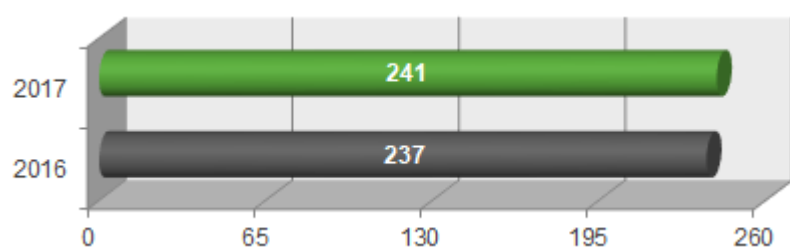
EQUITY IN EUR



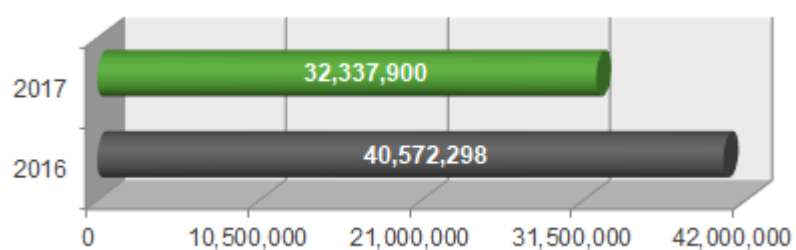
ELECTRICITY PRODUCED IN GWh



NUMBER OF EMPLOYEES AT THE END OF THE PERIOD



ADDED VALUE IN EUR



Overview of significant events in 2017

JANUARY

OVERHAULS AND INSPECTIONS IN 2017

From **3 December 2016** to **10 March 2017** maintenance works were carried out on a total of twenty-two major generating units, which included fourteen inspections and eight extended inspections. Major works were done in the framework of extended inspections of generating units at the Zlatoličje HPP, where a complex upgrade of the control system was implemented, at the Formin HPP the block transformer 110/10 kV was replaced by a spare one, and at the Fala HPP the renewal of the secondary systems of the 110 kV switchyard was completed. The replacement of turbine oils was started on the generating units of the first stage (Dravograd, Vuzenica and Mariborski otok HPPs), which will be finished in 2018. On average, inspections lasted 9.6 working days and extended inspections 13.5 working days.



REMOVAL OF A GRID AT THE A3 INLET OF THE MARIBORSKI OTOK HPP

FEBRUARY

THE PLANNED HRASTJE MOTA HPP IS ACCEPTABLE FOR THE ENVIRONMENT AFTER THE IMPLEMENTATION OF THE MITIGATING AND COUNTERVAILING MEASURES

On **6 February** the representatives of DEM and the persons conducting studies – the representatives of HSE Invest d.o.o., Vodnogospodarski biro Maribor and URBIS d.o.o. – presented the current situation and topical challenges related to the use of energy on the Mura to the representatives of local communities at the meeting of Pomurski razvojni inštitut.



BABIČEV MLIN ON THE MURA; SOURCE: INTERNET

MARCH

AAA GOLD CREDIT RATING FOR DEM

In 2017, Bisnode, the credit rating agency, performed certification in scope of the international financial analysis project in twelve European countries, in the companies that achieve the gold credit rating excellence – such a rating can be exclusively reached by the companies with the AAA credit rating excellence for three successive years. DEM belongs to 0.7% of the best legal entities in Slovenia and is classified into the highest class of the AAA gold credit excellence.



LOGO OF GOLD CREDIT RATING EXCELLENCE

SPORTS MEETING OF DEM, SEL AND SENG

On **11 March** a winter sports meeting was organised on Soriška planina for sports clubs of DEM, SEL and SENG. The games were organised by the sports club of Soške elektrarne Nova Gorica. Five female skiers and thirty-two male skiers from our club participated and were ranked first in a fierce competition of teams.



AWARDING OF SKIING MEDALS TO THE BEST THREE TEAMS

ADOPTED BUSINESS PLAN OF DEM FOR THE YEAR 2017

Pursuant to the decision of the General Meeting of **20 March** HSE as the sole member of DEM adopted the business plan of DEM for 2017 including an additional plan for the years 2018 and 2019.

THE HSE GROUP IS THE LARGEST PRODUCER OF ELECTRICITY FROM RENEWABLE SOURCES

On **22 March** the companies in the HSE Group celebrated the World Water Day by organising a press conference, where the meaning of renewable sources for electricity production and the plans of the companies in this field were addressed.

APRIL

SAP INFORMATION SYSTEM AND DMS4 BUSINESS CONNECT DOCUMENT SYSTEM STARTED OPERATING

On **1 April** the operation of the new SAP information system and the DMS4 Business Connect (BC) document system started. SAP as well as BC were harmonised at the HSE level.

CE-HEAT PROJECT AT 19TH DAYS OF ENERGY EXPERTS

Nowadays, the experts face considerable challenges associated with global energy conditions which represented a red line in topical discussions during the Days of energy experts in 2017. At the conference that took place on **11 and 12 April** in Portorož DEM, acting as a project partner, presented the CE-HEAT project for the use of excess heat.

MAY

DAY OF OPEN DOORS IN THE MUSEUM OF THE FALA HPP

In 1993, the United Nations General Assembly declared **15 May** the International Day of Families and this day is an excellent opportunity for the employees and the public to draw attention to the importance of families and the need to promote a better understanding of harmonising family and professional life between the employees and DEM.

Therefore it was decided to celebrate this year's Family Day by visiting the Museum of the Fala HPP. Sophia, who also celebrates its name day on 15 May, was lenient, and the sun shone at 16 o'clock on a large group that gathered in front of the Fala HPP to see a short film about our company. After the film, the group visited the museum. The youngest visitors cautiously observed each little thing. After the visit, which lasted a good hour, the youngest guests were presented the colour-books entitled Water – the source of life.



MUSEUM OF FALA HPP IMPRESSED THE VISITORS OF ALL AGES

MEETING OF PENSIONERS AND THE DEM DAY

On **26 May** the employees gathered at a traditional meeting called the DEM DAY, this year's location was a tent at the Arena Hotel at the foot of Pohorje. The excellent singer Ana Bezjak started the celebration.

Afterwards the Managing Director of DEM Viljem Pozzeb, MSc, General Director of HSE, Matjaž Marovt, Chairman of the DEM Trade Union, Igor Štruc, and the Chairman of the DEM Works Council, Vladimir Šega held speeches. **25 May** was dedicated to socializing of the former employees.



APPEARANCE OF ANA BEZJAK



FORMER EMPLOYEES OF DEM

JUNE

THE HSE GROUP SUPPORTS THE DEVELOPMENT OF STUDENTS' SPORTS BY ITS DONATION

The representatives of the HSE Group and the University in Maribor met on **1 June** at a short ceremony where the General Manager of Holding Slovenske elektrarne, Matjaž Marovt symbolically handed over, on behalf of the subsidiary DEM, the donation, namely the real estate of Brodarsko društvo Sidro and the pertaining land plots, to their possession to the Rector of the University of Maribor, Prof. Igor Tičar, Ph.D.



SIGNING OF THE DONOR AGREEMENT

ADOPTED ANNUAL REPORT OF DEM FOR THE YEAR 2016

HSE as the sole member of DEM adopted the audited annual report of DEM for the year 2016 based on the decision of the General Meeting of **26 June**.

SEPTEMBER

ANDREJ TUMPEJ, NEW MANAGING DIRECTOR OF DEM

The General Meeting of Dravske elektrarne Maribor – the Management Board of Holding Slovenske elektrarne – appointed Andrej Tumpej the Managing Director of DEM at its meeting of **12 September**. The then Technical Director of DEM took over this position on 30 September 2017 and was appointed for a 4-year term of office. Mr Tumpej replaced Viljem Pozzeb, MSc who was the Managing Director of DEM for the last eight years.



AFTER THE HANDOVER PROCEDURE BETWEEN VILJEM POZEB, MSC AND ANDREJ TUMPEJ

PREVENTIVE MEDICALLY TARGETED PROGRAMME IN THE RADENCI SPA

*In accordance with the Rules for implementing targeted preventive programmes in the Radenci Spa the company carried out a medically targeted preventive programme at the end of **September** and at the beginning of **October**. The spa offers all the comfort of the thermal world and wellness centre. The participants of the medically targeted preventive programme were divided into two groups and took part in a five-day programme.*



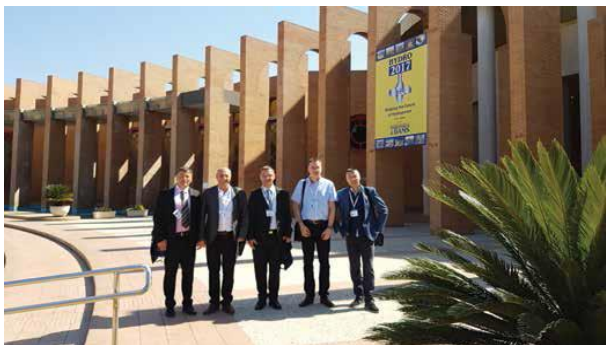
A GROUP HIKING AROUND THE VINEYARDS OF KAPELA

OCTOBER

HYDRO - INTERNATIONAL CONFERENCE 2017

*The Hydro Conference 2017 took place from **9 to 11 October** in a marvellous congress called Fibes - Palacio de Exposiciones y Congresos in Seville in Spain. Over 1000 participants from 75 countries attended the Hydro Conference 2017. The organiser of the conference, the British company Aqua-Media International, proved again that this international event belonged to the most popular events in the field of hydro energy. At the conference technically rich and quality programme. was presented in thirty-five sections, where important international and local organisations, such as ICOLD – International Commission on Large Dams, IEA – International Energy Agency, UNIDO – United Nations Industrial Development Organization, World Bank and several others participated along with numerous universities, institutions and companies.*

DEM took part in the section dedicated to operation and maintenance), where Dalibor Kranjčič, Ph.D. presented his paper with the title “The use of modern mathematical tools and OPC technology for monitoring and maintenance of hydropower plants”.



PARTICIPANTS OF THE CONFERENCE



PRESENTATION OF THE PAPER OF DALIBOR KRANJČIČ, PH.D.

NOVEMBER

GENERATING UNITS 1, 2 AND 3 OF THE MARIBORSKI OTOK HPP CAN PERFORM PRIMARY FREQUENCY REGULATION

On **16 November** DEM received a certificate from ELES, the transmission system operator, that the generating units 1, 2, and 3 of the Mariborski otok HPP as the first ones in Slovenia are capable of performing primary frequency regulation on the basis of successfully performed qualification tests and the statement of the owner on technically equal generating units.

DECEMBER

DAMAGE TO THE UPPER LOCK OF THE SPILLWAY NO. 4 OF THE MARIBORSKI OTOK HPP

On **13 December** at **13.05** damage to the upper lock of spillway No. 4 at the Mariborski otok HPP was caused. About 200 m³ of water per second was spilt over the spillway due to the damaged lock. After a careful examination it was found out that the installation of auxiliary locks was possible only in a way that the surface of the reservoir was decreased and at midnight from the 18th to the 19th December the decrease in the reservoir surface started in the lake of Bresternica. The green water surface of – 6.75 m was reached on 20 December at 7:30 hours and after a successful installation of the auxiliary locks the filling began again on 20 December at 11:00 hours. The usual reservoir surface was reached on 21 December at 16:00 hours.



DAMAGED UPPER LOCK OF SPILLWAY NO. 4 OF THE MARIBORSKI OTOK HPP



2 MANAGEMENT REPORT

COMPANY PROFILE

PURCHASING, SALES AND PRODUCTION

MAINTENANCE, INVESTMENTS AND IT

ANALYSIS OF OPERATIONS AND PLANS FOR THE FUTURE

SUSTAINABILITY REPORT

Company profile

DEM: a hydro power company of national importance

DEM is the largest producer of electricity 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 electricity in Slovenia. This accounts for the 80% of Slovene electricity that complies with the criteria of renewable sources and standards of 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

Company name	DRAVSKE ELEKTRARNE MARIBOR d.o.o.
Abbreviated company name	DEM d.o.o.
Legal form	Limited liability company
Address	Obrežna ulica 170, 2000 Maribor, Slovenia
Telephone	02 300 50 00
Fax	02 300 56 55
Code of activity	35,111
Core activity of the company	electricity production in hydro power plants
Registration	The company is entered into the register with the District Court in Maribor, entry no. 1/278/000
Share capital in EUR	395,011,180
Size	large company
Structure of ownership	100 % Holding Slovenske elektrarne d.o.o.
Year of establishment	1918
Company registration no. / ID no.	5044286 / 5031000010
VAT ID	SI96254459
Website	http://www.dem.si

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

The company has no subsidiaries.

OWNERSHIP STRUCTURE OF THE COMPANY

Pursuant to the resolution of the Government of the Republic of Slovenia on the transfer of its share to HSE, DEM is 100% owned by HSE as of 21 August 2007. As at 31 December 2017, the shareholding of HSE in the DEM's equity amounted to EUR 395,011,180.00.

ACTIVITY OF THE COMPANY

Activities of the company are:

- ◆ 01.1 Growing of non-perennial crops;

- ◆ 01.290 Growing of other perennial crops;
- ◆ 01.300 Plant propagation;
- ◆ 02.100 Silviculture and other forestry activities;
- ◆ 02.200 Logging;
- ◆ 02.400 Support services to forestry;
- ◆ 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 hydro power plants;
- ◆ 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;
- ◆ 43.120 Site preparation;
- ◆ 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;
- ◆ 45.200 Maintenance and repair of motor vehicles;
- ◆ 49.391 Interurban and other passenger road transport;
- ◆ 49.410 Freight transport by road;
- ◆ 55.201 Holiday and other short-stay accommodation;
- ◆ 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;
- ◆ 70.220 Business and other management consultancy activities;

- ◆ 71.121 Geo-physical measurements, mapping;
- ◆ 71.129 Other engineering activities and 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;
- ◆ 77.390 Renting and leasing of other machinery, equipment and tangible goods;
- ◆ 78.100 Activities of employment placement agencies;
- ◆ 81.100 Combined facilities support activities;
- ◆ 81.220 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;
- ◆ 85.600 Educational support activities;
- ◆ 93.110 Operation of sports facilities;
- ◆ 69.103 Other legal activities;
- ◆ 47.190 Other retail sale of new goods in specialised stores n.e.c;
- ◆ 47.789 Other retail sale of new goods in specialised stores;
- ◆ 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 Museum 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 20 December 2017 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 OF THE COMPANY

The managing director runs the operation of the company on its own responsibility and represents it. 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, is responsible for 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 of the company is Andrej Tumpej who took over this position on 30 September 2017 and was appointed for a 4-year term of office.

STATEMENT ON COMPANY MANAGEMENT

CORPORATE GOVERNANCE STATEMENT

Pursuant to Article 70, paragraph 5 of the Companies Act, Dravske elektrarne Maribor d.o.o., Obrežna ulica 170, 2000 Maribor (DEM), hereby issues the following corporate governance statement for the period from 1 January 2017 to 31 December 2017.

I, the Managing Director of DEM hereby declare that the corporate governance in 2017 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 OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF COMPANIES WITH AN EQUITY SHAREHOLDING OF THE STATE THROUGH THE SLOVENIAN SOVEREIGN HOLDING AND THE RECOMMENDATIONS AND EXPECTATIONS THEREOF

I, the Managing Director of DEM, hereby declare that the corporate governance of DEM in 2017 was in line with the Corporate Governance Code of companies with an equity shareholding of the state through Slovenian Sovereign Holding (the Code) and in accordance with the recommendations and expectations thereof (SSH Recommendations).

Pursuant to Item 3.4.1 of the Code, I, the Managing Director, hereby declare, that DEM decided to voluntarily apply the Code. The Code is publicly accessible on the website of the Slovenian Sovereign Holding.

The Code applies to all the recommendations relevant for the company, but cannot apply to the recommendations pertaining to the supervisory bodies as the company has no supervisory body.

Implementation of the SSH Recommendations

In 2017, the company did not fully follow the following recommendations of the SSDH:

- **Recommendation No. 4.3 and Recommendation No. 4.4:** The company did not implement the recommendations, but reported on all the payments and agreements to the owner HSE, d.o.o., as the major holding company.
- **Recommendation No. 5:** The recommendations were not implemented. The rationale of the implementation of EFQM will be examined with HSE, as the major holding company.

2. CORPORATE GOVERNANCE FRAMEWORK

The management body of DEM consists of a one-member management - the managing director acting as the management body and the sole member. The powers of the management bodies are set forth in the Articles of Association of DEM. The sole member decides on all matters that are not in the scope of the company's managing director.

Formally, the company has no diversity policy that would be implemented in relation to the representation in the management and supervisory bodies of the company from the aspect of gender and other aspects, such as for example age or education.

3. COMPOSITION OF THE SUPERVISORY BODY

The company has no supervisory body. The supervisory function is carried out by the sole member.

4. OPERATION AND REMUNERATION OF THE SUPERVISORY BOARD

The sole member is entitled to the payment of accumulated profit that the company pays when profits have been established for a certain financial year based on a decision taken.

5. REMUNERATION OF THE MEMBERS OF THE MANAGEMENT

The Managing Director is an employee of the company and paid by it. The remuneration is disclosed in detail in the financial report.

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

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

The accuracy, completeness and truthfulness of financial reporting are ensured by implementing the following internal controls:

- control of accuracy of accounting data that are provided in different ways, such as for example reconciliation of items with customers and suppliers,

- ◆ controls of completeness, data acquisition (e.g. sequence of documents, numbering of documents),
- ◆ controls of segregation of duties and responsibilities (e.g. separate implementation of recording and payments),
- ◆ control of restriction of access (rights to access to accounting records are allocated selectively),
- ◆ control of supervision.

The accounting process is IT supported; therefore the above internal controls are also related to the controls embedded in the IT framework, which encompass controls of restriction of access to the network, data, applications as well as controls of accuracy and completeness of data acquisition and processing.

7. PUBLIC REPORTING

The Corporate Governance Statement is an integral part of the Annual Report that is published on the website of the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES).

Maribor, 30 March 2018

Andrej Tumpej
Managing Director



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

I, the Managing Director of DEM, have been informed about the content of the integral parts of the Annual Report of DEM for 2017 and thus about the entire Annual Report of DEM for the year 2017. I hereby agree with it and confirm this with my signature.

Andrej Tumpej
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 governance sector;
- ◆ Working units;
- ◆ Services;
- ◆ Departments;
- ◆ Temporary organisational units - projects.

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

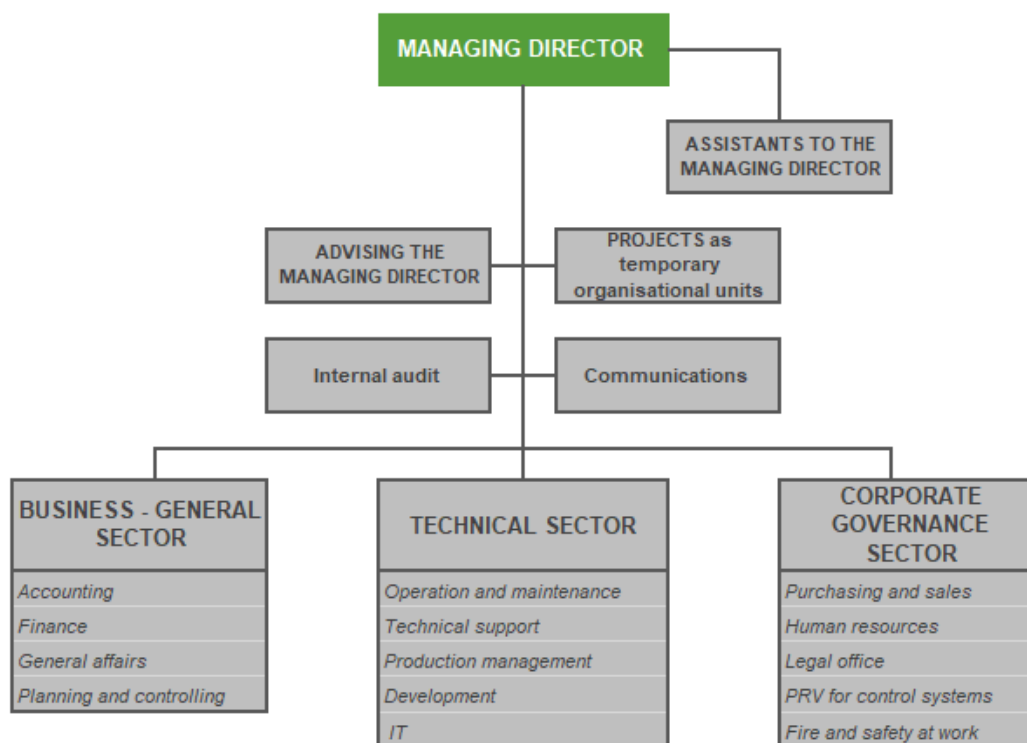
Services represent second level organisational units, while in the technical sector they are third level units. A service is led by the head of the service.

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 take a decision to establish **temporary organisational units – projects** in accordance with the company's Rules for project management.

ORGANISATIONAL CHART OF THE COMPANY AS AT 31 DECEMBER 2017



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 its 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 Kropce	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 the use of the council's funds. 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 HSE AS THE CONTROLLING COMPANY

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 of pooling suppliers in the electrical energy market, improving their competitiveness, and constructing 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 its registered office on Koprška ulica 92, Ljubljana, was DEM's controlling (holding) company as at 31 December 2017 and prepared the consolidated annual report for 2017 for the group of companies under its control.

Pursuant to Article 545 of the Companies Act the management of DEM prepared a Report on relations with related parties for 2017. 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 conducted, maintains that no transaction with the controlling company and its related parties were conducted to its disadvantage; furthermore, in 2017 no legal transaction, action or omission thereof were carried out that could have resulted in damage to the company that could be attributable to the conduct of HSE.

RELATIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINTLY-CONTROLLED COMPANIES

DEM holds ownership shares in four companies:

◆ HSE Invest	25.0 % ownership share
◆ HESS	30.8 % ownership share
◆ MHE Lobnica	65.0 % ownership share
◆ PRI	100.0 % ownership share

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

In bookkeeping records, the ownership shares mentioned above are recorded 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 by 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 share.

DEM holds a 25% share in HSE INVEST d.o.o, having a 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 by 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% share in HESS.

LOBNICA SHPP

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, having a 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,
- ◆ trading in electricity,
- ◆ construction of water facilities.

In accordance with the Articles of Association of the limited company, SHPP Lobnica features two bodies: a general meeting and a managing director. The company also has a holder of procurement.

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. The institute was founded with the intent to bring together experts from different fields and 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 HYDRO POWER PLANTS ON THE DRAVA

Energy time flow of capacity from Fala to Formin



1918

1942 – 1958

1960 - 1978

Fala HPP Dravograd HPP, Mariborski otok HPP, Vuzenica HPP, Vuhred HPP, Ožbalt HPP, Zlatoličje HPP, Formin HPP

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 of the third millennium.

*At the time of its construction, after World War I, the first hydro power plant on the Drava in Slovenia, the **Fala HPP**, 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 **Dravograd HPP** and **Mariborski otok HPP** 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 Mariborski otok HPP, 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 MARIBORSKI OTOK HPP

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

The **Zlatoličje HPP**, constructed in the period 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 Zlatoličje HPP. The **Formin HPP** 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 Fala HPP, 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 Fala HPP 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 Fala HPP, 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 Fala HPP'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 generating units was located along the left bank, the riverbed featured the spillways, while the lock was built along the right bank.

Company's business policy

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 cooperation 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 discussed and adopted the long-term plan of refurbishment and development for the 2003–2018 period at its 13th regular meeting of 6 May 2003.

The key strategic goals of DEM for the period 2018 – 2020 are as follows:

Goals pertaining to **safe and reliable production and building of new production capacities:**

- ◆ provision of reliable and smooth production of electricity:
 - ◆ 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 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:
 - ◆ refurbishment of the existing capacities and increase in the power,
 - ◆ construction of SHPPs and exploitation of other renewable sources,
 - ◆ construction of a HPP on the Mura and the Kozjak pumped-storage power plant in scope of the financial capacities and environmental compatibility.
- ◆ Care for sustainable development;
- ◆ Maximum exploitation of 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;
- ◆ provision of all conditions (personnel, organisation, finance) for the implementation of strategic projects.

Goals pertaining to **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 employee;
- ◆ to maintain the optimal structure of employees;
- ◆ to provide continuous training;
- ◆ to care for the quality of working life.

Goals pertaining to the **financial management**:

- ◆ to ensure short-and long-term solvency;
- ◆ to manage financial risks;
- ◆ to secure optimal financial source;
- ◆ to pursue an optimal financial policy;
- ◆ to optimise the structure of financing sources and equity structure.

Management system policy

QUALITY SYSTEM

MANAGEMENT SYSTEMS

In 2017, the activities related to maintaining the management systems were mostly aimed at maintaining the existing management system and preparation to the new system of process management in the BC document system.

The main emphasis was placed on the following activities:

- ◆ Training was organized for the owners and process administrators and internal auditors in the field of new requirement of new standards 9001 and 14001.

- ◆ The performance of internal audit of all processes that took place in the period from 8 May to 12 May 2017. Due to a very limited period of time available for the conduct of the internal audit several groups of auditors were organised so that several audits of different processes could be conducted at the same time. The audit groups performed audits in a very concentrated manner in the entire working time. Twenty-three internal auditors participated and they worked a total of 183 hours. In scope of the internal audit 68 recommendations that are to be implemented were confirmed in cooperation with process administrators.
- ◆ The selection of the company performing external audit for 2017 will be made on the basis of the purchasing procedures by collecting quotations.
- ◆ External audit was conducted on 5, 6, 7 and 8 June 2017. In order to enable the smooth performance of external audits persons were appointed who accompanied auditors in certain audits (on power plants). Some incompatibilities were established by the external audit, which were immediately eliminated. Recommendations and improvements were submitted to the process administrators to be carried out.
- ◆ Cooperation in a joint council of the HSE Group management in the project of module preparation of BC management systems (preparation of bases, harmonisation of documentation and naming of certain processes, approval of BBP).

ENVIRONMENTAL MANAGEMENT SYSTEM

The targets and tasks related to the environmental management system were prepared within the framework of planning targets and tasks for 2017. 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 2017 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 2016 annual report with the required content was produced.

In March a two-day training was organised from the field of Quality Management System ISO 9001_2015 and the Environmental Management System ISO 14001:2015.

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

- ◆ Preparation for the performance of internal audits in 2017;
- ◆ Setting the objectives of internal audits;
- ◆ Plan of conduct of internal audits;
- ◆ Amendments to the Rules of management procedure;
- ◆ Preparation of the required documents referring to the performance of internal audits and other.

In accordance with the Decree on waste, the annual report on the generated waste and waste management for 2016 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. A report on the quantity of gases for the equipment containing fluoride greenhouse gases or ozone-harmful substances was submitted to the competent ministry.

With regard to the environmental management system, the following documents were revised:

- ◆ Monitoring list;
- ◆ Classification of environmental aspects;
- ◆ Evaluation of significant environmental aspects;
- ◆ Instructions for handling of hazardous substances;
- ◆ Instructions for waste management (records on waste generation) and
- ◆ Environmental management legislation.

Internal audits of specific processes were carried out in May and served as preparations for an external audit. They were carried out as planned and in line with the objectives set. After the conducted internal audits the operation of the environmental management system was presented during the management review.

The following contents were presented and discussed: measurable characteristics, operation of the system and the implementation of indicative targets and programmes, table of measures with the implementation level, objectives and programmes for 2017, changes in identification of environmental aspects, identified risks, opportunities and impacts on the process and control, measurement and analysing in the field of environmental management system.

Based on the reports on internal audits by separate process a table of measures was prepared and submitted to the responsible persons to be implemented. In scope of the preparation for the external audit the ecology team met and addressed the required topics. The external (recertification) audit was conducted between 5 and 8 June 2017. It was performed smoothly and in line with the plan and the objectives of the audit:

- ◆ it certified that the management system complied with all the requirements of the audited standard;
- ◆ it certified that the company successfully implemented the agreements planned;
- ◆ it certified that the management system was capable of carrying out policy and implementing the objectives of the organisation and, and the assessment of operation of the management system that ensured that the organisation fulfilled applicable legal, regulatory and contractual requirements;
- ◆ determination of fields for possible improvements in the management system and
- ◆ assessment of performance and efficiency of the management system implementation in the organisation.

It was found out that the company addressed all the recommendations from the previous audit and took them into account in the majority of cases. One of the findings of the audit team was that the system was maintained and continuously improved. No incompatibilities were established during the audit and the final report included monitoring and opportunities; they were discussed in the next meeting of the management council and ecology team.

The requirements relating to the drawing up of the annual report for 2017 with the emphasis on reporting on sustainable development and non-financial operation were discussed at the meetings of ecology committee members of the HSE Group. A uniform table for discussion and reporting on environmental risks and opportunities was prepared and approved.

Environmental management legislation was monitored at the level of the company and a new register was prepared taking into account the observations of the external audit. Opportunities deriving from the recommendations of the external audit were also monitored and implemented. The transition to the new version of the 14001 standard will be carried out in 2018. For this purpose activities and trainings were organised with the aim of better understanding of the requirements of the standard.

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 2017 included:

- ◆ Training of employees, new employees, pupils, students, trainees and interns concerning health and safety at work and fire safety (136 employees, 22 persons of external contractors, 24 students working during holidays, and compulsory placement);
- ◆ Training for safe work of senior and middle management (8 persons);
- ◆ Training for safe operation of lifting devices of various kinds (116 persons – gantry and bridge cranes, hydraulic grippers, hydraulic lifts built on a goods vehicle, cleaning machine, lifting basket);
- ◆ Training for safe operation of heavy construction machinery (22 persons);
- ◆ Training for safe operation of forklifts (43 persons);
- ◆ Training for safe operation of motor saws (14 persons);
- ◆ Training for safe operation of wood processing machinery (4 persons);
- ◆ Training for health and safety at work coordinators at joint sites (1 person);
- ◆ Medical examinations of employees (139 persons);
- ◆ Implementation of the medical preventive programme (28 persons);
- ◆ First aid at the workplace training (6 persons);
- ◆ Training of fire guards (12 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 experts and site coordinators in a seminar;

- ◆ Participation of responsible persons in a fire safety seminar;
- ◆ Analysis of accidents and incidents;
- ◆ Dissemination of good practices;
- ◆ Successful OHSAS 18001:2007 external audit;
- ◆ Delivery of personal protective equipment in accordance with the Public Procurement Act and active participation in the preparation of the technical specifications for the joint delivery of personal protective equipment at the HSE Group level;
- ◆ Cooperation with competent inspectorates;
- ◆ Continuation of promotion of the health at work programme: zDravo vadimo (a word game: healthy exercising).

HEALTH AND SAFETY AT WORK

PROMOTION OF HEALTH AT THE WORKPLACE

Pursuant to the legislative requirements and an analysis of the health condition of the employees, DEM (health and safety at work & fire safety service, DEM sports association) implement the so called health at work promotion programme titled zDravo vadimo. As part of the programme the following activities were (and are still being) carried out in 2017:

- ◆ publications (safe work in the sun, care for mental health);
- ◆ guided physical activities, 47 exercise times implemented (guided flexibility training – every Tuesday, guided strength and dynamics exercises - every Thursday, summer yoga in a town's park);
- ◆ body mass measurements (periodic monitoring of employee monitoring);
- ◆ additional activities a part of DEM sports club (there are 15 sections included in the DEM sports club).

The programme is set to continue also in 2018.

INSPECTIONS

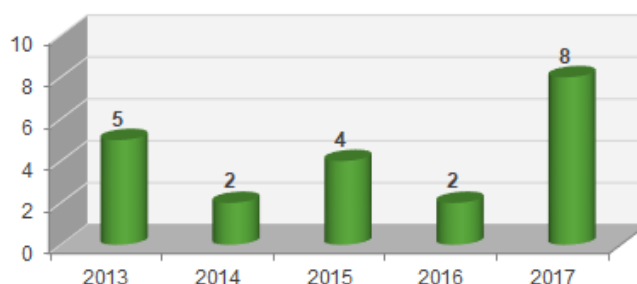
March 2017: Telephone and electronic correspondence with the Labour Inspectorate was carried out due to an accident and analysis of the accident at work. No deficiencies were established during the inspection.

On 30 June 2017 a regular inspection of the Labour Inspectorate of the Republic of Slovenia was performed at the location of the Formin HPP. No deficiencies were established during the inspection.

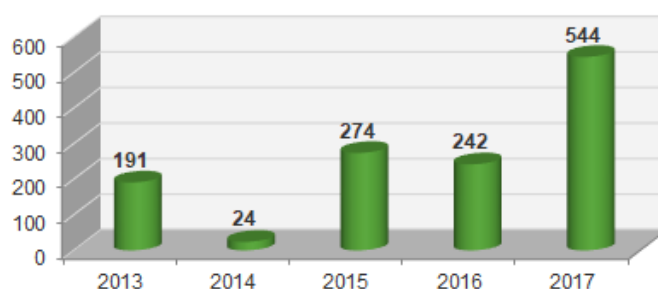
ACCIDENTS AT WORK

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 diagrams below.

NUMBER OF ACCIDENTS AT WORK THAT RESULTED IN ABSENCE FROM WORK



NUMBER OF WORKING DAYS LOST DUE TO ACCIDENTS AT WORK



Note: In 2017, 8 accidents at work were recorded that resulted in the absence and 327 days were lost due to these eight accidents. Additionally, further 217 days were lost due to a serious accident at work that happened already in 2015 (the person injured in 2015 was on sick-leave for the major part of 2017 or worked only part-time).

COMPLIANCE WITH THE LAW

In the field of health and safety at work DEM complies with the law. The first measurements in line with the Decree on the protection of workers from risks related to exposure to electromagnetic radiation (EMS) (Official Gazette of the RS No. 49/2016) were 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.

At the location of the Fala HPP a fire drill was carried out in cooperation with the Selnica fire brigade - rescuing an injured person from a burning building at the HPP Fala, the use of defibrillator and extinguishing fire of hazardous substances.

ACTIVE FIRE SAFETY SYSTEM AND EXTINGUISHERS

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

- ◆ safety lighting at the location of the DEM management building, the DEM hangar.

FIRES

In 2017 a small fire at the Vuhred HPP was recorded. The fire on a water heater was detected timely and extinguished by the personnel on call.

COMPLIANCE WITH THE LAW

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

Production and operation

Due to poor hydrology, the production in 2017 was significantly lower than the increased planned production that was determined by 50% probability of the median monthly rates and also lower than the production corresponding to the balance flow rates.

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 m³/s, while the balance flow rate used for the calculation of possible production is 271 m³/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 km². In Italy, Switzerland and Austria this area covers 10,964 km², in Slovenia 2.700 km² and the rest in Croatia. In the upper parts of the 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 m³, 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 presents the general technical data on the power plants:

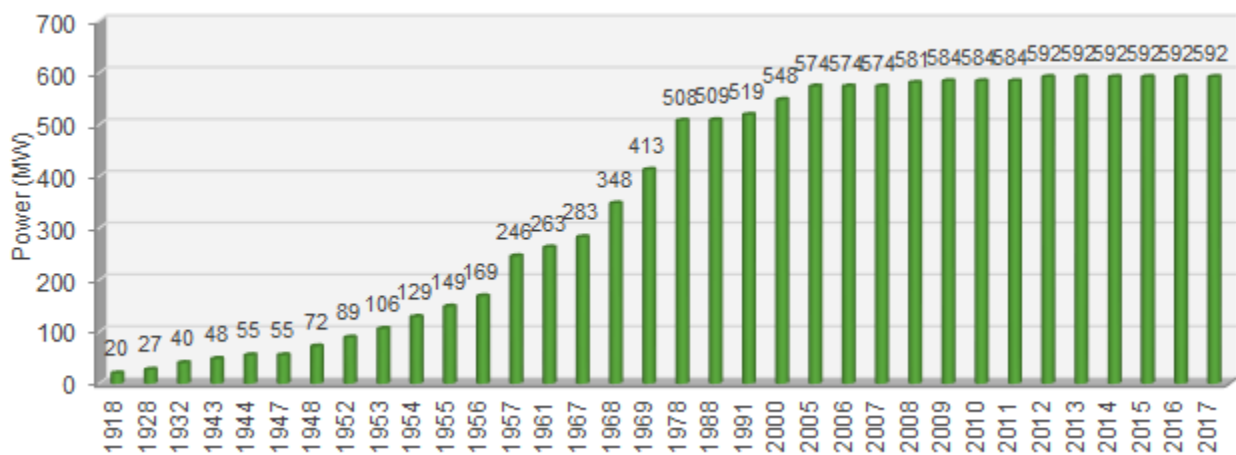
POWER PLANT	LAUNCH DATE	NO. OF GENERATING UNITS	STATIC HEAD (m)	RATED TURBINE FLOW (m ³ /s)	RATED TURBINE POWER (MW)	RATED POWER (MW)	APPARENT GENERATOR POWER (MVA)	ANNUAL PRODUCTION (GWh)	USEFUL RESERVOIR CAPACITY (10 ⁶ m ³)
Dravograd	29.12.1943	3	8.94	405	25.6	26.2	36	142	1.034
Vuzenica	30.12.1953	3	13.73	550	56	55.6	78	247	1.806
Vuhred	06.06.1956	3	17.41	550	73.7	72.3	90	297	2.229
Ožbalt	17.09.1960	3	17.42	550	74.2	73.2	90	305	1.42
Fala	06.05.1918	3	14.6	525	59.8	58	74	260	0.533
Mariborski otok	05.09.1948	3	14.2	550	61.5	60	78	270	2.188
Zlatoličje	13.10.1968	2	33	530	136.5	126	170	577	0.183
Formin	01.07.1978	2	29	500	118	116	148	548	4.499
Total		22	148.3		605.2	587.3	764	2,646	13.892
Melje SHPP	1988	2	8.2	33	2.63	2.26	3.42	8.69	
Markovci SHPP	2012	2	10.7	10	0.9	0.9	1.112	4.06	
Ceršak SHPP	1955	2	3	27.3	0.74	0.65	1	4.32	
Total SHPP		6			4.27	3.81	5.532	17.07	
Dravograd SPP	2012					0.041	0.041	0.042	
OCV 3 SPP	2013					0.026	0.026	0.028	
Zlatoličje SPP	2011					0.777	0.777	0.893	
Formin SPP	2012					0.112	0.112	0.123	
Total SPP						0.955	0.955	1.086	
TOTAL DEM		28			609.45	592.065	770.487	2,664.06	13.892
Ruše SHPP*	2012	2	10	1.4	0.106	0.1	0.159	0.53	

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

INCREASE IN POWER OF THE DRAVA POWER PLANTS

The power of the generating units at HPPs on the Drava increased from 1918, when the first generating units of Fala HPP 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 Zlatoličje power plant was carried out. After the refurbishment the net output at the Zlatoličje HPP 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 the Zlatoličje HPP was completed and thus the output power of the HPP Zlatoličje increased to 126 MW. Two generating units at the Markovci SHPP 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 applied also to 2017.

INCREASE IN POWER OF GENERATING UNITS

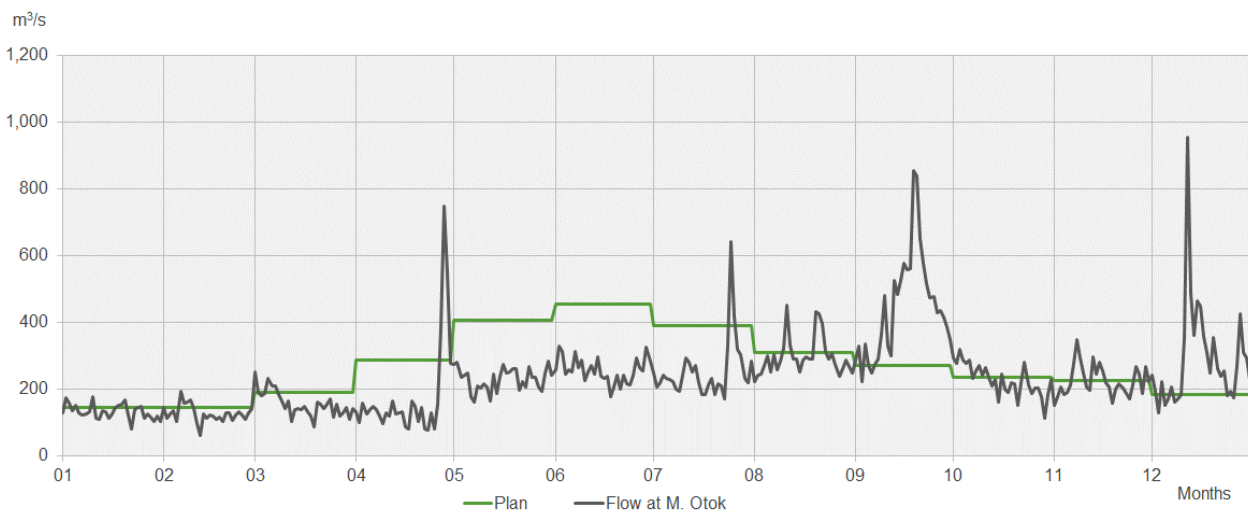


FLOWS

In 2017, the median flow of the Drava at the Mariborski otok HPP amounted to 235 m³/s, which accounted for 87% of the balance flow that was 271 m³/s. Increased flows which required the introduction of high water measures were recorded three times in 2017.

Flows were mainly below the foreseen ones. A higher inflow was observed in October and December. In 2017, only on 90 days flows were higher than the balance one.

ANNUAL FLOW DIAGRAM FOR 2017



PRODUCTION IN 2017

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 2017, the production was planned with a 50% probability of median monthly flows.

PRODUCTION BY MONTH IN 2017

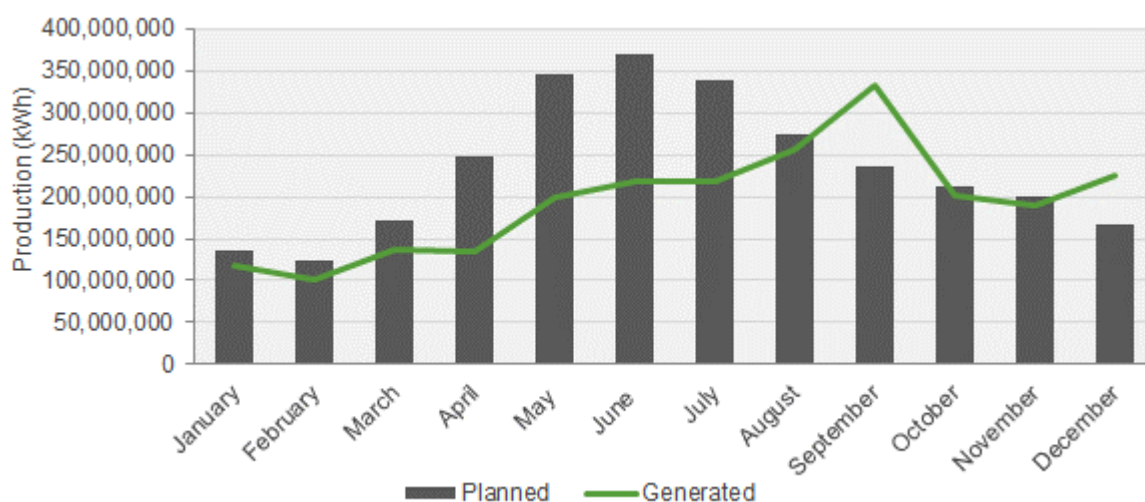
MONTH	PRODUCTION (kWh)			TOTAL
	Large HPPs	Small HPPs	SPP	
January	116,763,510	962,672	52,318	117,778,499
February	100,364,070	919,052	53,636	101,336,757
March	134,537,741	1,580,248	113,933	136,231,922
April	132,326,557	1,894,302	109,174	134,330,033
May	197,949,661	2,142,964	131,028	200,223,653
June	215,898,686	2,063,390	131,823	218,093,899
July	216,856,323	2,147,790	135,475	219,139,587
August	254,835,336	2,131,563	142,485	257,109,384
September	331,538,563	2,172,626	77,947	333,789,136
October	199,043,826	1,423,929	98,256	200,566,012
November	188,334,549	1,178,684	43,302	189,556,535
December	223,366,094	986,203	47,702	224,399,998
TOTAL	2,311,814,916	19,603,421	1,137,077	2,332,555,414

In 2017, total production of all generating units of the hydropower plants on the Drava and their supply to the grid amounted to **2,332,555,414 kWh** or **83%** of the planned production.

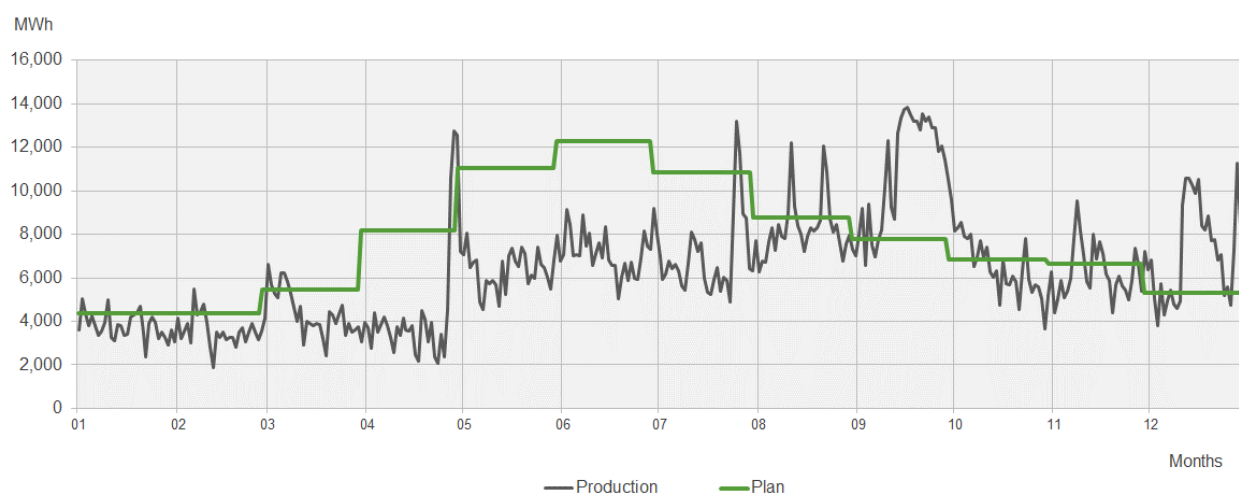
The large generating units produced and supplied to the grid 2,311,814,916 kWh, generating units of SHPP produced and supplied to the grid 19,603,421 kWh, and the solar power plants produced and supplied to the grid 1,137,077 kWh. Total electricity was supplied to HSE.

The planned production was exceeded in September and December, whereas in the other months the production was lower than planned.

PRODUCTION IN 2017 BY MONTH AND COMPARISON WITH THE PLAN



ANNUAL PRODUCTION DIAGRAM FOR 2017



DATA ON PRODUCED AND CONSUMED ELECTRICITY IN POWER PLANTS IN 2017

		DRAVOGRAD	UZENICA	UURED	OZBALT	FALA	MARIBORSKI OTOK	ZLATOLIČJE	FORMIN	SHPP	SPP	Total large HPPs	SUPPLIED TO HSE
Balance	[kWh]	148,300,000	259,900,000	316,400,000	325,000,000	273,100,000	284,200,000	609,500,000	583,300,000	19,360,000	1,087,000	2,799,700,000	
Generator production	[kWh]	126,011,799	219,706,889	279,773,429	285,221,114	230,066,994	226,796,500	518,789,775	459,224,625	20,034,590	1,264,928	2,345,591,125	2,366,890,643
Threshold	[kWh]	123,706,841	216,470,755	277,139,929	282,167,002	224,833,590	221,399,087	510,692,869	455,404,843	19,603,421	1,137,077	2,311,814,916	2,332,555,414
Consumption	[kWh]	2,304,958	3,236,134	2,633,500	3,054,112	5,233,404	5,397,413	8,096,906	3,819,782	431,169	127,851	33,776,209	
Own consumption - own source	[kWh]	687,618	858,116	1,127,718	987,761	1,269,693	2,033,328	825,847	0	365,372	0	7,790,081	
Own consumption from 110 kV	[kWh]	124,000,095	216,470,909	277,140,556	282,167,533	225,309,761	222,530,245	511,308,922	455,405,051	0	0	2,314,333,072	
Received from 110 kV	[kWh]	293,254	154	627	531	476,171	1,131,158	616,053	208	0	0	2,518,156	
Own consumption from distribution	[kWh]	24,623	209,217	237,657	229,901	0	6,182	507,039	577,536	61,133	10,074	1,792,155	
Idle production	[kVArh]	4,321,434	-816,029	-7,473,624	-5,194,448	-7,785,583	-6,385,759	-32,591,997	-7,271,778	-1,761,905	-258,596	-63,197,784	
Realisation	[%]	83	83	88	87	82	78	84	78	101	105	83	

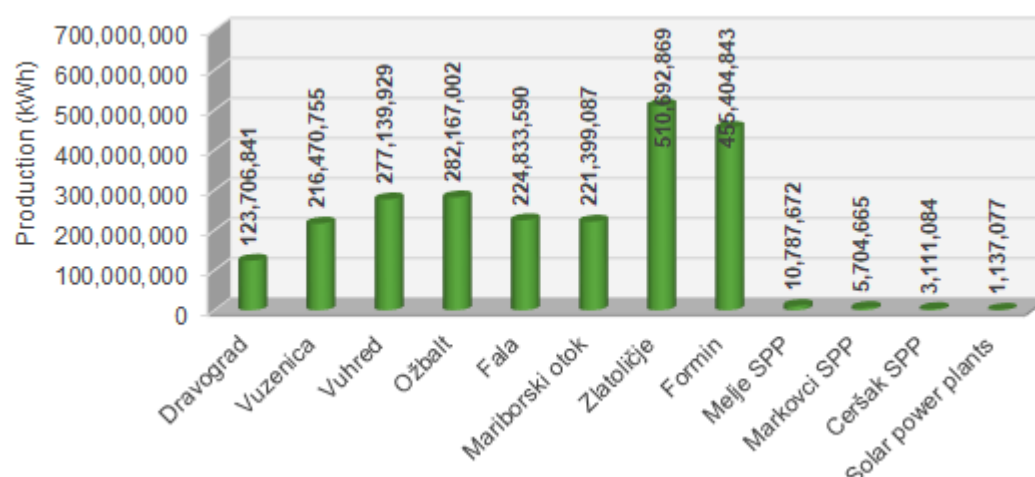
PRODUCTION INDICATORS AND K FACTOR IN 2017

		DRAVOGRAD	UZENICA	UURED	OZBALT	FALA	MARIBORSKI OTOK	ZLATOLIČJE	FORMIN	DEM	MONTH	K FAKTOR
Net head	[m]	8.53	13.17	16.57	16.48	13.96	13.49	32.17	27.89	142	1	0.9924
Total flow	[m³/s]	223	232	228	231	239	235	247	242	235	2	0.9956
Turbine flow	[m³/s]	215	225	222	224	231	223	222	222	223	3	0.9989
Water yield	[%]	99.84	99.51	99.51	99.47	99.48	98.32	99.83	99	99	4	0.9999
Loss due to overhauls	[MWh]	0	0	0	0	90	0	0	7,422	7,512	5	0.9999
Loss due to refurbishment	[MWh]	0	0	0	0	0	47	0	24	71	6	1.0000
Loss due to failure	[MWh]	0	11	110	0	46	5,831	263	0	6,261	7	0.9968
Energy surplus	[MWh]	246	1,847	2,273	2,588	1,597	1,111	920	535	11,117	8	0.9992
Loss due to cleaning	[MWh]	62	6	55	121	0	29	473	77	823	9	0.9999
Loss due to reservoir	[MWh]	2,085	8,325	8,256	8,520	4,258	10,181	568	7,378	49,570	10	0.9999
Loss due to channel	[MWh]	0	0	0	0	0	0	10,122	8,210	18,332	11	0.9999
Loss due to bottom water	[MWh]	6,466	5,356	9,396	10,966	10,865	4,110	9,389	8,489	65,036	12	0.9986
Specific water consumption	[MW/m³]	0.0660	0.1101	0.1426	0.1441	0.1118	0.1134	0.2627	0.2347	1.1854	Median	0.9984

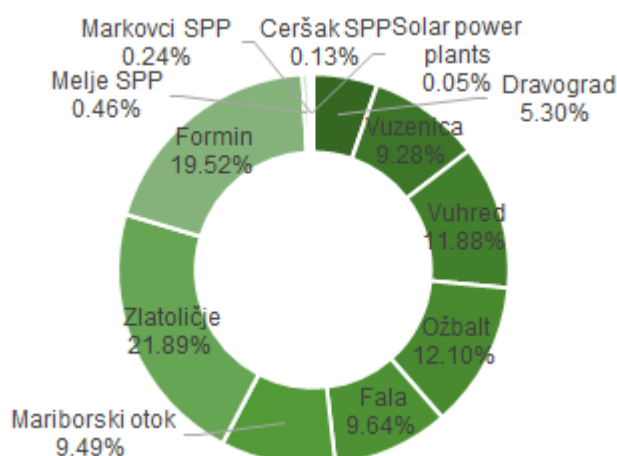
PRODUCTION SHARES OF INDIVIDUAL POWER PLANTS

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 57.69%, the channel-type power plants (Zlatoličje and Formin) produced 41.42% of total electricity supplied to the grid. The remaining 0.89% 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 2017



The share of individual power plants in the production of the power plants on the Drava in 2017 is presented in the chart below:



Since the launch of operation at the first HPP in 1918 until the end of 2017, DEM supplied a total of 144,868,233,132 kWh of electricity to the grid.

HYDRO POWER PLANT	PRODUCTION FROM THE BEGINNING OF OPERATION TO 2017 (kWh)	PRODUCTION IN 2017 (kWh)	PRODUCTION FROM THE BEGINNING OF OPERATION INCLUDING 2017 (kWh)	SHARE (%)
Dravograd	9,124,897,235	123,706,841	9,248,604,076	6.38
Vuzenica	14,017,389,542	216,470,755	14,233,860,297	9.83
Vuhred	18,321,122,305	277,139,929	18,598,262,234	12.84
Ožbalt	16,850,577,786	282,167,002	17,132,744,788	11.83
Fala	19,185,040,507	224,833,590	19,409,874,097	13.40
Mariborski otok	16,572,865,667	221,399,087	16,794,264,754	11.59
Zlatoličje	27,736,019,933	510,892,869	28,246,712,802	19.50
Formin	20,495,338,444	455,404,843	20,950,743,287	14.46
Melje	166,124,078	10,787,672	176,911,750	0.12
Markovci	21,691,434	5,704,665	27,396,099	0.02
Ceršak	40,332,376	3,111,084	43,443,460	0.03
Large HPPs	142,303,251,419	2,311,814,916	144,615,066,335	99.83
Small HPPs	228,147,888	19,603,421	247,751,309	0.17
Solar power plants	4,278,411	1,137,077	5,415,488	0.004
TOTAL	142,535,677,718	2,332,555,414	144,868,233,132	100

* The negative balance of the energy received from 110 kV is not included.

The table above shows the total production of individual power plants from the beginning of their operation until (including) 2017 and their share in total production. It should be noted that the figures represent the share of electricity supplied to the grid (threshold).

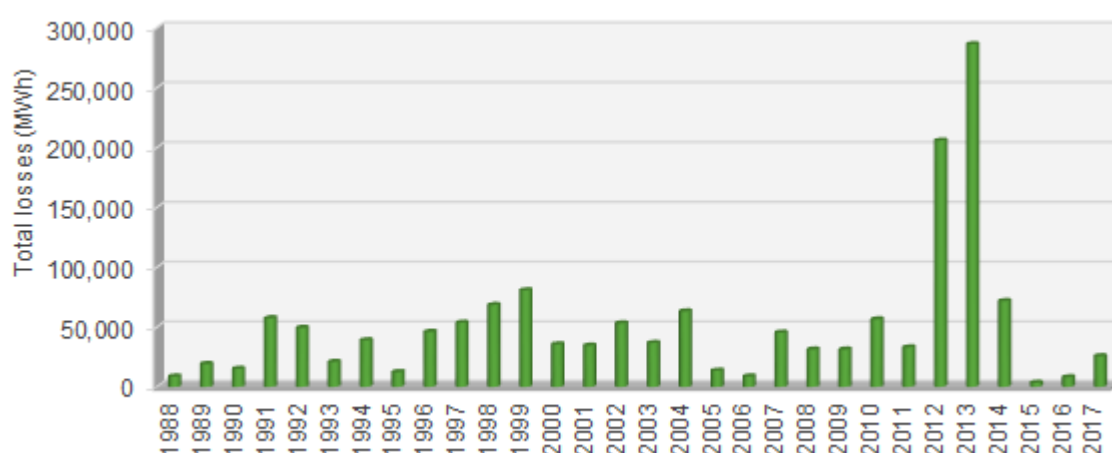
PRODUCTION LOSSES

Production losses include the energy lost that could have been produced, but water was spilled over the locks for various reasons at the water flow below the flow capacity of generating units.

Losses occur also due to defects, overhauls, refurbishments, cleaning of turbine inlets.

In 2017, total losses amounted to 1.11% of the electricity supplied to the grid and corresponded to the average of many years.

TOTAL LOSS OF LARGE HPPS FROM 1988 TO 2017

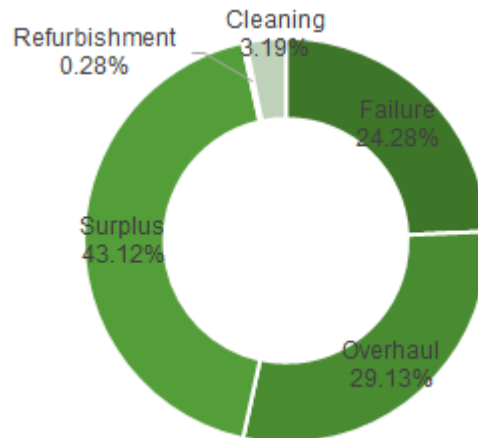


Losses (MWh) in 2017 by type of loss and power plant are given in the table below:

LOSSES (MWh)	LOSS DUE TO OVERHAULS	LOSS DUE TO REFRUBISHMENT	LOSS DUE TO FAILURE	ENERGY SURPLUS	LOSS DUE TO CLEANING	TOTAL
Dravograd	0	0	0	246	62	308
Vuzenica	0	0	11	1,847	6	1,864
Vuhred	0	0	110	2,273	55	2,438
Ožbalt	0	0	0	2,588	121	2,709
Fala	90	0	46	1,597	0	1,733
Mariborski otok	0	47	5,831	1,111	29	7,018
Zlatoličje	0	0	263	920	474	1,657
Formin	7,422	24	0	535	77	8,058
DEM	7,512	71	6,261	11,117	823	25,784

In 2017, the water spilt in power plants corresponded to 25,784 MWh of electricity. The majority of losses occurred due to electricity surpluses in trading of electricity that is carried out by HSE as the contractual partner. In 2017, losses that occurred at the Formin HPP at the beginning of the year were substantial due to the inspection of the generating unit and losses that occurred due to a failure in spillway 4 of the Mariborski otok HPP in December 2017.

The share of individual losses in 2017 is presented in the figure below, from which it is evident that the majority of losses occurred due to electricity surpluses, overhauls, and inspections.



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.

Water spilt due to defects amounted to 6,261 MWh of electricity. In December 2017, slightly higher losses due to defects were the results of a defect on spillway 4 of the Mariborski otok HPP.

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%.

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 at the same time the water cannot be accumulated in the power plant reservoirs. In 2017, losses due to cleaning were recorded at all HPPs, except at the Fala HPP. The majority of losses because of cleaning are recorded at the Zlatoličje HPP, where the entire floating debris has to be removed from the water.

GRID SURPLUS-RELATED LOSSES

Grid surplus related loss occurs when HSE as the contractual partner requires smaller production and at the same time keeping of water in reservoirs is not possible and therefore the water is split over. In total, 11,117 MWh of electricity was lost in 2017 due to grid surpluses, which exceeded the average of the last ten years by almost 4 times.

REFURBISHMENT-RELATED LOSSES

Refurbishment related losses occurred at the Fala HPP due to the replacement of the control system and secondary systems of generating unit 1.

EVENTS

Each change in the condition of manufacturing plant due to which the operators needed to intervene and changes in the operating conditions were recorded as events. An overview of relevant events that had an impact on the operation (such as defects, periods of water levels, refurbishments of generating units and overhauls and inspections) is presented in the sections below.

The maintenance staff in separate power plants performed minor maintenance works on generating units and other devices and remedied defects in scope of the operating programme and during night.

HIGH WATER LEVELS

In 2017, three periods of increased flows were observed when it was necessary to introduce high water measures (average hourly flow values are stated).

HIGH WATER LEVEL ON 28 MAY 2017

Local tributaries to the Drava in Slovenia increased mainly due to rainfall in the collection areas of the Drava in Slovenia, which resulted in the operation in accordance with the Rules on high waters. The flow from Austria reached the highest level of 857 m³/s on 28 May 2017 at 8:00 hours and in Slovenia it reached 1,174 m³/s at 14:00 hours at the Zlatoličje HPP.

INCREASED FLOWS ON 24 JULY AND 25 JULY 2017

Increased flows were due to the rainfall in Austria and Slovenia. The highest flow in Slovenia was reached on 24 July 2017 at 4:00 hours at the Vuzenica HPP and amounted to 856 m³/s. The highest flow from Austria was recorded at 3:00 hours and amounted to 803 m³/s.

INCREASED FLOWS ON 12 DECEMBER AND 13 DECEMBER 2017

Increased flows were due to the rainfall in Austria and Slovenia. The highest flow in Slovenia was reached at 18:00 hours at the Zlatoličje HPP and amounted to 1,274 m³/s. The highest flow from Austria was recorded at 14:00 hours and amounted to 1,180 m³/s.

OVERHAULS AND INSPECTIONS

As a rule, overhauls and inspections of generating units were carried out in January and February, when the inflows were statistically lowest.

In 2017, the inspections were performed in accordance with the plan set and no peculiarities were observed.

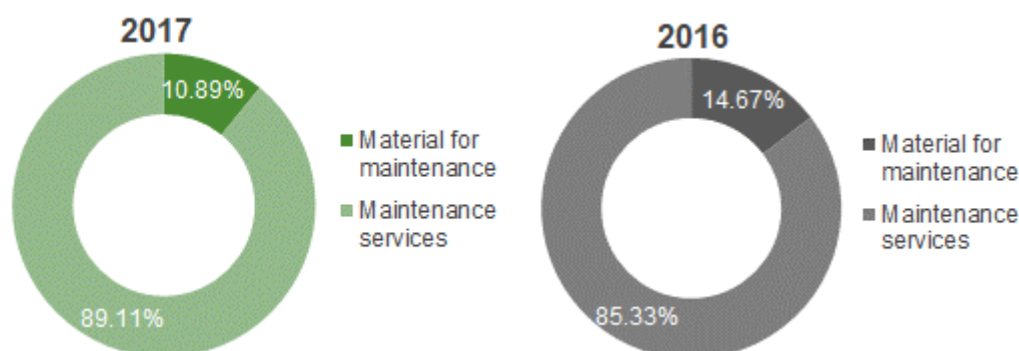
Maintenance

In 2017, **EUR 1,997,699** was spent on the maintenance of manufacturing plant and facilities, which was an increase of 17.73% or EUR 300,850 over the year 2016. The amount of **EUR 217,612** was spent on spare parts and material for the maintenance of fixed assets. The maintenance services amounted to **EUR 1,780,087**.

OVERVIEW OF MAINTENANCE COSTS IN THE YEARS 2017 AND 2016

	2017 (EUR)	%	2016 (EUR)	%	2017/2016
SPARE PARTS AND MATERIAL FOR MAINTENANCE OF FIXED ASSETS	217,612	10.89	248,886	14.67	87.43
MAINTENANCE SERVICES	1,780,087	89.11	1,447,963	85.33	122.94
Costs of maintenance of low-voltage grid	1,527,410	76.46	1,339,038	78.91	114.07
Costs of maintenance of intangible assets	252,677	12.65	108,925	6.42	231.97
TOTAL COSTS OF MAINTENANCE	1,997,699	100.00	1,696,849	100.00	117.73

STRUCTURE OF MAINTENANCE COSTS IN THE YEARS 2017 AND 2016



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, various maintenance works on shared plants and technological systems of power plants were performed in accordance with the maintenance plan.

Major planned works at power plants:

- ◆ replacement of turbine oils on generating units of the refurbishment stage 1 – at the A1 Dravograd HPP, A2 and A3 M. otok HPP;
- ◆ A2 at the Dravograd HPP– replacement of the large regulation pump of the main pressure system;
- ◆ Dravograd HPP- renewal of spillway 2;
- ◆ Vuzenica HPP- refurbishment of damaged inlet grids at generating unit 2;
- ◆ Vuhred HPP – adaptation of the system for pressure measuring and compressor control in a compressor station;
- ◆ Dravograd HPP, Vuzenica HPP, Vuhred HPP – replacement of sealing wood and repair of damaged sealing needs for closing outlets of generating units;
- ◆ Dravograd HPP, Vuzenica HPP, Vuhred HPP – upgrade and adaptation of digital turbine regulators;
- ◆ A3 at the Ožbalt HPP- replacement of the pressure pipeline for servomotors of guide vane apparatus;
- ◆ A1 at the Fala HPP - replacement of processing water pipeline with a seal; adjustment of the bottom guide bearing due to increased braids;
- ◆ A3 at the Fala HPP- adaptation of oil extraction for the safety valve of the main pressure vessel, assembly of equipment for measuring partial emptying on 10kV of gen. 3;
- ◆ refurbishment and construction of spillways 1, 3 and 4;
- ◆ A2 at the M. otok HPP – servicing of the generator circuit breaker;
- ◆ Melje Dam- upgrade of the control system, performance of the inverter voltage dam system;
- ◆ Zlatoličje HPP – upgrade of the control system, replacement of circuit breakers of own consumption and LP switch automation;
- ◆ A1 at the Zlatoličje HPP- sanding of guides of inlet locks;
- ◆ A2 at the Zlatoličje HPP – sanding of guides of inlet locks;
- ◆ A1 at the Formin HPP- replacement of the excitation transformer;
- ◆ A2 at the Formin HPP - replacement of the 110/10 kV block transformer.

The above works are recorded as investments in property, plant and equipment.

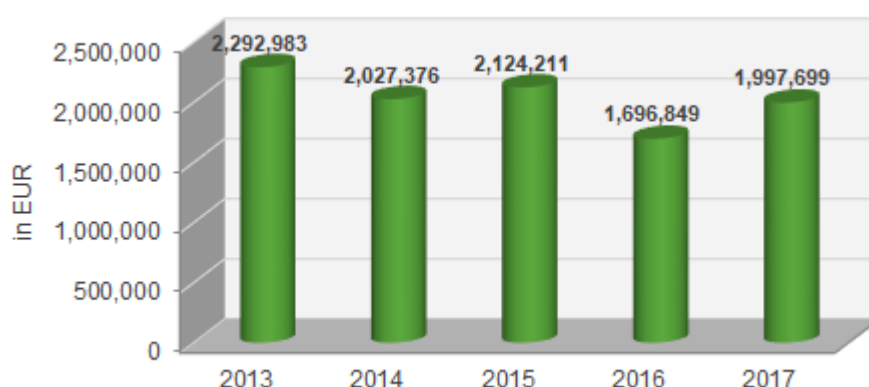
DEM carries out, insofar as staff and equipment are available, the mowing of banks, undergrowth control and its removal on the banks and vegetation removal.

Larger, unplanned works were carried out to remedy defects:

- ◆ Dravograd HPP – closing and sealing of the outlet part of spillway 2 at the Dravograd HPP due to the renewal of the spillway. Intervention closing was carried out three times due to high water levels;
- ◆ Intervention closing of spillway 4 at the M. otok HPP due to the damage on the top lock of the spillway;
- ◆ Ceršak A1 SHPP- multiplicator renewal;
- ◆ Melje Dam - renewal of spillway4, replacement of seals;
- ◆ Melje SHPP 1- repair of the THORDON bottom guide bearing;
- ◆ Melje SHPP 2 – repair of the floating curtain;
- ◆ Zlatoličje HPP- elimination of deficiencies of the power plant grounding system, replacement of floaters of the power plant drainage, replacement of solar power plant inverter, replacement of the switchbox of the sanitary pumping station;
- ◆ A1 at the Zlatoličje HPP- replacement of axle seal;
- ◆ Markovci SHPP 2 – renewal of the leaking suction pipe housing;
- ◆ A1 at the Formin HPP – renewal of pipe breaking in a regulator;
- ◆ A2 at the Formin HPP – renewal of the inlet closing element, remedy of defects on electro motors of cooling groups of the main transformer 2.

In addition to the above mentioned larger works that DEM carried out, one relevant fact should be brought to attention, namely, the fact that in the period 2016 – 2017 the power plant operation and maintenance unit saw 28 workers retire or leave. And in 2018, further 10 employees will retire. In the period under review, only 9 workers were replaced or new workers were employed, which caused increasingly larger problems in terms of maintenance, implementation of all the necessary measures, especially at the time of extraordinary conditions as well as safe operation.

MOVEMENT OF MAINTENANCE COSTS FROM 2013 TO 2017



The costs of maintenance mainly represented the cost of facility maintenance, of which the major share included costs arising from obligations under a concession agreement (monitoring of dams, channels, maintenance works on water infrastructure facilities) that increased 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 was 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.

Market position

CHARACTERISTICS OF THE ECONOMIC ENVIRONMENT IN 2017¹

All our main economic trading partners in the Eurozone experienced economic growth. Higher domestic demand and export substantially contributed to this fact. The forecasts of GDP growth of the Eurozone were higher, which was mainly the result of higher growth than expected and a favourable economic outlook. The risk to growth was mostly balanced.

High economic growth continued also in Slovenia. The growth in export mainly contributed to the increase in GDS in 2017. All components of domestic consumption were also high during the year. The improved conditions in the labour market and good atmosphere among the consumers stimulated the continuous growth in private consumption and investments in residential buildings that started last year. Investments in equipment and machinery also remained high during the year and investments in engineering facilities revived in 2017. The economic growth in Slovenia still exceeded the growth in the Eurozone and thus Slovenia made-up for the lagging behind when considering the pre-crisis level; the lagging behind was dramatic due to a sharp decline in the GDP in the first years of the crisis than in the Eurozone.

¹ Source: UMAR

The number of active workers still increased in the majority of activities and reached the level comparable to the year 2007. Companies still faced the lack of adequate workforce. Employment of foreigners increased in some of the activities.

Employment and a small increase in unemployment contributed to the reduction in the unemployment rate. At the end of November, 82,415 persons were registered as unemployed, which was a decrease of 14.9 % when compared to the same month in 2016. The growth in salaries remained modest. In the first nine months the salaries increased by approx. 2.5% in the public and private sectors

The growth in prices of consumer goods was relatively low during the year. The prices of energy products and services were the main contributors to growth, while the contribution of food prices strengthened in November. The contributions from other groups remained low. However, the movement of basic inflation does not indicate any significant pressure on price growth.

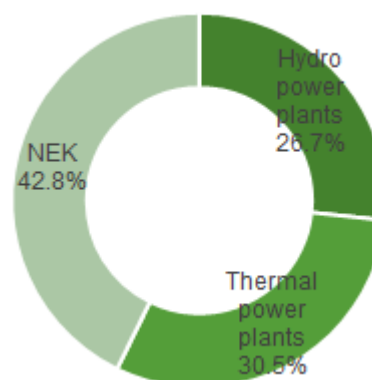
Despite the deterioration this year, the price competitiveness of the Slovenian economy remained relatively favourable. The appreciation of the euro against the currencies of major trading partners, especially those outside the EU, slowed down in the last months of the year.

The surplus of the performance record further increased and amounted to EUR 2.7 billion (6.3% of GDP) in the last 12 months. A high surplus in services relating to higher net income from travels and the surplus in trade-related services mainly contributed to the higher surplus of current transactions when compared to the previous 12-month period. The surplus in goods was lower during the year, which was the result of the worsened trading conditions.

QUANTITATIVE BALANCE OF ELECTRICITY²

In 2017, a total of 13,952.50 GWh of electricity was supplied to the transmission network. Thermal power plants supplied 4,261.80 GWh or 30.50%, hydro power plants contributed 3,724.60 GWh or 26.70%, while Krško nuclear power plant supplied 5,966.10 GWh or 42.80%, as shown in the table and chart below.

SUPPLY (GWh)	2017	2016
DEM	2,311.9	2,826.0
HESS	450.8	391.8
SEL	294.5	342.3
SENG	667.4	733.1
TEB	9.0	3.3
TEŠ	3,909.0	4,061.2
TET	-0.2	-2.1
TE-TOL	344.0	338.1
NEK (100 %)	5,966.1	5,423.1
Renewables & Unit- thermal and electr. energy	0.0	0.0
TOTAL	13,952.5	14,116.8



² Source: ELES – Monthly report on the operation of the transmission network for December 2017

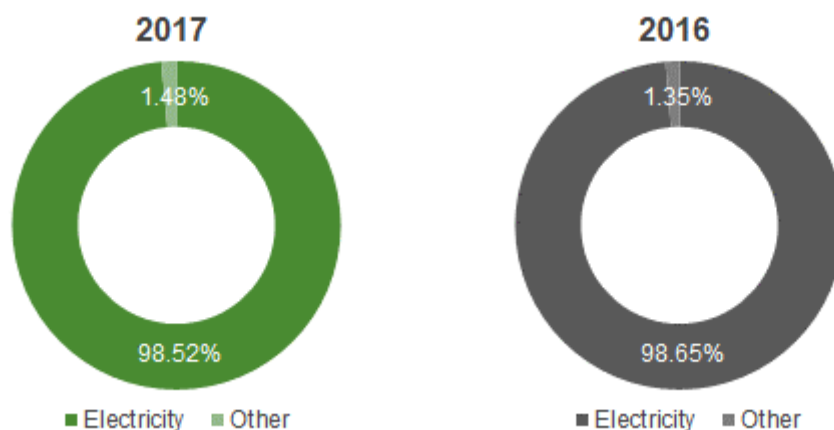
SALES AND CUSTOMERS

STRUCTURE OF NET REVENUE FROM SALES

In 2017, DEM generated net revenue from sales amounting to **EUR 55,991,997**, which was a 14.46% decrease over 2016, when it amounted to EUR 65.460.060. In the domestic market, we generated 99.93% of revenue and the remaining 0.07% in a foreign market.

The sale of electrical energy accounting for 98.52% was most important in the revenue structure; the revenue from the sale of other products and services accounted for 1.48% of revenue.

STRUCTURE OF NET REVENUE FROM SALES IN 2017 AND 2016



ELECTRICAL ENERGY

The company generates the majority of revenue by the sale of electrical energy. The electricity is sold to the buyers: **HSE** (the revenue generated from electrical energy sold in 2017 amounted to EUR 54,649,951) and **Borzen** (the revenue generated from electrical energy sold in 2017 amounted to EUR 515,215).

Revenue generated from the sale of electrical energy in 2017 and 2016:

ITEM in EUR	2017	2016
SALES OF ELECTR. FROM HPPs ON THE DRAVA	53,918,023	63,293,151
SALES OF ELECTR. FROM SMALL HPPs	689,060	734,884
Melje SPP	379,187	392,620
Markovci SPP	200,519	223,984
Ceršak SPP	109,355	118,280
SALES OF ELECTR. FROM SOLAR PP	42,868	45,361
Dravograd SPP	1,504	1,607
OCV3 SPP	1,072	988
Zlatoličje SPP	38,810	41,082
Formin SPP	1,482	1,684
INCOME FROM OPERATING SUPPORT FROM SHPP AND SPP (BORZEN)	515,215	503,043
TOTAL	55,165,166	64,576,439

OTHER SALES

In 2017, DEM generated revenue from the sale of other products and services in the amount of EUR 826,831, which was a decrease of EUR 56,790 or 6.43% over 2016, when it amounted to EUR 883.621. Other net revenue from sales included revenue generated in foreign markets, revenue from services, rents, and the sale of other merchandise and material.

REVENUE GENERATED FROM OTHER SALES IN 2017 AND 2016

ITEM in EUR	2017	2016
Revenue from sales of other merchandise and material	396	206
Rentals	582,320	499,167
Revenue from sales of other services	202,321	345,146
Revenue from sales in a foreign market	41,794	39,102
TOTAL	826,831	883,621

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 Public Procurement Act ZJN-3), the company faces 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 complete control of the purchasing procedures are required for the operations in line with the Public Procurement act and knowledge about the National Review Commission.

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.

An agreement on the policy of implementing the procedures of joint procurement concluded among the HSE companies is taken into account in procurement. The performance 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 of selecting 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 electricity production. The selection of quality contractors is of a vital importance due to the importance of providing smooth production of electrical energy.

Investments

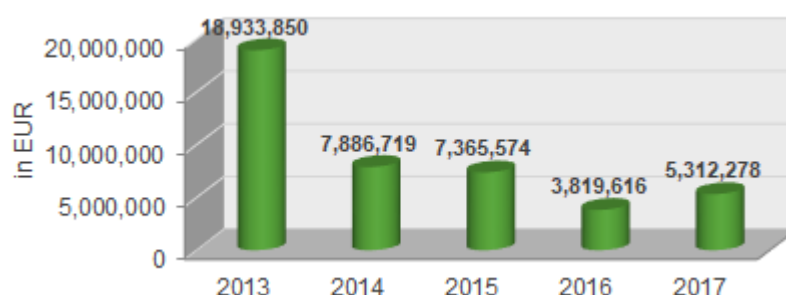
The value of investments planned for 2017 amounted to **EUR 5,312,278** (in 2016 to EUR 3,819,616) and reached **99.99%** of the supplementary plan in 2017.

Overview of investments in 2017:

ITEM in EUR	REALISATION 2017	SUPPLEMENTARY BUSINESS PLAN 2017	RE 2017/ SUPP BP 2017
NEW CONSTRUCTIONS	529,702	430,000	123.19
INVESTMENTS IN RELIABILITY OF PRODUCTION	2,172,058	1,995,000	108.88
CONTROL CENTRES AND TELECOMM. NETWORKS	59,772	35,000	170.78
SECONDARY SYSTEMS	18,035	43,500	41.46
RECONSTRUCTIONS	348,579	750,000	46.48
STUDIES, INVESTMENT AND PROJECT DOCUMENTS	279,071	305,000	91.50
MONITORING	70,045	195,000	35.92
LOW-VALUE ASSETS	318,728	361,500	88.17
BUSINESS INFORMATION SYSTEM	457,953	250,000	183.18
OTHER	1,058,334	948,000	111.64
TOTAL	5,312,278	5,313,000	99.99

Investments in **new constructions** accounted for 123.19%, investments in **reliability of production** accounted for 108.88 %, investments in **control centres and telecommunications networks** accounted for 170.78%, investments in **secondary systems** accounted for 41.46 %, investments in **reconstructions** accounted for 46.48%, investments in **studies, investment and project documents** accounted for 91.50%, investments in **monitoring** accounted for 35.92%, investments in **low-value assets** accounted for 88.17%, investments in **business information system** accounted for 183.18% and investments in **other assets** accounted for 111.64%.

REALISED INVESTMENTS IN THE PERIOD 2013 – 2017



DESCRIPTION OF SEPARATE MAJOR INVESTMENTS

NEW CONSTRUCTIONS

CONSTRUCTION OF THE KOZJAK PSP

The spatial planning phase of the facility in accordance with the National Spatial Plan was completed 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 2017, there were no significant activities. Project activities were stopped and the project itself suspended, since the decision on the adopted NSP for the facility is still valid.

The Kozjak PSP is included in one of the possibilities of the long-term development of the power industry in Slovenia to the year 2026 that ELES prepared and represents the national programme.

CONSTRUCTION OF HPPs ON THE MURA

After the appointment of DEM as concessionaire for the Mura (in December 2015), 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. It has been concluded that the 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. DEM already proposed a change in the concession to the Ministry. There were no major activities in the year 2017, except those needed for the preparation of answers for the Hrastje Mota HPP in the process of national spatial plan and discussions about the bordering Mura.

HRASTJE MOTA HPP

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 documentation 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. In February 2017, the carriers of the land-use planning submitted remarks. Explanations of and amendments to scientific bases were prepared as answers to the remarks and opinions. Due to a technical error the Ministry of the Environment and Spatial Planning insufficiently informed the carriers of land-use planning about the explanations and answers, which resulted in a disagreement of the carriers with the amendments. DEM proposed mutual communications as a solution to the situation, but there was no answer from the Ministry, Environmental Sector.

CERŠAK HPP

For energy exploitation of the area between Ceršak SHPP and Sladki vrh, conceptual solutions for the new Ceršak SHPP 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 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. At the meeting of experts of the cross-country committee for the Mura in Graz, DEM presented the intentions for the construction of the replacement HPP. In January 2017, a meeting between the DEM management and E-Steiermark took place. Possibilities for the mutual appearance with the Austrian partners in the implementation of Ceršak HPP are sought.

WIND POWER STATIONS – PROJECT OF WIND POWER STATIONS IN THE ŠTAJERSKA AND KOROŠKA REGIONS

The project of wind power stations of the Štajerska and Koroška regions has been developed with the aim of increasing 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 and Konjiška gora were assessed as having only poor potential. Based on the measurements carried out so far, there is sufficient data available to construct a more accurate wind potential model. The result of the model is two potential locations: Paški Kozjak and Rogatec. Adequate documents were prepared for both locations.

OJSTRICA WPP

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 to 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. The application for a NSP initiate was submitted to the Ministry of Infrastructure in May 2016. On request of the Ministries the initiative was amended in September 2016 and subsequently coordinated. On 20 February 2017 the Ministry of the Environment and Spatial Planning published an initiative for the Ojstrica WPP. At the same time this Ministry sent a request for the guidelines of the carriers of land-use planning. They expressed their opinion in June. The analysis of guidelines was prepared to the end of September and sent to the Ministry of the Environment for further procedure relating to the beginning of implementation of the National Spatial Plan. In October 2016, the conclusions of the mountain cock monitoring were presented; they showed a possibility of only 3 wind power plants. Furthermore, the arguments of the Bird watching and Bird Study Society of Slovenia were considered in the National Spatial Plan and an application for an energy licence was submitted for three wind power plants. The energy licence was issued in September 2017. The proposal for the National Spatial Plan was changed to 3 WPP.

KOZJAK WPP

The measurements of the wind potential on Paški Kozjak started in September in order to be able to exactly determine the possible exploitation in accordance with the wind potential model. The NIP document was discussed and approved by the Committee for investment valuation.

JOSIPDOLSKI POTOK SHPP

A preliminary design and the document for the identification of the project have been prepared. A positive opinion of the HSE Expert Committee for investment valuation and monitoring was issued. In February the project was prepared for the competition to obtain operating support and DEM was successful. HSE Invest has been planned as contractor at the stage of placing an order for the preparation of documents.

DOBRIJE SHPP

The water permit for the Dobrije SHPP 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. HSE Invest has been planned as contractor at the stage of placing an order for the preparation of documents.

PESNICA SHPP

Based on the preliminary design, a document for the identification of the investment project was prepared. The document was discussed and a positive opinion of the HSE Expert Committee for investment valuation and monitoring was issued. In February the project was prepared for the competition to operating support where DEM was successful. At present, an investment programme and a basis design have been prepared.

ROGOZNICA SHPP

A document for the identification of the investment project was adopted by the General Meeting of Shareholders.

In February, the project was applied for a competition to obtain operating support, where DEM was successful. Obtaining of a building permit has been in progress as a competition for the delivery and assembly of the SHPP equipment was carried out. HSE Invest is the selected contractor. Obtaining of the building permit has been planned for January 2018 and the construction will be completed during the year.

LOVRENC SHPP

The water permit for the SHPP Lovrenc was obtained on 27 February 2015.

The preliminary design for the SHPP was drafted in 2013, but will have to be revised.

An order for the preparation of the document for the identification of the investment project, conceptual design and basic design are at the stage of ordering. The foreseen contractor is HSE Invest.

INVESTMENTS IN PRODUCTION RELIABILITY

RENEWAL OF SPILLWAYS— STAGE 1

Planning of the spillway renewal dates back to 2007, when IBE and experts from DEM prepared a preliminary study for the renewal of spillways on the Drava and on the basis of which DEM management decided to renew spillways at the oldest power plants Dravograd, Vuzenica and Mariborski Otok in the following years. In June 2009, the renewal works on spillways started by the reconstruction of the operating lock of spillway 2 at the Vuzenica HPP 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, at the final stage,
- ◆ Refurbishment of spillways 3 and 4 at the Dravograd HPP, investment document prepared.

RENEWAL OF SPILLWAY 2 AT THE DRAVOGRAD HPP

The works at spillway 2 have begun in May 2016 by concluding a contract and a contractual deadline of 6 October 2017.

To the end of 2016 SRM Metalna as the contractor and its sub-contractors carried out the majority of restoration works on both locking panels. In January and February 2017, the pace of renewal slowed down due to unsuitable conditions for the assembly and performance of corrosion protection. In March the contractor continued the renewal works on locking panels and to the end of 2017 practically completed the renewal of spillway. In September the contractual deadline of the contractor was extended to 30 November 2017 due to flooding of the spillway in July.

Due to a deficiency that was identified only at the testing stage in November 2017 and had to be eliminated due to the functionality of the operating lock, the contractor did not manage to finish the works in the contractual deadline, i.e. 30 November 2017. A new request was made to extend the deadline to 31 January 2018.

The remaining works of the contractor include the repair the damage to corrosion protection that was caused during the assembly of the equipment of spillway, the assembly of holders between the top and bottom locking panel and the completion of testing in cooperation with DEM.

RENEWAL OF SPILLWAYS 3 AND 4 AT THE DRAVOGRAD HPP

All investment documents were approved by the Committee for investment valuation and monitoring. The machinery services started preparing the competition documents and the proposal for obtaining the consent of the DEM General Meeting for the beginning of this investment.

REPLACEMENT OF CONTROL SYSTEM AT THE FALA HPP (EXCITATION SYSTEM AND TURBINE REGULATORS)

The following matters were planned for 2017:

- ◆ renewal of secondary systems in the 110kV switchyard,
- ◆ drawing –up of other project documents (as-built design),
- ◆ purchasing of the remaining equipment for maintenance,
- ◆ completion of the project.

In 2017, all works of the project were completed (to 30 June 2017). Most important was the completion of works in the 110kV switchyard (May 2017) and drawing-up of the remaining project documents (as-built design, instructions for use and maintenance). A contract for the preparation of expert assessment of electromagnetic compatibility impacts on HPP and calculation of parameters of the switch manipulation impact on the HPP grounding system was concluded with EIMV. The remaining equipment for the protection and control of the high-voltage switchyard was purchased.

RECONSTRUCTIONS

RECONSTRUCTION AT THE FORMIN HPP

Litostroj Power as the contractor completed the strength analysis of the installed hardware, whose results give guidance for the future scope of reconstruction. A competition for the conduct of the analysis of hydraulic situation of the supply and outlet channel was carried out; the results will give answers to the possibility of an increase in the flow and installed power of the HOO during the reconstruction.

Institute for hydraulic research was selected for the conduct of the analysis. An order for the analysis of the vibration condition of generator 1 has been in progress and will be implemented by Veski d.o.o.; the order for the performance of measurements, inspections and report on the condition of both generators will be placed shortly. On the basis of the starting points of the mentioned analyses, measurements and inspections the conceptual design of the HPP reconstruction will be prepared in 2018.

RECONSTRUCTION OF THE MARKOVCI DAM

A building permit for the construction of the replacement road surface was obtained and a detailed construction design was prepared. An investment programme was prepared and approved by the General Meeting. A competition for the performance of reconstruction and road surface construction was carried out. On the basis of the Agreement on business cooperation between the related parties RGP d.o.o. was the selected contractor. In November a contract was signed with the contractor and at the end of the year the construction of the replacement road surface started.

Competition documents for the delivery and assembly of new hydraulic lock drives were prepared. The competition is foreseen for the year 2018.

LOW –VALUE INVESTMENTS

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

In 2017, purchases of vehicles and various equipment for smooth operation were made as part of low-value investments. Various tools and devices, machines and instruments were also acquired.

IT

Within the framework of the DEM comprehensive IT system the company 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, and PRI.

In April, the company started using the new SAP information system and the BC document system. SAP as well as BC have been harmonised at the level of the HSE Group.

The company is well aware of the importance of IT for its uninterrupted operation and development, so activities to ensure smooth and efficient rendering of services of DEM's comprehensive IT system are carried out continuously.

In 2017, the investments in IT amounted to a total of **EUR 457,953** of which:

- ◆ user hardware and system hardware amounted to **EUR 453,686** and
- ◆ software amounted to **EUR 4,267**.

In terms of hardware and software maintenance, costs of maintenance services and costs of material used for maintenance incurred.

Performance analysis

OPERATION IN 2017

In 2017, DEM operated in line with the Business plan for the year 2017 that was adopted by the decision of the sole member in the General Meeting of 20 March 2017 and the Amendment to the Business plan for the year 2017, adopted by the decision of the sole member in the General Meeting of 22 June 2017.

In 2017, the **production** was significantly lower than the budgeted production determined by 50% probability of median monthly flows due to poorer hydrology and it was also lower than production complying with the so-called balance flow. The generating units of DEM produced a total of 2,332,555.414 kWh or 83% of the budgeted production.

In 2017, the company generated **total revenue** in the amount of EUR 59,965,477, which was a decrease of 15.37% over the revenue of the year 2016. Most important was the operating revenue that had a 94.19% share in the structure of total revenue, followed by finance income having a 5.81% share.

INCOME in EUR	2017	%	2016	%	2017/2016
Operating income	56,483,393	94.19	66,649,658	94.06	84.75
Finance income	3,482,084	5.81	4,205,429	5.94	82.80
TOTAL	59,965,477	100.00	70,855,087	100.00	84.63

Operating income included revenue from sales and other revenue. In 2017, the company earned revenue from sales in the amount of EUR 55,991,997, which was a decrease of 14.46 % over the revenue of 2016 due to lower revenue from sales of electricity, which was a result of less favourable hydrology.

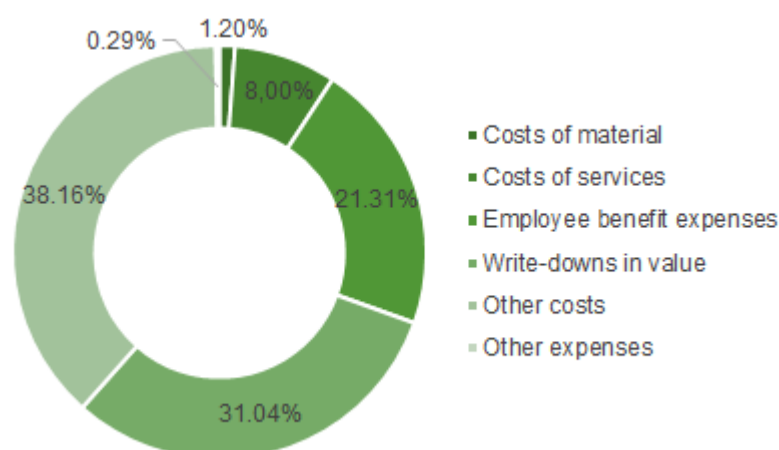
Finance income included finance income from loans and deposits and other finance income from guarantees.

In 2017, the company generated **total expenses** in the amount of EUR 50,705,987, which was a decrease of 5.22% over the previous year. The most important among total expenses are operating expenses that accounted for 99.94% in the structure of total expenses and the share of finance expenses accounted for 0.06%.

EXPENSES in EUR	2017	%	2016	%	2017/2016
Operating expenses	50,674,773	99.94	53,444,575	99.90	94.82
Finance expenses	31,214	0.06	53,198	0.10	0.00
TOTAL	50,705,987	100.00	53,497,773	100.00	94.78

When compared to the previous year the operating expenses of 2017 were by 5.18% lower, mainly due to lower other costs and employee benefit expenses.

In the structure of operating expenses, the major portion was represented by other costs (38.16%), followed by write-downs in value (31.04%) and employee benefit expenses (21.31%). Total share of costs of material and services accounted for 9.20%, and other expenses accounted for 0.29% of total operating expenses.



In 2017, the **operating profit or loss** amounted to EUR 5,808,620, which was a decrease of 56.01% when compared to the profit or loss of 2016.

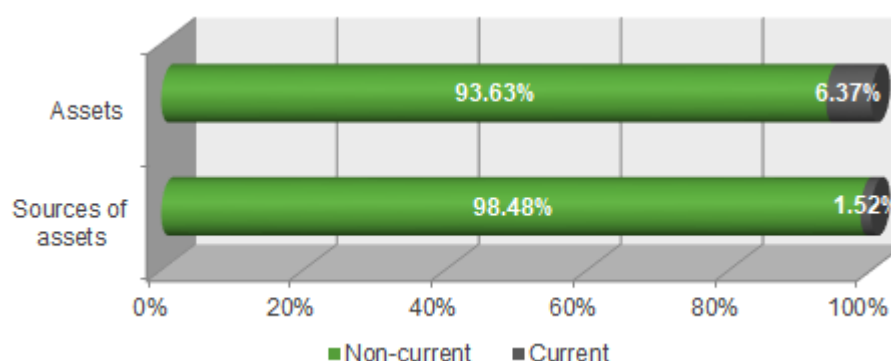
Net profit amounting to EUR 7,716,732 was by 47.16% lower over the year 2016. Lower revenue from the sale of electricity had a significant impact on lower profit.

As at 31 December 2017, **the assets** of the company amounted to EUR 478,991,438 and were by 3.36% or EUR 16,664,143 lower when compared to the balance at the year-end 2016.

As at 31 December 2017, the **equity** of the company amounted to EUR 466,958,963, which was a decrease of 2.98% or EUR 14,345,184 over the balance at the end of 2016.

In 2017, the **cash flow** from operating was positive, but the cash flow from investing and financing activities was negative. As at 31 December 2017, cash was lower by EUR 7,289,475 when compared to the balance at the end of 2016.

STRUCTURE OF THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017



It is evident from the statement of financial position of the company that, at 31 December 2017, the company financed non-current assets by long-term sources of finance.

CAPITAL ADEQUACY

Capital adequacy can be defined as the company's investment capability. 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.

ITEM in EUR	2017	2016
1. Net profit or loss for the period	7,716,732	14,598,216
2. Retained earnings or losses	270,510	7,670,053
3. Retained earnings (1 + 2)	7,987,242	22,268,269
4. Capital surplus	0	0
5. Revenue reserve	64,213,269	64,213,269
6. Total (3 + 4 + 5)	72,200,511	86,481,538
7. Share capital	395,011,180	395,011,180
Capital adequacy = 6/7	0.18	0.22

DEBT LEVELS

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



The ratio of equity to debts as at 31 December 2017 and 31 December 2016 is evident from the charts above. 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 accounted for 1.35% at 31 December 2017 and it accounted for 1.16% at 31 December 2016.

PERFORMANCE INDICATORS OF THE COMPANY

RATIOS OF FINANCING AND INVESTING POSITIONS

ITEM	31 Dec 2017	31 Dec 2016	2017/2016
Equity financing rate	97.49	97.10	100.39
Long-term financing rate	98.48	98.05	100.45
Operating fixed assets rate	76.51	76.05	100.61
Long-term assets rate	93.57	92.52	101.13

At the end of 2017, the company's equity accounted for 97.49% of its total equity and liabilities. The company's operations were thus almost entirely financed by its own sources, which translated into high security of creditors' investments and a stable return for owners.

It is evident from the table that the company financed its assets in the amount of 98.48% by its long-term sources and 1.52% by its short-term ones.

It is also clear that the company's total assets accounted for 76.51% of property, plant and equipment and intangible assets and total non-current assets accounted for 93.57% of total company assets at the end of 2017.

RATIOS OF HORIZONTAL FINANCIAL STRUCTURE

ITEM	31 Dec 2017	31 Dec 2016	2017/2016
Equity to operating fixed assets	1.27	1.28	99.78
Immediate solvency ratio	2.56	2.69	95.26
Quick ratio	3.97	3.74	106.08
Current ratio	4.20	3.80	110.67

The table shows that in 2017 the company financed all of its total assets at carrying amount by its own sources of financing. It is also evident that the liquidity assets of the company covered its total current liabilities.

At the end of 2017, the ratio of covering current liabilities by liquid assets of the company to liquid assets amounted to 3.97. In the reported period, the company fully covered its current liabilities with the credit with banks (cash) and current operating receivables.

The current ratio amounted to 4.20 at the end of 2017, which means that the company fully covered its current liabilities by its current assets.

OPERATING EFFICIENCY RATIOS

ITEM	2017	2016	2017/2016
Operating efficiency ratio	1.11	1.25	89.38

In 2017, the company generated operating income that was by 11% higher than operating expenses. The value of the ratio was lower when compared to 2016 due to lower operating income.

PROFITABILITY RATIOS

ITEM	2017	2016	2017/2016
Net return on equity ratio (ROE)	0.016	0.029	55.28
Net return on assets ratio (ROA)	0.016	0.029	55.24
Added value	32,337,900	40,572,298	79.70
Added value/employee	135,305	161,321	83.87

In 2017, the company generated net profit in the amount of EUR 1.6 per EUR 100 of invested capital. The value of the ratio was significantly lower over the year 2016 due to lower net profit or loss.

Profitability of assets amounted to 1.6% in 2017 and was substantially lower than in 2016 as the net profit or loss was lower.

The added value of 2017 decreased by 20.30% over the previous year due to lower operating income.

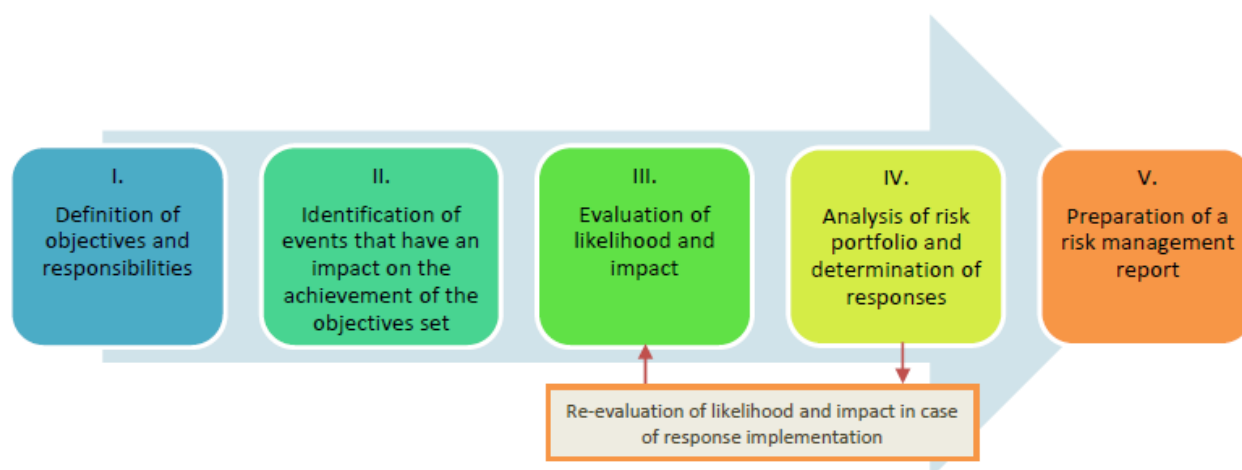
The added value per employee in 2017 was lower by 16.13%, due to lower added value.

Risk management

Risk is 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 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 are 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 by the company, can be divided into five groups:

- ◆ **SAFETY RISKS:** risks deriving from unforeseeable events in the operating environment
 - ◆ RISK OF NATURAL DISASTERS AND EXTRAORDINARY EVENTS
 - ◆ RISK OF PROTECTION OF PHYSICAL PROPERTY
 - ◆ RISK OF INFORMATION SECURITY
 - ◆ RISK OF HEALTH AND SAFETY AT WORK
- ◆ **STRATEGIC AND BUSINESS RISKS:** risks having impact on the non-ability of the company to achieve strategic objectives
 - ◆ REGULATORY RISK
 - ◆ INVESTMENT RISK
- ◆ **PRODUCTION / QUANTITY RISKS:** risks occurring as a result of defects on technological systems and due unforeseeable weather conditions
 - ◆ RISK OF LOSS IN THE HYDROLOGY PLANNED
 - ◆ RISK OF DEFECTS OF PRODUCTION MACHINERY
- ◆ **OPERATIONAL RISKS:** risks of loss due to inadequate or unsuccessful internal processes, persons and systems or due to external events
 - ◆ HR RISK
 - ◆ ENVIRONMENTAL RISKS
 - ◆ IT RISK
 - ◆ RISK OF FRAUD
 - ◆ RISK OF NON-COMPLIANCE
- ◆ **FINANCIAL RISKS:** risk deriving from financial transactions
 - ◆ CREDIT RISK

All the risks contained in the risk register of the company are periodically monitored, updated and reported on a monthly basis. For this purpose the company started using the IT in 2017 as it supports the entire risk management process – from the identification of key risks and their financial impacts to the active risk management by taking measures for the reduction or elimination of impacts of risk on all areas of operations. The new information system represents a comprehensive software solution including a structured approach to the risk management in combination with quantitative evaluation, which brings the company a better overview of the operations and improves the taking-decision process.

In order to achieve better and more transparent monitoring and active operation in the field of risk management the Risk Management Committee was appointed in the company and its basic task is to ensure the establishment of the comprehensive system for risk control and management in the company.

RISK PROFILE OF DEM

RISK	CONTRIBUTION TO THE RISK PROFILE
Risk of disasters and extraordinary events	76.73%
Regulatory risks	16.54%
Risk of loss of planned hydrology	2.98%
Risk of protection of physical assets	1.62%
Risk of breakdown of production devices	0.62%
HR risk	0.47%
Environmental risk	0.39%
Risk of IT safety	0.14%
Investment risk	0.14%
Other	0.37%
TOTAL	100.00%

SAFETY RISKS

Risks that the company is exposed to in its operations are safety risks. 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 that reallocate the consequences of risk occurrence that is insurance of property and equipment.

STRATEGIC AND BUSINESS RISKS

Strategic and business risks that follow the exposure to safety risks are the risks the company is exposed to in its vision, mission, values, strategic objectives and plans. The most important risks that are part of this group are risks, which present very limited management possibility:

- ◆ **macroeconomic risks**, which present as a decrease in the prices of electrical energy on the global and European exchanges, resulting in lower sales prices or revenue,
- ◆ **regulatory risk** – risks of increase in charge for the use of construction land, concession fees and water contributions, which strongly affect costs and thus the business performance of the company.

A high risk belonging to this group represents also the fact the DEM has only one customer, which is, at the same time, our owner and in this way, we bear the risk of the entire HSE Group.

In scope of strategic and business risks we are, to a minimum extent, also exposed to **investment risk** that derives from the non-achievement of the planned return on invested assets due to untimely, unfinished or technically inadequate implementation of investment projects, which was controlled by efficient supervision over the investments of the company.

PRODUCTION / QUANTITATIVE RISKS

Among quantitative / production risk we are mostly exposed to **loss of planned hydrology** and **breakdown of production devices**. Drought and poor hydrology of the Drava can cause variation in production +/- 10% when compared to the average of many years. The result is non-achievement of the planned production and thus a decrease in profit.

The risk of breakdown of production devices derives from the non-operation or non-availability of key equipment and production capacities and the related breakdowns and overhauls. The most important measures for risk control include regular maintenance and overhauls as well as inspections of devices and equipment. So far we have managed to provide sufficient funds for such a level of maintenance that ensures safe and smooth operation. Simultaneously, the necessary activities in the field of maintenance are planned in long-term with the aim of timely elimination of the highest risks.

OPERATIONAL RISKS

Operational risks occur during the performance of the activity. Among operational risks we are mostly exposed to **HR risk**, **environmental risk** and **IT risk**. Operational risks at the company level are efficiently controlled and therefore they are assessed as low risks.

FINANCIAL RISKS

Financial risks 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** that represents a risk that one party to a financial instrument will fail to discharge an obligation to the company. Credit risk is minimised 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 and/or liquidity risk**, is not a risk in itself, but is mainly a result of implementation of all other risks of the company. It is related to the lack of available financial resources and thus the inability of the company to settle its obligations in the deadline agreed. The payments of the major customer are foreseeable and stable. Liabilities to suppliers and financial liabilities are known in advance. Liquidity risks are controlled well, as cash flows are monitored on a daily, weekly and monthly basis and surpluses of liquidity assets are deposited with renowned banks in accordance with the principle of risk dispersion and the highest profitability and the necessary liquidity reserve is formed.

The company does not detect any long-term uncertainties relating to the business performance, development and property as:

- ◆ the price of our product is competitive and the product is of high-quality and the needs for electricity increase every year;
- ◆ 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;
- ◆ certified and standardized operation obliges us to introduce continuous improvements and overall quality of operation;
- ◆ 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.

Public relations

In 2017, communications of DEM with its stakeholders and the public were organised in line with the strategy of company's whose main objectives are:

- ◆ **maintenance of company's reputation** in general and business public;
- ◆ **increase in the recognition of the company** and the projects in general public, and
- ◆ **achievement of understanding of company's business decisions and the needed projects** to reach the energy independence of the country in general and business public.

The key activities were related to the sustainable development that represented the basis for the communication support to the maintenance, restoration of the existing facilities and the construction of new small hydro power plants on the tributaries of the Drava, energy utilisation of wind in the areas of Slovenia with favourable wind potential, sustainable and energy utilisation on the Mura, energy utilisation of the sun on the banks of supply channels of the Zlatočičje and Formin.

For the needs of proactive and reactive communications with internal and external public a set of communications tools was formed among which the following are worth mentioning:

- ◆ internal journal;
- ◆ current updating of contents on the internal and external site of the company;

- ◆ communication tools for communications with the media and consequently with external public (press releases, answers to press reports and questions);
- ◆ occasional events intended for preserving and promoting employees' engagement (events for internal public) and events intended for building recognisability the company in a narrow and wide social environment (press conferences, meetings with the public,...).

In 2017, endeavours of the company relating to the communications of two significant projects of the company should be emphasized, namely the **sustainable exploitation of the Mura** – in the framework of which several meetings with different kinds of public were organised and written explanations prepared with the aim of making the public aware of present situation of the Mura that leads to an incorrigible worsening of the situation unless the flow of the Mura calms down – and **energy utilization of the wind at locations with favourable wind** – in the framework of which the advantages of construction of wind power plants on Ojstrica nad Dravogradom were presented in the meeting with the local community and in written explanations; the direct environment and inhabitants would experience the benefits. In communications of the both projects and the other ones we are constantly committed to the environment as we are aware that our facilities can be included in the environment only if they have as minimum impacts on the environment and significant impacts on the improvement in the quality of local inhabitants.

Two volumes of the internal paper **Dravski val** were issued with the aim of informing the internal public in DEM as well as employees at the level of the HSE Group. DEM contributed topical news and presentations of projects in progress to the HSE internal paper – **Energija** and the paper of Slovene electricity industry – **Naš stik**. The internal public was informed about all events significant for the company and the employees, relevant events and projects were addressed also in the internal company's portal and other established ways (meetings of employees with the managing director, meetings of sectors and services, social meetings of the employees, etc).

Due to the awareness of the meaning of social responsibility we sponsored some key sports, cultural and technical events that were organized in the municipalities along the Drava and Mura. Donations to various organisations helped those individuals who were in need and enabled further functioning to different associations and societies that were engaged in public-good actions, mostly in situations when they assisted the society as a whole. With the aim of supporting the development of students' sports and in scope of the project of revitalisation of the Drava and its banks Brodarsko društvo Maribor was handed over to the University of Maribor for further management.

Research and development

DEM is the promoter of important development

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 generating units whose power and production were increased;
- ◆ preparation for the construction of **hydro power plants on the Mura**;
- ◆ financial and HR involvement in the construction of **hydro power plants on the Sava**;
- ◆ preparation for the construction of the **Kozjak pumped-storage power plant**;
- ◆ construction of **small hydro power plants** 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 of maintaining 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.

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 2018 and in future years, we will continue to carry out tasks in accordance with our strategic plans.

In 2018 and in the coming years, we will develop our business in the following strategically important areas:

Area ensuring smooth production of electricity that includes two strategic activities:

- ◆ electrical energy production – the main objective of the company in the long-period concerned is safe, high-quality and reliable electrical energy production. We wish not only to maintain, but also to increase the existing production capacities and expand to other areas of renewable sources of energy;
- ◆ 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.

Area 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.

Area 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 2018 Business Plan, our plans in 2018 are:

- ◆ revenue from sales in the amount of EUR 59.37 million;
- ◆ net profit amounting to EUR 7.53 million;
- ◆ electrical energy production amounting to 2,793.40 GWh;
- ◆ investments amounting to EUR 8.41 million;
- ◆ 236 employees at the end of period.

Significant events after the end of the financial year 2017

The beginning of 2018 did not see any significant business developments that would have an impact on the financial statements for 2017.

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

As at 31 December 2017, the company employed **241 persons**, of which:

- ◆ 239 persons employed for an indefinite period of time and
- ◆ 2 persons employed for a definite period of time.

NUMBER OF EMPLOYEES	31 Dec 2017	31 Dec 2016
Definite period of time	2	0
Indefinite period of time	239	237
TOTAL	241	237

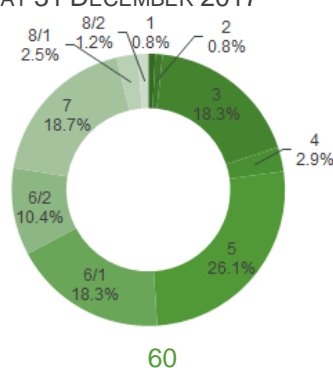
NUMBER OF EMPLOYEES	31 Dec 2017	31 Dec 2016
Collective agreement	237	233
Individual employ. contract	4	4
TOTAL	241	237

When compared to the situation at 31 December 2016, the number of employees increased by 4 persons or 1.69%. In 2017, 11 new persons were employed and the employment contracts of 7 persons were terminated.

In 2017, 235 employees worked full time, 1 person worked part time (6 hours a day) and 5 persons worked 4 hour a day.

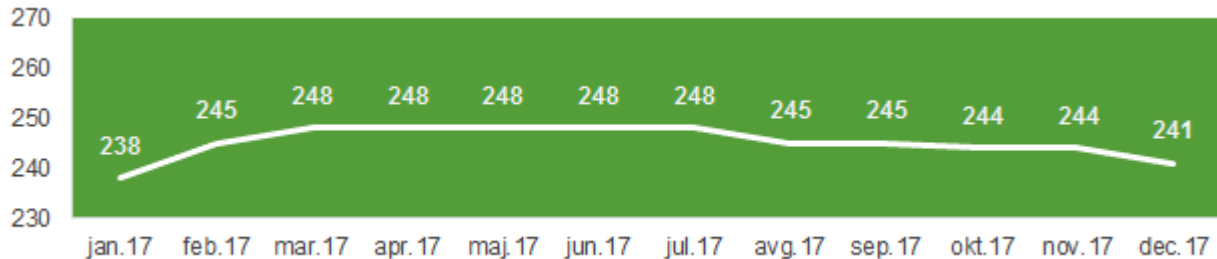
At the end of the year, the company employed 82.57% men and 17.43% women, which was comparable to the previous years. The average age of employees at 31 December 2017 was 48 years and 11 months.

EDUCATION STRUCTURE OF EMPLOYEES AS AT 31 DECEMBER 2017



When compared to the previous year the education levels slightly changed. The number of employees with 3, 6/1, 6/1 and 6/2 levels of education decreased, while the number of employees with 4,5, and 7 levels of education increased and 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 2017 TO DECEMBER 2017



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 2017, special attention was paid to the education and additional training of the employees. Priority was given to trainings from the field of electrical equipment, training in health and safety at work, which are trainings required by law.

WORKING WHILE STUDYING

At the end of 2017, the company employed 3 persons, who were also studying. During this period no new workers who would be studying arrived.

From the existing core, two students finished their master's degree and got the second level of Bologna education in the period under review.

SCHOLARSHIPS

At the beginning of 2017, 9 scholarships were awarded. In the year 2017, no new scholarship contracts were concluded. At 31 December 2017, there were no scholarships.

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 life and thus we wanted to obtain the **family-friendly company certificate**.

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

In 2017, we continued implementing the guidelines from the year 2014 and successfully organised the Open Day event. Employees and their family members attended the event. A new booklet with the collected measures was issued and thus contributed to better internal communications and improved external communications. The company paper was furnished with the Family-friendly company logo. The team for the harmonisation of family and professional life held two regular meetings where current problems were solved. Guidelines and/or measures associated with the Collective Agreement were also submitted to the DEM Trade Union and /or the negotiating group of the DEM Trade Union. At the end of 2017 a children's party marked the holidays.

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.

RESPONSIBILITY 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.

LANDFILL SITE OF FLOATING DEBRIS – RECONSTRUCTION OF DRAINAGE

The landfill site for floating debris serves for the removal of floating debris from the supply channels at the Zlatoličje HPP that have to be removed and deposited at a special place in accordance with the legislation (Waters Act, Environmental Protection Act, etc.). Due to the unsuccessful construction of outlets from the landfill site water accumulates on shafts in the event of heavy rain in winter months. The cleaning is thus made difficult and water freezes in winter and the area gets slippery.

In 2017, documents were prepared for drawing up an inventory. Monitoring of “filling / burdening” of the landfill site by floating debris was also carried out in 2017, as the landfill site has to be always available for the material floating on the Drava and blocks the locks. Due to this fact the reconstruction has to be performed in two parts. In 2018, the contractor for the reconstruction of the landfill site for floating debris will be selected based on the data collected.

RECONSTRUCTION OF THE BRIDGE OVER THE SUPPLY CHANNEL AT THE FORMIN HPP: MURETINCI – ZAGOJIČI

In 2017, the reconstruction of the bridge over the supply channel of the Formin HPP: Muretinci – Zagojiči was carried out.



THE BRIDGE BEFORE AND AFTER THE RECONSTRUCTION

DETAILED DESIGN OF SEDIMENT CLEANING ON THE OUTLET SECTION OF THE LEDERGASOV GRABEN AND BETWEEN P201 AND P202

The Ožbalt HPP was built in 1961. A storage lake was formed by the construction of the embankment and in addition to its importance for the energy industry it also became relevant for the touristic – recreational and natural- protection activities in the years of operation. Similarly as in other reservoirs on the Drava and in the basin at the Ožbalt HPP sludge and mud appear, hinder the operation of the hydro power plant and reduce the beneficial energy volume of accumulation and poses a great problem.

The concept of sludge cleaning in the basin of the Ožbalt HPP was prepared within the framework of the study No. 3451/13 (VGB Maribor d.o.o.), where the possible solutions were harmonised with the stakeholders in the area, and expert opinions of the Institute of the Republic of Slovenia for Nature Conservation and the Fisheries Research Institute of Slovenia were also obtained. Positive opinions on the location 3, variant 3 were issued on the basis of the study and in 2017 the project was prepared. The implementation is foreseen in 2018.



SEDIMENTS IN THE BAY DIRECTLY UNDER THE ŠARMAN RESTAURANT

CLEANING OF SEDIMENTS IN THE BASIN OF THE OŽBALT HPP

In 2017, cleaning of sludge started in the basin of the Ožbalt HPP. The area includes the supply end-section of the basin of the Ožbalt HPP between the HPP facility and the P210 profile. Two locations are foreseen for regulation on the left and right banks:

- ◆ Location 1: area on the right bank between the HPP facility and the P 212 profile,
- ◆ Location 2: area on the left bank between the profiles P212 and P210.

The level of certainty that works will be completed by February 2018 was approx. 70%.

CLEANING OF THE VAS 1 BAY, STAGE 2

In 2017, the second stage of cleaning sludge from the VAS 1 bay was started. Sludge amounting to 4,500.00 m³ was pumped from the bay to the banks and the artificial island constructed at the mouth of the bay. The work was completed in 2017.



VAS 1 BAY BEFORE AND AFTER THE PERFORMANCE OF WORK

CLEANING OF SEDIMENTS IN THE VAS 2 BAY, STAGE 1

In 2017, cleaning of sediments, sludge and gravel started in the Vas 2 Bay, stage 1. A quantity of 6,300.00 m³ of sludge and gravel was cleaned, a part was transported and the banks were regulated. The remaining portion of sludge and gravel was transported to the permanent landfill site; the embankment was regulated on the right bank of the under the river bed behind the dam of the Vuhred HPP. The work was completed in 2017.



VAS 2 BAY

CLEANING OF SEDIMENTS IN THE BASIN OF THE DRAVOGRAD HPP IN FRONT OF THE DAM FACILITY

In 2017, the cleaning of sludge and gravel started directly in front of the dam barrier of the Dravograd HPP, right bank. A quantity of 4,500.00 m³ of sludge and gravel was cleaned; the entire quantity was transported to the permanent landfill site. The work was completed in 2017.



CLEANING OF SLUDGE IN FRONT OF THE DRAVOGRAD HPP

CLEANING OF SEDIMENTS IN THE LAKE OF PTUJ

In 2017, the embankment on the Rance was reconstructed and the works of sludge removal began and the embankment was revitalised on the right side of the Lake of Ptuj between P58 and P78. Due to delays in the delivery of equipment for sludge removal and non-completion of works, the work will be continued in 2018.



CONSTRUCTION OF THE PROTECTIVE EMBANKMENT ON THE LEFT BANK OF THE LAKE OF PTUJ – CLOSE TO RANCA AND PUMPING OF SLUDGE ON THE RIGHT BANK

CARE FOR SUSTAINABLE DEVELOPMENT

Care for sustainable development is the care for the quality of life of the present and future generations. It is correct to be close to 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.

SPONSORSHIPS AND DONATIONS OF DEM IN 2017 AND 2016

ITEM in EUR	2017	2016	2017/2016
Sponsorships	131,700	107,900	122.06
Donations	146,839	71,100	206.52

In 2017, DEM allocated EUR 131,700 to sponsorships and EUR 146,839 to donations. As in the previous years, sports activities received the major share of sponsorship funds and donations in 2017.



3 ACCOUNTING REPORT

AUDITOR'S REPORT

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

INTRODUCTORY NOTES

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Auditor's report



KPMG Slovenija, podjetje za revidiranje, d.o.o.
Železna cesta 8a
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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 2017, the statement of profit or loss, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows 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 2017, 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 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.

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

In connection with our audit of the 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").

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



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 in all material respects 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 Business Report. We have nothing to report in this respect.

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.

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



- 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.

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, 30 March 2018

KPMG Slovenija, d.d.s.
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Statement of management's responsibility

The Managing Director is responsible for the preparation of the financial statements for each financial year in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and the applicable legislation, i.e. in a manner that they represent the true and fair presentation of the operations of the company DEM.

The Managing Director rightfully expects the Company to have available appropriate resources to continue operations in the near future, so the financial statements are prepared based on the going concern assumption.

The responsibility of the Managing Director for the preparation of financial statements comprises the following:

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

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

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

On 30 March 2018, the Managing Director adopted the financial statements of DEM for the business year which ended on 31 December 2017.

Maribor, 30 March 2018

Managing Director

Andrej Tumpej

Introductory notes to the preparation of financial statements

On the basis of the resolution of the General Meeting of Shareholders of the owner of DEM held on 22 April 2011, the Company compiles the financial statements and related notes since 1 January 2011 in accordance with IFRS, as adopted by the EU.

The audit company KPMG Slovenija d.o.o. audited the financial statements with notes and compiled an independent auditor's report which is included at the end of the chapter.

Financial statements

STATEMENT OF FINANCIAL POSITION

(in EUR)	NOTE	31 Dec 2017	31 Dec 2016
ASSETS		478,991,438	495,655,581
A. LONG-TERM ASSETS		448,488,471	458,882,684
I. Intangible assets	1	128,333	426,645
II. Property, plant and equipment	2	366,368,803	376,509,841
IV. Long-term investments in subsidiaries	3	488,241	488,241
V. Other long-term investments and loans	4	81,033,077	81,033,077
VII. Other long-term assets	5	161,811	124,660
VIII. Deferred tax assets	6	308,206	300,220
B. CURRENT ASSETS		30,502,967	36,772,897
I. Assets (disposal groups) held for sale	7	291,208	291,208
II. Inventories	8	88,767	86,912
III. Short-term investments and loans	9	0	164,624
IV. Short-term trade receivables	10	8,691,172	9,768,172
V. Current tax receivables	28	1,289,062	0
VI. Other current assets	11	1,534,274	564,022
VII. Cash and cash equivalents	12	18,608,484	25,897,959
EQUITY AND LIABILITIES		478,991,438	495,655,581
A. EQUITY	13	466,958,963	481,304,147
I. Called-up capital		395,011,180	395,011,180
III. Revenue reserves		64,213,269	64,213,269
V. Fair value reserves		(252,728)	(188,571)
VI. Retained profit or loss		7,987,242	22,268,269
B. LONG-TERM LIABILITIES		4,774,159	4,667,625
I. Provisions for termination benefits and jubilee benefits	14	2,933,463	2,787,488
II. Other provisions	15	1,828,997	1,846,835
V. Long-term operating liabilities	16	11,699	33,302
C. SHORT-TERM LIABILITIES		7,258,316	9,683,809
III. Short-term trade payables	17	3,256,435	2,281,252
IV. Current tax payables		0	1,495,183
V. Other short-term liabilities	18	4,001,881	5,907,374

* Notes to the financial statements are component parts of the financial statements and are to be read in conjunction with them.

INCOME STATEMENT

(in EUR)	NOTE	2017	2016
OPERATING INCOME		56,483,393	66,649,658
1. Revenue from sales	20	55,991,997	65,460,060
3. Capitalised own products and own services		0	237,346
4. Other operating income	21	491,396	952,252
GROSS OPERATING YIELD		56,483,393	66,649,658
OPERATING EXPENSES		50,674,773	53,444,575
5. Costs of goods, material and services	22	4,660,854	4,276,460
6. Employees benefits expense	23	10,799,942	11,517,461
7. Write-downs in value	24	15,729,338	15,849,754
a) amortisation and depreciation expense		15,235,141	15,272,232
b) impairment/write-offs/sale of intangible assets and property, plant and equipment		494,197	577,522
8. Other operating expenses	25	19,484,639	21,800,900
OPERATING PROFIT		5,808,620	13,205,083
9. Finance income	26	3,482,084	4,205,429
10. Finance costs	27	31,214	53,198
FINANCIAL RESULT		3,450,870	4,152,231
PROFIT BEFORE TAX		9,259,490	17,357,314
TAX	28	1,542,758	2,753,367
12. Current tax		1,550,744	2,771,868
13. Deferred taxes		(7,986)	(18,501)
PROFIT FOR THE PERIOD	29	7,716,732	14,603,947
Owner of the parent company		7,716,732	14,603,947

* Notes to the financial statements are component parts of the financial statements and are to be read in conjunction with them.

STATEMENT OF OTHER COMPREHENSIVE INCOME

(in EUR)	NOTE	2017	2016
Profit for the period		7,716,732	14,603,947
Actuarial gains and losses on defined benefit plans		(61,916)	(69,094)
Items that will subsequently not be transferred to income statement		(61,916)	(69,094)
Items that can subsequently be transferred to income statement		0	0
Total comprehensive income for the period	30	7,654,816	14,534,853
Owner of the parent company		7,654,816	14,534,853

* Notes to the financial statements are component parts of the financial statements and are to be read in conjunction with them.

STATEMENT OF CASH FLOWS

(in EUR)	31 Dec 2017	31 Dec 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit or loss	7,716,732	14,603,947
Adjustment of:		
Amortisation of intangible assets	406,300	411,458
Depreciation of property, plant and equipment	14,828,841	14,860,774
Revenue from elimination of provisions and accrued costs (and other non-cash expenses)	25,116	-74,576
Write-offs of property, plant and equipment	509,722	597,368
Write-offs of intangible assets	69	0
Loss on sale of property, plant and equipment	0	1,722
Finance income	(3,482,084)	(4,205,429)
Finance costs	31,214	53,198
Gain on sale of property, plant and equipment	(223,486)	(257,006)
Taxes	1,542,758	2,753,367
Operating profit before changes in net current assets and taxes	21,355,182	28,744,823
Changes in net current assets and provisions		
Change in:		
Inventories	(1,855)	(86,912)
Operating receivables and other assets	69,597	1,038,033
Assets held for sale	0	(287,918)
Operating and other liabilities	-951,913	430,331
Provisions	35,008	(152,942)
Income tax paid	(4,334,989)	(1,192,185)
Operating cash	16,171,030	28,493,230
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	136,725	1,024,604
Receipts from other financing activities	3,455,833	3,928,270
Cash receipts from disposal of property, plant and equipment	266,913	855,623
Cash receipts from disposal of subsidiaries	0	97,712
Cash receipts from decrease in short-term loans granted	22,054,452	43,358,200
Cash payments to suppliers of property, plant and equipment	-5,266,371	(5,283,470)
Cash payments to suppliers of intangible assets	(108,057)	(158,543)
Cash payments of increases in short-term loans granted	-22,000,000	(9,574,200)
Net cash from investing activities	-1,460,505	34,248,196
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(22,000,000)	(44,000,000)
Net cash from financing activities	(22,000,000)	(44,000,000)
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	25,897,959	7,156,533
Foreign exchange gains / losses in cash	0	0
Net cash inflow / outflow for the period	-7,289,475	18,741,426
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	18,608,484	25,897,959

* Notes to the financial statements are component parts of the financial statements and are to be read in conjunction with them.

STATEMENT OF CHANGES IN EQUITY

(in EUR)	CALLED-UP CAPITAL	REVENUE RESERVES		FAIR VALUE RESERVE	RETAINED EARNINGS OR LOSSES		TOTAL
	Share capital	Legal reserves	Other revenue reserves		Retained earnings or losses	Profit or loss for the period	
Balance at 1 Jan 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)
Dividends paid					(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
Profit 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 on defined benefit plans				(63,363)	(5,731)		(69,094)
B.3. Changes within 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
Settlement of loss as equity's deductible item					5,731	(5,731)	0
Other changes in equity			(43,000,000)		43,000,000		0
Balance at 31 Dec 2016	395,011,180	39,501,118	24,712,151	(188,571)	7,670,053	14,598,216	481,304,147
Balance at 1 Jan 2017	395,011,180	39,501,118	24,712,151	(188,571)	7,670,053	14,598,216	481,304,147
B.1. Transactions with owners	0	0	0	0	(22,000,000)	0	(22,000,000)
Dividends paid					(22,000,000)		(22,000,000)
B.2. Changes in total comprehensive income	0	0	0	(64,157)	2,241	7,716,732	7,654,816
Profit for the period						7,716,732	7,716,732
Items that will not be transferred to profit or loss	0	0	0	(64,157)	2,241	0	(61,916)
Actuarial gains and losses on defined benefit plans				(64,157)	2,241		(61,916)
B.3. Changes within equity	0	0	0	0	14,598,216	(14,598,216)	0
Allocation of the remaining portion of net profit of the comparable period to other equity components					14,598,216	(14,598,216)	0
Balance at 31 Dec 2017	395,011,180	39,501,118	24,712,151	(252,728)	270,510	7,716,732	466,958,963
Accumulated profit or loss					270,510	7,716,732	7,987,242

* Notes to the financial statements are component parts of the financial statements and are to be read in conjunction with them.

Notes to the financial statements

REPORTING ENTITY

DEM (hereinafter referred also as 'Company') is a company with its registered office in Slovenia. The address of the registered office is 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 2017.

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 2017, 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 (8 February 2018) of new International Financial Reporting Standards (IFRS) and interpretations and amendments to existing standards not yet applicable, for the purpose of disclosure within the financial statements, prepared in compliance with IFRS, as adopted by the European Union (EU).

New standards, interpretations and *amendments to the existing standards* are not yet applicable as of 1 January 2017 or later and were not taken into account during the compilation of these financial statements. The Company will apply them when they become effective.

New standards and interpretations adopted by the European Union, which are not yet effective for annual period beginning as of 1 January 2017

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

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

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

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

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

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

The amendments clarify how to:

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

The amendments also provide entities with two additional practical expedients:

- ◆ An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
- ◆ For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements, the management does not expect that the new standard, when initially applied, will have material impact on the its financial statements. The timing and measurement of the Company's income are not expected to change under IFRS 15.

◆ IFRS 9 Financial Instruments (2014)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company is exempt from the use of IFRS 9, hence no significant impact on its financial statements is expected.

◆ IFRS 16 Leases

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

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

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

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

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

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

The Company does not expect that the new standard, when initially applied, will have material impact on the financial statements as it does not act as customer in contract that is subject to treatment under IFRS 16.

◆ Annual Improvements to the IFRS 2014–2016 Cycle

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

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

- ◆ delete short-term exemptions for first-time adopters (IFRS 1 First-time Adoption of International Financial Reporting Standards) relating, inter alia, to transition provisions of IFRS 7 Financial Instruments - Disclosures regarding comparative disclosures and transfers of financial assets, and of IAS 19 Employee Benefits; The exemptions were deleted due to the fact that these reliefs had been available to entities only for reporting periods that had passed;
- ◆ clarify that requirements of IFRS 12 Disclosure of Interest in Other Entities (with an exception of disclosure of summarized financial information in accordance with paragraphs B10-B16 of that standard) apply to entities that have an interest in subsidiaries, or joint arrangements, or associates, or unconsolidated structured entities, which are classified as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; and
- ◆ clarify that election of exemption from applying the equity method per IAS 28 Investments in Associates and Joint Ventures shall be made separately for each associate or joint venture at initial recognition of the associate or joint venture.

None of these changes are expected to have a material impact on the Company's financial statements because it does not have interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities, which are classified as held for sale or discontinued operations and the Company does not use an exemption from the equity method accounting for its interest in associates and joint ventures.

New standards and amendments that were not yet adopted by the European Union as of 8 February 2018

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

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

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

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

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

◆ IFRS 17 Insurance Contracts

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

This pronouncement is not yet endorsed by the EU.

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

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

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

◆ IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

This interpretation is not yet endorsed by the EU.

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

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

◆ IFRIC 23 Uncertainty over Income Tax Treatments

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

This interpretation is not yet endorsed by the EU.

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes.

Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

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

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

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

These amendments are not yet endorsed by the EU

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

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

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

◆ Amendments to IAS 40 Transfers of Investment Property

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

These amendments are not yet endorsed by the EU.

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

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

The Company does not expect that the amendments will have a material impact on the financial statements because it does not have investment property.

◆ Amendments to IFRS 9 Prepayment Features with Negative Compensation

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

These amendments are not yet endorsed by the EU.

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

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

The Company does not expect that the amendments will have a material impact on its financial statements, as it has no financial assets of prepayment features with negative compensations.

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

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

These amendments are not yet endorsed by the EU.

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

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

◆ Annual Improvements to IFRS 2015-2017 Cycle

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

These annual improvements are not yet endorsed by the EU.

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

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

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

◆ Amendments to IAS 19: Employee Benefits

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

These annual improvements are not yet endorsed by the EU.

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

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

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 JUDGEMENTS

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 (section Notes to the financial statements – intangible assets and property, plant and equipment);
- ◆ impairment testing of property, plant and equipment being acquired (section Notes to the financial statements - disclosure 2);
- ◆ estimate of realisable values of receivables (disclosure of financial instruments and risks – credit risk – page 107)
- ◆ estimate of provisions for jubilee premiums and termination benefits (section Notes to the financial statements - disclosure 14);
- ◆ estimate of other provisions (section 4. Notes to the financial statements, disclosure 15).

BRANCHES 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:

	in years (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:

	in years (from - to)
Buildings	20 - 77 years
Parts of buildings	14 - 33 years
Production equipment	10 - 65 years
Computer equipment	4 - 20 years
Furniture	8 - 33 years
Low-value assets	5 years
Passenger cars	7 years
Other vehicles	7 - 15 years
Other plant and equipment	5 - 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 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.

ASSETS HELD FOR SALE

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

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

INVENTORIES

Inventories are 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 received 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 inventories 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 inventories are evaluated. Impairment of inventories 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 PREMIUMS AND RETIREMENT BENEFITS

In accordance with legal regulations, collective agreement and internal rules, the Company is obliged to pay jubilee premiums to its employees and retirement benefits for which long-term provisions are created. There are no other pension liabilities.

Provisions are created in the amount of estimated future payments for retirement benefits and jubilee premiums discounted at the end of the financial year. The calculation is prepared for each employee by taking into account the costs of retirement benefits upon retirement and costs of all expected jubilee premiums until retirement. The calculation is prepared by the actuary using the projected unit. The actuary is selected at the level of the group. Retirement benefits and jubilee premiums decrease the created provisions.

EMPLOYEE BENEFITS

Payables for employee remuneration 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 CONTINGENT ASSETS

A contingent liability is:

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

A contingent asset is a possible asset arising from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events that the Company does not fully control.

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

The guarantees given are presented under contingent liabilities.

REVENUE

Sales revenue is recognised at fair value of the received repayment or receivable arising from this repayment decreased by repayments and discounts, rebates for further sale and quantity discounts. The revenue is disclosed when the customer assumes all significant kinds of risks and benefits related to the ownership of the asset, when there is a certainty in relation to recoverability of a fee and related costs or possibility of repayment of products and when the Company stops deciding on the products sold.

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

Financial revenue comprise 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 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.

STATEMENT OF CASH FLOWS

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.

DETERMINATION OF FAIR VALUE

The disclosure and presentation of financial instruments is subject to the presentation of 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).

Disclosures to the financial statements

DISCLOSURES TO THE STATEMENT OF FINANCIAL POSITION

INTANGIBLE ASSETS (1)

The item of intangible assets comprises:

- ◆ easements;

- ◆ computer software, and
- ◆ licences.

(in EUR)	31 Dec 2017	31 Dec 2016
Other industrial property rights	128,333	426,645
TOTAL	128,333	426,645

An increase in intangible items in 2017 recorded in the amount of EUR 108,057 relates to the increase in long-term industrial rights:

- ◆ computer software for the 110 kV HPP Fala (EUR 29,072);
- ◆ computer software for the 110 kV DV HPP Fala (EUR 33,935);
- ◆ Proficiency Historian/Analysis ZVAPS software (EUR 40,784);
- ◆ licence for the PIF operators (EUR 4,266).

A decrease in intangible assets referred to the retirement of the old and useless software and licences in the amount of EUR 3,837.

MOVEMENT IN 2017

(in EUR)	Other industrial property rights	TOTAL
Cost at 1 Jan 2017	3,123,754	3,123,754
Acquisitions	108,057	108,057
Disposals	(3,837)	(3,837)
Cost at 31 Dec 2017	3,227,974	3,227,974
Write-downs at 1 Jan 2017	2,697,109	2,697,109
Amortisation	406,300	406,300
Write-off	(3,768)	(3,768)
Write-downs at 31 Dec 2017	3,099,641	3,099,641
Carrying amount at 1 Jan 2017	426,645	426,645
Carrying amount at 31 Dec 2017	128,333	128,333

MOVEMENT IN 2016

(in EUR)	Other industrial property rights	TOTAL
Cost at 1 Jan 2016	3,350,316	3,350,316
Acquisitions	158,543	158,543
Disposals	(385,105)	(385,105)
Cost at 31 Dec 2016	3,123,754	3,123,754
Write-downs at 1 Jan 2016	2,670,756	2,670,756
Amortisation	411,458	411,458
Write-off	(385,105)	(385,105)
Write-downs at 31 Dec 2016	2,697,109	2,697,109
Carrying amount at 1 Jan 2016	679,560	679,560
Carrying amount at 31 Dec 2016	426,645	426,645

Company's books of account do not include following:

- ◆ intangible assets acquired by state support;
- ◆ intangible assets given as collateral;
- ◆ contractual obligation to acquire intangible assets.

PROPERTY, PLANT AND EQUIPMENT (2)

(in EUR)	31 Dec 2017	31 Dec 2016
Land	13,162,547	13,201,075
Buildings	199,318,940	205,882,055
Production equipment	130,672,307	136,413,064
Other equipment	227,517	248,350
Property, plant and equipment and equipment being acquired	22,987,492	20,765,297
Total	366,368,803	376,509,841

LAND

The decrease in land 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 38,395.

Other transfers in the amount of EUR 133 refer to the donation of land to the University of Maribor.

BUILDINGS

The Company records followings types of buildings:

- ◆ dams;
- ◆ channels, embankments, embankment protection;
- ◆ HPP production facilities;
- ◆ cable lines;
- ◆ other structures;
- ◆ commercial buildings;
- ◆ residential buildings;
- ◆ recreational buildings;
- ◆ other buildings.

The higher values of buildings and facilities, as part of the increase in property being acquired in 2017 amounting to EUR 2,283,740 included:

- ◆ renovation works related to faecal water at the HPP Ožbalt (EUR 43,523);
- ◆ renovation works in the engine-dam facility at HPP Fala (EUR 40,825);
- ◆ renovation works on the concrete structure of the crane and dam bridge at the HPP Fala (EUR 133,634);
- ◆ set-up of technical surveillance of the draining channel at the HPP Formin (EUR 36,538);
- ◆ renovation of the bridge at the channel of the HPP Formin (EUR 367,429);
- ◆ implementation of the oil cave for the spare transformer at the HPP Formin (EUR 21,017);
- ◆ renovation works at the Markovci dam (EUR 132,385);
- ◆ renovation works at the Ptuj lake (EUR 43,998);
- ◆ construction of the fish trail at the HPP Fala, HPP Mariborski otok and the Melje dam (EUR 95,936);
- ◆ refurbishment of the riparian zones at facilities (EUR 107,016);
- ◆ maintaining the energy potential and the ecological rehabilitation of Company's accumulations (EUR 618,702);
- ◆ restoration of the water systems on the Drava river (EUR 38,500);
- ◆ construction of intervention boat lines (EUR 29,855);
- ◆ construction of the wind power stations Ojstrica, Rogatec and Paški Kozjak (EUR 99,906);
- ◆ first investments in the construction of the PSP Kozjak and the hydro power plant on Mura (EUR 345,505);
- ◆ exchange of the internal sanitary fire pipeline in OCV2 (EUR 41,144);
- ◆ other construction works.

Decrease in the value of buildings and facilities (EUR 124,740) comprises primarily following:

- ◆ sale of the chalet Partizanka I. at Kope (EUR 28,243);
- ◆ sale of apartments in Maribor and Vuzenica (EUR 95,707).

Other transfers of buildings and facilities (EUR 37,974) refer mostly to the donation of the warehouse building to the University in Maribor.

PLANT AND EQUIPMENT

Increase in the value of plant and equipment as part of the increase in fixed assets being acquired in 2017 in the amount of EUR 3,028,538 comprises following:

- ◆ upgrade of the monitoring system at the HPP Zlatoličje and the Melje dam (EUR 257,231);
- ◆ renovation of the monitoring and protection system of 110 kV DV at the HPP Fala (EUR 75,616);
- ◆ renovation of the flow areas at the DEM buildings (EUR 1,001,708);
- ◆ reconstruction of crane lanes at the HPP HE Vuzenica (EUR 19,900);
- ◆ renovation works at the HPP Fala (EUR 90,312);
- ◆ renovation of the secondary systems at HPP Dravograd, HPP Vuzenica and HPP Mariborski otok (EUR 78,420);
- ◆ renovation of the technical monitoring equipment at the DEM buildings (EUR 145,281);
- ◆ renovation of the anti-theft system at the DEM buildings (EUR 174,447);
- ◆ reconstruction works at the HPP Formin (EUR 114,745);
- ◆ renovation of the central disc system (EUR 247,442);
- ◆ renovation of the telecommunications network at DEM (EUR 19,900);
- ◆ purchase of IT – technical equipment (EUR 206,244);
- ◆ purchase of measuring instruments (EUR 67,543);
- ◆ purchase of vehicles (EUR 107,406);
- ◆ purchase of tools and appliances (EUR 166,632);
- ◆ purchase of facility equipment (EUR 35,726);
- ◆ purchase of equipment for maintenance of appliances (EUR 64,611);
- ◆ upgrading of the central monitoring system VVSP (EUR 18,988);
- ◆ other plant and equipment.

Decrease in the value of manufacturing plant and other equipment (EUR 3,011,882) relates predominantly to following:

- ◆ elimination of the rectifier and distributor of the DC voltage of 48 V at the HPP Fala and HPP Zlatoličje (EUR 78,439);
- ◆ telecommunication equipment at the facilities (EUR 1,525,019);
- ◆ control-related computer equipment and other computer equipment (EUR 1,074,196);
- ◆ maintenance equipment (EUR 48,458);
- ◆ sale of the working machinery (EUR 86,989);
- ◆ sale of the Lehmar 1000/CC vessel (EUR 160,381);
- ◆ elimination of other obsolete fixed assets (EUR 38,400).

PROPERTY, PLANT AND EQUIPMENT BEING ACQUIRED

In 2017, the Company presented the closing balance of property, plant and equipment being acquired under property plant and equipment being acquired:

- ◆ properties in course of construction (EUR 20,484,152);
- ◆ plant and equipment being acquired (EUR 2,503,340).

Carrying amounts of property in course of construction (EUR 20,484,152) includes following:

- ◆ reconstruction of the crane track at the HPP Vuhred (EUR 64,406);
- ◆ redevelopment of the left embankment at HPP Fala (EUR 80,677);
- ◆ provision of flood protection and establishing technical monitoring of the drainage channel at the HPP Formin (EUR 101,663);
- ◆ refurbishment of the Markovci dam (EUR 241,368);
- ◆ reconstruction of bridges across the inlet channel at HPP Zlatoličje, HPP Formin and Markovci dam (EUR 173,593);
- ◆ rehabilitation of faecal waters at facilities (EUR 48,723);
- ◆ maintaining the energy potential and the ecological rehabilitation of Company's accumulations (EUR 713,939);
- ◆ developing conceptual solutions and DIIP for increasing the exploitable energy decline between HPP Fala and HPP Mariborski otok (EUR 26,520);
- ◆ construction of the fish trails HPP Dravograd, HPP Vuzenica, HPP Vuhred, HPP Fala, Melje dam and HPP Formin-Ptuj lake (EUR 248,929);
- ◆ rehabilitation of the Ptuj lake (EUR 43,998);
- ◆ restoration of water systems on the Drava river (EUR 38,500);
- ◆ construction of the PSP Kozjak (EUR 10,339,735);
- ◆ construction of the HPP on Mura-bordering Mura (EUR 2,712,587);

- ◆ construction of the HPP Hrastje Mota (EUR 4,729,720);
- ◆ construction of the HPP bordering section Ceršak (EUR 231,588);
- ◆ construction of small power plants (EUR 342,167);
- ◆ construction of the wind power plant Ojstrica (EUR 251,418);
- ◆ construction of the wind power plants Konjiška gora, Rogatec and Paški Kozjak (EUR 32,333);
- ◆ other property in course of 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 and 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 2017. Conclusions suggesting that impairment as at 31 December 2017 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. In 2017, answers were compiled to comments, which were made by the consent issuers during the procedures for confirming the Environmental Report and Scenario studies.

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).

Carrying amounts of plant and equipment being acquired (EUR 2,503,340) refers to following:

- ◆ refurbishment of spillways at DEM buildings (EUR 1,562,778);
- ◆ reconstruction of the crane tracks at HPP Dravograd, HPP Vuzenica and HPP Zlatoličje (EUR 64,070);
- ◆ refurbishment of secondary systems at HPP Dravograd, HPP Vuzenica and HPP Mariborski otok (EUR 84,323);
- ◆ exchange and upgrade of cooling systems at HPP Vuzenica and HPP Mariborski otok (EUR 57,690);
- ◆ refurbishment of the technical monitoring system at DEM buildings (EUR 145,281);
- ◆ refurbishment of the anti-theft system at DEM buildings (EUR 174,447);
- ◆ reconstruction of the HPP Formin (EUR 114,745);
- ◆ refurbishment of the central disc system (EUR 247,442);
- ◆ other plant and equipment being acquired.

Other transfers of property, plant and equipment being acquired in 2017 and amounting to EUR 45,907 refer to transfers to costs.

A partial write-off of ongoing investments in the amount of EUR 458,514 was carried out within the write-offs of investments in progress as the Company adopted the decision that certain investments in progress are no longer required for further project stages.

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 the balance sheet date, the Company recorded EUR 5,301,568.34 of contractual obligations to obtain funds. The Company is until 2025 bound to construct fish trails in compliance with the European legislation that according to plans require funds of EUR 14 million.

MOVEMENT IN 2017

(in EUR)	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
Cost at 1 Jan 2017	13,201,075	399,602,405	358,319,658	14,466,002	20,765,297	806,354,437
Acquisitions	0	0	0	0	5,312,278	5,312,278
Disposals	(16,237)	(123,951)	(343,630)	(8,143)	0	(491,961)
Transfers from investments	0	732,284	1,849,333	4,045	(2,585,662)	0
Transfers - restatements	(133)	(37,974)	(905)	905	(45,907)	(84,014)
Write-offs	(22,158)	(789)	(2,654,293)	(5,816)	(458,514)	(3,141,570)
Cost at 31 Dec 2017	13,162,547	400,171,975	357,170,163	14,456,993	22,987,492	807,949,170
Write-downs at 1 Jan 2017	0	193,720,350	221,906,594	14,217,652	0	429,844,596
Disposals	0	(98,323)	(343,230)	(6,981)	0	(448,534)
Transfers - restatements	0	(12,688)	(48)	48	0	(12,688)
Depreciation	0	7,244,485	7,559,831	24,525	0	14,828,841
Write-offs	0	(789)	(2,625,291)	(5,768)	0	(2,631,848)
Write-downs at 31 Dec 2017	0	200,853,035	226,497,856	14,229,476	0	441,580,367
Carrying amount at 1 Jan 2017	13,201,075	205,882,055	136,413,064	248,350	20,765,297	376,509,841
Carrying amount at 31 Dec 2017	13,162,547	199,318,940	130,672,307	227,517	22,987,492	366,368,803

MOVEMENT IN 2016

(in EUR)	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being acquired	TOTAL
Cost at 1 Jan 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 at 31 Dec 2016	13,201,075	399,602,405	358,319,658	14,466,002	20,765,297	806,354,437
Write-downs at 1 Jan 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	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-downs at 31 Dec 2016	0	193,720,350	221,906,594	14,217,652	0	429,844,596
Carrying amount at 1 Jan 2016	13,307,807	211,255,512	140,017,022	183,668	22,439,140	387,203,149
Carrying amount at 31 Dec 2016	13,201,075	205,882,055	136,413,064	248,350	20,765,297	376,509,841

Property, plant and equipment have increased in 2017 in the amount of EUR 5,312,278.

LONG-TERM INVESTMENTS IN SUBSIDIARIES (3)

(in EUR)	31 Dec 2017	31 Dec 2016
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

DATA ON SUBSIDIARIES

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

SIGNIFICANT AMOUNTS IN SUBSIDIARIES' FINANCIAL STATEMENTS FOR 2017

(in EUR)	Assets	Liabilities (excl. of equity)	Revenue	Net profit or loss for the period	Total equity
MHE LOBNICA d.o.o.	621,035	1,208	15,594	-14,944	619,827
POMURSKI RAZVOJNI INŠTITUT	54,493	7,036	57,127	(16)	47,457
HSE INVEST d.o.o.	2,510,084	910,608	3,921,529	(199,702)	1,599,476
TOTAL	3,185,612	918,852	3,994,250	-214,662	2,266,760

Company's investments in the amount of EUR 488,241 comprise:

- ◆ 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

(in EUR)	2017	2016
Carrying amount at 1 Jan	488,241	488,241
Carrying amount at 31 Dec	488,241	488,241
Write-downs at 1 Jan	0	0
Write-downs at 31 Dec	0	0
Carrying amount at 1 Jan	488,241	488,241
Carrying amount at 31 Dec	488,241	488,241

OTHER LONG-TERM INVESTMENTS AND LOANS (4)

(in EUR)	31 Dec 2017	31 Dec 2016
Long-term investments in associates	81,027,886	81,027,886
Other long-term investments	5,191	5,191
TOTAL	81,033,077	81,033,077

INVESTMENTS IN ASSOCIATES

(in EUR)	31 Dec 2017	31 Dec 2016
HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.	81,027,886	81,027,886
TOTAL	81,027,886	81,027,886

Company's investments in associates include solely the 30.8 percent equity interest in the company HESS d.o.o. recorded at EUR 81,027,886.

DATA ON ASSOCIATES

Company	Address	Activity	% of ownership	% voting rights
HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.	Cesta bratov Cerjakov 33a, 8250 Brežice	Electricity production in hydropower plants	30.8%	30.8%

SIGNIFICANT AMOUNTS IN THE FINANCIAL STATEMENTS OF ASSOCIATES FOR 2017

(in EUR)	Assets	Liabilities (excl. of equity)	Revenue	Net profit or loss for the period	Total equity
HIDROELEKTRARNE NA SPODNJI SAVI d.o.o.	343,830,975	64,825,163	15,256,015	1,807,948	279,005,812
TOTAL	343,830,975	64,825,163	15,256,015	1,807,948	279,005,812

MOVEMENT OF LONG-TERM INVESTMENTS IN ASSOCIATES

(in EUR)	2017	2016
Carrying amount at 1 Jan	81,027,886	81,134,598
Disposals	0	(106,712)
Cost at 31 Dec	81,027,886	81,027,886
Write-downs at 1 Jan	0	0
Write-downs at 31 Dec	0	0
Carrying amount at 1 Jan	81,027,886	81,134,598
Carrying amount at 31 Dec	81,027,886	81,027,886

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 the cost of EUR 154,890, but in the past they were impaired in the amount of EUR 149,699.

(in EUR)	31 Dec 2017	31 Dec 2016
Other long-term investments	5,191	5,191
TOTAL	5,191	5,191

MOVEMENT OF OTHER LONG-TERM INVESTMENTS

(in EUR)	2017	2016
Balance at 1 Jan	5,191	5,191
Balance at 31 Dec	5,191	5,191

OTHER LONG-TERM ASSETS (5)

(in EUR)	31 Dec 2017	31 Dec 2016
SZ SMREKA	2,643	2,337
Stanovanjsko podjetje Ravne	0	1,033
Staninvest	1,358	885
Other long-term deferred costs	157,810	120,405
TOTAL	161,811	124,660

Other non-current assets include the reserve fund SZ Smreka amounting to EUR 2,643, the reserve fund of Staninvest amounting to EUR 1,358, other long-term deferred costs amounting to EUR 157,810, of which the largest portion includes long-term accruals and deferrals for the turbine oil.

DEFERRED TAX ASSETS (6)

(in EUR)	31 Dec 2017	31 Dec 2016
Provisions	254,158	246,172
Impairments	54,048	54,048
TOTAL	308,206	300,220

Company's deferred tax assets include deferred receivables for provisions for jubilee premiums amounting to EUR 73,185, provisions for retirement benefits amounting to EUR 180,973, deferred taxes for impairment of investments amounting to EUR 25,449 and deferred taxes for impairment of receivables amounting to EUR 28,599.

MOVEMENT OF DEFERRED TAX ASSETS

(in EUR)	Provisions	Impairments	TOTAL
Balance at 1 Jan 2017	246,172	54,048	300,220
To debit/(credit) of profit or loss	7,986	0	7,986
Balance at 31 Dec 2017	254,158	54,048	308,206
Balance at 1 Jan 2016	227,671	54,048	281,719
To debit/(credit) of profit or loss	18,501	0	18,501
Balance at 31 Dec 2016	246,172	54,048	300,220

The change in deferred tax assets amounted to EUR 7,986 in 2017 and is recognised in the income statement.

ASSETS HELD FOR SALE (7)

Assets held for sale, which refer to properties for sale, amounted at the year-end of 2017 to EUR 291,208.

INVENTORIES (8)

(in EUR)	31 Dec 2017	31 Dec 2016
Material	71,552	71,552
Products and merchandise	17,215	15,360
TOTAL	88,767	86,912

Inventories refer to inventory of material in the amount of EUR 71,552 and inventory of products and merchandise in the amount of EUR 17,215.

Inventories have not been pledged as collateral for liabilities. The carrying amount of inventories does not exceed its net realisable value.

SHORT-TERM FINANCIAL RECEIVABLES AND LOANS (9)

(in EUR)	31 Dec 2017	31 Dec 2016
Short-term financial receivables and loans to Group companies (exclusive of interest)	0	164,452
Short-term financial receivables and loans to Group companies for interest	0	172
TOTAL	0	164,624

In 2017, the Company extended a loan to the controlling company in the total amount of EUR 22,000,000. Based on the resolution of HSE as the founder and sole shareholder of DEM, a one-sided offset was carried out as at 30 June 2017 namely of liabilities arising from the accumulated profit in the total amount of EUR 22,000,000 and of receivables arising from the loan contract no. 1/DEM/HSE/17 and the related annex no. 1 in the amount of EUR 22,000,000. Consequently, the Company recorded as at the end of 2017 no financial receivables and loans.

MOVEMENT OF SHORT-TERM FINANCIAL RECEIVABLES AND LOANS

(in EUR)	2017	2016
Balance at 1 Jan	164,624	34,698,094
Additions	22,135,243	13,775,880
Repayments	(22,299,867)	(48,309,350)
Balance at 31 Dec	0	164,624

SHORT-TERM TRADE RECEIVABLES (10)

(in EUR)	31 Dec 2017	31 Dec 2016
Short-term operating receivables due from Group companies	8,592,219	9,581,484
Short-term operating receivables due from associates	0	10,878
Short-term trade payables	98,953	175,810
TOTAL	8,691,172	9,768,172

SHORT-TERM OPERATING RECEIVABLES TO GROUP COMPANIES

(in EUR)	31 Dec 2017	31 Dec 2016
HOLDING SLOVENSKE ELEKTRARNE d.o.o.	8,540,110	9,521,782
MHE LOBNICA d.o.o.	415	3,034
HSE INVEST d.o.o.	51,694	56,668
TOTAL	8,592,219	9,581,484

Short-term operating receivables to 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 Lobjnica.

Short-term trade receivables comprise receivables to domestic customers in the amount of EUR 98,953.

At the end of 2017, Company's outstanding short-term operating receivables included not due receivables in the amount of EUR 8,688,796, and receivables due up to 3 months in the amount of EUR 2,096.

As at the balance sheet date, the Company recorded no pledged trade receivables. Receivables to HSE are insured with bills of exchange, while other trade receivables were as of 31 December 2017 not insured.

OTHER CURRENT ASSETS (11)

(in EUR)	31 Dec 2017	31 Dec 2016
Short-term advances	412,155	500
Short-term operating receivables due from state and other institutions	1,006,495	352,626
Short-term operating receivables due from others	68,868	21,759
Short-term deferred costs and expenses	46,756	189,137
TOTAL	1,534,274	564,022

Short-term operating receivables to state and other institutions comprise the input VAT, receivables for concession duties and other receivables in the total amount of EUR 1,006,495.

Short-term advances in the amount of EUR 412,155 (whereof EUR 400,000 relates to the company RGP) and receivables due from others in the amount of EUR 68.868 are also recorded under short-term operating receivables.

Liabilities for insurance premiums paid in advance and subscriptions paid in advance and other liabilities in the amount of EUR 46,756 are recorded under other current assets.

At the end of 2017, the Company had no receivables due from the management.

CASH AND CASH EQUIVALENTS (12)

(in EUR)	31 Dec 2017	31 Dec 2016
Cash in hand and cheques received	20	20
Bank balances	1,008,464	147,939
Call deposits	17,600,000	25,750,000
TOTAL	18,608,484	25,897,959

Cash and cash equivalents comprise:

- ◆ EUR 20 – the maximum cash in hand for operations at the Fala museum;
- ◆ bank balances at the NKBM bank (EUR 115,474);
- ◆ bank balances at the NLB bank (EUR 892,990);
- ◆ call deposit (EUR 17,600,000).

EQUITY (13)

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

Compared with 2016, the value of equity declined by 2.98% in 2017.

(in EUR)	31 Dec 2017	31 Dec 2016
Called-up capital	395,011,180	395,011,180
Revenue reserves	64,213,269	64,213,269
Fair value reserve	(252,728)	(188,571)
Retained earnings and losses	7,987,242	22,268,269
TOTAL	466,958,963	481,304,147

Company's share capital amounts to EUR 395,011,180 and did not change when compared to 2016.

Revenue reserves amount to EUR 64,213,269, whereof:

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

At the end of 2017, Company's **fair value reserve** in the total amount of EUR -252.728 includes the actuarial loss in provisions for retirement benefits. The actuarial loss increased in 2017 by EUR 80,822 and declined by EUR 16,665, which complies with the proportion of utilization of provisions for retirement benefits.

MOVEMENT OF THE FAIR VALUE RESERVE

(in EUR)	Actuarial gains/losses for retirement benefits	TOTAL
Balance at 1 Jan 2017	(188,571)	(188,571)
Formation, increase	16,664	16,664
Decrease	(78,580)	(78,580)
Transfer to retained earnings or losses	(2,241)	(2,241)
Balance at 31 Dec 2017	(252,728)	(252,728)
Balance at 1 Jan 2016	(125,208)	(125,208)
Formation, increase	(69,094)	(69,094)
Transfer to retained earnings or losses	5,731	5,731
Balance at 31 Dec 2016	(188,571)	(188,571)

Retained earnings or losses in the total amount of EUR 7,987,242 consists of the net profit (EUR 7,716,732) and retained earnings (EUR 270,510).

Based on the resolution of HSE as the founder and sole shareholder of DEM, a one-sided offset was carried out as at 30 June 2017 namely of liabilities arising from the accumulated profit in the total amount of EUR 22,000,000 and of receivables arising from the loan contract no. 1/DEM/HSE/17 and the related annex no. 1 in the amount of EUR 22,000,000.

Significant data relating to the balance and movement of equity components is presented also in the Statement of changes in equity.

ACCUMULATED PROFIT

(in EUR)	31 Dec 2017	31 Dec 2016
Net profit for the period	7,716,732	14,598,216
Retained earnings or losses	270,510	7,670,053
Accumulated profit	7,987,242	22,268,269

As of the balance sheet date, the Company recorded an accumulated profit in the amount of EUR 7,987,242.

PROVISIONS FOR JUBILEE PREMIUMS AND RETIREMENT BENEFITS (14)

(in EUR)	31 Dec 2017	31 Dec 2016
Provisions for retirement benefits	2,163,093	2,073,902
Provisions for jubilee premiums	770,370	713,586
TOTAL	2,933,463	2,787,488

At the year-end of 2017, Company's provisions include:

- ◆ provisions for jubilee premiums (EUR 770,370) and
- ◆ provisions for retirement benefits (EUR 2,163,093).

Provisions for retirement benefits and jubilee premiums have been formed based on the actuarial method at 31 December 2017.

Measurement of present obligations for long-term employee benefits (calculation of provisions) was performed pursuant to IAS 19 by applying the actuarial method i.e. method of the anticipated significance of units (accounting of earnings in proportion to work performed or as years of service in the Company), which enables a reliable estimate of final costs of earnings, which the employees receive for their service in the current and previous periods.

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 2017, 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 2017 is 47.7 years.

◆ Staff fluctuation:

Staff fluctuation as a result of termination of employment by the employee:

Fluctuation shares are taken into account that have been considered in the previous years' calculation:

◆ up to 35 years	3.5 %,
◆ 35 to 45 years	2.5 %,
◆ over 45 years	1.0 %.

For employees as at 31 December 2017, 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 anticipated date of retirement for an individual employee forwarded by the Company is taken into account.

Early or later retirement in view of the anticipated date is not taken into account. The Company forms provisions also for the jubilee premium if the employee is entitled to a jubilee premium within seven months after the anticipated date of retirement.

◆ Financial assumptions:

All financial assumptions are set on a nominal basis.

◆ The rate of growth of average salary and remuneration from Slovenian regulation:

For 2018 and 2019, the rates of growth of average salaries in the Republic of Slovenia from the Autumn forecast of economic trends for 2017 (IMAD) are taken into account. From 2020 on, the forecast is that the average salary in Slovenia will annually grow by the 2% inflation rate and the 0.7% real growth. It is expected that the amounts from the regulation will not increase in 2018 and 2019, but later the amounts are expected to grow in line with the inflation rate.

◆ Sale's growth rate in the Company:

An increase of employee salaries in the Company is expected to the level of 85% of the annual inflation rate.

Growth of employee salaries due to promotions is taken into account at a rate of 0.2% p.a. on wage.

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 as it is included in the basic salary.

◆ Discount rates:

The discount rate for accounting as at 31 December 2017 is at 1.0% (2016: 1.2%), based on the published yield of Slovenian government bonds as at 29 December 2017 (source: <https://www.mtsdata.com>), by interpolation with regard to the HSE Group's average weighted commitment (approximately 10 years).

MOVEMENT OF PROVISIONS FOR RETIREMENT BENEFITS AND JUBILEE PREMIUMS

(in EUR)	Provisions for termination benefits	Provisions for jubilee premiums	TOTAL
Balance at 1 Jan 2017	2,073,902	713,586	2,787,488
Formation, increase	217,825	121,146	338,971
Decrease - utilisation	(100,560)	(51,395)	(151,955)
Decrease - reversal	(28,074)	(12,967)	(41,041)
Balance at 31 Dec 2017	2,163,093	770,370	2,933,463
Balance at 1 Jan 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 Dec 2016	2,073,902	713,586	2,787,488

(in EUR)	Provisions for termination benefits	Provisions for jubilee premiums	TOTAL
Present value of obligations as at 31 Dec 2016	2,073,902	713,586	2,787,488
Interest costs	23,381	7,833	31,214
Costs of current service years	115,864	55,153	171,017
Costs of previous service years	(11,409)	(3,462)	(14,871)
Actuarial gains (-) and losses (+) – change of actuarial assumptions	75,392	51,834	127,226
Actuarial gains – reversal	(16,665)	(9,505)	(26,170)
Actuarial losses – formation and use	3,188	6,326	9,514
Payments in 2017	(100,560)	(51,395)	(151,954)
Gains or losses on settlement	0	0	0
Present value of obligations as at 31 Dec 2017	2,163,093	770,370	2,933,463

SENSITIVITY ANALYSIS FOR PROVISIONS FOR RETIREMENT BENEFITS AND JUBILEE PREMIUMS

(in EUR)	2017			
	Discount rate		Growth of salaries	
	Increase by 0.5	Decrease by 0.5	Increase by 0.5	Decrease by 0.5
Provisions for termination benefits	(86,379)	93,966	94,660	(89,646)
Provisions for jubilee premiums	(28,131)	30,278	30,939	(29,363)
TOTAL	(114,510)	124,244	125,599	(119,009)

OTHER PROVISIONS (15)

(in EUR)	31 Dec 2017	31 Dec 2016
Other provisions	1,828,997	1,846,835
TOTAL	1,828,997	1,846,835

At the end of the year 2017, Company's other provisions include the obligation of transferring the property to the Farmland and Forest Fund of the Republic of Slovenia (SKZG).

MOVEMENT OF OTHER PROVISIONS

(in EUR)	Other provisions	TOTAL
Balance at 1 Jan 2017	1,846,835	1,846,835
Formation, increase	70	70
Decrease - utilisation	(15,664)	(15,664)
Decrease - reversal	(2,244)	(2,244)
Balance at 31 Dec 2017	1,828,997	1,828,997
Balance at 1 Jan 2016	1,871,505	1,871,505
Decrease - utilisation	(21,569)	(21,569)
Decrease - reversal	(3,101)	(3,101)
Balance at 31 Dec 2016	1,846,835	1,846,835

LONG-TERM OPERATING LIABILITIES (16)

(in EUR)	31 Dec 2017	31 Dec 2016
Other long-term operating liabilities	11,699	33,302
TOTAL	11,699	33,302

Company's long-term operating liabilities include other long-term operating liabilities from advances (accrued liabilities for remuneration of IC employees) in the amount of EUR 11,699.

SHORT-TERM TRADE PAYABLES (17)

(in EUR)	31 Dec 2017	31 Dec 2016
Short-term operating liabilities to Group companies	709,701	544,788
Short-term trade payables	2,546,734	1,736,464
TOTAL	3,256,435	2,281,252

SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES

(in EUR)	31 Dec 2017	31 Dec 2016
HOLDING SLOVENSKE ELEKTRARNE d.o.o.	98,364	11,716
HTZ Velenje I.P. d.o.o.	1,048	3,096
RGP d.o.o.	428,245	284,819
POMURSKI RAZVOJNI INŠTITUT Murska Sobota	16,052	19,742
HSE INVEST d.o.o.	165,992	225,415
TOTAL	709,701	544,788

Short-term operating liabilities to Group companies include liabilities to HSE, RGP, HSE Invest, Pomurski razvojni inštitut MS and HTZ I.P. in the total amount of EUR 709,701.

Short-term trade payables include the liabilities to:

- ◆ domestic suppliers (EUR 2,538,051), and
- ◆ foreign suppliers (EUR 8,683).

At the end of 2017, the Company recorded outstanding short-term trade payables, of which not-due payables amounted to EUR 3,237,902 and liabilities due up to 3 month amounted to EUR 18,533.

OTHER SHORT-TERM LIABILITIES (18)

(in EUR)	31 Dec 2017	31 Dec 2016
Short-term operating liabilities from advances	35,602	0
Short-term operating liabilities to employees	1,559,414	1,295,449
Short-term operating liabilities to state and other institutions	1,888,541	2,084,408
Short-term operating liabilities to others	1,861	284,027
Short-term accrued costs and expenses	516,463	2,243,490
TOTAL	4,001,881	5,907,374

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 1,559,414.

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 1,888,541.

Short-term operating liabilities include also short-term advances received in the amount of EUR 35,602 and liabilities to others in the amount of EUR 1,861.

Other short-term operating liabilities include also short-term accrued costs of concessions in the amount of EUR 867, short-term accrued costs of the charge for the use of construction land in the amount of EUR 507,255 and other accrued costs in the amount of EUR 8,341. Accrued costs declined over the previous year due to matured final decisions regarding the use of construction land.

The Company records no short-term or long-term debts to Management Board members.

CONTINGENT LIABILITIES AND ASSETS (19)

CONTINGENT ASSETS

(in EUR)	31 Dec 2017	31 Dec 2016
Bank guarantees received for investments	754,689	1,605,819
Other	7,084,009	0
TOTAL	7,838,698	1,605,819

Contingent assets include performance bonds received and guarantees for the remedy of defects during the warranty period in the total amount of EUR 754,689 and other contingent assets in the total amount of EUR 7,084,009. Other contingent assets mostly refer to the bill of exchange received in connection with the insurance of outstanding receivables to HSE.

CONTINGENT LIABILITIES

(in EUR)	31 Dec 2017	31 Dec 2016
Guarantees given to Group companies	220,000,000	220,000,000
Other	662,596	576,996
TOTAL	220,662,596	220,576,996

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.

Company's contingent liabilities include also lawsuits, in which the Company acts as defendant, and granted bills of exchange in the total amount of EUR 662,596.

DISCLOSURES TO THE INCOME STATEMENT

REVENUE (20)

(in EUR)	2017	2016
GENERATED ON THE DOMESTIC MARKET	55,950,203	65,420,958
Electricity	55,165,166	64,576,439
Other merchandise and material	396	206
Other services	784,641	844,313
GENERATED ON THE FOREIGN MARKET	41,794	39,102
Other services	41,794	39,102
TOTAL	55,991,997	65,460,060

The Company generated net revenue from sales in the amount of EUR 55,991,997, which is a 14.46% decrease over the previous year.

Net revenue from sales includes revenue generated on the domestic market in the amount of EUR 55,950,203 and revenue from sales on the foreign market in the amount of EUR 41,794.

98.60% of the revenue from sales in the domestic market is revenues from the sales of electrical energy (EUR 55,165,166), generated through sales to HSE in the amount of EUR 54,649,951 and Borzen in the amount of EUR 515,215.

Revenue from other services rendered on the domestic market in the amount of EUR 784,641 and EUR 41,794 on foreign markets include revenues from services (e.g. business services, technical support services, control of the TC network, etc.), rents, and other revenue from sales.

OTHER OPERATING INCOME (21)

Other operating income includes profits on the sale of fixed assets in the amount of EUR 223,486, revenue received from compensation and contractual penalties in the amount of EUR 119,539, utilisation of deferred income in the amount of EUR 89,097, revenue from reversal of provisions in the amount of EUR 2,244, default interest in the amount of EUR 2,506 and other operating income in the amount of EUR 54,524.

(in EUR)	2017	2016
Income on reversal of provisions	2,244	3,101
Utilisation of deferred income	89,097	81,603
Income on compensations and fines	119,539	100,984
Default interest	2,506	55,412
Profit on sale of fixed assets	223,486	257,006
Other	54,524	454,146
TOTAL	491,396	952,252

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 costs of auxiliary 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.

(in EUR)	2017	2016
Costs of material	15,558	51,566
Costs of auxiliary material	51,462	0
Costs of energy	221,073	204,520
Costs of spare parts	217,612	248,886
Costs of low-value assets	24,063	17,336
Office stationary	41,924	28,411
Professional literature	19,105	10,992
Costs of fire safety	0	5,149
Costs of material - repairs	0	2,716
Other	16,999	15,412
Total costs of material	607,796	584,988
Costs of services related to creating products	0	1,525
Costs of transport services	68,737	57,435
Maintenance	1,780,087	1,447,963
Rentals	9,198	7,251
Work-related refunds to employees	33,398	27,157
Insurance and bank services	880,498	866,747
Costs of professional and intellectual services	383,005	387,194
Costs of research and development	35,941	96,832
Costs of fairs, advertising and entertainment	191,425	171,217
Costs of services rendered by individuals	32,167	32,225
Sewage and disposal service	167,627	118,920
Costs of security and surveillance	145,469	148,854
Cleaning services	167,744	172,250
Subscriptions	33,244	35,575
Property management	37,534	0
Publishing of adds	0	211
Compilation of annual reports and journals	0	3,130
Costs of copying	0	693
Other	86,984	116,293
Total costs of services	4,053,058	3,691,472
TOTAL	4,660,854	4,276,460

Costs of services includes also the audit-related costs, which in 2017 amounted to EUR 13,770.

(in EUR)	2017	2016
Audit of the annual report	13,770	16,420
TOTAL	13,770	16,420

Apart from the audit of the annual report, the Company paid KPMG Slovenija, d.o.o. in 2017 also for the audit of the Report on relations with affiliated companies for 2016 in the amount of EUR 1,200.

EMPLOYEE BENEFITS EXPENSE (23)

(in EUR)	2017	2016
Wages and salaries	7,776,205	8,120,451
Costs of pension insurance	1,106,646	1,167,514
Costs of other insurance	600,483	624,006
Other labour costs	1,316,608	1,605,490
TOTAL	10,799,942	11,517,461

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, costs of forming 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 THE AVERAGE NUMBER OF EMPLOYEES BY LEVEL OF EDUCATION

LEVEL OF EDUCATION	As at 1 Jan 2017	As at 31 Dec 2017	AVERAGE NO. OF EMPLOYEES
1	2	2	2
2	2	2	2
3	45	44	51
4	5	7	7
5	60	63	63
6/1	46	44	49
6/2	28	25	29
7	41	45	42
8/1	6	6	6
8/2	3	3	3
TOTAL	238	241	240

WRITE-DOWNS IN VALUE (24)

Write-downs in value comprise the amortisation of intangible assets in the amount of EUR 406,300, depreciation of property, plant and equipment in the amount of EUR 14,828,841 and costs arising on write-offs of property, plant and equipment in the amount of EUR 494,197 that include the write-off of investments in progress and loss upon elimination of property, plant and equipment.

The largest part (EUR 368,450.10) among the elimination of investments refers to write-offs of certain investments in the construction of the power plant on the Mura river.

It was established that certain already carried out investments are no longer required for further stages of the projects.

(in EUR)	2017	2016
Amortisation of intangible assets	406,300	411,458
Depreciation of property, plant and equipment	14,828,841	14,860,774
Write-offs of property, plant and equipment	494,197	575,800
Sale of property, plant and equipment, and intangible assets	0	1,722
TOTAL	15,729,338	15,849,754

OTHER OPERATING EXPENSES (25)

(in EUR)	2017	2016
Fee for the use of construction land	2,288,157	3,005,252
Concessions	9,157,696	10,728,539
Environmental-related expenditure	7,507,347	7,540,712
Donations	146,839	71,100
Other operating expenses	384,600	455,297
TOTAL	19,484,639	21,800,900

Other operating expenses include:

- charge for the use of construction land in the amount of EUR 2,288,157;
- concessions in the amount of EUR 9,157,696;
- expenses for environmental protection (expenses for water refunds and ecological rehabilitation) in the amount of EUR 7,507,347;
- donations in the amount of EUR 146,839;
- other expenses in the amount of EUR 384,600.

FINANCE INCOME (26)

(in EUR)	2017	2016
Finance income on loans and deposits granted	136,251	842,186
Finance income on sale of investments	0	1,000
Other finance income	3,345,833	3,362,243
TOTAL	3,482,084	4,205,429

Finance income comprises interest on loans given (to HSE and RGP), deposits and other finance income from interest or fees from the guarantee given to HSE.

FINANCE COSTS (27)

(in EUR)	2017	2016
Other finance costs	31,214	53,198
TOTAL	31,214	53,198

Finance expenses comprise borrowing costs, arising from the actuarial calculation of retirement benefits and jubilee premiums in the amount of EUR 31,214.

TAXES (28)

(in EUR)	2017	2016
Current tax	1,550,744	2,771,868
Deferred taxes	(7,986)	(18,501)
TOTAL INCOME TAX RECOGNISED IN INCOME STATEMENT	1,542,758	2,753,367

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 2017 was paid at a tax rate of 19% of the tax base established in the Company's tax calculation.

In 2017, the assessed corporate income tax amounted to EUR 1,550,744. On the basis of the tax calculation from 2016, the Company made advance payments of corporate income tax in 2017 in the amount of EUR 2,839,806 and it is showing deferred tax assets in the amount of EUR 1,289,062 at the end of 2017.

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

(in EUR)	2017	2016
Operating profit before tax	9,259,490	17,357,314
Tax calculated at applicable tax rate	1,759,303	2,950,743
Tax on income that reduces the taxable base	(426)	(1,561)
Tax on tax reliefs	(358,408)	(289,213)
Tax on expenses that reduce the taxable base	(14,502)	(35,720)
Tax on non-deductible expenses	170,658	138,551
Tax on other changes in the tax balance sheet	(5,881)	9,068
Current tax	1,550,744	2,771,868
Deferred taxes	(7,986)	(18,501)
Total taxes	1,542,758	2,753,367
EFFECTIVE TAX RATE	16.66%	15.86%

The effective tax rate for 2017 is 16.66%.

NET PROFIT FOR THE PERIOD (29)

(in EUR)	2017	2016
Gross operating yield	56,483,393	66,649,658
Operating result	5,808,620	13,205,083
Financial result	3,450,870	4,152,231
Profit before tax	9,259,490	17,357,314
PROFIT FOR THE PERIOD	7,716,732	14,603,947

The Company completed the fiscal year 2017 with a net profit in the amount of EUR 7,716,732.

DISCLOSURES TO THE STATEMENT OF OTHER COMPREHENSIVE INCOME

TOTAL COMPREHENSIVE INCOME (30)

The Company presents actuarial losses relating to the liabilities to employees for retirement benefits 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 7,654,816 at the end of 2017.

DISCLOSURES TO THE STATEMENT OF CASH FLOWS

Net cash from operating activities was generated in operation amounting to EUR 16,171,030. Cash flows from operating activities were thus positive.

Cash flows from investing activities were negative, the net cash from investing amounted to EUR 1,460,505.

Cash flows from financing activities were negative as well, hence net cash from financing activities amounted to EUR 22,000,000.

At the end of the reporting period, the Company recorded cash flow amounting to EUR -7,289,475.

DISCLOSURES 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 7,654,816 as follows:

- ◆ it increased by net profit or loss of the current year amounting to EUR 7,716,732, and
- ◆ it decreased by the actuarial loss relating to severance benefits upon retirement amounting to EUR 61,916.

OTHER DISCLOSURES

RELATED ENTITIES

All subsidiaries in the HSE Group are considered related entities of the Company.

In the reporting period, the Company conducted business operations with following companies: HSE d.o.o., HSE Invest d.o.o., MHE Lobnica d.o.o., RGP d.o.o., HTZ Velenje I.P. d.o.o., Pomurski razvojni inštitut Murska Sobota, and HESS d.o.o.

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 2017.

(in EUR)	Sales	Purchases	Income from guarantees given
HSE d.o.o.	55,104,376	129,718	3,345,833
MHE Lobnica d.o.o.	4,080	0	0
HESS d.o.o.	20,670	0	0
HTZ Velenje I.P. d.o.o.	0	34,685	0
RGP d.o.o.	174	1,466,816	0
HSE Invest d.o.o.	260,378	847,711	0
PRI MS	0	57,127	0
TOTAL	55,389,678	2,536,057	3,345,833

The largest sale refers to the sale of electricity to HSE d.o.o., while the largest purchases to the investment engineering by HSE Invest d.o.o. and construction and other services rendered by RGP d.o.o.

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

REMUNERATION OF MANAGEMENT

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 2017, the Company did not grant any advances, loans and guarantees to these groups of individuals.

(in EUR)	Salary	Other earnings	Bonuses	Refund of costs	TOTAL
Viljem Pozeb	103,197	3,918	1,653	1,242	110,010
Andrej Tumpej	32,936	705	753	612	35,006
TOTAL	136,133	4,623	2,406	1,854	145,016

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

(in EUR)	Salary	Other earnings	Bonuses	Refund of costs	TOTAL
Employees who are not subject to the tariff part of the collective agreement	311,107	13,870	7,966	5,160	338,103
TOTAL	311,107	13,870	7,966	5,160	338,103

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 2017.

SHORT-TERM OPERATING AND FINANCIAL RECEIVABLES BY MATURITY

(in EUR)	MATURITY					TOTAL
	NOT DUE	PAST DUE UP TO 3 MONTHS (up to 90 days)	PAST DUE FROM 3 TO 6 MONTHS (91 - 180 days)	PAST DUE 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	8,592,219	0	0	0	0	8,592,219
Short-term trade receivables	96,577	2,096	0	0	168,507	267,180
Short-term advances	412,155	0	0	0	0	412,155
Short-term operating receivables due from state and other institutions	1,006,495	0	0	0	0	1,006,495
Short-term operating receivables due from others	68,868	0	0	0	0	68,868
Balance at 31 Dec 2017	10,176,314	2,096	0	0	168,507	10,346,917

(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 trade receivables	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
Kratkoročne finančne terjatve in posojila pridruženim družbam	110,172	0	0	0	0	110,172
Balance at 31 Dec 2016	10,301,448	3,249	2,571	413	168,227	10,475,908

MOVEMENT OF ALLOWANCES FOR SHORT-TERM OPERATING RECEIVABLES

(in EUR)	2017	2016
Balance at 1 Jan	168,227	168,227
Balance at 31 Dec	168,227	168,227

Short-term operating receivables, which were impaired, are due over 361 days.

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 2017, liquidity risks were well managed, because cash flows were monitored on a daily, weekly and monthly basis; surplus liquidity was deposited with established banks according to the principles of risk diversification and profit maximisation; adequate liquidity reserve was set aside.

LONG-TERM LIABILITIES BY MATURITY

(in EUR)	MATURITY	TOTAL
	UP TO 2 YEARS AFTER THE DATE OF SFP	
Long-term operating liabilities from advances	11,699	11,699
Balance at 31 Dec 2017	11,699	11,699

(in EUR)	MATURITY		TOTAL
	UP TO 2 YEARS AFTER THE DATE OF SFP		
Long-term operating liabilities from advances		33,302	33,302
Balance at 31 Dec 2016		33,302	33,302

SHORT-TERM OPERATING AND FINANCIAL LIABILITIES BY MATURITY

(in EUR)	MATURITY		TOTAL
	NOT DUE	PAST DUE UP TO 3 MONTHS (up to 90 days)	
Short-term operating liabilities to Group companies	703,933	5,768	709,701
Short-term trade payables	2,533,969	12,765	2,546,734
Short-term operating liabilities from advances	35,602	0	35,602
Short-term operating liabilities to employees	1,193,026	0	1,193,026
Short-term operating liabilities to state and other institutions	1,888,541	0	1,888,541
Other short-term operating liabilities	1,861	0	1,861
Balance at 31 Dec 2017	6,356,932	18,533	6,375,465

(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 trade payables	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
Balance at 31 Dec 2016	5,601,391	406	5,601,797

EXCHANGE RATE RISK**EXPOSURE TO EXCHANGE RATE RISK**

(in EUR)	EUR	TOTAL
Short-term operating receivables	10,178,690	10,178,690
Long-term operating liabilities	(11,699)	(11,699)
Short-term operating liabilities	(6,375,465)	(6,375,465)
Net exposure - SFP 31 December 2017	3,791,526	3,791,526

(in EUR)	EUR	TOTAL
Short-term operating receivables and loans	164,624	164,624
Short-term operating receivables	10,143,057	10,143,057
Long-term operating liabilities	(33,302)	(33,302)
Short-term operating liabilities	(5,601,797)	(5,601,797)
Net exposure - SFP 31 December 2016	4,672,582	4,672,582

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 2017.

Fixed interest rates are agreed for the loans granted in the Group, which no longer exist as at the balance sheet date, 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.

(in EUR)	31 Dec 2017	31 Dec 2016
Long-term financial liabilities	0	0
Short-term financial liabilities	0	0
Total financial liabilities	0	0
Capital	466,958,963	481,304,147
Financial liabilities/capital	0.00	0.00
Cash and cash equivalents	18,608,484	25,897,959
Net financial liability	(18,608,484)	(25,897,959)
Net debt/equity	(0.04)	(0.05)

FAIR VALUES

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company estimates that the carrying amount of financial instruments is a close enough approximation for their fair value; thus, their fair values were not separately defined.

(in EUR)	31 Dec 2017		31 Dec 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial assets at fair value	5,191	5,191	5,191	5,191
Financial assets available for sale	5,191	5,191	5,191	5,191
Non-derivative financial assets at amortised cost	28,787,174		36,205,640	
Financial receivables	0		164,624	
Operating and other receivables	10,178,690		10,143,057	
Cash	18,608,484		25,897,959	
Total	28,792,365	5,191	36,210,831	5,191
Derivative financial liabilities at fair value	0		0	
Derivative financial instruments (liabilities)	0		0	
Non-derivative financial liabilities at amortised cost	6,753,552		7,473,621	
Bank borrowings	0		0	
Other financial liabilities	0		0	
Operating and other liabilities	6,753,552		7,473,621	
TOTAL	6,753,552		7,473,621	

FINANCIAL ASSETS AT FAIR VALUE BY HIERARCHY

(in EUR)	31 Dec 2017	31 Dec 2016
Financial assets at fair value - level 3	5,191	5,191
TOTAL	5,191	5,191

EVENTS AFTER THE REPORTING DATE

No events occurred after the date of statement of financial position that may have an impact on the financial statements for 2017 and related disclosures presented in the accounting report.



4 ENCLOSURES

CONTACT INFORMATION

LIST OF ABBREVIATIONS

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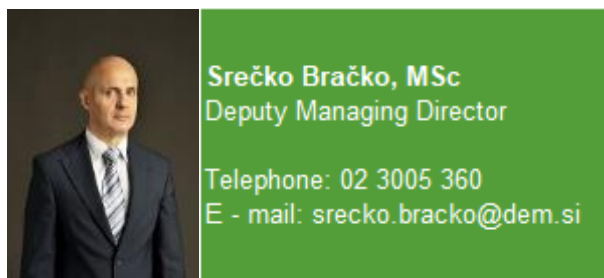
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COMPANY'S MANAGEMENT



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