

# ANNUAL REPORT 2015



**TERMOELEKTRARNA  
ŠOŠTANJ**

Skupina *hse*



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## 1 INTRODUCTION

Termoelektrarna Šoštanj d.o.o. (TEŠ) is the largest thermal production facility in the Holding Slovenske Elektrarne Group. Its average annual electricity production in the period from 2004 to 2015 amounted to 3,647 GWh. With this output – reflected in an almost 30% share of electricity production in Slovenia – TEŠ represents an important energy pillar for the reliable supply of electricity to Slovenia. TEŠ is also responsible for adapting electricity production to the country's current needs, and ensures the quality of this energy, as well as frequency and power regulation. Moreover, TEŠ provides thermal energy for district heating to several thousand residents of the Šaleška Valley.

TEŠ depends on the use of lignite from Velenje as a primary energy product in the production of electricity. The average annual coal consumption in the period from 2004 to 2015 amounted to 3,786 thousand tons. The use of coal leads to atmospheric pollution with carbon dioxide emissions. Due to environmental concerns, there are great pressures to reduce fossil fuel consumption in the processes of obtaining final forms of energy. Consequently, on the one side we strive to ensure the reliable domestic production of electricity, and on the other we are restricted by environmental requirements.

Owing to TEŠ's strategic importance for the reliable, safe and competitive production of electricity with a domestic energy product, in 2015 the Company completed the construction of 600 MW replacement Unit 6, which is replacing the production and services of TEŠ's existing coal units, and consuming up to 1/3 less coal. CO<sub>2</sub> emissions will be reduced by up to 35%, and all other environmental loads will also be lower. The project for the construction of replacement Unit 6 progressed in accordance with time schedules, and was successfully completed in June 2015. Unit 6 is currently in the phase of one-year trial operation, during which it will be necessary to prove and verify whether all requirements of the building permit have been fulfilled. We expect to obtain the operating permit for Unit 6 in the first half of 2016.



## 1.1 LETTER OF THE MANAGING DIRECTOR

Dear all,

We shall remember the year 2015 by our successfully completed investment in the construction of replacement Unit 6, which represents an energetically highly efficient facility for all of Slovenia, and a major share in the reliable and safe supply of the Slovenian electricity market. We have managed to ensure the operation of Unit 4 until the end of 2023 in a limited scope of 17,500 hours.

In 2015 we produced 2,477 GWh of electricity from Unit 6 and a total 3,557 GWh of electricity from all our production sources. We generated EUR 159 million in sales revenue, which is slightly lower than planned, primarily due to the transfer of effects of operation of Unit 6 during its trial operation.

Owing to the strained financial situation, also as the consequence of decreasing electricity prices and in particular the impairment of the Company's assets and inventories, we focused all our activities on the preparation of a financial and business restructuring plan, which we are already efficiently implementing. The key factors for its successful realization include incorporating flexibility in the organisation of work and adapting to market conditions.

Our greatest asset are our employees, and that is why we shall do all in our power, in these rather difficult times for the electricity sector, to preserve and build good and positive mutual relations and a high level of professionalism.

Šoštanj, 31 May 2016

Arman Koritnik, LL.M.  
Managing Director



## 1.2 OPERATING HIGHLIGHTS IN 2015

The year 2015 was exceptionally challenging for Termoelektrarna Šoštanj, as the catastrophic situation in the electricity market is intensifying and will require that we adapt to lower prices in the wholesale market quickly and with consideration. We are adjusting our investments as well as expenses to the new, strained conditions and everything related to them.

TEŠ continues to hold an important role in the Slovenian electricity system, as it is capable of responding immediately after natural conditions fail. In 2015, the dispersion of Slovenian production sources proved to be a good thing, since our hydro power plants remained far behind last year's production results due to average hydrology. In a period when electricity needs were high due to the excessive heat, our thermal power plant increased its production by 30 percent – in July Units 4 and 6 operated at full power for most of the period, attaining the highest monthly output in their history.

With the falling energy prices in wholesale markets, energy producers are undergoing an extremely demanding period in which the operating standards of power plants nevertheless require investments and expenses. In order to adapt to the tightened conditions in the best possible way, we implemented in 2015 gradual and sound measures for optimizing and rationalizing our business operation in order to reduce the impact of the turbulent economic situation on our activities and maintain financially sustainable business operation.

We now face a period in which it will be necessary to settle our liabilities towards those banks that opted to finance our investment in the construction of replacement Unit 6, and at the same time to provide for the undisturbed operation of Unit 6. The achievement of our mission – ensuring the safe and reliable supply of electricity – will also largely depend on an understanding of energy supply on the part of different stakeholders.

We shall make full use of our advantages in the best possible way, and select effective and proper solutions that will ensure our efficient operation and sustainable business activities in future.

ITEM	2015	2014	2015/ 2014
Net sales revenue (EUR)	158.774.402	185.474.049	86
Net sales revenue in the domestic market (EUR)	158.742.288	185.461.798	86
Net sales revenue in foreign markets (EUR)	32.114	12.251	262
Net profit or loss (EUR)	(459.045.867)	(89.275.670)	
Revenue (EUR)	161.995.094	191.065.052	85
Expenses (EUR)	621.040.962	279.630.603	222
Labour costs (EUR)	17.469.939	18.103.491	97
EBIT = operating profit or loss (EUR)	(440.800.138)	(87.612.594)	
EBITDA = EBIT + AM (EUR)	(405.300.467)	(58.688.029)	
Assets (EUR)	1.119.823.870	1.498.884.806	75
Equity (EUR)	215.820.023	426.353.458	51
Bank indebtedness (EUR)	750.356.717	758.332.223	99
Investments (EUR)	63.241.898	183.131.868	35
Number of employees at the end of the period	385	439	88
Electricity sold (GWh)	3.557	2.835	125
Net return on equity ratio (ROE)	(1,430)	(0,190)	
Net return on assets ratio (ROA)	(0,351)	(0,061)	
Added value (EUR)	26.965.956	23.098.169	117
Added value per employee in EUR	65.451	51.964	126

In 2015, TEŠ generated EUR 158,774,402 in net sales revenue. This is 14 percent less than in 2014, primarily due to the transfer of effects of operation of Unit 6 during its trial operation, the lower selling price of electricity (lower price of coal), and the smaller volume of gas sold.

The net profit or loss of the Company totalled EUR 459,045,867, which is well below the 2014 figure. In comparison with 2014, the net profit or loss in 2015 was influenced by:

- the impairment of property, plant, equipment and inventories of the Company in a total amount of EUR 414.3 million,
- depreciation of the activated Unit 6 in the second half of 2015 in the amount of EUR 19.9 million,
- financial expenses for borrowings undertaken to finance the construction of Unit 6, which, from the date of activation until 31 December 2015, were recorded in the income statement under financial expenses and amounted to EUR 15.6 million,
- a 10 percent lower selling price of electricity due to the price of coal.

The assets of the Company decreased by 25 percent over 2014 due to the previously mentioned impairment of assets. The impairment of intangible assets, immovable property, devices and equipment was recognised on the basis of a valuation of the recoverable amount of long-term assets needed by the Company in the performance of its basic activity.

The construction of replacement Unit 6 was completed in June 2015. All phases of the project were carried out according to schedule and without major difficulties. Following a successfully conducted technical inspection of replacement Unit 6 and pertaining facilities, TEŠ received on 27 May 2015 a decision of the administrative authority ordering its one-year trial operation. The Company has yet to complete the one-year period of trial operation, guarantee measurements, and environmental impact measurements.

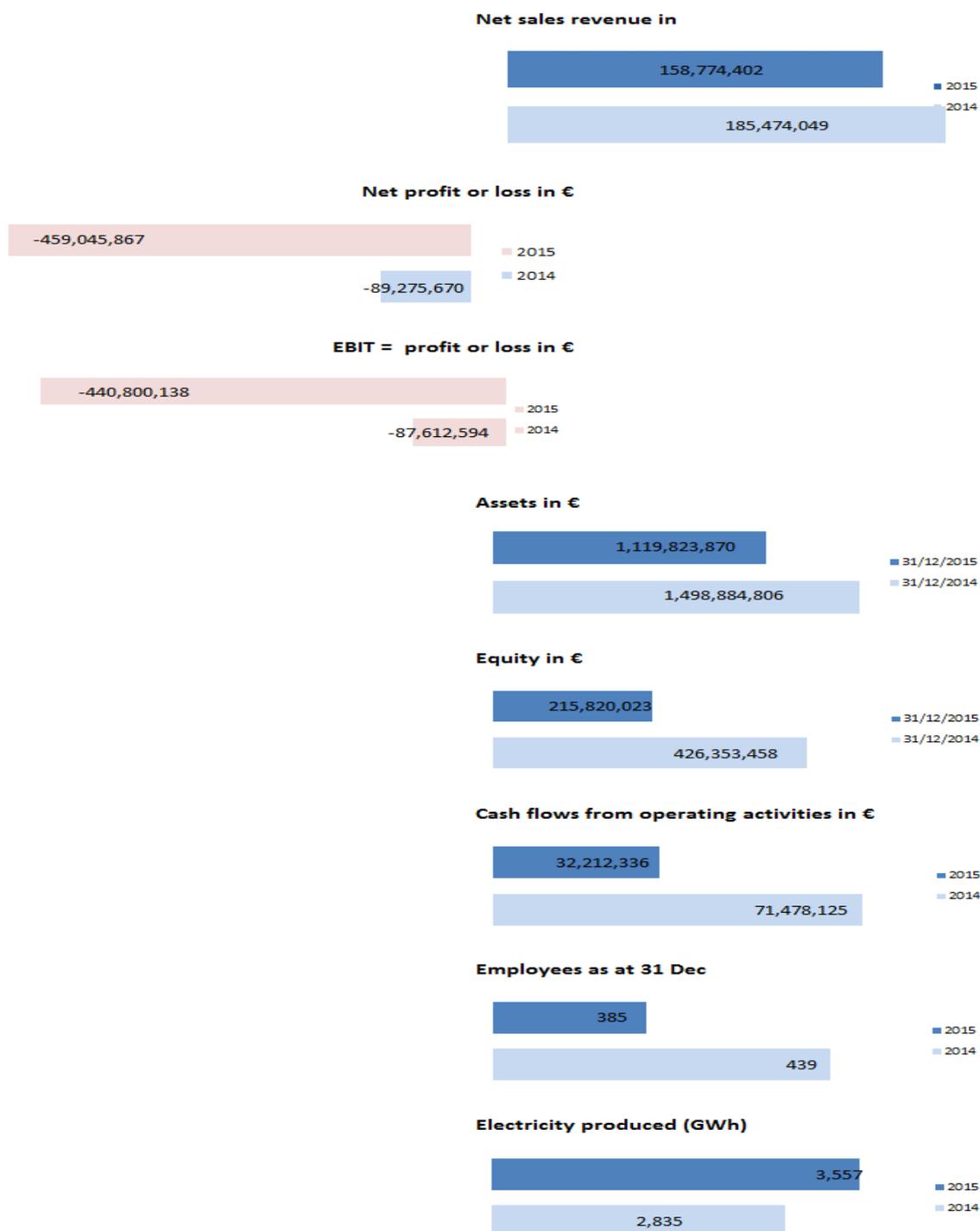


As regards other investments, in order to optimise its business operations, TEŠ carried out in 2015 only the most urgently required investments foreseen in the adopted annual plan.

Liabilities to banks amounted to EUR 750,356,717 and were 1 percent lower than at the end of 2014. The first principal repayment of a long-term loan raised with EBRD (European Bank for Reconstruction and Development) for financing the construction of replacement Unit 6 fell due for payment in 2015.

On 31 December 2015 TEŠ had 385 employees. This is 54 less than at the end of 2014.

In 2015 TEŠ generated and sold 3,557 GWh of electricity (of which 826.3 GWh in the period of Unit 6's trial operation). The annual production increased by 25 % over 2014. The thermal power plant's production was lower in 2014 due to extremely favourable hydrology.



### 1.3 OVERVIEW OF SIGNIFICANT EVENTS IN 2015

In December 2014 and January 2015, TEŠ prepared the Revised Investment Program, Revision 6 (version 5 of 30 January 2015) on the basis of documents and input data that had been harmonised within the HSE Group and deviate from the data used for the preparation of previous revisions of the investment program. HSE took note of this document on 30 January 2015, and the sole shareholder's Board of Management assessed that the document presents the final value of the investment, all costs related to the investment in Unit 6, and the feasibility of the schedule. The document also gives projections of TEŠ's business operation in the period from 2015-2030, which have been harmonised with the shareholder. A test was also prepared by a private investor, and showed a positive result.

In January 2015, TEŠ settled its liabilities relating to works performed by the main supplier of equipment for Unit 6, the Alstom company. The payment of these liabilities had been postponed until 2015 by mutual agreement (Addendum 11). The works were completed in 2014.

On 30 January 2015, HSE took note of, adopted and approved the Business Plan of TEŠ for 2015, together with an additional plan for 2016 and 2017, as well as the Projections of TEŠ's Business Operation in the period from 2015-2030.

On 12 March 2015, the Long-term Contract on coal purchase, lease of power and purchase of electricity for the period from 1<sup>st</sup> January 2015 to 31 December 2054 was concluded between HSE d.o.o., TEŠ d.o.o., and Premogovnik Velenje d.d..

On 16 March 2015, Contract No. 1/15/HSE/N on coal purchase, lease of power and purchase of electricity in 2015 was concluded between HSE d.o.o., TEŠ d.o.o. and Premogovnik Velenje d.d..

A technical inspection was conducted from 7-25 May 2015, on the basis of which the Ministry of the Environment and Spatial Planning of the Republic of Slovenia issued on 27 May 2015 a decision ordering trial operation for a period of one year. The contractual trial operation of main technological equipment was begun on 28 May 2015, while the trial operation ordered under the above-mentioned decision was begun on 11 June 2015 and will last for a maximum period of 12 months with the possibility of a single extension.

In May 2015, TEŠ prepared the Plan of Financial and Business Restructuring of TEŠ in the period from 2015 to 2017 (with a look ahead to 2030), in which it identified measures for the cost rationalisation of TEŠ's business operation.

In line with the provisions of the Articles of Association of the limited liability company Termoelektrarna Šoštanj d.o.o. dated 29 April 2014, the shareholder appointed Matjaž Eberlinc, PhD, as Acting Director of TEŠ for a period beginning on 3<sup>rd</sup> May 2015 and not exceeding six months.

On 3<sup>rd</sup> June 2015, TEŠ received a letter from the European Bank for Reconstruction and Development (EBRD) regarding the requested waiver from obligations. The mutual contractual relationship was regulated in July 2015 with the conclusion of Addendum No. 2 to Loan Agreement No. 40417.

On 11 June 2015, TEŠ received from an agent of Intesa SanPaolo a letter regarding the waiver from obligations with respect to the price of coal and financial ratios.

On 11 June 2015, two long-term loan agreements were concluded with HSE, i.e., Loan Agreement No. 1/HSE/TEŠ/15 in a value of EUR 83,000,000, and Loan Agreement No. 2/HSE/TEŠ/2015 in a value of EUR 33,800,000. The deadline for the repayment of both loans is 2 January 2026.

On 19 June 2015, after successfully completed start-up tests and contractual trial operation, TEŠ took over the management of the main drive facility of Unit 6 from the main supplier (ALSTOM) ahead of schedule. This means that the production capacities of Unit 6 are available to TEŠ and its owner, HSE, in their entirety, which will enable maximum utilisation and optimisation of the production capacities of Unit 6 with the aim of attaining the best possible financial effects.

On 30 June 2015, the shareholder HSE adopted a decision on capital increase by the payment of an in-kind contribution in the value of EUR 248,552,790.13. The increase was carried out by the payment of an in-kind contribution in the form of a swap of short-term liabilities under relevant debt assumption contracts to equity. Owing to the increase, the share capital thus amounts to EUR 578,579,850.13.

On 27 August 2015, HSE as the sole shareholder adopted a decision approving the Annual Report of TEŠ for 2014.

On 8 September 2015, HSE as the sole shareholder adopted a decision on the appointment of an auditor of financial statements of TEŠ for 2015. The auditing company KPMG Slovenija d.o.o. was appointed auditor of the Company.

On 21 September 2015, TEŠ received a legal action filed by Komunalno podjetje Velenje d.o.o. (Velenje Public Utility Company) to establish the illegality of TEŠ's withdrawal from the Contract on the sale and purchase of thermal energy for the year 2008, and a decree for temporary injunction imposing on TEŠ to continue supplying thermal energy to KPV in compliance with the relevant contract. Each individual violation is subject to a penalty of EUR 500,000.

On 30 September 2015, the Decree on limit values for emissions from large combustion plants into the atmosphere was submitted for public debate. This decree regulates the implementation of Article 33 of the Industrial Emissions Directive (IED) into Slovenian national law, on the basis of which Unit 4 could operate with the existing emission values even after 1<sup>st</sup> January 2016 (17,500 hours until 31 December 2023 inclusive). As proposed by the decree, TEŠ submitted relevant remarks in due time, i.e., by 30 October 2015.

On 23 October 2015, HSE adopted a decision granting consent to the Managing Director of TEŠ for the voluntary, early repayment of a loan to EIB in the amount of EUR 110 million, together with pertaining interest and other possible expenses. The funds for the voluntary, early repayment of the EIB loan would be provided by the sole shareholder in the form of a loan/capital increase.

The guarantee for the EIB loan in the amount of EUR 110 million was not renewed up to the contractual deadline of 28 October 2015. Based on the shareholder's decision of 23 October 2015, TEŠ prematurely repaid the said loan on 27 January 2016 with resources provided by HSE in the form of a long-term loan to TEŠ.

In line with a provision of the loan agreement concluded with EBRD (pari passu position), a proportional part of this loan also had to be repaid in January 2016. On 25 January 2016, TEŠ prematurely repaid EUR 37.8 million under the mentioned long-term loan, together with pertaining expenses related to early repayment. The resources were provided by HSE.

In line with the provisions of the Articles of Association of the limited liability company Termoelektrarna Šoštanj d.o.o., on 30 November 2015 the shareholder appointed Arman Koritnik, LL.M., as Managing Director of TEŠ for a four-year term beginning on 1 December 2015, with the possibility of re-appointment.

On 28 December 2015, TEŠ and UniCredit banka d.d. Slovenija signed Addendum No. 1 to Contract No. K 75-2015 in a value of EUR 7.5 million, and Loan Facility Agreement No. RV 1866/2015 in a value of EUR 5.0 million.

In the period from September to December, guarantee measurements for the main technological equipment and cooling tower of Unit 6 were performed, as well as environmental impact measurements.



#### **1.4 IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL YEAR**

On 16 March 2016, Contract No. 1/16/HSE/N on coal purchase, lease of power and purchase of electricity in 2016 was concluded between HSE d.o.o., TEŠ d.o.o. and Premogovnik Velenje d.d..

In March 2016, TEŠ prepared the Plan for the Financial and Business Restructuring of TEŠ in the period from 2016 to 2018, in which it identified the measures for financial and business restructuring.

On 18 March 2016, HSE took note of, adopted and approved the Business Plan of TEŠ for 2016, together with an additional plan for 2017 and 2018, as well as the Projections of TEŠ's business operation in the 2016-2030 period.

The environmental permit allowing the operation of Unit 4 until 31 December 2023 at the latest, in a total limited scope of 17,500 operating hours, became final on 29 February 2016.

Pursuant to Articles 10 and 22 of the Employment Act (ZDR-1) and Article 9 of the Collective Agreement for the Slovenian electricity sector, the Managing Director of TEŠ, Arman Koritnik, LL.M.,

adopted on 6th April 2016, subsequent to the previous opinion of the trade union and after joint consultation with the workers' council, the Act on internal organisation and job classification.

Within the scope of optimising and rationalizing business operations, the management of TEŠ prepared, pursuant to an agreement concluded with the Company's trade union on the criteria for the determination of redundancies, the Dismissal Programme for Redundant Workers and on 8th April 2016 presented it to social partners.

On 23 March 2016, the management of TEŠ received notice from the Trade Union of Energy Sector Workers of Slovenia that strikes were being planned for April 2016.

On 1 May 2016, the provision of catering services for employees was outsourced and the employees in the catering department were transferred. As of 1 May 2016, catering services for employees during working hours will be provided by the company Gorenje Gostinstvo, d.o.o., with which an agreement has been concluded for an indefinite period.

## 2 BUSINESS REPORT

### 2.1 PRESENTATION OF THE COMPANY

Termoelektrarna Šoštanj is a limited liability company whose sole shareholder is Holding Slovenske elektrarne d.o.o..

#### 2.1.1 Company profile as at 31 December 2015

GENERAL INFORMATION			
Full company name	Termoelektrarna Šoštanj d.o.o.		
Legal organisational form	Limited liability company with a sole shareholder		
Address	Cesta Lole Ribarja 18, 3325 Šoštanj		
Telephone	03 8993 200		
Fax	03 8993 485		
Companies register entry no.	10051100 – District Court of Celje		
Share capital in EUR	578,579,850		
Size	Large		
Year of establishment	1956		
Tax number	92189903		
VAT ID no.	SI92189903		
Company registration no.	5040388		
Website	<a href="http://www.te-sostanj.si">www.te-sostanj.si</a>		
E-mail	<a href="mailto:info@te-sostanj.si">info@te-sostanj.si</a>		
Activity code	35.112		
DATA ON TRANS. ACCOUNTS			
BANK	TRANS. ACCOUNT		
BANKA KOPER	101000038312861		
NLB	024260017217937		
NOVA KBM	045150001707126		
UNICREDIT	290000003080383		
DATA ON MANAGEMENT AS AT 31 DECEMBER 2015			
POSITION	Name and surname	Start	End
Managing Director	Arman Koritnik, LL.M.	1 Dec 2015	30 Nov 2019
Member / Shareholder	Address	Share in EUR at 31 Dec 2015	Share in % at 31 Dec 2015
Holding Slovenske elektrarne d.o.o.	Koprska 92, Ljubljana	578,579,850	100.00%
		578,579,850	100.00%

#### 2.1.2 Business activities of the Company

The Company has several registered activities. Its core activity is the production of electricity in thermal power plants.

#### 2.1.3 Company bodies and representation

The Company's managing body is:

- the Board of Management.

In accordance with the Company's Articles of Association and applicable legislation, the shareholder has the role and all competences of a general meeting, provided that the legal form of the Company is a limited liability company with a sole shareholder.

#### **2.1.4 Corporate governance statement**

The company Termoelektrarna Šoštanj d.o.o., Cesta Lole Ribarja 18, 3325 Šoštanj, hereby presents its Corporate Governance Statement in compliance with paragraph 5 of Article 70 of the Companies Act (ZGD-1). The statement refers to the period from 1 January 2015 to 31 December 2015.

As Managing Director of TEŠ, I hereby declare that the Company's governance is in accordance with applicable laws and other regulations, the applicable Articles of Association of the limited liability company TEŠ, the Company's internal rules, and in line with good business practices.

As Managing Director of TEŠ, I hereby declare, in accordance with Article 60a of the Companies Act (ZGD-1), that the annual report and all integral parts thereof, including the corporate governance statement, have been compiled and published in conformity with the Companies Act (ZGD-1) and the International Financial Reporting Standards.

#### **Statement of compliance with the Corporate Governance Code for companies with state capital investments**

As Managing Director of TEŠ, I hereby declare that the governance of TEŠ in 2015 was in compliance with the Corporate Governance Code for Capital Assets of the Republic of Slovenia, and with the Recommendations of the Asset Management Company of the Republic of Slovenia's Direct and Indirect Capital Assets, as adopted by Slovenski državni holding, d.d. (Slovenian Sovereign Holding). As Managing Director of TEŠ, I hereby declare, in accordance with the provisions of the Code, that TEŠ has opted to apply the Code on a voluntary basis.

#### **Management bodies of the Company**

In accordance with the Articles of Association of TEŠ, the shareholder manages the Company directly and through the Company's bodies.

#### **Shareholder**

The shareholder independently decides on the following matters:

- modifications of and amendments to the Articles of Association of the Company;
- change of registered office on the proposal of the Board of Management;
- approval of the Company's development strategy on the proposal of the Board of Management;
- approval of the fundamental corporate policy and the development plan of the Company on the proposal of the Board of Management;
- investment programmes on the proposal of the Board of Management;
- approval of regulations, policies and other general acts which generally apply in all companies of the HSE Group;

- business plan of the Company;
- approval of the annual report;
- appropriation of accumulated profit and covering of loss;
- granting of discharge to the Board of Management;
- purchase, division and termination of business interests;
- measures to increase or decrease capital;
- changes in the Company's share capital,
- status changes and dissolution of the Company;
- appointment of the Company's auditor;
- appointment of the Company's holder of general power of attorney and proxies;
- approval of measures for improving the Company's operations and eliminating any deficiencies or irregularities found;
- granting of consent to transactions of the Company's Board of Management in line with the Articles of Association;
- appointment and recall of members of the Company's Board of Management (directors);
- entry into employment contracts with members of the Board of Management (directors of the Company);
- requests regarding reports of the management on the Company's business operations and other matters related to the operations of the Company and other subsidiaries;
- other matters defined by regulations and in conformity with this act.

In accordance with Article 526 of the Companies Act (ZGD-1), the decisions adopted by the shareholder are entered in the register of decisions.

### Board of Management

The Company's management body is the Board of Management. The Company has one or more directors, but not more than three, who represent the Company and manage its business affairs on their own responsibility. The appointed directors constitute the Board of Management of the Company. The members of the Board of Management (directors) are appointed and recalled by the shareholder. The term of office of members of the Board of Management is 4 years, with the possibility of re-appointment.

Pursuant to the provisions of the Articles of Association, the members of the Board of Management (directors) shall require the consent of the Company's shareholder for the conclusion of transactions or the adoption of decisions relating to the following:

- conclusion of legal transactions and raising of loans in a value exceeding EUR 333,834.08 for the same subject of business in the respective financial year;
- disposal and pledge of real property;
- equity investments of the Company in other legal entities;
- start of an investment whose projected value exceeds EUR 100,000.00 (due to the need for co-ordinated strategic development of the HSE Group);
- start of an investment in IT whose projected value exceeds EUR 50,000.00 (due to the need for co-ordinated development of IT in the HSE Group), after obtaining the opinion of the Head of IT in the shareholder's company;
- issuing of sureties, warranties or guarantees for other persons' liabilities, and
- business or financial lease.

## Internal controls and risk management within the Company in relation to the financial reporting procedure

From the aspect of providing accounting data that comply with the criteria of the International Financial Reporting Standards, the Company has established internal controls designed to reduce risks related to accounting reporting.

By means of accounting controls, we ensure:

- credibility,
- correctness, and
- completeness of accounting data.

We provide for the regular professional training of employees, which enables them to contribute quality, accurate and timely accounting data through their work. Our central IT system, Kopa ERP, has an important role in providing quality accounting data.

We understand the Company's internal control system as the planned and systematic establishment of procedures and methods which, in the course of their operation, ensure punctuality, reliability and completeness of data and information, as well as accurate and fair preparation of financial statements, prevent and detect errors in the system, and ensure compliance with applicable laws and other regulations and internal acts of the Company.

For the purpose of ensuring greater transparency, efficiency and responsible business operation, the Company has established an operating system of internal controls and risk management via its organisational structure, the ISO 9001 quality management standard, the OHSAS 18001 occupational health and safety management standard, the ISO/ICE 27001 information security management standard, and the internal acts of the Company, together with a developed reporting system in individual organisational units. The internal controls system is supported by an IT controls system which, among other things, ensures adequate limitations and control over the network, as well as precise, up-to-date and complete data management.

With the aim of setting up a comprehensive risk management system in the Company so as to provide the Company's management and founder with sound bases for managing and governing the Company, as well as to achieve the planned goals, the Managing Director of the Company established a consultative body – the Risk Management Committee. The committee's organisation, composition, method of work, and tasks are defined in the Rules of Procedure for the Work of the Risk Management Committee.

The Managing Director is responsible for the establishment, operation, supervision and constant improvement of the internal controls system, as well as for the correctness and completeness of data.

Šoštanj, 31 May 2016

Arman Koritnik, LL.M.  
Managing Director

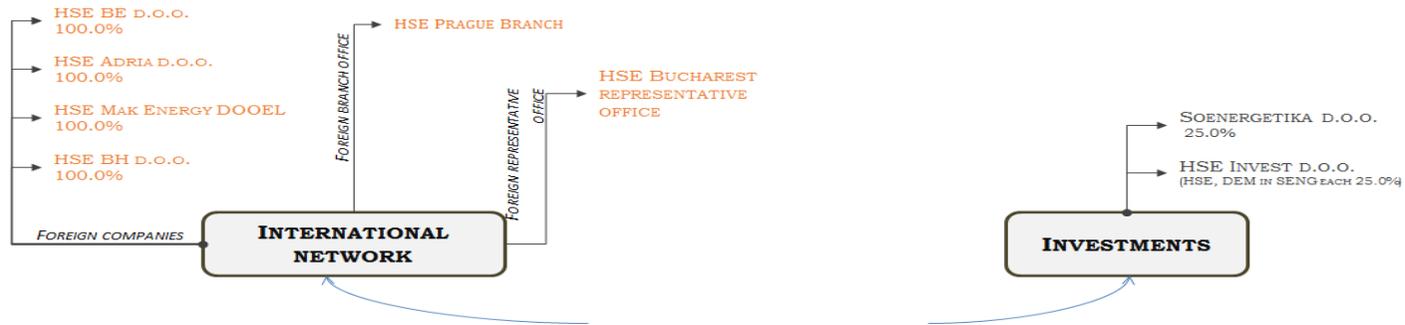


### **2.1.5 Relations with the controlling company**

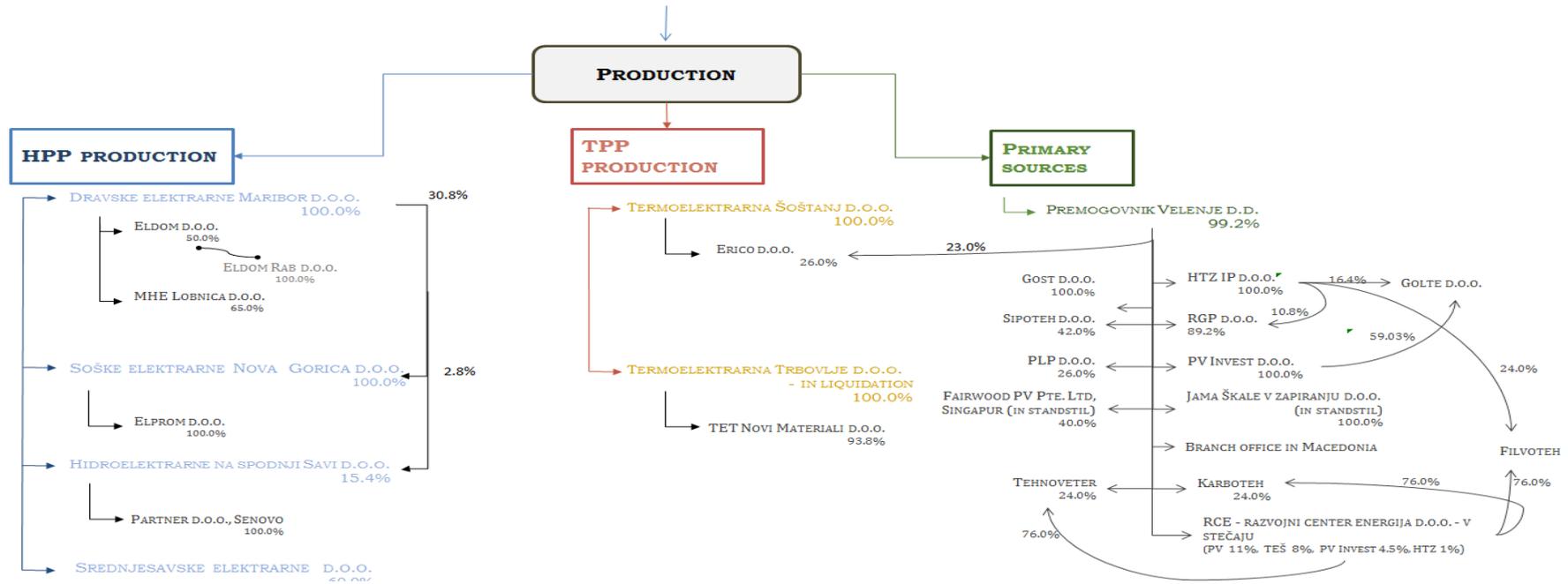
Termoelektrarna Šoštanj d.o.o. is part of the Holding Slovenske elektrarne Group. On 31 December 2015, Holding Slovenske elektrarne d.o.o., with its registered office at Kopraska 92 in Ljubljana, was the Company's sole shareholder, i.e., controlling company, which prepared the 2015 consolidated annual report for the group companies under its control.

Pursuant to Articles 545 and 546 of the Companies Act, the Company's Board of Management submitted a report on relations with the controlling company and other subsidiaries in the Group, establishing that given the circumstances known to the Company at the time of a specific legal transaction, TEŠ d.o.o. assesses that it had not been disadvantaged in any such transactions with the controlling company and its related companies, and that in 2015 no legal transaction, act or omission that could be potentially damaging to the Company had taken place as a result of influence exercised by Holding Slovenske elektrarne d.o.o..

Organisational chart of the HSE Group as at 31 December 2015



# HOLDING SLOVENSKE ELEKTRARNE D.O.O.



## 2.1.6 Capital links with other companies

Company	Subsidiary / Associate	Company registration no.	Address	Year of establishment	Main activity	Total equity in EUR as at 31 Dec 2015	Share capital in EUR as at 31 Dec 2015	Controlling company's equity share
<b>ASSOCIATES</b>								
Erico d.o.o.	associated	558305	Koroška cesta 58, Velenje	1 <sup>st</sup> Apr 1992	74.900	1,280,985	278,494	26%
Tešing d.o.o. Velenje	associated	6689655000	Preloška cesta 001, Velenje	24 Sep 2014	71.129	Deleted from court register on 1 <sup>st</sup> June 2015		
Enraz d.o.o. Velenje	associated	6689027000	Preloška cesta 001, Velenje	24 Sep 2014	74.900	Deleted from court register on 24 June 2015		

Erico d.o.o. was established in 1992 as an institution engaged in scientific research activities in the area of environmental studies focused on environmental protection. It was founded by RLV Velenje, TEŠ and ESO Velenje with the purpose of forming an institution in Šaleška Valley whose experts in various fields will prepare, manage, direct and verify environmental rehabilitation measures in Šaleška Valley.

In 2007, Erico was transformed into a limited liability company, whose shareholders are Ekoinvest (51 %), Premogovnik Velenje (23 %), and TEŠ (26 %). Through a joint approach to the sale of business interests in ERICO d.o.o., which is being carried out in the manner and under the conditions defined in the rules for the sale of state-owned property in direct and/or indirect state ownership, it was mutually agreed that the role of coordinator in the sale of business interests would be assumed by the company Gorenje d.d..

In September 2014, the companies EnRaz, d.o.o. and TEŠING d.o.o. were established with the purpose of performing development and consulting activities in the areas of energy business and environmental protection. In 2014, TEŠ impaired these two investments due to the findings of the Ministry of Economic Development and Technology regarding its alleged violation of the Contract on Co-financing. Both companies were deleted from the court register in June 2015.

## 2.2 COMPANY'S BUSINESS POLICY

### MISSION

The mission of Termoelektrarna Šoštanj is to provide customers with sufficient quantities of energy at competitive prices by generating electricity and thermal power, and thus contributing to economic growth and the quality of work and life of energy consumers.

### VISION

Termoelektrarna Šoštanj is and strives to remain the largest thermal power system in Slovenia, which will provide its customers with reliable, safe, competitive and optimally environmentally friendly production of electricity and thermal power. We are endeavouring to be as flexible as possible in all areas of our operation.

## PRINCIPAL LONG-TERM GOAL

To maintain our production capacities and ensure long-term, reliable, safe, competitive, and environmentally friendly electricity and thermal power production based on the use of diverse primary sources.

To fulfil our principal goal, we have set long-term, special area objectives, including annual goals.

## 2.3 MANAGEMENT SYSTEM POLICY

### 2.3.1 Achievement of objectives in the areas of quality, environmental management, occupational health and safety management, and information security management

TEŠ has established an integrated management system comprised of:

- a quality management system as required by SIST ISO 9001:2008 (since 5 April 2000);
- an environmental management system as required by SIST EN ISO 14001:2004 (since 25 February 2003);
- an occupational health and safety management system as required by OHSAS 18001:2007 (since 6 July 2005), and
- an information security management system as required by ISO/IEC 27001:2005 (since 1<sup>st</sup> September 2009).

The performance and efficiency of the established management system is determined on the basis of integrated internal audits, external audits carried out by a certification body, independent reviews by certified institutions, and through the achievement of planned objectives. As every year so far, in 2015 we successfully passed an external repetitive audit of the integrated management system. Based on this successfully completed external repetitive audit, the certification body issued new certificates to the Company for a period of three years, i.e., from 2015 to 2018. No inconsistencies were found and some recommendations were given, which we systematically addressed and took into consideration.

External auditors assessed that the audited management system, in particular with regard to:

- scope and policy,
- definition of process goals and their monitoring,
- identification and regular monitoring/assessing of risks (jeopardising buyers, information security, environmental safety, health and safety of employees), safety aspects of the organisation, and legal or statutory requirements,
- qualifications, experience and competences of employees in relation to the management system,
- selected and implemented safety controls,
- activities for informing employees about the management system,
- conduction of internal audits and managerial reviews,
- ensuring a permanent improvement process,

is effective, and that the bases have been provided for maintaining and improving the management system.

### 2.3.2 Occupational health and safety and fire safety

A safe and healthy working environment is one of the fundamental principles of the power plant's operation. Our occupational health and safety system is managed systematically on the basis of the OHSAS 18001 standard, which has been successfully certified for several years.

In 2015, the Occupational Safety Department carried out regular preventive measures ensuring a high level of occupational health and safety and fire safety on all organisational levels.

In addition to performing legislation-compliant operations, we have established effective mechanisms for identifying negative aspects and risks, which allow us to develop measures, goals and improvements.

In 2016, the Company will continue to devote considerable attention to the occupational safety training of employees, regulation of fire safety within the Company, inspections of work equipment, purchase of quality safety equipment, and promoting health in the workplace.

In the given economic circumstances, we shall be careful to select programs and activities that will contribute to a maximum extent towards ensuring a healthier and safer working environment.

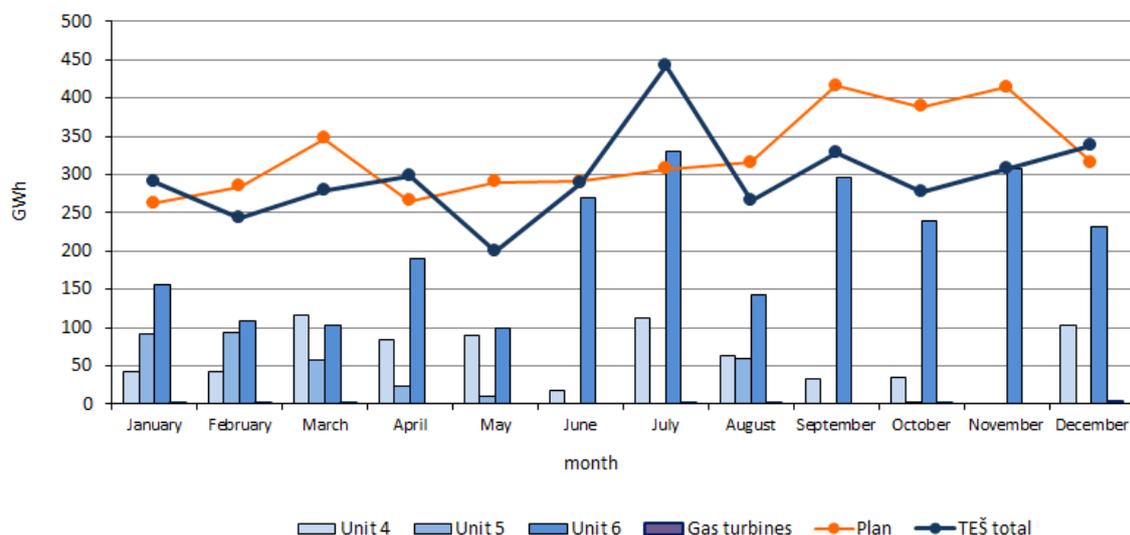
## 2.4 PRODUCTION

### Production of electricity (net)

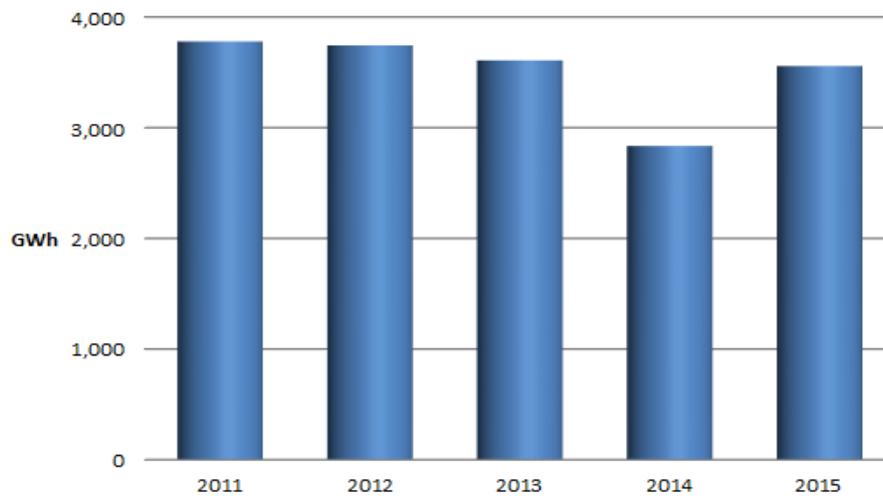
In 2015, TEŠ produced 3,557 GWh of electricity (including Unit 6), which is 341 GWh or 9 % less than planned and 25 % more than in 2014. Lower production than planned is the consequence of the unpredictable operation of Unit 6 during start-up tests, shutdown of Unit 6 due to failure of draught fan B, discontinuation of operation of Unit 5, and restrictions in the operation of units due to major difficulties of the Velenje Coal Mine in the extraction and supply of coal.

3,554 GWh of electricity was produced from coal and 3 GWh from gas.

### Net electricity production per month in 2015



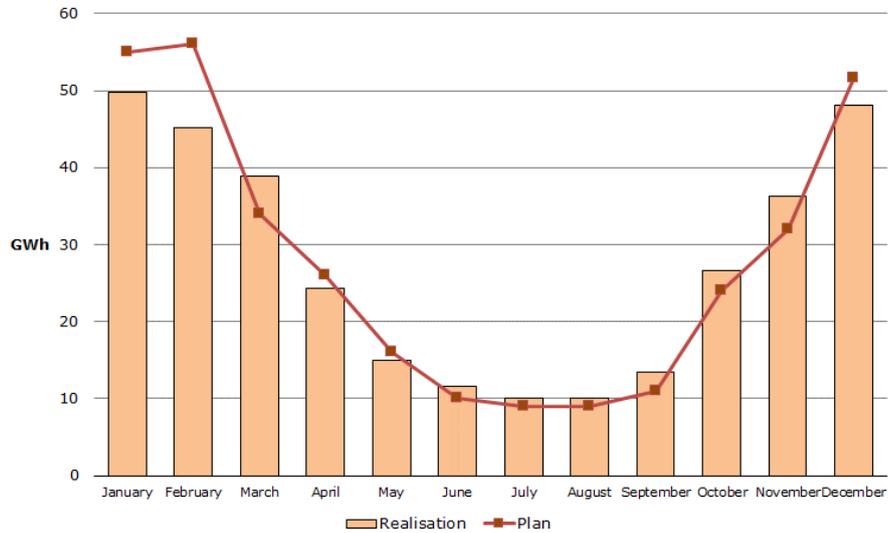
## Net electricity production per year



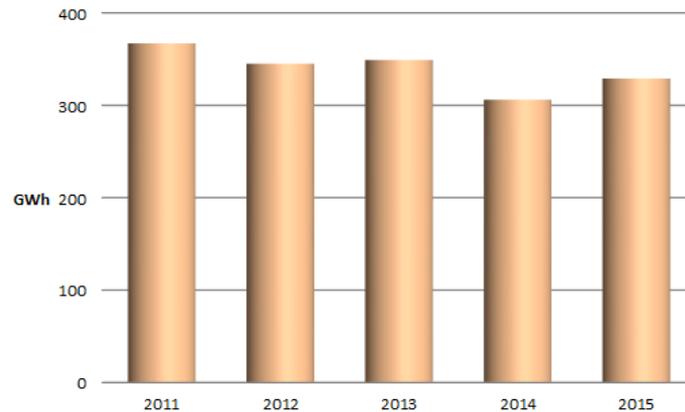
## Thermal energy production

In 2015, TEŠ produced 329 GWh of thermal power for heating, which is 3 GWh or 1 % less than planned. Most of the thermal power needs were covered. Some difficulties were encountered in the supply of thermal power due to failure of the only unit in operation. As of November and/or December, both gas units are available for thermal power supply.

## Thermal energy production production per month in 2015



## Thermal energy production per year



## Consumption of energy products

In 2015 we used 3,182 thousand tons of coal, of which 3,107 thousand tons were used for electricity production and 75 thousand tons for thermal energy production. The average calorific value of supplied coal was 11,418 kJ/kg, which is better than in 2014, when the calorific value was 11,174 kJ/kg.

## Emission coupons

Paragraph one of Article 130 of the Environmental Protection Act (ZVO-1) stipulates that the Ministry of the Environment and Spatial Planning shall, on the basis of the national plan and at the request of the plant operator, determine the total quantity of emission coupons attributable to the plant operator in a specific period. Pursuant to a decision of the Slovenian Ministry of Agriculture and the Environment, TEŠ, as plant operator with the designation SI-4, received, without obligation to pay, the entire quantity of 579,013 emission coupons to which it is entitled for the period from 1 January 2013 to 31 December 2020.

In 2015, TEŠ emitted approx. 3,791,039 tons of CO<sub>2</sub> into the environment through electricity production. According to the provisions of the Environmental Protection Act, the Company is consequently obliged to pay an environmental pollution tax (1 coupon per ton of CO<sub>2</sub>) by 30 April 2016. To settle this tax, TEŠ possesses 107,372 free coupons. The difference in the amount of 3,683,667 emission coupons will be purchased from HSE.

## 2.5 MAINTENANCE

To ensure the undisturbed production of electricity, the power plant had to maintain three steam production units (Unit 4, Unit 5 and Unit 6), two gas production units (intended for tertiary reserve), three thermal stations, a coal transport system, water preparation in the hydrogen production facility, and joint facilities. All of these facilities, plants and installations need to be systematically maintained if we are to operate safely and reliably, in an environmentally sound manner, with high availability, high flexibility of production units and an optimal utilisation rate, until the end of the service life of our units.

Considering their age and hours of operation, TEŠ's plants already require fairly intensive maintenance (except Unit 6). Maintenance is performed on the basis of plant operation monitoring, operational events, assessment of remaining service life, with the help of demolition and non-demolition methods of material control, and in line with the requirements for safe and reliable operation, as well as accepted guidelines, i.e., strategy, for plant operation and maintenance.

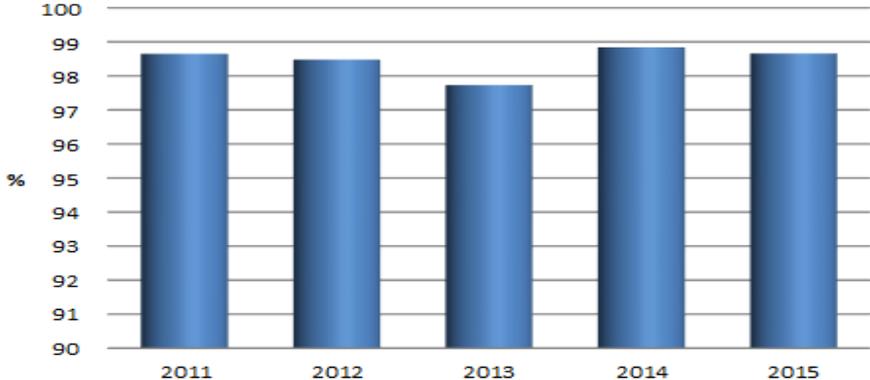
**Regular** preventive maintenance comprises inspections, controls, analyses and interventions, all of which ensure the reliable operation of all plants. This also includes repairs and replacement of individual plant assemblies. Unavoidable work on plants is performed during the shutdown of units, which is usually on weekends.

This area also includes maintenance activities such as inspections, measurements, installation and dismantling, repairs and replacement of machine and plant spare parts that require the elimination of machines and plants, or of the entire production unit, from operation. Their purpose is to restore or preserve the future economic benefits expected on the basis of the initially assessed level of efficiency of resources.

A total of EUR 3,649,036 was spent on the maintenance of all drive units, other facilities and plants, which is 43 % less than in 2014. Lower expenses are primarily the result of implemented optimisation measures focused on lowering the prices of external services and reducing their number, as well as having maintenance works performed by our own maintenance personnel. We predominantly carried out preventive maintenance, which comprised inspections, controls and procedures enabling the reliable operation of all plants. Based on priorities, some repairs have been postponed and will be performed in future.

The operating availability of units is on the level of previous years.

**Operating availability of units**

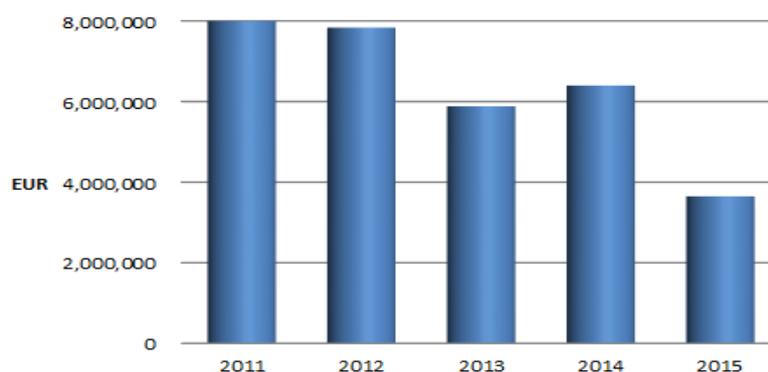


Given the good operating availability of production units, we can conclude that the maintenance strategy is solid.

We are confident that all plant repairs were performed economically. Regular plant maintenance is highly important in order to preserve the value of plants and working equipment, ensure the expected service life of plants, and prevent any down times due to equipment failure. In upcoming years, our attention will be focused on searching for ways to optimise maintenance costs while observing the prescribed maintenance works to be performed by producers.

The changes in maintenance costs, which include costs of maintenance services and costs of maintenance materials, in the period from 2011 to 2015 are shown in the following graph:

## Changes in maintenance costs from 2011 to 2015



## 2.6 MARKET POSITION

### 2.6.1 Economic environment in 2015

The recovery of economic activity continued in 2015. Exports remained the key factor of economic growth in the previous year as well. The recovery of private consumption strengthened and private investments in equipment and machines increased. Joint investments remained on the attained level, despite the decline in construction projects (also in connection with movement of state investments). The GDP increased by 2.9 % in 2015.

Indicators for the last quarter of 2015 show further improvements in lending conditions for companies as regards maturity and company size, as well as for housing and consumer loans to households. An important factor of improvement is, alongside higher competition between banks, also access to alternative sources of financing. The structure of loan demand is changing, as companies are intensifying their demand for funds for day-to-day operations, investments and company restructuring, which points to improved conditions in the entrepreneurial sector.

The prices of oil and non-energy raw materials continue to decline. After dropping to about half its value in 2015, the dollar price of Brent oil plunged further to around USD 30 per barrel. Lower oil prices had both an indirect and a direct positive impact on economic trends in Slovenia, reflected in a higher growth of foreign demand and, consequently, exports. Indirect effects are linked to the impact on the real disposable income of households and the profits of companies.

Slovenia ended the year with deflation (-0.6 %), while prices on the euro area level rose slightly (0.2 %). Lower prices of energy products primarily contributed to deflation.

The number of persons in employment continued to grow towards the end of 2015. In manufacturing activities and market services, the number of employed persons increased with increasing activity. We estimate that manufacturing activities accounted for a considerable portion of the increased number of persons employed in employment activities. In public service activities, the number of employed persons in the interim period remained higher in health care, while in the area of education their numbers were higher in pre-school and primary education, where enrolled generations are known to be larger. In public administration, owing to the adopted guidelines, their numbers remained lower.

The total electricity produced by Slovenian power plants in 2015 and supplied to the transmission network amounted to 12,985 GWh, which is 2,237 GWh less than in 2014. Hydro power plants supplied 3,709 GWh, thermal power plants 3,809 GWh, and the Krško Nuclear Power Plant supplied

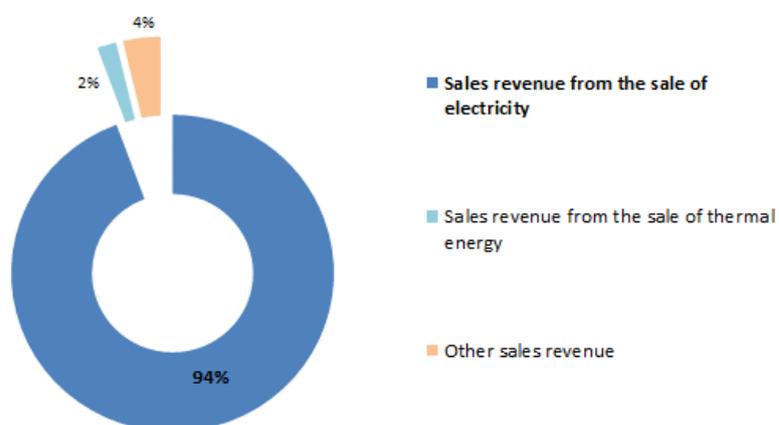
5,362 GWh (100 %) of electricity. In the previous year, the users of the transmission network imported 9,045 GWh and exported 9,094 GWh of electricity.

## 2.6.2 Sales and customers

In 2015, Termoelektrarna Šoštanj generated EUR 158,774,402 in sales revenue, which is EUR 26,699,647 or 14 % less than in 2014. This figure does not include revenues from the sale of electricity and thermal power produced by Unit 6 during trial operation, which are recognised under investments (EUR 29.7 million). The net sales revenue from the sale of electricity is lower primarily due to the transfer of effects of operation of Unit 6 during its trial operation, and the lower selling price of electricity (lower price of coal).

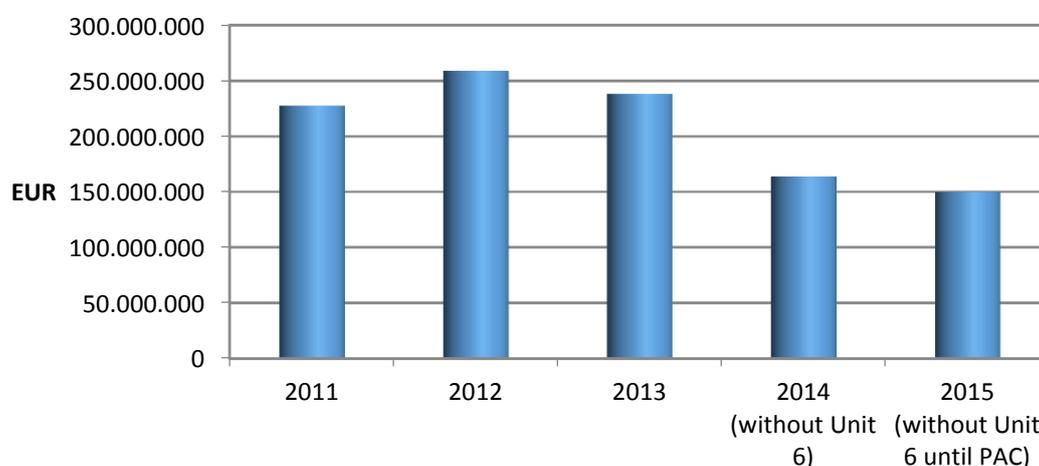
The Company sells electricity in the market within the scope of its owner, Holding Slovenske elektrarne d.o.o.

### Sales revenue structure in 2015:



As the Company's largest customer, Holding Slovenske elektrarne d.o.o. purchases all of the electricity produced, which accounts for 94.3 % of the total sales. The major part of other sales revenue is from the buyback of natural gas.

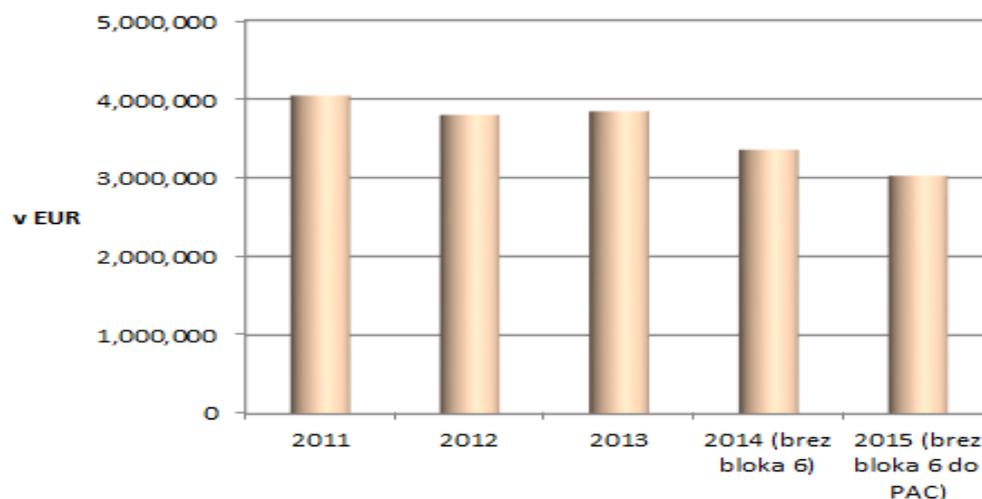
### Sales revenue from the sale of electricity per year:



## Revenue sales from the sale of thermal energy

In 2015 the Company generated EUR 3,024,273 in sales revenue from the sale of thermal energy, which is 10 % below the 2014 figure. The sales revenue is lower than in 2014 due to the transfer of sales revenue from the sale of thermal energy during trial operation of Unit 6 to assets under construction (EUR 0.6 million). Industrial water was also sold in a value of EUR 49,056.

### Sales revenues from the sale of thermal energy:



### Sale – buyback of gas

On the basis of a purchase/sales contract for natural gas concluded with the Geoplin company, TEŠ has a guaranteed supply of specified quantities of natural gas. Since the production of electricity from gas was not planned in 2015, TEŠ concluded a buyback contract with Geoplin on 30 December 2014. In May 2015, the parties concluded an annex thereto, whereby the buyback contract was consensually terminated on 1 April 2015.

### Other sales revenue

Other sales revenue from the sale of products and services comprises revenue from catering services, revenue from the sale of fly ash and gypsum in Slovenia, sale of industrial water, rental of premises (safe room, apartments, business premises), sale of waste materials, and other.

### 2.6.3 Purchasing and suppliers

The main objective of purchasing is to provide raw materials, materials, spare parts, equipment and services required for regular operations, as well as the purchase of investment equipment, at the most favourable prices, under the most favourable terms of payment and delivery, from the most reliable sources, and through optimal supply lines. Only such an approach will enable the Company to achieve its development and strategic goals.

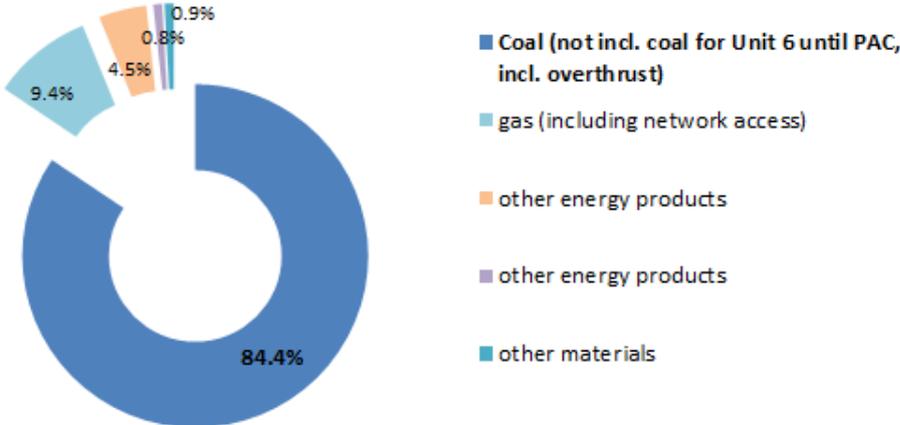
TEŠ is obliged to carry out public procurements in line with the Public procurement in the water, energy, transport and postal services sectors Act (ZJNVETPS).

The Company's most important strategic supplier is Premogovnik Velenje d.d. (Velenje Coal Mine). The purchase of coal for electricity and thermal energy production accounts for 47 % of all purchases. In the previous year, 27,901 TJ of coal was used in electricity production, and 764 TJ of coal in thermal energy production (not including coal for Unit 6 until PAC, 7,669 TJ).

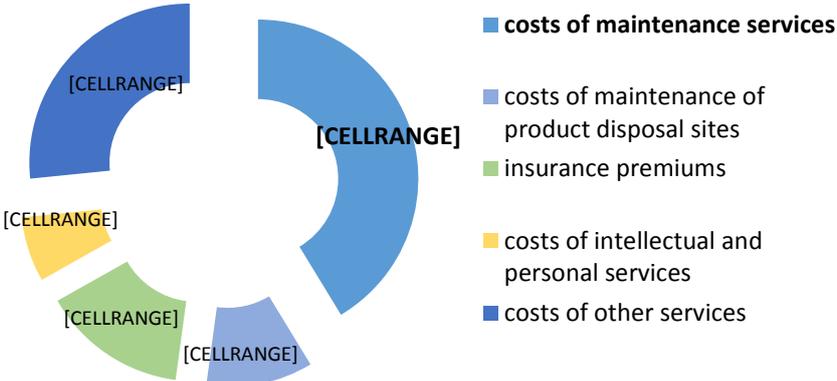
Natural gas is among the raw materials used in the production of electricity. In the previous year, 0.8 million Sm<sup>3</sup> of gas was used for electricity production and 15.7 million Sm<sup>3</sup> of gas was allocated for buyback.

Purchases of materials accounted for 56 % of all purchases.

The materials purchasing structure is as follows:



Purchases of services accounted for 5 % of all purchases. The services purchasing structure is as follows:



The share of investment purchases accounts for 39 % of the total purchases, and refers primarily to purchases for the needs of completing the construction of replacement Unit 6. The principal supplier of capital equipment is the Alstom company, with which TEŠ has concluded a contract for the supply and installation of main technological equipment.

## 2.7 INVESTMENTS

The principal task of the electric power supply system is the punctual, sufficient and reliable supply of quality electricity. The efficient performance of production activities therefore requires timely development planning and investment in reliable production, which will eliminate technological and technical risks in ensuring production.

In line with the business plan, the Company allocated most of its investment funds in 2015 to the completion of construction of replacement Unit 6. Other investments were reduced to a minimum due to the changing situation in the electricity market, which is having a strong impact on the implementation of investment policy.

INVESTMENTS	<i>in EUR</i>		
	Completed in the January-December 2015 period		
	Loans	Other funds (debt assumption contracts – capital increase)	TOTAL
<b>NEW FACILITIES</b>	<b>44,928,093</b>	<b>21,004,017</b>	<b>65,932,110</b>
Unit 6	44,928,093	21,004,017	65,932,110
<b>INVESTMENTS IN PRODUCTION RELIABILITY</b>	<b>1,399,999</b>		<b>1,399,999</b>
Investment in gas unit	1,158,808		1,158,808
Restoration of coal transport steering management system	196,061		196,061
Wastewater collecting basin (completion)	45,130		45,130
<b>MINOR INVESTMENTS</b>	<b>341,289</b>		<b>341,289</b>
<b>BUSINESS INFORMATION SYSTEM</b>	<b>39,648</b>		<b>39,648</b>
<b>TOTAL COMPANY</b>	<b>46,709,029</b>	<b>21,004,017</b>	<b>67,713,046</b>



## Unit 6

The principal reason for constructing the new replacement Unit 6 was the wear and tear of the majority of existing production units at Termoelektrarna Šoštanj (TEŠ), as these are operating with an obsolete technology which, in upcoming years, will no longer fulfil the requirements for such plants. Of key importance in assessing the rationality of the investment was also the energy location with available coal, as well as all the necessary infrastructure for electricity transmission.

The construction of the new replacement unit will substantially decrease environmental loads caused by emissions of substances into the environment thanks to the use of the latest (BAT) technology. Owing to its much higher efficiency, specific CO<sub>2</sub> emissions will be substantially reduced, i.e., per unit of electricity generated.

On 24 September 2014 the first synchronisation of Unit 6 with the Slovenian electricity network was successfully carried out, and the first kilowatt hours of electricity were transmitted to the network. Following a successfully completed technical inspection of replacement Unit 6 and pertaining facilities, on 27 May 2015 TEŠ received a decision of the administrative authority ordering one-year trial operation of the newly constructed Unit 6. With the issue of this decision, the technical inspection, begun on 7 May 2015 and concluded on 25 May 2015, was thus formally completed. The replacement unit construction project was concluded in June 2015. All phases of the project were carried out according to schedule and without major difficulties. In this period, the expert committee appointed by the administrative authority conducted several partial inspections of the facility and found that it was constructed in a quality manner, in accordance with building permits, and that there were no existing deficiencies preventing the start of its trial operation.

Trial runs were completed, and on 7 June 2015 the unit's 10-day contractual trial operation ended. The provisional acceptance of equipment (PAC – Provisional Acceptance Certificate) of the main drive facility from ALSTOM, the main supplier, took place on 19 June 2015. This means that the production capacities of Unit 6 are now available in their entirety to TEŠ and its owner, HSE, which will enable maximum utilisation and optimisation of the production capacities of Unit 6 for the purpose of attaining the best possible financial effects.

The one-year trial operation period and the performance of guarantee measurements and environmental impact measurements are continuing. The acquisition of an operating permit depends on the length of trial operation ordered by the administrative authority following a successfully passed technical inspection. TEŠ shall devote its efforts to obtaining the operating permit as soon as possible.

### - Project financing

The financing of the project was anticipated as a combination of equity and debt financing. Equity sources were planned as a combination of TEŠ's own resources and the capital increase of the controlling company HSE. To finance the investment, HSE paid in EUR 497.3 million for capital increase in the period from the start of the project until the end of 2015 (of which EUR 248.6 million by swap of payments under debt assumption agreements to equity in June 2015).

Debt capital was planned in the form of long-term loans. In April 2010, a contract was signed with EIB for a loan of EUR 440 million, as well as an annex to the contract concluded in 2007, under which the amount of loan was reduced from EUR 350 million to EUR 110 million. On 17 February 2011, after fulfilling all the requirements, TEŠ managed to draw EUR 110 million of the loan, which is collateralised with a bank guarantee by five guarantor banks (GFA Agreement). Prior to drawing, cross-border effects with the Republic of Austria had to be arranged. On 14 March 2013, the loan of

EUR 440 million that had been secured with a government guarantee was drawn<sup>1</sup>. The actual drawing of loans moved considerably away from the loan utilisation planned in RIP 5 due to delayed acquisition of the government guarantee, as well as complications that arose in the period between application for loan drawing in January 2013 and its confirmation in March 2013. The bank verified in detail all the potential additional risks in connection with project quality, government guarantee reliability, and corruption accusations.

The loan was used for the payment of deferred overdue liabilities to Alstom as the supplier of main technological equipment for Unit 6, and for the repayment of bridging loans raised with HSE.

In January 2011 a financial agreement was concluded with EBRD for a EUR 200 million loan. The first loan instalment in the amount of EUR 82.5 million was drawn on 1 June 2011. Due to a clause of the loan agreement under which the bank limited the possibility of drawing with respect to obtaining money from other debt sources, the remaining portion of the EBRD loan was released only after successful drawing of the EIB loan. The second instalment was successfully drawn on 19 March 2013 in a value of EUR 117.5 million.

TEŠ was exposed with respect to EIB because of the inadequate credit ratings of two banks: Intesa Sanpaolo and Unicredit Bank AG München. In the case of ISP, a favourable arrangement was achieved. Negotiations were conducted with the bank's advisors, resulting in a harmonised Offer Letter. With the purpose of ensuring the status of a qualified guarantor, ISP submitted to EIB, as additional collateral, securities falling due in 2019. This has encumbered TEŠ with the payment of an additional annual fee in an acceptable amount. With respect to the reduction of UniCredit Bank's rating below the required level, EIB arranged for the bank's acceptability without the direct participation of TEŠ. On 8 October 2014, EIB sent TEŠ a draft letter stating that the credit rating of UniCredit Bank AG was adequate under specific conditions. TEŠ signed a letter of consent to such a solution and UniCredit Bank AG did the same on 23 April 2015.

On the basis of the Contract regulating relationships in connection with the replacement Unit 6 project concluded between the Republic of Slovenia and TEŠ, on 20 February 2015 the Company's Board of Management informed the competent Ministry of Infrastructure and Spatial Planning and the Ministry of Finance on the assessment of status of the Unit 6 project. The management's assessment was that the commitments and guarantees specified in Articles 4-8 of the Contract will not be within the scope of agreed values. The deviations were connected to the final value of the project, which, according to last known estimates, would amount to EUR 1.44 billion. The increase in the assessed value of the project is mostly due to the untimely provision of long-term funding and the resulting suspension, as well as higher costs. The management also assessed that the Company would not be able to obtain an operating permit by the foreseen date (15 February 2016), because

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<sup>1</sup> Immediately after signing the Loan Agreement, TEŠ and EIB initiated procedures for the adoption of a relevant act regulating the guarantee of the Republic of Slovenia for the loan raised with EIB. The respective Act Regulating the Guarantee of the Republic of Slovenia for liabilities arising from the long-term loan in the amount of EUR 440 million raised by TEŠ d.o.o. with EIB for the purpose of financing the project for the construction of the 600 MW replacement Unit 6 at TEŠ (ZPODPTEŠ) was passed by the National Assembly of the Republic of Slovenia on 18 July 2012, and came into force on 1<sup>st</sup> August 2012. On 30 November 2012 two agreements were signed: first, TEŠ, the Ministry of Finance and the Ministry of Infrastructure and Spatial Planning signed an agreement for the settlement of mutual relations in connection with the project for the construction of replacement Unit 6 at TEŠ; and second, TEŠ and the Ministry of Finance signed an agreement on the methods and conditions for securing the guarantee of the Republic of Slovenia.

The Guarantee Agreement concluded between the Republic of Slovenia (RS) and EIB for a long-term loan in the amount of EUR 440 million was signed on 7 December 2012. In line with standard procedures, the Guarantee Agreement between RS and EIB had to be ratified by the National Assembly of the Republic of Slovenia. The Act ratifying the Guarantee Agreement between RS and EIB (TEŠ – Termoelektrarna Šoštanj/B) (MPEIBTEŠ) was passed by the National Assembly of the Republic of Slovenia on 21 December 2012 and came into force on 30 December 2012. In January 2013, EIB received from the Republic of Slovenia the complete documents required for the validity of the government guarantee for the EUR 440 million loan for the Unit 6 project at TEŠ.

the time limit is linked to the activities of the public authorities. Due to the changed input (economic categories (price of coal, electricity,...) in the calculation of the project's financial market indicators, it was assessed that the prescribed return on invested capital would not be attained. It will not be possible to implement the contractual provision regarding the price of coal, which had been agreed in the value of 2.25 EUR/GJ, due to the situation that has arisen in Premogovnik Velenje d.d., resulting in the conclusion of a long-term tripartite contract under which the agreed maximum price of coal is 2.75 EUR/GJ.

The Company regularly informed EIB, EBRD and GFA on current events in connection with the project in its letters sent in July 2014 and October 2014. In October 2014, the banks were notified that they would receive the long-term projections of business operation of the HSE Group and TEŠ, and the RIP 6 – December 2014 issue, by 31 January 2015. Activities involving the preparation of projections were begun and, on the basis of harmonised data on the prices of electricity and coal, planned production, and other relevant data, the long-term projections of business operation of TEŠ, the HSE Group and the RIP 6 – December 2014 issue were delivered, on 30 January 2015, to the banks, competent ministries and the Slovenian Sovereign Holding. Also linked to the preparation of projections was the performance of a test by a private investor (PIT test) as one of the necessary elements for the settlement of agreed sources of financing for the construction of Unit 6. The results of the PIT test were positive. On the basis of these documents, TEŠ and HSE addressed applications to the banks and two competent ministries for acquiring the necessary consent regarding violations of the commitments specified in financial agreements. The banks discussed the applications in credit committees, and procedures were initiated for the settlement of relations with the government. In June, TEŠ received letters from EBRD and an agent of Intesa SanPaolo regarding waiver from its obligations. In September 2015, Amendment 3 to Finance Contract 24.109 and Amendment 1 to Finance Contract 25.541, as well as a waiver from obligations, were signed; EIB's requirement was also fulfilled (opinion of State Attorney's Office).

On 11 May 2015, TEŠ addressed an Extension Letter to the agent of Intesa SanPaolo for the renewal of GFA with the existing guarantor banks. On 11 June 2015, TEŠ received a letter from the agent specifying the conditions for the continuation of activities in connection with the extension of GFA. TEŠ and HSE fulfilled the conditions of guarantor banks for the continuation of activities related to the extension of GFA and the EIB guarantee with existing banks by 30 September 2015, except for ensuring sources of financing on the part of HSE (EUR 300 million).

In the given circumstances, the existing guarantor banks officially notified TEŠ/HSE in a letter dated 1<sup>st</sup> October 2015 that they would not participate in the renewal of the GFA guarantee agreement. They founded their decision on the following:

- HSE explicitly expressed its position against renewing the guarantee contract for the next 5 years, because it disposes with financially more effective alternative sources of financing;
- EIB expressed the requirement that the guarantee be postponed for the entire period of 5 years and under the same conditions as in the existing EIB guarantee;
- HSE stated that it had prepared a shortlist of six banks that would be granted a mandate for bridge financing in the amount of EUR 150 million and the issue of bonds, because of which the loan agreement with EIB was no longer necessary, and further stated that it had received an offer for long-term financing in the amount of EUR 300 million;
- The Bank of Tokyo-Mitsubishia and Intesa SanPaolo have already stated that they could not approve the extension of GFA and that due to the uncertainly connected with the worsening market situation, the withdrawal of some guarantor banks, uncertainty regarding short-term and long-term liquidity, and the lack of sufficient information at their disposal, they were unable to prepare positive proposals for deciding on the extension of GFA in their credit committees,

- TEŠ does not dispose with sufficiently solid offers or commitments of alternative banks that would replace the guarantor banks, which have already stated that they no longer intended to participate in the extension of GFA.

At the same time, TEŠ initiated activities for the entry of new banks into the GFA guarantee agreement by sending an invitation to bid to five banks/financial institutions on 9 September 2015, and subsequently to another bank on 6 October 2015. Altogether 23 banks were processed (of which the agent processed 16 and TEŠ 7). Owing to the required credit rating of guarantor banks (requirement for loan agreement with EIB), lack of interest on the part of banks to participate, and non-cooperation in the Slovenian market, none of the banks were considered a qualified guarantor for entry into the new GFA. Failing to submit a new/renewed EIB guarantee by 28 October 2015, TEŠ addressed a proposal to its sole shareholder, HSE, for the adoption of a decision on the voluntary early repayment of the EIB loan in the amount of EUR 110 million, together with pertaining interest and expenses, and due to the pari passu provision, also for the proportional part of the EBRD loan.

Based on the sole shareholder's decision of 23 October 2015 and notice sent to EIB of the planned early repayment of the loan under FC 24.109 in a total value of EUR 110.0 million, HSE provided resources for repayment of the principal, interest, and other expenses. On 27 January 2016, TEŠ made an early repayment of the EURO 110 million loan to EIB and took out long-term borrowings from HSE. In accordance with the pari passu provision under the EBRD loan agreement, TEŠ prematurely repaid on 25 January 2016 the proportional part of the loan raised with EBRD in the amount of EUR 37.9 million, after which it raised a bridging loan with HSE in the amount of EUR 37.9 million. The loan was utilised in the amount of EUR 24.9 million, and the difference in the amount of EUR 13 million was paid to EBRD by utilising a specific-purpose deposit on the DSRA account with Unicredit bank.

In January 2016, TEŠ and EBRD concluded Annex No. 3 to the Loan Contract of 12 January 2011 for the purpose of making certain amendments to the initial contract (early repayment of loan, debt servicing indicators,...).

TEŠ's liabilities towards financial institutions and the Republic of Slovenia are being settled on time.

#### - **Overview/Summary of investments in the construction of replacement Unit 6**

INVESTMENTS IN REPLACEMENT UNIT 6	Estimated value of RIP, Revision 5	Estimated value of RIP, Revision 6, December 2014 issue	Concluded contracts as at 31 Dec 2015	Invoiced as at 31 Dec 2015	<i>in EUR</i>
					Paid as at 31 Dec 2015
Building works	67,589,700	79,461,100	75,549,554	74,862,859	74,019,687
Equipment	1,126,738,500	1,191,801,000	1,168,875,321	1,167,002,423	1,167,033,942
Other	26,067,900	32,836,300	32,177,745	32,440,746	31,633,959
Cost of financing	82,096,200	124,359,300	122,932,152	122,932,152	121,891,305
<b>TOTAL</b>	<b>1,302,492,300</b>	<b>1,428,457,700</b>	<b>1,399,534,772</b>	<b>1,397,238,180</b>	<b>1,394,578,893</b>

SOURCES OF FINANCING FOR THE INVESTMENT IN UNIT 6	Estimated value of RIP, revision 5	Estimated value of RIP, revision 6, Dec 2014 issue	Paid as at 31 Dec 2015	<i>in EUR</i>
				IND (Paid/RIP 6)
HSE capital increase	324,927,700	497,216,000	497,216,091	100
EIB loan	550,000,000	550,000,000	550,000,000	100
EBRD loan	200,000,000	200,000,000	200,000,000	100
HSE Group loans	83,000,000	83,000,000	44,928,093	54
Own sources of TEŠ	144,564,600	98,241,700	102,434,709	104
<b>TOTAL</b>	<b>1,302,492,300</b>	<b>1,428,457,700</b>	<b>1,394,578,893</b>	<b>98</b>

## Investing in reliable production

In 2015 TEŠ spent EUR 1,780,936 for investments in reliable production, primarily for the conversion of gas turbines to ELHO (extra light heating oil).

## 2.8 IT

The IT Department comprehensively covers the needs of users and systems in various areas of operation and activity of the thermal power plant.

The functioning of information and communication infrastructure is regularly monitored and upgraded whenever necessary.

In 2015 the POS Elektronček system was installed to provide information support to the functioning of the canteen. We were appointed to the SAP 4 group and began activities for implementation of the SAP information system at TEŠ. The IT Department participates in the performance of tasks within the competences and responsibilities of the HSE Service Support Centre. At the TEŠ location, we provided support to HSE's joint information services, which was joined by the TET company during the course of the year.

With regard to the Unit 6 project, we participated in expansion projects and integration of Unit 6 with the iFIX system, establishment of an environmental emissions station, installation of a video wall in the control room, purchase of telephone apparatuses and signal bells, and the installation of other software, user and system computer equipment needed in this area of activity.

## 2.9 BUSINESS PERFORMANCE ANALYSIS

### 2.9.1 Business operations in 2015

The business operations of TEŠ in 2015 were based on the Long-term contract for coal purchase, lease of power and purchase of electricity dated 12 March 2015 and concluded between TEŠ d.o.o., HSE d.o.o. and Premogovnik Velenje d.d.; the Contract on coal purchase, lease of power and purchase of electricity concluded between TEŠ, HSE and Premogovnik Velenje for the year 2015, together with addendums thereto, signed in March 2015; and on the Business Plan of TEŠ for the year 2015. On 30 January 2015, the sole shareholder approved, in line with the provisions of the

Articles of Association, the Business Plan for the year 2015, together with the additional plan for 2016 and 2017.

In 2015 the Company generated a net loss in the amount of EUR 459,045,867. The poor financial result was influenced by the low selling price of electricity, and to the greatest extent by the impairment of assets (EUR 414.3 million). The impairment of intangible assets and property, plant and equipment was recognised on the basis of a valuation of the recoverable value of long-term assets needed by the Company in performing its basic activity.

<i>in EUR</i>		
OPERATING RESULTS (in EUR)	2015	2014
Operating profit or loss	(440,800,138)	(87,612,594)
Net cash	(18,245,730)	(952,957)
<b>PROFIT OR LOSS BEFORE TAX</b>	<b>(459,045,868)</b>	<b>(88,565,551)</b>
Corporate income tax	0	0
Deferred tax	0	710,119
<b>NET PROFIT OR LOSS</b>	<b>(459,045,868)</b>	<b>(89,275,670)</b>

#### Revenue

REVENUE	2015	%	2014	%
OPERATING REVENUE	161,849,096	99.91	191,046,120	99.99
FINANCIAL REVENUE	145,998	0.09	18,932	0.01
<b>REVENUE</b>	<b>161,995,094</b>	<b>100.00</b>	<b>191,065,052</b>	<b>100.00</b>
- change in value of inventories	0		0	
<b>TOTAL</b>	<b>161,995,094</b>		<b>191,065</b>	

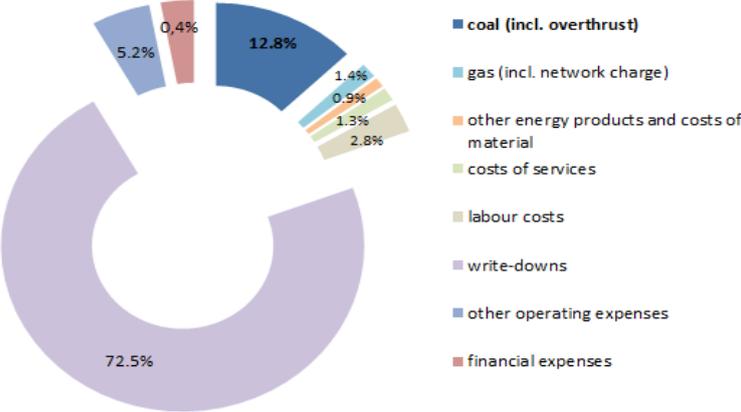
In 2015 the Company achieved EUR 161,849,096 in operating revenue. The 2015 revenue was lower by 15 % compared to the previous year, primarily due to the transfer of sales revenue from the sale of electricity and thermal energy from the operation of Unit 6 in the period of its trial operation (EUR 30.3 million). The lower selling price of electricity (lower price of coal) and the lower quantity of gas sold also had a slight impact on revenue.

#### Expenses

EXPENSES	2015	%	2014	%
OPERATING EXPENSES	602,649,234	97.04	278,658,713	99.65
FINANCIAL EXPENSES	18,391,728	2.96	971,889	0.35
<b>EXPENSES</b>	<b>621,040,962</b>	<b>100.00</b>	<b>279,630,603</b>	<b>100.00</b>

In 2015, operating expenses amounted to EUR 602,649,234, which is more than in 2014. Operating expenses were considerably higher in 2015 compared to 2014, primarily due to the impairment of assets and inventories in the total amount of EUR 414.3 million.

**Expense structure in 2015:**



**Assets, equity and liabilities**

The balance sheet sum amounted to EUR 1,119,823,870 and decreased by 25 % or EUR 379,060,936 in comparison with the balance as at 31 December 2014.

Taking into account the inflation rate (December 2015/December 2014), which stood at -0.5 %, the balance sheet sum was lower by 24 % in real terms.

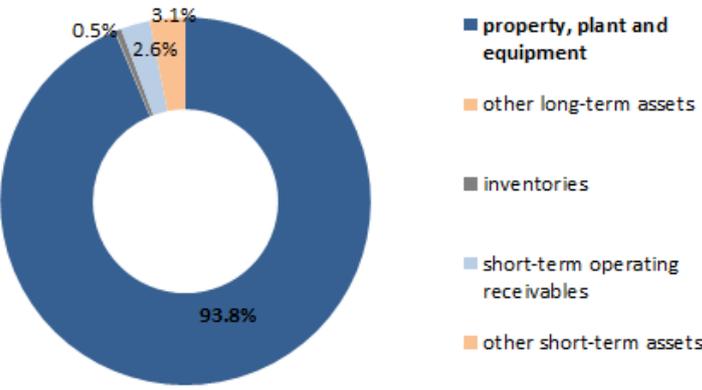
**Assets**

As at 31 December 2015, the Company's assets amounted to EUR 1,119,823,870 (31 December 2014: EUR 1,498,884,806) and decreased by 25 % from the beginning of the year. Long-term assets decreased by 26 % and current assets decreased by 4 %.

Long-term assets account for 94 % of all assets of the Company. The most important among these assets are property, plant and equipment. In 2015 the value of these assets decreased by EUR 376,344,870, primarily due to impairment based on a valuation of the recoverable value of long-term assets.

Among current assets, a decrease was recorded in short-term operating receivables (short-term advances), other short-term assets (accrued revenue from lease of electricity for emission coupons) and inventories (impairment).

**Structure of assets as at 31 December 2015:**



## Equity and liabilities

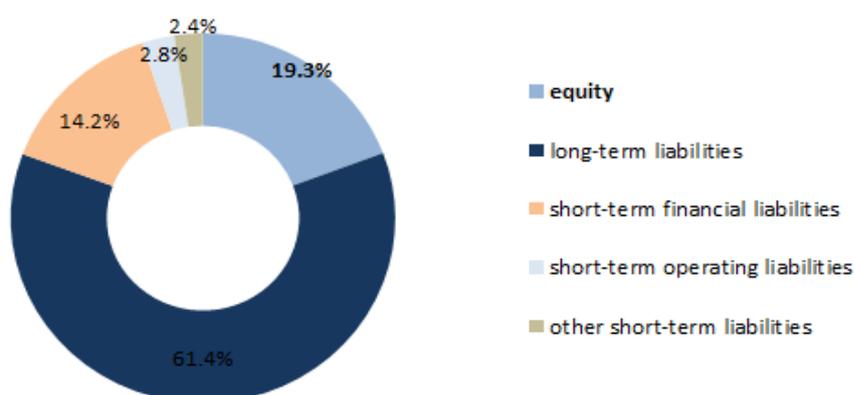
As at 31 December 2015, the Company's equity to debt ratio stood at 1:4, which means that the share of equity decreased in comparison with the previous year.

Under equity and liabilities, equity represents 19 % of the total amount, which is less than at the end of 2014 (28 %). In 2014, equity decreased by 9 % or EUR 210,533,435. The equity was decreased by the current loss in the amount of EUR 459,045,867 (of which EUR 414,155,773 due to impairment of assets and inventories); equity was also increased by capital increase in the amount of EUR 248,552,790.

Long-term liabilities, mostly consisting of long-term bank loans, represent 61 % of all liabilities. In 2015, long-term liabilities decreased by 9 % due to the transfer of principal amounts falling due for payment in 2016, and the transfer of early repayments of loans raised with EIB and EBRD, to short-term liabilities.

Short-term liabilities account for 20 % of the total liabilities, and decreased by EUR 107,241,988 in 2015. These liabilities decreased primarily due to the decrease in short-term operating liabilities.

### Structure of liabilities as at 31 December 2015:



Owing primarily to the impairment of assets in 2015, the uncovered loss attained half the value of the share capital. An Analysis and evidence of long-term solvency as at 31 December 2015 was prepared, proposing the increase of capital surplus to cover losses by transforming the owner's receivables from loans given in the value of EUR 218.4 million. With this measure, the Company will eliminate the assumption specified in the second indent of paragraph 3 of Article 14 of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP).

The proposal for increasing the capital surplus was subsequently changed, and on 31 May 2016 the shareholder adopted a decision on the transfer of subsequent non-cash payments in the amount of EUR 228,062,740.

## Business segments

In 2015, all business segments (electricity production, steam and hot water supply, and canteen) recorded losses, except for social standard, primarily due to the impairment of assets.

## **2.9.2 Main activities and goals achieved**

The Company set its annual goals in the Business Plan for 2015. Above all, we failed to achieve the goals related to electricity production, which was lower due to the unforeseeable operation of Unit 6 during test runs, shutdown of Unit 6 due to failure of draught fan B, termination of Unit 5's operation, and the restricted operation of units due to major difficulties faced by Premogovnik Velenje in the extraction and supply of coal.

### **Production of electricity and thermal energy (net)**

In 2015, the Company's net electricity production reached 3,557 GWh, which is 9 % or 341 GWh less than planned. The lower output is the consequence of circumstances mentioned in the previous paragraph.

The volume of electricity produced in 2015 represents 53 % of the HSE Group's total output, and 27 % of Slovenia's total electricity production. TEŠ's share in 2015 is higher compared to the previous year. Productivity increased and amounted to 9 GWh per employee.

Thermal energy production was slightly lower in 2015, and reflected the need for this type of energy. We produced 329 GWh of thermal energy, which is 3 GWh less than planned in 2015.

### **Sale of electricity and thermal energy**

The measurable sales target of electricity was lower than planned. The volume of electricity sold was 9 % lower, and sales revenue from the sale of such energy was lower by 17 %. Sales revenue decreased primarily due to the transfer of sales revenue from the sale of electricity and thermal energy during the trial operation of Unit 6 to assets under construction.

The measurable sales target of thermal energy was not achieved due to lower demands for this type of energy. The volume of thermal energy sold was 1 % lower than planned, as was the sales revenue from the sale of such energy (by 26 %), primarily due to the unrealised, planned increase in the price of thermal energy.

### **Ensuring appropriate structure, skills, efficiency and availability of human resources**

According to measurable characteristics, the target of ensuring the necessary structure, skills, efficiency and availability of human resources was achieved. The trend of declining number of employees continued in 2015; the staff count decreased by 54 compared to 2014. As at 31 December 2015, the Company employed 385 persons, and achieved almost all other measurable characteristics relating to this goal.

### **Purchase of primary resources, spare parts, materials and services**

The business target was achieved by negotiating the most favourable terms and conditions of purchase with suppliers. The relevant criteria are in place and are determined by a method of verifying supplier competitiveness, quality of product selection among various suppliers, through business analyses of selected and potential suppliers, and by negotiating the best possible terms and conditions of purchase.

### 2.9.3 Ensuring solvency

TEŠ operates in accordance with business and financial standards and the rules laid down in the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act, as well as the Act on the Prevention of Late Payments.

The basic task of financial management is to ensure long-term and short-term solvency, which in turn enables the uninterrupted business operation of other business functions.

To ensure short-term solvency, several measures had to be carried out in order to resolve solvency problems, namely:

- streamlining of daily operations,
- execution of payments to suppliers for Unit 6 through the parent company, HSE d.o.o., under debt assumption agreements (until 30 June 2015),
- drawing of long-term loans from HSE,
- early payments and advance payments for transmitted electricity,
- daily planning of inflows and outflows.

To manage daily liquidity in 2015, we also utilised two short-term loans raised with a commercial bank.

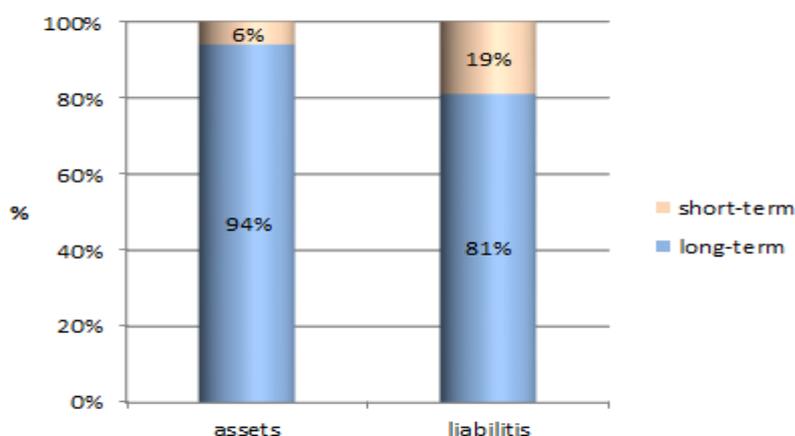
### 2.9.4 Capital adequacy

The Company's goal is to secure sufficient capital for its operations with regard to the scope and type of transactions it performs and the risks to which it is exposed. Capital adequacy is a prerequisite for borrowing and investing capacity, as well as a consequence of previous business decisions.

A horizontal analysis of the structure of assets and liabilities as at 31 December 2015 indicates that the Company's assets are financed as follows:

- with long-term sources – 81 % (of which 19 % refer to equity and 62 % to long-term liabilities), and
- with short-term sources – 19 %.

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



After the impairment had been recorded, an Analysis and evidence of solvency was prepared on the basis of the assumption – according to the provisions of ZFPPIPP – that the Company was insolvent in the long term, because the assessed amount of its uncovered loss had reached half the amount of its

share capital. The analysis revealed that according to the estimated cash flow for the 2016-2030 period, compiled on the basis of the most recently confirmed long-term projections, the Company is solvent provided it is able to obtain additional borrowing from the parent company. The corrective measure proposed by the Company to the sole shareholder is the financial restructuring of its debt to HSE into capital surplus.

## 2.9.5 Debt ratio

As at 31 December 2015, the Company's financial liabilities (short-term and long-term) totalled EUR 831,146,363 and accounted for 74 % of the total equity and liabilities. The majority of these liabilities relate to long-term borrowings.

## 2.10 COMPANY RATIOS

The Company monitored its business performance from the financial evaluation perspective with the following indicators:

### - Financing state ratios

<i>in EUR</i>		
EQUITY FINANCING RATE	31 Dec 2015	31 Dec 2014
1. Equity and liabilities	1,119,823,870	1,498,884,806
2. Equity	215,820,023	426,353,458
<b>Equity financing rate = 2 / 1</b>	<b>19.27</b>	<b>28.44</b>

At year end, the Company's equity accounted for 19 % of its total equity and liabilities. In comparison with 2014, the equity financing rate decreased by 9 percentage points. The lower indicator value was predominantly influenced by the entry of loss in 2015 in the amount of EUR 459 million. In 2015 a capital increase was carried out in the amount of EUR 248.6 million (conversion of payments to HSE under debt assumption contracts). Short-term operating liabilities also decreased.

<i>in EUR</i>		
LONG-TERM FINANCING RATE	31 Dec 2015	31 Dec 2014
1. Equity	215,820,023	426,353,458
2. Long-term liabilities	687,221,507	748,507,020
3. Total ( 1 + 2 )	903,041,530	1,174,860,478
4. Equity and liabilities	1,119,823,870	1,498,884,806
<b>Long-term financing rate = 3 / 4</b>	<b>80.64</b>	<b>78.38</b>

TEŠ financed 81 % of its assets from long-term sources and 19 % from short-term sources. The long-term financing rate was higher by 3 percentage points in comparison with the end of 2014, primarily due to the smaller increase in equity compared to the increase in liabilities.

<i>in EUR</i>		
OPERATING FIXED ASSETS RATE	31 Dec 2015	31 Dec 2014
1. Property, plant and equipment	1,049,906,616	1,426,251,486
2. Intangible assets	454,804	544,573
3. Total fixed assets at carrying amount ( 1 + 2 )	1,050,361,420	1,426,796,059
4. Assets	1,119,823,870	1,498,884,806
<b>Stopnja osnovnosti investiranja = 3 / 4</b>	<b>93.80</b>	<b>95.19</b>

The ratio shows the share of operating fixed assets in the Company's total assets. Property, plant and equipment and intangible assets account for 94 % of the Company's assets. A high operating fixed assets rate can be expected, as the Company operates in a very intensive sector in terms of technology. Although the value of assets dropped considerably in 2015 because of impairment, this did not have a significant impact on their structure.

- **Horizontal financial structure ratios**

<i>in EUR</i>		
EQUITY TO FIXED ASSETS RATIO	31 Dec 2015	31 Dec 2014
1. Equity	215,820,023	426,353,458
2. Property, plant and equipment	1,049,906,616	1,426,251,486
3. Intangible assets	454,804	544,573
4. Total fixed assets at carrying amount (2 + 3)	1,050,361,420	1,426,796,059
<b>Equity to fixed assets ratio = 1 / 4</b>	<b>0.21</b>	<b>0.30</b>

The equity to operating fixed assets ratio stood at 0.21 at the end of 2015, which means that less than half of the most illiquid assets were financed from equity. Compared to the balance at the end of 2014, the ratio is lower primarily because of the impairment and reduced value of assets, as well as the entry of loss and the decrease in equity.

<i>in EUR</i>		
QUICK RATIO	31 Dec 2015	31 Dec 2014
1. Cash and cash equivalents	36,534	8,543
2. Short-term financial assets	14,250,957	0
3. Short-term operating receivables	28,591,354	37,434,910
4. Total ( 1 + 2 + 3 )	42,878,845	37,443,453
5. Short-term liabilities	216,782,340	324,024,328
<b>Quick ratio = 4 / 5</b>	<b>0.20</b>	<b>0.12</b>

The quick ratio stood at 0.20 at the end of 2015, which means that TEŠ covers 20 % of all its short-term liabilities from short-term receivables. Compared to the balance at the end of 2014, the ratio is higher, primarily due to the decrease in short-term operating liabilities.

<i>in EUR</i>		
CURRENT RATIO	31 Dec 2015	31 Dec 2014
1. Current assets	69,301,397	71,901,139
2. Short-term liabilities	216,782,340	324,024,328
<b>Current ratio (short-term liabilities) = 1 / 2</b>	<b>0.32</b>	<b>0.22</b>

The current ratio was 0.32 at the end of 2015, which means that TEŠ covered 32 % of all its short-term liabilities from its short-term assets. Compared to the balance at the end of 2014, the ratio is higher due to the decrease in short-term liabilities.

- **Operating efficiency and profitability ratios**

<i>in EUR</i>		
OPERATING EFFICIENCY RATIO	2015	2014
1. Operating revenue	161,849,096	191,046,120
2. Operating expenses	602,649,234	278,658,714
<b>Operating efficiency ratio = 1 / 2</b>	<b>0.27</b>	<b>0.69</b>

The ratio is lower in comparison with 2014, and is primarily the result of the impairment of assets and inventories of the Company.

in EUR

NET RETURN ON ASSETS RATIO (ROA)	2015	2014
1. Net profit or loss	-459,045,867	-89,275,670
2. Average assets	1,309,354,338	1,453,853,218
<b>ROE = 1 / 2</b>	<b>-0.35</b>	<b>-0.06</b>

The net return on assets ratio (ROA) for 2015 is negative. This is due to the loss generated in 2015, which is primarily the consequence of the impairment of assets.

- **Financial ratios by contracts with banks**

in EUR

EBITDA / Financial expenses for loans received	2015	2014
1. EBIT – Operating profit or loss	-440,800,138	-87,612,594
2. Depreciation/Amortisation	35,499,671	28,924,565
3. EBITDA ( 1+2 )	-405,300,467	-58,688,029
4. Financial expenses for loans received	13,266,521	533,899
<b>EBITDA / Financial expenses for loans received = 3/4</b>	<b>-30.55</b>	<b>-109.92</b>

The ratio is still negative due to the negative operating profit or loss.

in EUR

Total financial liabilities / Assets	31 Dec 2015	31 Dec 2014
1. Long-term financial liabilities	672,012,620	741,226,191
2. Short-term financial liabilities	159,133,743	185,500,110
3. Total financial liabilities ( 1+2 )	831,146,363	926,726,301
4. Assets	1,119,823,870	1,498,884,806
<b>Total financial liabilities / Assets = 3/4</b>	<b>0.74</b>	<b>0.62</b>

The ratio showing the relationship between indebtedness and assets decreased slightly in comparison with 2014, largely owing to the decrease in assets of the Company due to the impairment of assets.

## 2.11 RISK MANAGEMENT

By implementing a comprehensive risk management system in all its activities, the Company ensures a systematic approach to timely risk identification and management. This comprehensive risk management is performed using adequate management strategies, consistent criteria for dealing with risks, monitoring and identification of risk levels, and with prompt information and measures.

Risk management at TEŠ is carried out at several levels. Risks are assessed on the basis of a list of risks, where the majority of risk assessments are qualitative and may be exposed to subjective assessment by the assessors of individual risks. Risks are regularly monitored and activities are performed for their adequate management.

### 1. Financial risks

- The most important risk is the risk of nonfulfillment of financial indicators agreed with banks and TEŠ's other commitments, as well as the nonfulfillment of financial indicators agreed with banks at the HSE Group level, the risk of nonfulfillment of commitments towards the state, and the risk of insolvency due to capital inadequacy.

To manage the above-mentioned risks, the following measures were implemented:

On 20 February 2015, TEŠ presented to the Ministry of Finance and the Ministry of Infrastructure a report on the fulfilment of commitments and guarantees of TEŠ d.o.o. under the Contract on the settlement of relations in connection with the project for the construction of 600 MW replacement Unit 6 at Termoelektrarna Šoštanj dated 30 November 2012, together with a request for the conclusion of an addendum to the Contract on the settlement of relations; in line with the provisions of the Contract, TEŠ also presented on 30 June 2015 a regular report on the fulfilment of commitments and guarantees. Irrespective of the derogations from the assumed commitments, the Ministry of Finance sent to EIB a Letter of Comfort confirming that the guarantee was not at risk. In 2016, the Company does not expect any violations of the Contract other than those already reported to the Ministry of Finance and the Ministry of Infrastructure. A contractual penalty of EUR 100,000 was paid in 2015.

Applications were sent to EIB, EBRD and GRA to settle the derogations from commitments assumed under financial agreements (waiver from obligations). On the basis of additional clarifications, responses and activities on the part of HSE and TEŠ, EBRD granted its consent to the waiver from obligations in June 2015 subject to certain conditions, which were met by 30 June 2015. GFA banks consented to the waiver from obligations in June 2015. Such consent was conditioned by the validity of EIB's waiver from obligations. EIB granted its consent to the waiver from obligations at the end of July 2015. Based on EIB's notice of the fulfilment of all requirements (6 October 2015), the consent of GFA bank came into effect.

- The next major financial risk faced by the managements of TEŠ and HSE in 2015 was the renewal of the guarantee agreement for insuring the EUR 110 million loan raised with EIB. Despite the endeavours of TEŠ and HSE to renew the guarantee, the existing guarantor banks officially notified TEŠ/HSE in their letter of 1 October 2015 that they would not participate in the renewal of GFA's guarantee agreement. In the given circumstances, TEŠ assessed that the voluntary early repayment of the EIB loan in the amount of EUR 110 million would be the most realistic option ensuring, in the event that TEŠ failed to submit a new/renewed guarantee to EIB by 28 October 2015, that EIB would not be able to demand the mandatory, early repayment of the loan in the amount of EUR 110 million. Consequently, owing to the interconnectedness and conditionality of

all financial agreements for financing the Unit 6 project, this could lead to breaches of other financial agreements and the possibility of mandatory early repayment of other financial agreements as well, potentially even the encashment of insurance guarantees, including encashment of the government guarantee. TEŠ therefore addressed to the sole shareholder, HSE, a proposed decision for the voluntary early repayment of the EUR 110 million loan to EIB, together with pertaining interest, raised under the loan agreement concluded between TEŠ and EIB on 27 September 2007. According to this proposal, the funds for the voluntary early repayment of the EIB loan would be provided by HSE in the form of a loan/capital increase. Pursuant to the shareholder's decision of 23 October 2015, a Prepayment Notice was sent to EIB. The loan was repaid in its entirety, together with pertaining interest, on 27 January 2016. On this date the guarantee agreement for insuring the said loan expired.

In connection with the early repayment of the EIB loan, a liability became due for the early repayment of a proportional part of the loan raised with EBRD in the amount of EUR 37.9 million, plus pertaining expenses. The repayment was made on 25 January 2016.

- Among the key financial risks is the insolvency risk arising from the assumption of capital inadequacy as the consequence of recording impairments as at 31 December 2015. The uncovered loss exceeded 50 % of the share capital. An Analysis and evidence of long-term solvency as at 31 December 2015 was prepared, proposing the increase of capital surplus to cover losses by transformation of the owner's receivables from loans given in the value of EUR 218.4 million. This measure would enable the Company to eliminate the assumption under indent 2 of paragraph 3 of Article 14 of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP). The proposed increase of capital surplus was subsequently modified, and on 31 May 2016 the shareholder adopted a decision on the transfer of subsequent non-cash contributions in the amount of EUR 228,062,740.

From the aspects of probability, consequences and impact, the above-mentioned financial risks are categorized as high risks.

## 2. Market risks

The most important risk is that of failing to attain the price of electricity specified in the projections of business operation. Measures such as monitoring of market occurrences and regulatory changes, as well as an appropriate strategy for the long-term sale of electricity produced and adequate diversification of production sources, provide bases for attaining optimal effects in integrating production sources into the system with the aim of achieving an optimal sales price. The prices of electricity for TEŠ are determined by HSE in accordance with the market situation. There is a risk that the projected prices will not be attained, which will result in an increased liquidity risk for TEŠ and the HSE Group. Owing to the restriction of TEŠ's borrowings (commitments under financial agreements), HSE is carrying out procedures for acquiring financial sources to manage the medium-term and long-term liquidity risks. At the same time, measures for the rationalisation of operations are being implemented in the parent company and in all subsidiary companies, and a financial and business restructuring plan is being implemented in TEŠ and Premogovnik Velenje.

- Among the key market risks is the risk of failing to attain the price of coal foreseen in the projections of business operation. To manage this risk, a tripartite long-term agreement was concluded between HSE, TEŠ and Premogovnik Velenje (hereinafter: PV), specifying that the price of coal in the period from 2015 to 2054 was not to exceed the value of 2.75 EUR/GJ. Owing to commitments under financial agreements, the consent of banks to the price of coal had to be obtained. Irrespective of the decisions of banks, it will be necessary, by optimising the business

operations of TEŠ and PV, to implement measures for reducing the cost price of electricity produced and consequently attaining a lower price of coal, as well as consistently implementing the measures adopted in financial and business restructuring plans.

From the aspects of probability, consequences and impact, the above-mentioned market risks are categorized as high risks.

### 3. Quantity risks

The most important quantity risks are operating risks, which refer to:

- Supply of coal – insufficiently supplied quantities cause disturbances in electricity production. The required quantities are coordinated on a daily basis according to the planned electricity production. Given the detected problems in coal supply, TEŠ will have to propose mechanisms for the compensation of lost income.
- Risk of major failures in the turbine, boiler, RDP product and switching facility, resulting in inoperability, non-achievement of planned quantities and income, and unplanned costs of repairs. Risks are managed by implementing preventive measures of regular maintenance and operation in line with instructions, and simultaneously training maintenance and operating personnel. Quantity risks include the risk of production shortfalls due to unavailability of spare parts. The required quantities and structure of spare parts are defined. Preventive maintenance in an appropriate scope will reduce the risk of machinery breakdown, and utilised spare parts will be regularly replaced.
- Key environmental risks were also classified under quantity risks: leakage of highly concentrated solutions into lakes may lead to costs of additional demands for the construction of a landfill. To manage the risk, measures were implemented including addition of slag into the stabilised side product, reduction of water to wash off ash, and centrifugation of waste water.
- The risk of inadequate mixing of the stabilised side product may result in loss of the environmental permit and shutdown of TEŠ. Hourly supervision and alerting measures were implemented. Further preventive measures are planned, including preventive maintenance and preparation of vacuum filters for permanent operation.
- The risk of inadmissible noise in the vicinity of residential buildings will lead to loss of the operating permit for Unit 4. An anti-noise protection measure was implemented alongside the cooling tower of Unit 4.

From the aspects of probability, consequences and impact, the above-mentioned quantity risks are categorised as medium risks.

### 4. Regulatory risks

- Regulatory risks include the risk of untimely acquisition of an operating permit for Unit 6. The issue of the operating permit is linked to the elimination of deficiencies that were identified during the technical inspection and the successful completion of measurements of all emissions at the unit, which have to meet the requirements specified in the environmental permit. TEŠ is intensively eliminating the deficiencies, and independent emission and guarantee measurements are simultaneously being conducted. The risk of non-performance of such measurements is also linked to the supply of coal.
- A key risk is the risk of TEŠ's operation in conformity with the environmental permit as regards the operation of Unit 4 after 1 January 2016. At the end of 2015, Article 33 of the IED Directive was implemented in the Slovenian legal order, which allows Unit 4 to operate after 1 January 2016 for 17,500 operating hours. TEŠ has acquired all the necessary permits, including the

environmental permit, except for EIB's consent to the further operation of Unit 4 after 1 January 2017. The procedures will be carried out in 2016.

From the aspects of probability, consequences and impact, the above-mentioned regulatory risks are categorised as medium risks.

#### **5. Human resources risks**

- The risk of reduced working capacity due to burnout, overload and age of employees can subsequently lead to a disrupted work process, poorer productivity and efficiency of operation, and higher probability of accidents. The measures being implemented include the arrangement of workplaces, timely training, communication with employees, increasing employee awareness of a healthy lifestyle, and cooperation with physicians in various fields. In 2015, draft amendments of the Act on internal organisation and job classification were prepared and discussions conducted with employees.
- The risk of closure of an organisational unit leads to the worsening of employees' health, diminished enthusiasm, dissatisfaction and demotivation. The measures for managing such risks include alternative solutions programmes, systematic work with employees, cooperation with social partners, and preparation of a redundancy programme.
- The risk of inadequately qualified staff, loss of know-how and information causes disturbances in the work process and increases the probability of occupational accidents, precious experience and know-how are lost, employees are dissatisfied and unmotivated. To manage this risk, measures are being implemented for timely and appropriate training, proper planning of employee exercise, training of substitute staff, and timely transfer of knowledge.

From the aspects of probability, consequences and impact, the above-mentioned human resources risks are categorised as medium risks.

#### **6. IT system risks**

- The most important information risk is the inadequate storage of key information components in the data safe. The consequence is the loss of information means owned by TEŠ, HSE, and other external providers. To manage this risk, measures are in place to ensure the continuous functioning of key components, regular maintenance and protection.

From the aspects of probability, consequences and impact, the above-mentioned information risks are categorised as medium risks.

## 2.12 PUBLIC RELATIONS

The basic PR tools for communication with the external and internal publics continue to be TEŠ's website, press releases, responses, articles and interviews in various local and national media, the electricity sector newspaper »Naš stik« (Our Contact), and the HSE Group publication »HSE Energija« (HSE Energy).

In communications with the internal public, we also make use of the intranet, e-mail, and notice boards. TEŠ's website features a special sub-site, Unit 6, where we will continue to regularly post the latest information on the construction of Unit 6. In the »Ask us« section, visitors can post questions at any time, and we will reply promptly. A recently opened section on our website is »Open house day«, where visitors receive current information on this topic.

Using the above-mentioned tools, we will continue to inform the target public on current developments at TEŠ and our development strategy.

## 2.13 RESEARCH AND DEVELOPMENT

Due to the optimisation of business operations, only minor activities were conducted in the area of research and development. These were focused on implementing projects aimed at achieving the targeted useful lives of existing production units, introducing new technologies, and searching for new development opportunities.

## 2.14 PLANS FOR THE FUTURE

In future, the Company intends to further pursue its long-term goals in the following areas:

### Production of electricity and thermal energy

- net production of electricity from coal (net): 4,020 GWh,
- production of thermal energy: 333 GWh,
- provision of necessary system services (secondary reserve of Unit 6, possibly up to +/-45 MW),
- ensuring tertiary reserve PT 52 (32 MW),
- optimisation of average specific consumption of units, as follows:

Unit 4	max 11,900 kJ/kWh
Unit 6	max 8,800 kJ/kWh
- optimisation of coal consumption,
- ensuring high reliability and availability  $F > 0.970$ .

### Sales of electricity and other services

- electricity: at least 4,020 GWh,
- thermal energy 333 GWh,
- marketing of services on the basis of own knowledge and capacities,
- marketing of other TEŠ products (ash, gypsum, demineralised water, hydrogen, oxygen).

### Capital investments

- a priority is completing trial operation and beginning regular operation of Unit 6,
- ecological and technological rehabilitation of collapsed areas.

#### **Purchasing of primary resources, spare parts, materials and services**

- coal for electricity production: 36,845 TJ,
- coal for thermal energy production: 621 TJ,
- purchase of energy products, emission coupons, spare parts, materials and services under the most favourable terms.

#### **Performance of activities for the start of regular operation of Unit 6**

- performance of activities according to the applicable time schedule,
- assurance of quality performance of works.

#### **Assurance of funds for development and undisturbed operation**

- providing long-term sources of financing for the undisturbed funding of the Unit 6 investment by ensuring optimal sources of financing,
- ensuring short-term liquidity by implementing an appropriate liquidity policy,
- long-term borrowing within the HSE Group to ensure short-term and long-term solvency,
- generating EUR 192 million in revenue from the sale of products and services.

#### **Rationalisation and management of costs**

- achieving the lowest possible purchase prices of services, materials, spare parts and energy products with transparent publication of tender documentation (ZJNVETPS),
- optimising maintenance costs through prevention activities aimed at preventing the occurrence of breakdowns, rational use of materials used, and shortening deadlines for repairing individual appliances so that maintenance costs do not exceed the planned amount of EUR 4,089,060,
- implementing the cost optimisation plan.

#### **Assurance of appropriate structure, skills, efficiency and availability of human resources while optimising labour costs**

- employment: 317 permanent employees (or in line with the financial and business restructuring of the Company),
- new organisation and classification of jobs, rationalisation and optimisation of labour costs.

### 3 SOCIAL RESPONSIBILITY REPORT

#### 3.1 RESPONSIBILITY TO EMPLOYEES

On its evolutionary path started 59 years ago, TEŠ has stepped firmly into the second half of a century of operation. On this long road, we have been creatively developing new ideas and collectively building our initially small company, which has grown into an important commercial company.

Unfortunately, the economic situation and circumstances in the past decade have not been entirely in our favour, and this is where the Company's business culture takes on additional force. The business decisions that we face are linked to a process of transformation that is generally stressful. Primarily because we are passing from something that is known, stable and safe into the unknown. Changes need to be understood first and as soon as possible, and then accepted. Those who are more flexible and speedier have the advantage. The fact is that we cannot move forward without change, and people are the creators – and above all promoters – of development and progress.

In the area of human resources, we have for some time now been engaged primarily in implementing measures aimed at reducing the number of employees. Besides retirement, these include the termination of employment contracts for business reasons, mostly in case of elderly employees, who are entitled to an unemployment benefit. In 2015, we terminated 35 employment contracts for business reasons.

#### 3.2 HUMAN RESOURCES

As at 31 December 2015, TEŠ had 385 employees, of whom 384 were full-time employees and 1 had a fixed-term contract. In comparison with 31 December 2014, the number of employees decreased by 15.

WITHOUT TRAINEES / TRAINEES	31 Dec 2015	31 Dec 2014
Without trainees	385	439
Trainees	0	0
<b>TOTAL</b>	<b>385</b>	<b>439</b>

FIXED TERM / PERMANENT	31 Dec 2015	31 Dec 2014
Fixed term	1	2
Permanent	384	437
<b>TOTAL</b>	<b>385</b>	<b>439</b>

CA / MC	31 Dec 2015	31 Dec 2014
CA – collective agreement	382	434
MC – management contract	3	5
- of these: no. of management board members	0	1
<b>TOTAL</b>	<b>385</b>	<b>439</b>

As at 31 December 2015, the average age structure of permanent employees was 45 years and 11 months, and their average period of service was 25 years and 2 months. On this day the Company's permanently employed staff comprised 337 males (88 %) and 48 females (12 %).

In line with the implementation of measures aimed at rationalising and optimising our business operations, we continued to carry out activities in the area of organisation that had been partly implemented in January 2015. Among others, a working group for implementing the amendments to the Act on job classification and organisation of work was appointed in June 2015 by decision of the Managing Director. The group was comprised of representatives of the management as well as of social partners. The execution of reorganisation proposals was in the final phase – a draft Study, draft amendment to the Act on internal organisation and job classification, draft amendments to job descriptions and pertaining risk assessments, and draft organisation charts were prepared.

The following key changes were foreseen:

- optimising processes,
- reducing the number of management levels,
- ensuring stability and rationality, etc.

In addition to organisational changes, specific measures for the reduction of labour costs were implemented.

### **3.3 EDUCATION AND TRAINING**

Investments in knowledge are investments in the future. For this reason we devote considerable attention to adequate human resources development. By offering opportunities for education and other forms of training, we are cultivating a supportive attitude towards our employees.

In the 2015/2016 academic year, 12 employees or 2.9 % of all employees are undergoing part-time education. The average age of employees included in part-time education is 41 years and 5 months.

In July 2015, 46 employees completed practical training at our new technological unit – Unit 6. Specific training programmes related to management, operation, and maintenance are still being conducted.

External trainings were attended by 225 employees. Particularly training programmes required by law (e.g., UEN exams) were conducted, while certain trainings were urgently required in order to ensure a smooth-running work process – e.g., on the topic of public procurements.

### **3.4 RESPONSIBILITY TO THE NATURAL ENVIRONMENT**

Responsibility towards the natural environment has for several years been a central component of TEŠ's policy, and is carried out mostly through constant controls, warnings, measures and improvements. For this purpose we monitor the production of by-products, emissions and ambient air quality, supervise the consumption of raw and additional waters and the quality of waste waters, and prepare balances of closed-loop water systems and reviews of TEŠ's accumulated wastes.

Among contracts awarded for environmental services, in 2015 we assessed bids for the first measurements at Unit 6 and selected contractors. We prepared specifications, conditions and criteria for the selection of contractors for monitoring the rehabilitation areas of collapsed formations, monitoring emissions and immissions, monitoring the Paka River in the vicinity of TEŠ, monitoring waste waters, for opinions on the admissibility of opening the gate, and on the optimisation of biocide treatment. We also awarded a contract for hydrology measurements and the stabilised side product. Due to vagueness regarding the functioning of old units, we included all large units in our public tenders and added to our newly prepared contracts certain provisions preventing

any interpretations that all works in the specifications need to be performed even if not required in the event of non-operation. Owing to the optimisation of assets, we have postponed the implementation of the contract for monitoring of the Paka River for half a year. Some unplanned, minor additional costs were incurred in connection with renewal of the CCS procedure, an expert opinion on 500-hour operation using ELHO, and an opinion on the possibility of an administrative solution for Unit 4 as an exception.

In terms of efficient use of combustion residue, we analysed the production of stabilisation material in the previous year. At Unit 6, special attention was devoted to the organisation of hourly controls. Because the contractor performing works on the desulphurisation device was unable to provide us with sufficient data on an hourly basis by the end of May, we accepted the contractor's data. After this date and until the end of the year, when we disposed with all the hourly data, it became evident that only part of the slag had deviated from the required composition, primarily due to improperly located slag scales. The slag had not been weighed in front of the mixer, but in front of the silo, which caused it to be recorded even when the mixture was not being produced. The scales were moved to the proper location by the end of the year. Because the production of stabilisation material continued to show the worst mixing, we also prepared joint hourly controls of the mixing plants of Units 4 and 6, as there appeared to be certain advantages in the operational attainment of accuracy of both mixtures.

Since the SO<sub>2</sub> emissions were extremely low during trial runs, we devoted special attention in particular to NO<sub>x</sub> emissions. We agreed to carry out temporary displays of half-hourly measurements from the DENOX and RDP areas. Within the scope of proving the performance data of Unit 6, we gave several comments regarding the documents for the emission test, the noise test and the trial run, which were prepared by the general contractor. At the same time, we drew the contractor's attention on a daily basis to the excessive concentrations of NO<sub>x</sub> and requested their reduction to the half-hourly level. Additionally, we requested inclusion of the guarantee for ammonia slip, which the contractor did not accept. In April we nevertheless harmonised the test documents and achieved a reduction of all half-hourly values of NO<sub>x</sub> < 150 mg/m<sup>3</sup>, as well as an extremely low ammonia slip < 0.1 mg/m<sup>3</sup>.

For the needs of the technical inspection, we submitted an application for the use of liquid hazardous waste tanks at Unit 6. Responding to the reminder of the Slovenian Environmental Agency that not all of the tanks are listed in our existing environmental permit, we expressed in our letter the expectation that this would be resolved in the Seveso permit, which was then in the process of being acquired.

In connection with Unit 6, we also devoted special attention to the sewage system and interceptor (waste water collection tank). According to designers, the west part can no longer be connected to the waste water collection tank, so that it will be necessary to prohibit any treatment with substances hazardous to water in this area.

With respect to the requirements of the technical inspection, in September we arranged adequate access to the measuring point needed by an external independent institution to carry out periodical monitoring of the mixed sewage system.

The trial operation of Unit 6 was started in the beginning of June. Having understood that the new, lower values for Unit 5 in the respective period apply only at the time of trial operation of Unit 6, we operated with the old values in the period of its shutdown. This did not seem disputable at the time, as we had previously been allowed to operate with higher limit values of Unit 4 and Unit 5 together. We subsequently consulted with a legal advisor, who explained that the date when trial operation of Unit 6 was started is decisive, and not the operation of Unit 6 itself. We passed on this information to

the environmental inspector, who examined the unit's operation and found that we had not exceeded the allowed concentrations in ambient air.

By the end of the year, measurements of noise, electromagnetic radiation and emissions of substances into the air, as well as partial measurements of waste industrial waters, were concluded at Unit 6.

In line with Article 33 of the CCS Directive, the Slovenian Environmental Agency called on the Company to supplement its assessment prepared according to the methodology used to prepare assessments of environmental impacts, we placed an enquiry and selected a provider of services. After submitting the first supplementation, we received yet another request for supplementation from the Slovenian Environmental Agency, whose demands seem closer to an actual project for the execution of CO<sub>2</sub> capture device installation than to possibilities for the later installation of such devices. We replied with a letter explaining that we did not agree with such an interpretation of legislation. In August we nevertheless received a decision of the Slovenian Environmental Agency revoking the decision on the obligations of the operator in connection with providing space for the subsequent installation of CO<sub>2</sub> capture and compression devices. We submitted a complaint against the decision within the specified period. As the Ministry of the Environment and Spatial Planning subsequently sent a proposal for a new decree into public debate along with a new article relating to this issue, we also submitted our comments on these proposals. Although we were not successful in the first phase, we made a repeated attempt in the phase of inter-ministerial coordination by launching our proposal through the Slovenian Chamber of Commerce as well. Our proposal was then partially taken into account.

With respect to exceptions related to the IED Directive, in the first quarter we triggered a discussion with the Ministry of the Environment and Spatial Planning on the timely transposition of the Directive, in the part relating to large combustion plants, into our legal order and, consequently, on the timely acquisition of new permits for exceptions. In June we repeatedly drew attention to the issue of transposition. The Ministry nevertheless postponed the first announced transposition from July until September. To prepare for the least favourable scenarios, we commissioned an expert review and analysis of potential solutions to administrative issues, which gave certain solutions that could be enforced by the end of 2015. The proposal of the new decree was in public debate in October. Because it did not allow for the direct application of Article 33 of the Directive, during the discussion we directly presented, also via HSE and the Working group for air protection in the energy sector, several remarks and proposals for changing the decree. During inter-ministerial coordination, we also submitted proposals via the Chamber of Commerce and Industry. Despite all these efforts, the Government adopted a decree that did not provide for the direct application of the required articles of the decree. For this reason we prepared by 28 December 2015 an application for an exception and submitted it together with an application for modification of the environmental permit on 31 December 2015.

In this period we harmonised, together with an advisor from the Slovenian Environmental Agency, the documentation (concept) forming part of the application for the Seveso environmental permit. Owing to one of the hazardous substances being used at TEŠ, we are a so-called plant of minor risk to the environment. Despite being classified in this category because of only one such substance, the legislation in this area requires comprehensive treatment of all hazardous substances, responsibility for the management and maintenance of related devices, risk assessments, possible scenarios of accidents, potential consequences, etc. In the beginning of July, the documentation was harmonised and sent to the Slovenian Environmental Agency. In the same month we received the so-called environmental permit for the plant.

In 2015 we became aware of increased Mo concentrations in the Paka River and Lake Družmir. After examining the situation, we assessed that this could be the consequence of intensive cracks in the

rehabilitation area of collapsed formations. We promptly began discussions with the Slovenian National Building and Civil Engineering Institute (ZAG) on the possibility of conducting subsurface investigations of watertightness and cracks, and accelerating procedures for the rehabilitation of watertight foil on closed circuit water facilities. In December we organised a meeting with Premogovnik Velenje to present our proposal for the construction of several wells up to a depth of 30 m, which would provide answers to watertightness issues and allow us to plan the necessary measures to be taken in future. Premogovnik Velenje undertook to coordinate activities with ZAG and subsequently construct the wells, while TEŠ will finance the analyses of materials in wells.

In July we intensified activities related to the determination of risks. At the end of July, a table of environmental risks was presented to the chairman of the sub-committee for the management system.

In September we began to prepare documents for conversion to PT51 – for up to 500-hour use of ELHO in emergency cases. The documents needed for the application were prepared by the Company on 25 September 2015 and submitted for internal examination. Meanwhile an external professional institution was asked to prepare an expert basis to be submitted together with the application so as to ensure greater credibility. The application was submitted on 15 October. On 2 December we received a decision allowing us to resume modification of the environmental permit in this respect. We submitted an application for amendment of the environmental permit on 9 December 2015.

In September we began to prepare and coordinate activities for the testing of flue gas desulphurisation using adipic acid. We discussed with ZAG staff the need to modify the Slovenian Technical Approval, or to verify the stabilisation product's conformity with the Slovenian Technical Approval.

Within the scope of ISO 14001, we completed internal audits, verified all components of the system, examined the achievement of goals, assessed effectiveness, and successfully passed an external audit.

### **3.5 RESPONSIBILITY TO THE WIDER SOCIAL COMMUNITY**

With its location and activities, TEŠ is significantly integrated in the local community as well as the broader environment. At TEŠ we are aware of the importance of the environment in which we operate and which we are actively co-shaping. We are particularly aware of this because of the environmental impacts of our electricity production, all the more so in recent years due to the construction of Unit 6. We are therefore assuming a responsible role in the development of the area by participating in various projects and supporting them.

In 2014 we co-operated with various educational institutions and professional organisations, and made donations to cultural and sports associations. We sponsor the international summer research camp for secondary students organised by the Erico Environmental Research Institute in Velenje.

The Company is aware of the significance of the environment in which it operates and which it actively co-shapes. We realize that the presence of TEŠ in the local community is not undisturbing, which is why we shall continue to assume a responsible role in its development by participating in various projects and supporting them.

Owing to the optimisation of business operations, the funds intended for donations and sponsorships have been substantially reduced.

## 4 FINANCIAL REPORT

### 4.1 AUDITOR'S REPORT



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## Independent Auditor's Report

To the Shareholder of Termoelektrarna Šoštanj d.o.o.

### *Report on the Financial Statements*

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

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

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

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

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba  
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TIR: SI 55 2930 3000 1851 102  
vpis v sodni register; Okrožno sodišče v Ljubljani  
SI. reg. št.: 061/12062190  
osnovni kapital: 55.892,00 EUR  
ID za DDV: SI20637146  
matično št.: 5548556



### ***Report on Other Legal and Regulatory Requirements***

While compiling the financial statements, Termoelektrarna Šoštanj d.o.o. separately recorded diverse activities in accordance with Article 8 of the Relations and Maintenance of Separate Accounts for Different Activities Act and in case of allocating direct costs applied criteria that are grounded on accounting principles and activities that result in these costs.

While compiling the financial statements, Termoelektrarna Šoštanj d.o.o. applied the separate accounting monitoring of each energy-related activity and prepared the annual report 2015 in compliance with Article 108 and 305 of the Energy Act.

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

On behalf of the audit company

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

Danilo Bukovec  
*Certified Auditor*

Boris Drobnič  
*Partner*

Ljubljana, 31 May 2016

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

## 4.2 STATEMENT OF MANAGEMENT RESPONSIBILITY

The management is responsible for preparing financial statements for each individual financial year in accordance with the International Financial Reporting Standards (IFRS) and applicable laws as adopted by the European Union, in such a manner that they give a true and fair view of the financial position of the company Termoelektrarna Šoštanj d.o.o..

The management reasonably expects that in the foreseeable future, the Company will have sufficient assets to continue its operations, and therefore the financial statements have been prepared on a going concern basis.

The management's responsibility in preparing the financial statements includes the following:

- accounting policies are appropriately selected and consistently used,
- judgments and assessments are reasonable and prudent,
- financial statements are prepared in accordance with IFRS as adopted by the EU.

The management is responsible for keeping relevant records which, at every moment, present the Company's financial position with reasonable precision, as well as for ensuring that the Company's financial statements are consistent with IFRS. The management is also responsible for protecting the Company's property, as well as preventing and detecting abuse and other irregularities.

The management confirms that the financial statements are prepared in accordance with the provisions of IFRS without qualifications as to their use.

The management approved the Company's financial statements for the financial year ended 31 December 2015 on 31 May 2016.

Šoštanj, 31 May 2016

Arman Koritnik, LL.M.  
Managing Director



### 4.3 INTRODUCTORY NOTES TO THE PREPARATION OF FINANCIAL STATEMENTS

Pursuant to a resolution of the General Meeting of the owner of Termoelektrarna Šoštanj dated 20 August 2010, as of 1 January 2011 the Company prepares the financial statements and the accompanying notes in accordance with the International Financial Reporting Standards (hereinafter: IFRS) as adopted by the EU.

The auditing company KPMG Slovenija d.o.o. has audited the financial statements and the accompanying notes, and has prepared the independent auditor's report included at the beginning thereof.

#### 4.3.1 Reporting company

Termoelektrarna Šoštanj d.o.o. (hereinafter: the »Company«) is a company with its registered office in Slovenia. The address of its registered office is Cesta Lole Ribarja 18, Šoštanj. Separate financial statements of the Company for the year ended 31 December 2015 are presented below.

The consolidated financial statements for the Holding Slovenske elektrarne Group are prepared by Holding Slovenske elektrarne d.o.o.. The consolidated annual report for the HSE Group is available at the company's registered office at Kopraska ulica 92 in Ljubljana.

#### 4.3.2 Basis for preparation

In preparing the financial statements as at 31 December 2015, the Company considered the following:

- the IFRS, which include the International Accounting Standards (IAS), Interpretations issued by the Standing Interpretations Committee (SIC), International Financial Reporting Standards (IFRS), and the Interpretations issued by the 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 Termoelektrarna Šoštanj d.o.o., and
- other applicable legislation.

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

The new standards and interpretations specified below are not yet effective and were not considered during preparation of the annual financial statements for the financial year ended 31 December 2015:

- **Amendment to IFRS 11: Accounting for acquisitions of interests in joint operations** (effective for annual periods beginning on or after 1 January 2016. To be applied retroactively. Earlier adoption is permitted.)

In accordance with the amendment, acquisitions of interests in joint operations in which the activity constitutes a business need to be accounted for and treated as business combinations.

Business combinations accounting is also applied in acquisitions of additional interests in joint operations, where the joint owner retains joint control. Additionally acquired interests are measured at fair value. Past acquisitions of interests in joint operations do not need to be repeatedly measured.

The influence of the adopted amendment can be assessed in the year of its first application, which depends on an acquisition of joint operations that is made during the reporting period. Since the Company will not apply the amendment before the specified date, the influence of the adopted amendment on its financial statements cannot be assessed.

- **Amendment to IAS 1** (effective for annual periods starting on or after 1 January 2016. Earlier adoption is permitted.)

The amendment to IAS 1 comprises five narrowly oriented improvements regarding the disclosure of requirements specified in the standard.

The instructions regarding materiality under IAS 1 are changed and clarify the following:

- immaterial data can be excluded from useful information,
- materiality is applicable for the entire financial statements,
- materiality is applicable for each individual disclosure according to IFRS.

The instructions regarding the order of notes (including accounting policies) are changed:

- the part of the wording that was interpreted as determining the order of notes to the financial statements is to be excluded from IAS,
- companies may include disclosures related to accounting policies in the financial statements at their discretion.

The Company assumes that on the first day of its application, the amendment will not significantly influence the financial statements of the Company.

- **Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation** (effective for annual periods beginning on or after 1 January 2016. To be applied retroactively. Earlier adoption is permitted.)

*The depreciation of property, plant and equipment on the basis of revenue is not permitted.*

The amendment expressly stipulates that revenue-based depreciation methods are not to be used for property, plant and equipment.

*New limiting test for intangible assets*

The amendment introduces a rebuttable legal presumption that a revenue-based amortisation method for intangible assets is inappropriate. This presumption can only be eliminated when the revenue and the use of economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is presented as a measure of revenue.

The Company assumes that on the first day of its application, the amendment will not influence its financial statements, as the Company does not use depreciation methods based on revenue.

- **Amendments to IAS 16 Property, plant and equipment, and to IAS 41 Agriculture** (effective for annual periods beginning on or after 1 January 2016. Earlier adoption is permitted.)

The amendment includes bearer plants under IAS 16 Property, plant and equipment, and not under IAS 41 Agriculture, because their operation is similar to that of manufacturing.

The Company assumes that on the first day of its application, the amendment will not influence its financial statements, as the Company does not have bearer plants.

- **Amendment to IAS 19 – Employee benefits** (effective for annual periods beginning on or after 1 January 2016. To be applied retroactively. Earlier adoption is permitted.)

The amendment refers only to programmes with specific earnings which include contributions of employees or third persons that fulfil certain criteria, which are:

- determined by formal provisions of the programme;
- linked to a service;
- independent of the number of years of service.

When the above-mentioned criteria are fulfilled, the company may (not compulsory) recognise the contributions as a deduction from costs of service in the period in which the service was rendered.

The Company assumes that on the first day of its application, the amendment will not significantly influence its financial statements, as the Company does not have any programmes with specific earnings that would include the contributions of employees or third persons.

- **Amendment to IAS 27: Equity method in separate financial statements** (effective for annual periods beginning on or after 1 January 2016. To be applied retroactively. Earlier adoption is permitted.)

In accordance with the Amendment to IAS 27, companies may use the equity method in separate financial statements to account for investments in subsidiaries, associates, and joint ventures.

The Company assumes that on the first day of its application, the amendment will not influence its financial statements, as the Company will continue to present its investments in subsidiaries, associates and joint ventures at cost.

### **Annual improvements**

In December 2013, the International Accounting Standards Board (IASB) published a cycle of annual improvements to IFRS for the 2010-2012 period, among others, six amendments to six standards, and subsequently also other amendments to standards and interpretations that are expressed as amendments in terms of presentation, recognition and measurement. The annual improvements to IFRS for amendments adopted in the 2010-2012 period apply for the annual periods after 1 February 2015, but earlier adoption is also permitted. The annual improvements to IFRS for the 2012-2014 period were issued by IASB in September 2014 and introduce four amendments to four standards, four standards, and accompanying amendments to other standards and interpretations that are expressed as amendments in terms of presentation, recognition and measurement. The annual improvements to IFRS for the cycle of supplements adopted in the 2012-2014 period apply for annual periods beginning on or after 1 January 2016, but earlier adoption is permitted.

The improvements introduce ten amendments to ten standards, subsequently also amendments to other standards and interpretations. The relevant amendments apply for annual periods starting on or after 1 February 2015, 1 January 2016, but earlier adoption is permitted.

The Company assumes that the provisions will not significantly influence its financial statements.

### IFRS 3 Business combinations

The amendment to IFRS 3 (together with accompanying amendments to other standards) clarifies that the classification of a contingent consideration among liabilities or capital in cases when it is a financial instrument is determined by IAS 32 and not other standards. The amendment also clarifies that a contingent consideration classified as an asset or liability is to be measured at its fair value as at the reporting date.

The Company foresees that on the date of its first application, the amendment will not influence its financial statements, as the Company does not have any such cases.

### IAS 19 Employee benefits

The amendment to IAS 19 clarifies that the discount rate used in the calculation of employee benefits is to be based on high-quality corporate bonds or government bonds in the same amount as the employee benefits need to be paid.

In actuarial calculation of liabilities from jubilee benefits and severance pay upon retirement, the discount rate is already based on high-quality corporate bonds. For this reason, the new amendment will not influence the presentation of liabilities from jubilee benefits and severance pay upon retirement.

#### 4.3.3 Basis of measurement

The financial statements are prepared on the basis of the going concern assumption and taking into account the occurrence of a business event.

The financial statements of the Company are prepared on the basis of historical values of balance sheet items.

The following qualitative characteristics of financial statements have been considered:

- Fair presentation and compliance with IFRS: the financial statements present fairly the financial situation, financial performance and cash flows of the Company.
- Consistency of presentation: the presentation and classification of items in the financial statements is the same from one period to another. The accounting report for 2015 discloses certain items in more detail in comparison with the accounting report for 2014, and therefore comparative data have also been adjusted. The changes in disclosures are as follows:
  - a) short-term trade receivables and short-term trade payables are presented separately. Other operating receivables and liabilities are presented under other short-term assets and liabilities (the 2014 accounting report presented receivables under short-term operating receivables, and liabilities under short-term operating liabilities);
  - b) liabilities due to unused leave are presented among short-term liabilities to employees under other short-term liabilities (in the 2014 financial report they were presented under short-term accrued costs and expenses);
- Materiality and aggregation: Each material group of similar items is presented separately in the financial statements. Dissimilar items or roles are presented separately unless they are immaterial.
- Offsetting: neither assets and liabilities nor revenue and expenses are offset unless so required by a standard or a note.

- Comparative information: comparative information from previous periods is to be reported for all amounts disclosed in the financial statements, unless a standard or note allows or requires otherwise. Comparative information is included among narrative and descriptive information, where it is relevant to understanding the financial statements of the current period.

#### **4.3.4 Currency reports**

##### **4.3.4.1 Functional and presentation currency**

The financial statements contained in this Report are presented in euros (EUR) without cents. The euro is both the functional and the presentation currency of the Company. Due to the rounding of amounts, the totals in the tables may deviate insignificantly.

##### **4.3.4.2 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 the transaction. Cash and liabilities expressed in a foreign currency at the end of the reporting period are translated into the functional currency at the then applicable exchange rate.

Positive or negative foreign exchange differences are the differences between amortised costs in the functional currency at the beginning of the period corrected by the amount of effective interest and payments during the period, and amortised cost in foreign currency translated at the exchange rate at the end of the period.

Noncash assets and liabilities expressed in a foreign currency and measured at fair value are translated into the functional currency at the exchange rate on the date when the amount of fair value is determined.

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

##### **4.3.5 Use of estimates and judgments**

The preparation of financial statements requires that the management form certain assessments and assumptions which affect the presented amounts of assets and liabilities, revenue and expenses, and the disclosures of contingent assets and liabilities in the reporting period.

Assessments and assumptions are based on past experience and other factors that are considered reasonable in the given circumstances, and on the basis of which the judgments on the carrying amount of assets and liabilities are expressed. Since the assessments and assumptions are subject to subjective judgment and a certain degree of uncertainty, the subsequent actual results may differ from the assessments. The assessments are examined on a regular basis. Changes in accounting estimates are recognised in the period in which the assessments were changed if the change affects only that period, or in the period of the change and in future periods if the change affects future periods.

Assessments and assumptions are present in at least the following judgments:

- assessment of useful life of depreciable/amortisable assets,
- test of impairment of assets,
- assessment of net realisable value of inventories,
- assessment of realisable value of receivables,
- assessment of provisions for jubilee and termination benefits,
- assessment of other provisions,
- assessment of contingent liabilities and assets.

Additional assessments and assumptions of the management in preparing the statements as at 31 December 2015 were:

- The projected prices of CO<sub>2</sub> emission coupons increased in comparison with 2014, which significantly influenced the results of impairment testing of property, plant and equipment.
- In case of impairment testing of a cash-generating unit with assets having a limited useful life (B6), the business operation projections for its entire useful life are to be used. The utilised projections of price trends for EE and CO<sub>2</sub> emission coupons, which are prepared by an external independent institution, are in the case of EE limited to a period of 25 years. The reasons for the use of long-term projections in impairment tests are: the nature of the activity, which requires long-term investment cycles; adoption of investment decisions in consideration of long-term market projections; existence of long-term price trend projections of the most relevant input data for impairment testing; irregular distribution of investments in the preservation of capacities through periods of anticipated operation of energy facilities; and adjustment of the volume of production availability of the energy product.

#### 4.3.6 Events after the statement of financial position date

Significant events after the date of the statement of financial position that could have an impact on the financial statements:

On 13 January 2016, EIB, TEŠ, HSE and the Ministry of Finance of the Republic of Slovenia signed a letter determining the term and other conditions related to the early repayment of the EIB loan under Loan Agreement 24.109 in the amount of EUR 110.0 million.

On 22 January 2016, TEŠ and HSE signed Credit Facility Agreement No. 1/HSE/TEŠ/16 in the amount of EUR 37.9 million for the early repayment of a proportional part of an EBRD loan at a fixed interest rate of 4.20 % p.a. and with repayment date 31 December 2016, or with the possibility of rescheduling into a long-term loan.

On 22 January 2016, the Analysis and evidence of impact on long-term solvency in the event of recording impairment on the basis of the valuation report was prepared.

On 25 January 2016, EBRD, TEŠ and HSE signed a document on the early repayment of a proportional part of a loan, to which EBRD is entitled on the basis of an equivalent position under concluded loan agreements and other relevant components of mutually agreed obligations (approval of price of coal, financial indicators, temporary use of funds on DSRA account).

On 25 January 2016, EBRD, TEŠ and HSE signed Amendment Agreement No. 3 to Loan Agreement 40.417, in which Addendum 1 specifies a new depreciation plan for repayment of the loan and a new value of financial indicators to be fulfilled by TEŠ until final repayment of the loan.

On 25 January 2016, TEŠ repaid a proportional part of the EUR 37.9 million EBRD loan, together with pertaining expenses.

On 26 January 2016, TEŠ and HSE signed Long-term Loan Agreement No. 2/HSE/TEŠ/16 with lender HSE d.o.o. in the amount of EUR 110.0 million, at a fixed interest rate of 4.20 % p.a. and with repayment date 31 December 2034, for the purpose of early repayment of the EUR 110 million loan raised with EIB.

On 27 January 2016, TEŠ repaid a loan under Loan Agreement No. 24.109, concluded between TEŠ and EIB in September 2007, in the amount of EUR 110.0 million together with pertaining interest.

On 22 February 2016, TEŠ and HSE signed Long-term Loan Agreement No. 3/HSE/TEŠ/16 with lender HSE d.o.o. in the amount of EUR 29.0 million, at a fixed interest rate of 4.20 % p.a. and with repayment date 31 December 2029, for the purpose of liquidity financing.

On 4 March 2016, an Analysis and evidence of solvency as at 31 December 2015 in comparison with 30 September 2015 was prepared for the purpose of meeting the criterion of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act after the Company's uncovered loss had attained half the value of its share capital.

On 3 March 2016, a proposal for a decision on the conversion of liabilities into capital surplus and the covering of loss brought forward from previous years and the 2015 financial year was presented to the sole shareholder.

According to the final Report on the monitoring of TGP emissions in 2015, TEŠ emitted 3,791,039 tons of CO<sub>2</sub> into the atmosphere through electricity and thermal energy production. In line with the provisions of the Environmental Protection Act, at the end of April the Company submitted 3,791,039 emission coupons (1 coupon per ton of CO<sub>2</sub>) as payment for the environmental pollution tax. To settle this tax, the Company utilised 107,372 free coupons and 3,683,667 emission coupons purchased from HSE in March.

On 31 May 2016, the shareholder adopted a decision on the transfer of non-cash subsequent contributions in the amount of EUR 228,062,740 to capital surplus for the purpose of covering losses. The non-cash contributions relate to the owner's receivables from loans granted as at 31 March 2016. On 31 May 2016, an Agreement on the subsequent payment of receivables to capital surplus was signed between HSE and TEŠ.

#### **4.3.7 Significant accounting policies**

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

Whenever necessary, the comparative information was adjusted so as to be in accordance with the presentation of information in the current year.

##### **4.3.7.1 Intangible assets**

Intangible assets are long-term assets enabling the performance of the Company's registered activities, whereas physically they do not exist. The Company's intangible assets include licences, software, and emission coupons.

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

Intangible assets are subsequently measured using the cost model.

Emission coupons are long-term property rights with an indefinite useful life and are measured in accordance with the interpretations of the Slovenian Institute of Auditors.

Amortisation is calculated using the straight-line amortisation method, taking into account the useful life of an individual (integral) part of an intangible asset. Amortisation begins to be calculated from the cost when an asset is available for use.

The residual value of an intangible asset is an estimated amount which the Company would receive upon the disposal of such an asset after it is reduced by the estimated costs of disposal, if such asset were old enough and if its state reflected the end of its useful life. The Company has no intangible assets for which it would record the residual value upon their purchase.

Intangible assets with an indefinite useful life are not amortised, but impaired.

Amortisation methods, useful lives and other values of groups of intangible assets are examined at the end of each financial year and adapted, if needed.

If the useful life of an asset is extended, the cost of amortisation for the financial year decreases. If, on the other hand, the useful life of an asset is shortened, the amortisation cost increases. The adjustment of useful life has to be calculated in a manner that the intangible asset will be amortised in the new, predicted useful life. The change in useful life is considered as a change in the accounting estimate, and it affects only the period in which the accounting estimate was changed, and every following period of the remaining useful life.

The estimated useful lives are:

#### USEFUL LIVES FOR INTANGIBLE ASSETS

GROUP OF INTANGIBLE ASSETS	USEFUL LIFE
Software	3 -11 years
Licences	3 - 8 years

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

#### 4.3.7.2 Property, plant and equipment

Property, plant and equipment are part of the long-term assets owned by the Company and used for the performance of its registered activities. Property, plant and equipment comprise land, buildings, production plant and equipment, other equipment, and assets under 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. Cost includes costs that can be directly attributable to the acquisition of an item of property, plant and equipment, and also include the costs of decommissioning.

The parts of items of plant and equipment with different useful lives are accounted for as individual assets.

The anticipated costs of major regular inspections and repairs (overhauls) of plant and equipment are considered as parts. These include repairs that are usually carried out every few years (periodically), and require substantial resources.

The Company has no items of property, plant and equipment acquired free of charge.

Borrowing costs that are directly allocated to the purchase, construction or production of a qualifying asset, i.e., until capitalisation of the asset, are recognised as a part of the cost of such an asset.

For subsequent measurement of property, plant and equipment, the cost model is used.

Depreciation is calculated using the straight-line method of depreciation, taking into account the useful life of each individual (integral) part of an asset and residual value. Depreciation is calculated on the basis of cost, when an asset is available for use. Assets that are in the process of production or construction are not depreciated.

The depreciation rates of property, plant and equipment are defined on the basis of the management's assessment with regard to the estimated useful lives of individual production units.

The estimated useful lives of significant assets of production units are:

#### USEFUL LIVES OF PRODUCTION UNITS

PROPERTY, PLANT AND EQUIPMENT	USEFUL LIFE of property	USEFUL LIFE of production plant and equipment	USEFUL LIFE of parts of production plant and equipment (overhauls)
Unit 4	20 - 43 years	10 - 43 years	2.5 -6.2 years
Unit 5	14 - 52 years	7 -49 years	4 years
Unit 6	40 years	10 - 40 years	3 years
Gas units 1 and 2	25 years	12 - 25 years	4-14 years

The estimated useful lives of other items of property, plant and equipment are:

#### USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT – OTHER ITEMS

PROPERTY, PLANT AND EQUIPMENT	USEFUL LIVES
Buildings - other	17 -41 years
Parts of buildings	5 - 40 years
Computer equipment	2 - 5 years
Furniture	3-10 years
Cars	12 - 5 years
Other vehicles	25 -5 years
Other plant and equipment	3 - 50 years

Methods of depreciation, useful life, and other values of the groups of assets are examined at the end of each financial year and adapted, if needed.

In case useful life is extended, the Company decreases accrued depreciation costs in the financial year discussed, whereas if useful life is shortened, it increases them. The adjustment of useful life has to be calculated in a manner that the asset will be depreciated in the new predicted useful life. The change in useful life is considered as a change in accounting estimate and only affects the period in which the accounting estimate was changed and every subsequent period of the remaining useful life.

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

The residual value of an asset is the estimated amount the Company would receive upon disposal of such asset after its reduction by the estimated costs of disposal, if such asset were old enough and if its state reflected the end of its useful life.

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

#### **4.3.7.3 Long-term investments in associates**

Investments in associates are investments in which the Company has an important influence; generally, its stake in such a company ranges between 20 and 50 %.

In the Company's financial statements, investments in associates are carried at cost.

#### **4.3.7.4 Financial instruments**

Financial instruments include the following items:

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

##### **4.3.7.4.1 Non-derivative financial assets**

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

A financial asset is derecognised when the 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 the financial asset are transferred.

##### **Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale (including Other long-term financial investments), or are not classified as loans and receivables or financial assets at fair value through profit or loss.

The Company measures financial assets at cost in the event that their fair value cannot be reliably measured. Potential signs of impairment are verified at least once a year.

#### **Loans and receivables**

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

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

Loans are recognised in books of account at the settlement date, and receivables at the trading date.

Loans and receivables are recorded under short-term assets, except those maturing more than 12 months after the date of the statement of financial position. In this case they are recorded under long-term assets.

Advances receivable are recorded in the statement of financial position at cost, less VAT.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash, bank deposits up to three months, and other short-term, quickly realisable investments with an original maturity of three months or less. They are carried at cost.

#### **4.3.7.4.2 Non-derivative financial liabilities**

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

Loans received are initially recognised at the settlement (payment) date, while other non-derivative financial liabilities are recognised at the trading date.

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

#### **4.3.7.5 Assets held for sale**

An asset or a group of assets held for sale are those assets for which it can be reasonably expected that their value will be settled through sales in the following 12 months, and not with further use.

An asset or a group of assets held for sale is measured at carrying amount or fair value less costs of sale, whichever is lower.

#### **4.3.7.6 Inventories**

Inventories are valued at historical cost or net realisable value, whichever is lower. The historical cost includes cost that is composed of purchase price, import duties, and direct costs of purchase. The purchase price is reduced by discounts received. Direct costs of purchase are costs of transport

services, costs of loading, cargo handling and unloading, costs of monitoring goods, and other costs that can be attributed to directly obtained merchandise and materials. Purchase price discounts comprise discounts indicated in the invoice as well as discounts that are received later and refer to an individual purchase.

Inventories of materials and low-value assets are valued using the weighted average price method. The respective method is also applied when recording costs or expenses.

The first-in first-out (FIFO) method is only used in the valuation of coal and gas used, since the coal and gas that are purchased first are also used first. The Company does not record any inventories of coal and gas.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Write-downs of damaged, expired and useless inventories are regularly performed during the year per individual items.

At least once per year, at the reporting date, the impairment test is conducted where there is an indication of impairment of inventories. The impairment of inventories is assessed for each individual type of inventory. Individual types of inventories are classified as groups of inventories with similar characteristics on the basis of the time component of changes in inventories. In the assessment of impairment for an individual group, the criteria of professional assessment, further, use or sale are applied.

#### **4.3.7.7 Impairment of assets**

##### **4.3.7.7.1 Financial assets**

A financial asset is considered impaired, if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be reliably measured.

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

#### **Impairment of receivables**

The Company individually assesses evidence on the impairment of receivables. If it is assessed that the carrying amount of a receivable exceeds its fair value (realisable value), the receivable is impaired.

Receivables assumed not to be settled by their due date or in their full amount are recorded as doubtful receivables; if they result in legal action, they are recorded as disputed receivables.

For the final write-off of receivables, relevant documents of proof are needed: legally enforceable decisions on forced settlement, bankruptcy proceedings, court rulings, or other relevant documents.

In the event that all actions were performed in accordance with the due diligence principle, with the intention to repay certain unsettled receivables, and in cases when, due to the amount of receivables, it would not be economical for the Company to enter the collection procedure through a court, the receivables are fully written off on the basis of the management's decision.

Impairment losses in relation to financial assets are recognised in profit or loss.

#### **4.3.7.7.2 Nonfinancial assets**

At 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 indication exists, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. When determining the value of an asset in use, the expected future cash flows are discounted to their current value using the discount rate before tax that reflects regular market assessments of the time value of money and risks that typically occur in relation to the asset. For the purpose of impairment testing, 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 cash-generating unit is recognised when its carrying amount exceeds its recoverable amount. Impairment is recorded in the income statement.

At the end of each reporting period, the Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. The increased carrying amount of an asset attributable to a reversal of impairment loss shall not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised for the asset in prior years.

#### **4.3.7.8 Equity**

The 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 of the Company's net assets. It is determined by both the amounts invested by the owners and the amounts generated in the course of operation that belong to the owners. It is decreased by the loss from operations and payments to the owners, and increased by the profit for the period.

Share capital and capital surplus represent the owner's cash and in-kind contributions. Capital surplus comprises the general equity revaluation adjustments. The amount may only be used for capital increase and covering of loss.

Legal and other reserves from revenue are amounts that are intentionally retained from the previous years' profit. They are created on the basis of a decision adopted by a relevant management body and a supervisory body.

Fair value reserves represent the amounts of revaluation of individual categories of assets.

Retained earnings include the profit or loss carried forward from previous periods as well as the profit or loss for the period.

#### **4.3.7.9 Provisions for jubilee and termination benefits**

In accordance with legal regulations, the collective agreement and internal rules, the Company is obliged to pay jubilee benefits to employees and termination benefits upon their retirement, for which long-term provisions are created. No other pension liabilities are recorded.

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

Obligations for short-term employee benefits are measured without discount and are recorded under expenses when the employee's work related to a specific short-term benefit is performed. Obligations are recorded in the amounts of expected payments in the form of short-term earnings, if the Company currently has a legal or direct obligation to make such payments due to the work performed by the employee in the past and if the obligation can be reliably measured.

#### **4.3.7.10 Other provisions**

Provisions are recognised when the Company has legal or indirect 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 must 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 the expenditure needed for the settlement of liabilities existing on the date of the statement of financial position. In reaching the best estimate of a provision, the risks and uncertainties that inevitably surround the events and circumstances are taken into account.

Provisions are directly decreased by costs or expenses for which they were created to cover. This means that in the financial year, such costs or expenses are no longer recorded under profit or loss.

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

#### **4.3.7.11 Other assets and liabilities**

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

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 yet been charged.

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

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

Deferred revenue is the revenue that will cover the estimated expenses during a period of more than one year. They also include received state subsidies and assets-related subsidies.

#### **4.3.7.12 Contingent liabilities and assets**

A contingent liability is:

- a possible liability arising from past events, whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events which the Company does not fully control, or
- a present obligation arising from past events, which is not recognised, since it is not probable that an 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 an asset that could arise from past events and whose existence is confirmed solely by the occurrence or non-occurrence of one or more uncertain future events which the Company does not fully control.

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

#### 4.3.7.13 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 recorded when the buyer assumes all significant types of risks and benefits related to the ownership of the asset, when there is certainty as to the recoverability of a compensation and related costs, or the possibility of return of products, and when the Company stops deciding on products sold.

**Revenue from the sale of goods** is recognised when the Company delivers the products to the client. The client accepts the products, while the collectability of associated receivables is reasonably ensured.

**Revenue from the sale of services** is recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the transaction assessed on the basis of actually rendered service as a proportional part of the total services.

Revenue arising from **default interest** charges and related receivables are recognised upon occurrence, if it is probable that the economic benefits related to the transaction will inflow to the Company. In the reverse case, 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 on a case per case basis.

**Other operating revenue** related to products and services is revenue from the reversal of provisions, revenue from the utilisation of deferred revenue, gains arising from sales of fixed assets, reversal of impairment of receivables, received compensations and contractual penalties, and similar revenue (e.g., government grants).

A government grant is treated as deferred revenue which is recognised on a systematic and rational basis as other operating revenue over the useful life of the relevant asset (on the other hand, the Company discloses the costs of depreciation of such an asset under operating expenses).

**Financial revenue** comprises revenue from shares in investments, interest revenue from loans granted and deposits, foreign exchange gains from financing, and profits of associates.

#### 4.3.7.14 Expenses

Expenses are recognised if a decrease in economic benefits in the accounting period gives rise to a decrease in assets or increase in debt, and this decrease can be reliably measured. Operating expenses are recognised once costs are no longer held in inventories of products and work in progress, or once

merchandise has been sold. Costs that cannot be held in inventories of products and work in progress are recognised as operating expenses when incurred.

**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 materials 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 whose useful life does not exceed one year, office supplies, specialised literature, and other items. Costs of materials also cover the accrued costs of shrinkage, spill, breakage and failure.

**Costs of services** are historical costs of purchased services that are directly used for creating products and services (costs of direct services), as well as costs of services that do not have such 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 mainly includes the costs of transport services, maintenance services, services of fairs, marketing services, entertainment, costs of insurance premiums, payment transactions and other banking services (except interest), rents, advisory services, business trips, and similar services.

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

**Labour costs** are historical costs that refer to salaries and other payments to employees in gross amounts, as well as duties that are calculated from this basis and are not an integral part of gross amounts. These costs can be directly charged against the creation of products and services (costs of direct work), or they have the nature of indirect costs and are included in relevant purpose (functional) groups of indirect costs.

**Other operating expenses** occur in relation to the creation of provisions, environmental taxes, donations, and other duties.

**Financial expenses** comprise borrowing costs (if they are not capitalised), negative foreign exchange differences that occur in financing and investment activities, changes in fair value of financial assets at fair value through profit or loss, and losses due to impairment of value of financial assets recognised in the income statement. Borrowing costs are recognised in the income statement using the effective interest rate method.

#### 4.3.7.15 Tax

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 the 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 using the tax rates applicable on the reporting date.

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

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

#### **4.3.8 Statement of other comprehensive income**

The statement of other comprehensive income comprises items of revenue and expenses that are not recognised in profit or loss, but affect the amount of equity.

#### **4.3.9 Cash flow statement**

The cash flow statement shows the changes in cash and cash equivalents in the financial year for which it is prepared. The cash flow statement is prepared using the indirect method.

#### **4.3.10 Fair value measurement**

Financial instruments are carried at fair value. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

- the first level comprises quoted prices (unmodified) in active markets for equal assets or liabilities,
- the second level comprises inputs in addition to 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,
- the third level comprises input data for an asset or liability that are not based on evident market data.

The fair value of individual groups of assets for the purposes of measuring or reporting was determined using the methods described in section 4.11.5 Fair value.

#### **4.3.11 Financial risk management**

The Company is exposed to the following types of financial risk: credit, liquidity and interest rate risk. Financial risks are described in more detail in section 2.11 on risks in the management report. In terms of value, financial risks are disclosed in item 4.11 of the Notes.

#### 4.4 STATEMENT OF FINANCIAL POSITION

##### Statement of financial position

in EUR

	Note	31 Dec 2015	31 Dec 2014
<b>ASSETS</b>		<b>1,119,823,870</b>	<b>1,498,884,806</b>
<b>A. LONG-TERM ASSETS</b>		<b>1,050,522,473</b>	<b>1,426,983,667</b>
I. Intangible assets	1	454,804	544,573
II. Property, plant and equipment	2	1,049,906,616	1,426,251,486
V. Other long-term investments and loans	3	60,003	60,003
VI. Long-term operating receivables	4	79,099	90,277
VII. Other long-term assets	5	21,951	37,328
<b>B. SHORT-TERM ASSETS</b>		<b>69,301,397</b>	<b>71,901,139</b>
I. Assets held for sale	6	201,723	201,723
II. Inventories	7	6,058,139	10,453,202
III. Short-term investments and loans	8	14,250,957	0
IV. Short-term operating receivables	9	27,176,947	25,343,835
VI. Other short-term assets	10	21,577,097	35,893,836
VII. Cash and cash equivalents	11	36,534	8,543
<b>EQUITY AND LIABILITIES</b>		<b>1,119,823,870</b>	<b>1,498,884,806</b>
<b>A. EQUITY</b>	<b>12</b>	<b>215,820,023</b>	<b>426,353,458</b>
I. Called-up capital		578,579,850	330,027,060
II. Capital surplus		116,883,008	116,883,008
III. Revenue reserves		68,771,666	68,771,666
V. Fair value reserve		(88,545)	(52,606)
VI. Retained earnings		(548,325,956)	(89,275,670)
<b>B. LONG-TERM LIABILITIES</b>		<b>687,221,507</b>	<b>748,507,020</b>
I. Provisions for termination and jubilee benefits	13	2,572,205	2,516,594
II. Other provisions	14	12,371,966	2,716,040
III. Other long-term liabilities	15	264,716	2,048,195
IV. Long-term financial liabilities	16	672,012,620	741,226,191
<b>C. SHORT-TERM LIABILITIES</b>		<b>216,782,340</b>	<b>324,024,328</b>
II. Short-term financial liabilities	17	159,133,743	185,500,110
III. Short-term operating liabilities	18	24,890,079	111,980,875
V. Other short-term liabilities	19	32,758,518	26,543,343

The accompanying notes are an integral part of the financial statements and should be read in conjunction with the statements.

## 4.5 INCOME STATEMENT

### Income statement

*in EUR*

	Note	2015	2014
<b>OPERATING REVENUES</b>		<b>161,849,096</b>	<b>191,046,120</b>
1. NET SALES REVENUE	20	158,774,403	185,474,049
3. CAPITALISED OWN PRODUCTS AND OWN SERVICES	21	88,748	144,783
4. OTHER OPERATING REVENUE	22	2,985,945	5,427,288
<b>GROSS OPERATING INCOME</b>		<b>161,849,096</b>	<b>191,046,120</b>
<b>OPERATING EXPENSES</b>		<b>602,649,233</b>	<b>278,658,714</b>
5. COSTS OF GOODS, MATERIAL AND SERVICES	23	102,466,138	137,614,487
6. LABOUR COSTS	24	17,469,939	18,103,491
7. WRITE-DOWNS IN VALUE	25	450,296,155	92,607,272
a) depreciation and amortisation expense		35,499,671	28,924,565
b) impairment/write-down/disposal of intangible assets and investments, property, plant and equipment		408,683,501	61,042,371
c) impairment/write-down of receivables		517,400	2,640,336
d) impairment/write-down of inventories		5,595,583	0
8. OTHER OPERATING EXPENSES	26	32,417,001	30,333,464
<b>OPERATING PROFIT OR LOSS</b>		<b>(440,800,137)</b>	<b>(87,612,594)</b>
<b>9. FINANCIAL REVENUE</b>	<b>27</b>	<b>145,998</b>	<b>18,932</b>
<b>10. FINANCIAL EXPENSES</b>	<b>28</b>	<b>18,391,728</b>	<b>971,889</b>
<b>FINANCIAL RESULT</b>		<b>(18,245,730)</b>	<b>(952,957)</b>
<b>PROFIT OR LOSS BEFORE TAX</b>		<b>(459,045,867)</b>	<b>(88,565,551)</b>
<b>TAX</b>	<b>29</b>		<b>710,119</b>
12. Deferred taxes			710,119
<b>NET PROFIT OR LOSS FOR THE FINANCIAL YEAR</b>	<b>30</b>	<b>(459,045,867)</b>	<b>(89,275,670)</b>

The accompanying notes are an integral part of the financial statements and should be read in conjunction with the statements.

## 4.6 STATEMENT OF OTHER COMPREHENSIVE INCOME

### Statement of other comprehensive income

*in EUR*

	Note	2015	2014
<b>13. Net profit or loss for the period</b>		<b>(459,045,867)</b>	<b>(89,275,670)</b>
17. Actuarial gains and losses of employee-defined benefit plan	13	(40,358)	(47,857)
<b>Items that will not be transferred to profit or loss</b>		<b>(40,358)</b>	<b>(47,857)</b>
<b>23. Total comprehensive income for the reporting period</b>		<b>(459,086,225)</b>	<b>(89,323,527)</b>
To the owner of the parent company		(459,086,225)	(89,323,527)

The accompanying notes are an integral part of the financial statements and should be read in conjunction with the statements.

#### 4.7 STATEMENT OF CHANGES IN EQUITY

in EUR

	CALLED-UP CAPITAL		REVENUE RESERVE		RETAINED EARNINGS			TOTAL
	Share capital	CAPITAL SURPLUS	Statutory reserves	Other revenue reserves	FAIR VALUE RESERVES	Profit or loss from previous periods	Net profit or loss for the period	
<b>As at 1 January 2014</b>	<b>330,027,060</b>	<b>116,883,008</b>	<b>3,628,583</b>	<b>64,169,276</b>	<b>(4,749)</b>	<b>973,808</b>		<b>515,676,986</b>
B.2. Changes in total comprehensive income	0	0	0	0	(47,857)	0	(89,275,670)	(89,323,527)
Net profit or loss for the period							(89,275,670)	(89,275,670)
Items that will not be transferred to profit or loss	0	0	0	0	(47,857)	0	0	(47,857)
<i>Actuarial gains and losses of employee defined benefit plans</i>					(47,857)			(47,857)
B.3. Changes in equity	0	0	0	973,808	0	(973,808)	0	0
Allocation of a portion of net profit to additional reserves pursuant to a General Meeting resolution				973,808		(973,808)		0
<b>As at 31 December 2014</b>	<b>330,027,060</b>	<b>116,883,008</b>	<b>3,628,583</b>	<b>65,143,083</b>	<b>(52,606)</b>	<b>0</b>	<b>(89,275,670)</b>	<b>426,353,458</b>
<b>As at 1 January 2015</b>	<b>330,027,060</b>	<b>116,883,008</b>	<b>3,628,583</b>	<b>65,143,083</b>	<b>(52,606)</b>	<b>(89,275,670)</b>	<b>0</b>	<b>426,353,458</b>
B.1. Transactions with owners	248,552,790	0	0	0	0	0	0	248,552,790
<i>Subscription of called-up equity</i>	248,552,790							248,552,790
B.2. Changes in total comprehensive income	0	0	0	0	(35,939)	(4,419)	(459,045,867)	(459,086,225)
Net profit or loss for the reporting period							(459,045,867)	(459,045,867)
Items that will not be transferred to profit or loss	0	0	0	0	(35,939)	(4,419)	0	(40,358)
<i>Actuarial gains and losses of employee defined benefit plans</i>					(35,939)	(4,419)		(40,358)
<b>As at 31 December 2015</b>	<b>578,579,850</b>	<b>116,883,008</b>	<b>3,628,583</b>	<b>65,143,083</b>	<b>(88,545)</b>	<b>(89,280,089)</b>	<b>(459,045,867)</b>	<b>215,820,023</b>

The accompanying notes are an integral part of the financial statements and should be read in conjunction with the statements.

## 4.8 CASH FLOW STATEMENT AT INDIRECT METHOD

### Cash flow statement

in EUR

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit or loss	(459,045,867)	(89,275,670)
<b>Adjustments for:</b>		
Amortisation of intangible assets	64,213	183,683
Depreciation of property, plant and equipment	35,435,458	28,740,882
Impairment loss on property, plant and equipment	408,538,937	61,000,076
Impairment loss on intangible assets and goodwill	21,251	17,157
Impairment loss on operating receivables	517,400	17,545
Impairment loss on inventories	5,595,583	2,622,791
Creation of provisions	2,730,000	179,147
Reversal of provisions	(1,766,545)	(1,405,980)
Write-down of property, plant and equipment	1,437	25,138
Reversal of allowances for trade receivables	(1,024)	(3,575,447)
Loss on sale of property, plant and equipment	121,876	0
Financial revenue	(145,998)	(18,932)
Financial expenses	18,391,728	971,889
Gain on sale of property, plant and equipment	(857,855)	(148,977)
Tax expense	0	710,119
<b>Operating profit before changes in net short-term assets and taxes</b>	<b>9,600,594</b>	<b>43,422</b>
<b>Changes in net short-term assets and provisions</b>		
<b>Change in:</b>		
Inventories	(1,200,520)	(503,713)
Operating receivables and deferred costs and accrued revenue	8,743,044	9,549,623
Operating receivables and accrued costs and deferred revenue	(5,540,473)	18,414,464
Provisions	40,846	542,005
<b>Net cash from operating activities</b>	<b>11,643,491</b>	<b>28,045,801</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	6,257	18,932
Proceeds from sale of property, plant and equipment	961,987	203,625
Acquisition of property, plant and equipment	(58,743,569)	(31,181,213)
Acquisition of intangible assets	(134,809)	(26,571)
Increase in short-term loans granted	(14,250,957)	0
<b>Net cash used in investing activities</b>	<b>(72,161,091)</b>	<b>(30,985,227)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in equity		
Proceeds from long-term borrowing	78,728,093	0
Proceeds from short-term borrowing	63,027,000	52,491,000
Payments of interest on borrowings and other financial liabilities	(9,784,505)	(533,899)
Repayment of long-term borrowings	(12,246,032)	(1,388,889)
Repayment of short-term borrowings	(59,178,965)	(47,631,000)
<b>Net cash from financing activities</b>	<b>60,545,591</b>	<b>2,937,212</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>8,543</b>	<b>10,758</b>
Effect of movements in exchange rates on cash held		
Financial results for the period	27,991	(2,215)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>36,534</b>	<b>8,543</b>

The accompanying notes are an integral part of the financial statements and should be read in conjunction with the statements.

## 4.9 NOTES TO THE FINANCIAL STATEMENTS

### 4.9.1 Notes to the statement of financial position

#### Note 1

Intangible assets EUR 454,804

Intangible assets	31 Dec 2015	31 Dec 2014
CO <sub>2</sub> emission coupons	307,565	446,679
Other long-term property rights	147,239	97,894
<b>Total</b>	<b>454,804</b>	<b>544,573</b>

The predominant portion of the Company's intangible assets are emission coupons. Pursuant to the Environmental Protection Act and the Ordinance on the list of operators of installations emitting greenhouse gases, the state granted 579,013 free emission coupons to the Company for the period from 2013 to 2020. The amount of emission coupons granted for the year 2015 is 90,334. In upcoming years, the quantity of free emission coupons will decrease. In March 2015, TEŠ purchased 3,391,863 emission coupons from HSE in order to fulfil its obligations arising from emissions generated in 2014. In April 2015, the amount of coupons decreased by 3,530,977 (Report on assessment of the Report on greenhouse gas emissions for 2014) coupons that were handed over for the emissions produced in 2014. As at 31 December 2015, the Company recorded among its long-term property rights 307,565 free emission coupons.

Intangible assets include EUR 147,239 worth of licences and other software which, depending on their useful life, are amortised at rates ranging from 6.3 % to 33.33 %.

As at 30 September 2015, an impairment of intangible assets in the amount of EUR 21,251 was carried out on the basis of a valuation performed by a certified appraiser.

The Company does not have any intangible fixed assets under financial lease.

## Changes in intangible assets

in EUR

	Emission coupons	Other long-term property rights	Total
<b>Cost as at 1 Jan 2014</b>	<b>138,684</b>	<b>1,578,319</b>	<b>1,717,003</b>
Acquisitions	39,765,044	26,571	39,791,615
Disposals	(39,457,049)	0	(39,457,049)
<b>Cost as at 31 Dec 2014</b>	<b>446,679</b>	<b>1,604,890</b>	<b>2,051,569</b>
<b>Written down value as at 1 Jan 2014</b>		<b>1,306,156</b>	<b>1,306,156</b>
Amortisation expense		183,683	183,683
Impairment loss		17,157	17,157
<b>Written down value as at 31 Dec 2014</b>		<b>1,506,996</b>	<b>1,506,996</b>
<b>Carrying amount as at 1 Jan 2014</b>	<b>138,684</b>	<b>272,163</b>	<b>410,847</b>
<b>Carrying amount as at 31 Dec 2014</b>	<b>446,679</b>	<b>97,894</b>	<b>544,573</b>
	Emission coupons	Other long-term property rights	Total
<b>Cost as at 1 Jan 2015</b>	<b>446,679</b>	<b>1,604,890</b>	<b>2,051,569</b>
Acquisitions	20,385,097	0	20,385,097
Disposals	(20,524,211)	0	(20,524,211)
Reposting	0	134,809	134,809
<b>Cost as at 31 Dec 2015</b>	<b>307,565</b>	<b>1,739,699</b>	<b>2,047,264</b>
<b>Written-down value as at 1 Jan 2015</b>		<b>1,506,996</b>	<b>1,506,996</b>
Amortisation expense		64,213	64,213
Impairment loss		21,251	21,251
<b>Written-down value as at 31 Dec 2015</b>		<b>1,592,460</b>	<b>1,592,460</b>
<b>Carrying amount as at 1 Jan 2015</b>	<b>446,679</b>	<b>97,894</b>	<b>544,573</b>
<b>Carrying amount as at 31 Dec 2015</b>	<b>307,565</b>	<b>147,239</b>	<b>454,804</b>

## Note 2

### Property, plant and equipment

1,049,906,616 EUR

in EUR

Property, plant and equipment	31 Dec 2015	31 Dec 2014
Land	2,648,850	2,310,917
Buildings	60,932,594	15,426,781
Production equipment	982,280,392	78,911,407
Other equipment	3,553,999	4,246,348
Property, plant and equipment being acquired	490,781	1,325,356,033
<b>Total</b>	<b>1,049,906,616</b>	<b>1,426,251,486</b>

Based on a valuation of property, plant and equipment, the Company verified their recoverable value in 2015. The valuation was performed by certified appraisers holding a licence from the Slovenian Institute of Auditors.

Based on the type of asset, recoverable value was considered as:

- value in use (for assets used by the Company to perform its basic activities, or
- fair value less costs to sell (for assets not participating in the performance of basic activities).

The following assumptions were considered in the valuation of assets included in the basic activities of cash-generating units:

- value is estimated using the method of present value of expected free cash flows (value in use);
- an impairment test was performed on the basis of long-term projections of operations of cash-generating units for which the impairment test was performed, taking into account the following assumptions:
  - the stock market prices of standardized forward contracts for electricity and CO<sub>2</sub> emission coupons on the HUPX stock exchange for the 2016-2018 period; the long-term forecasts of market price trends of electricity and CO<sub>2</sub> emission coupons (updated in September 2015) from 2018 onward, as prepared by the internationally reputed institution Poyry Management Consulting (which also conducted impairment tests in 2014);
  - an average annual electricity output in coal-fired power plants of 3.9 TWh in the 2016-2030 period, 2.6 TWh in the 2031-2040 period, and 2.1 TWh in the 2041-2054 period. The annual volume of electricity produced in coal-fired power plants is calculated on the basis of annual quantities of excavated coal at Premogovnik Velenje and the specific consumption of coal in individual units. Electricity production is decreasing over the years due to the shutdown of obsolete coal units and the gradual shutdown of the coal mine, which is the only primary energy source for the production of electricity from coal-fired power plants;
  - the value of other revenue (revenue from the provision of system services, thermal energy, revenue from the sale of ash and gypsum) in amounts ranging from EUR 11.3 million in 2016 to EUR 23.7 million in 2054. The increase in other revenue is the result of new contracts signed for system services and planned higher revenue from the sale of thermal energy;
  - potential revenue from preferential dispatching in upcoming years was not considered, as such supporting measures should previously be introduced by other institutions responsible for regulation of the energy market in the Republic of Slovenia.
- long-term projections of operations from 1 October 2015 to 31 December 2040 are considered in real prices, together with the observed projections of sales prices of electricity and CO<sub>2</sub> emission coupons based on the forecasts of an independent institution, while the projections for the subsequent period up to 31 December 2054 (when Unit 6 is expected to cease operation, and Premogovnik Velenje will cease to excavate coal) are based on the projections for 2040 and do not foresee further growth of the normalised free cash flow;
- in comparison with the impairment tests for property, plant and equipment conducted in 2014, the long-term forecasts for market price trends of CO<sub>2</sub> emission coupons (as shown in the table below) have substantially changed;
- a discount rate reflecting the required weighted average cost of capital (WACC) of the Company was used in the nominal value of 7.59. Since the long-term projections are prepared on the basis of real prices, the following real discount rate was considered in the impairments: 7.81 % for the October – December 2015 period, 5.58 % in 2016 and 2017, and 5.48 % from 2018 onward (the following discount rates were used in the 2014 impairment test: 6.37 % in 2015, 5.67 % in 2016 and 2017, and 5.36 % from 2018 onward). The differences in WACC rates among years is due to

the adjustments of these rates with the real base, taking into account the expectations regarding the future inflation rate. The inflation rate is based on the forecasts of the Slovenian Institute for Macroeconomic Analysis and Development (UMAR). The considered nominal WACC after tax is 7.59 % and before tax 8.01 %;

- the projections of prices of electricity and CO<sub>2</sub> emission coupons used in long-term forecasts that were used in the impairment test are as follows:

Base	Period	Change in price of electricity	Change in price of emission coupons
<b>Year</b>		<b>2014</b>	
Initial price	2016	43.06 EUR/MWh	6.52 EUR/t
Stock exchange prices for standardised forward contracts (HUPX) in %	2016 - 2018	8.40	2.72
Poyry price forecast in %	2019 - 2040	3.39	8.63
Poyry price forecast for 2040	2041 - 2054	0	0
<b>Year</b>		<b>2015</b>	
Initial price	2016	41.90 EUR/MWh	8.15 EUR/t
Stock exchange prices for standardised forward contracts (HUPX) in %	2016 - 2018	(1.57)	1.46
Poyry price forecast in %	2019 - 2040	4.14	9.43
Poyry price forecast for 2040	2041 - 2054	0	0

#### – Sensitivity analysis by category

Base	Change in %		Change in recoverable value of property, plant and equipment in 000 EUR	
Sales prices of electricity	(10)	10	(365,947)	365,947
Sales prices of CO <sub>2</sub> emission coupons	(10)	10	130,329	(130,790)
Discount rate (WACC)	(0.5)	0.5	75,723	(68,423)
NOPLAT (EBIT – tax)	(10)	10	(37,417)	37,417

The established impairment loss was allocated to individual assets in use pro rata to the total value of assets, taking into account that electricity production is no longer foreseen at Unit 5. The assets of Unit 4 were excluded from the allocation of impairment loss, since on the date of preparing the financial statements, this unit did not have an operating permit or any redundant assets whose market value exceeded the carrying amount (primarily apartments and land).

The Company does not have any item of property, plant and equipment under mortgage or financial lease.

Changes in property, plant  
and equipment

in EUR

	Land	Buildings	Production plant and equipment	Other equipment	Property, plant and equipment being acquired	Total
<b>Cost as at 1 Jan 2014</b>	<b>3,711,949</b>	<b>205,881,665</b>	<b>1,037,966,186</b>	<b>15,893,590</b>	<b>1,140,158,643</b>	<b>2,403,612,033</b>
Acquisitions	0	0	0	0	186,122,720	186,122,720
Disposals	0	(107,951)	(12,909)	(197,702)	0	(318,562)
Transfers from investments	0	0	49,188	325,234	(392,649)	(18,227)
Transfers - repostings	0	0	0	0	(532,681)	(532,681)
<b>Cost as at 31 Dec 2014</b>	<b>3,711,949</b>	<b>205,773,714</b>	<b>1,038,002,465</b>	<b>16,021,122</b>	<b>1,325,356,033</b>	<b>2,588,865,283</b>
<b>Written-down value as at 1 Jan 2014</b>	<b>0</b>	<b>177,894,202</b>	<b>886,297,248</b>	<b>8,945,303</b>	<b>0</b>	<b>1,073,136,753</b>
Disposals	0	(87,557)	(10,626)	(165,731)	0	(263,914)
Depreciation expense	0	3,430,372	24,275,831	1,034,679	0	28,740,882
Impairment loss	1,401,032	9,109,916	48,528,605	1,960,523	0	61,000,076
<b>Written-down value as at 31 Dec 2014</b>	<b>1,401,032</b>	<b>190,346,933</b>	<b>959,091,058</b>	<b>11,774,774</b>	<b>0</b>	<b>1,162,613,797</b>
<b>Carrying amount as at 1 Jan 2014</b>	<b>3,711,949</b>	<b>27,987,463</b>	<b>151,668,938</b>	<b>6,948,287</b>	<b>1,140,158,643</b>	<b>1,330,475,280</b>
<b>Carrying amount as at 31 Dec 2014</b>	<b>2,310,917</b>	<b>15,426,781</b>	<b>78,911,407</b>	<b>4,246,348</b>	<b>1,325,356,033</b>	<b>1,426,251,486</b>
	Land	Buildings	Production plant and equipment	Other equipment	Property, plant and equipment being acquired	Total
<b>Cost as at 1 Jan 2015</b>	<b>3,711,949</b>	<b>205,773,714</b>	<b>1,038,002,465</b>	<b>16,021,122</b>	<b>1,325,356,033</b>	<b>2,588,865,283</b>
Acquisitions	0	0	0	0	68,939,251	68,939,251
Disposals	0	(664,906)	(23,925,569)	(318,315)	(119,043)	(25,027,833)
Transfers from investments	337.933	77.020.615	1.314.375.405	869.225	(1.392.603.178)	0
Transfers - repostings	0	0	0	0	(1,082,282)	(1,082,282)
<b>Cost as at 31 Dec 2015</b>	<b>4,049,882</b>	<b>282,129,423</b>	<b>2,328,452,301</b>	<b>16,572,032</b>	<b>490,781</b>	<b>2,631,694,419</b>
<b>Written-down value as at 1 Jan 2015</b>	<b>1,401,032</b>	<b>190,346,933</b>	<b>959,091,058</b>	<b>11,774,774</b>	<b>0</b>	<b>1,162,613,797</b>
Disposals	0	(611,642)	(23,897,675)	(291,071)	0	(24,800,388)
Depreciation expense	0	2,839,392	31,872,893	723,173	0	35,435,458
Impairment loss	0	28,622,146	379,105,633	811,157	0	408,538,936
<b>Written-down value as at 31 Dec 2015</b>	<b>1,401,032</b>	<b>221,196,829</b>	<b>1,346,171,909</b>	<b>13,018,033</b>	<b>0</b>	<b>1,581,787,803</b>
<b>Carrying amount as at 1 Jan 2015</b>	<b>2,310,917</b>	<b>15,426,781</b>	<b>78,911,407</b>	<b>4,246,348</b>	<b>1,325,356,033</b>	<b>1,426,251,486</b>
<b>Carrying amount as at 31 Dec 2015</b>	<b>2,648,850</b>	<b>60,932,594</b>	<b>982,280,392</b>	<b>3,553,999</b>	<b>490,781</b>	<b>1,049,906,616</b>

Investments in property, plant and equipment in 2015 were financed through the drawing of a long-term loan concluded with the parent company HSE for the investment in Unit 6 in the amount of EUR 44.9 million, payments under debt assumption contracts for the investment in Unit 6 by the parent company HSE in the amount of EUR 82.4 million, and own funds. In 2015 a total of EUR 131.6 million, excl. VAT, was repaid for the investment in Unit 6, as the Company had to settle also its outstanding liabilities for the investment in Unit 6 from 2014 that fell due in 2015.

On 19 June 2015, following successfully completed test runs and contractual trial operation, TEŠ took over, from the main supplier (Alstom), the main drive facility of Unit 6 into its management. This means that all the production capacities of Unit 6 are available in their entirety to TEŠ and its owner, HSE, which will enable maximum utilisation and optimisation of Unit 6's production capacities with the aim of attaining the best possible financial effects. As of this date, Unit 6 is operational.

**Land** **EUR 2,648,850**

The value of land increased by the capitalisation of land acquired for the needs of Unit 6.

**Buildings** **EUR 60,932,594**

The increase in the value of buildings is due to the capitalisation of Unit 6. The decrease in the value of buildings is due to the depreciation expense and the impairment loss based on the valuation and sale of apartments and a vacation facility.

**Production plants, machinery and other equipment** **EUR 985,834,391**

The value of production plants, machinery and other equipment increased primarily due to the capitalisation of Unit 6, and decreased by the amount of depreciation expense, impairment loss, and write-down of the generator at Unit 5 and other equipment.

At the capitalisation of Unit 6, the Company assessed that its residual value amounts to EUR 15,500,070. The residual value of other property, plant and equipment has not been assessed.

**Property, plant and equipment being acquired** **EUR 490,781**

A major part of the increase in property, plant and equipment under construction relates to investments in the construction of replacement Unit 6 in the amount of EUR 67,158,315. The construction of main technological equipment accounted for EUR 21,789,272, the construction of the desulphurisation plant EUR 1,692,765, water preparation EUR 1,645,879 and other equipment EUR 1,880,040, the construction of the main drive facility EUR 1,284,382, and for other construction works EUR 3,523,962 (mostly outdoor landscaping). Financing costs totalled EUR 23,155,709, of which EUR 17,590,954 accounted for capitalised interest costs, EUR 2,727,397 for the costs of government guarantees, EUR 1,784,010 for the costs of bank guarantees, EUR 1,040,847 for the costs of a guarantee to the parent company HSE in connection with a loan guarantee to EBRD and a parent guarantee to Alstom, and EUR 12,500 for other financing costs. Other investments amounted to EUR 3,072,906 (consulting, geodetic services, preparation of building permit design and execution design, and other).

In accordance with IAS 16.17, the Company considered the value of revenue and costs in the period of trial operation of Unit 6 as the difference between direct costs and revenue for hot start-up tests. In the period of trial operation from 24 September 2014 until 19 June 2015, the Company generated EUR 41,310,499 in revenue from the sale of electricity and thermal energy, for which it utilised EUR

37,000,680 in costs. The surplus of revenue over costs in this period amounted to EUR 4,309,819 and was recorded under revenue from ordinary activities.

The increase in investments in Unit 6 also includes the costs of decommissioning in the amount of EUR 9,113,400. Based on a technical detailed report and commitments embodied in the Energy permit, the Company has assessed the costs of decommissioning in the amount of EUR 16,120,000. Taking into account a discount rate of 1.436 (30-year German bonds) on the date of creating provisions (19 June 2015), this value amounts to EUR 9,113,400. The technical detailed report also assesses that the remaining value of the unit upon its decommissioning will amount to EUR 15,500,070.

Due to the acceptance of spare parts for the needs of Unit 6 at the warehouse and the sale of redundant equipment, the value of the investment in Unit 6 decreased by EUR 947,473, while inventories of spare parts increased by EUR 927,026.

Other transfers in the amount of EUR 134,809 refer to the capitalisation of software at Unit 6.

Until 31 December 2015, the Company concluded EUR 1,276,602,620 (financing costs excluded) worth of contracts for the supply of main technological equipment, the flue gas desulphurisation plant, construction of the cooling system and main drive facility, and other items. By 31 December 2015, the Company received EUR 1,274,306,028 (financing costs excluded) worth of invoices for the above-mentioned contractual liabilities. The accrued liability difference or future liabilities arising from the acquisition of fixed assets (financing costs excluded) therefore amount to EUR 2,296,592.

In 2015, altogether EUR 1,392,737,987 worth of investments were capitalised. The total value of unfinished capital investments is EUR 490,781.

#### Changes in investments in property, plant and equipment under construction

*in EUR*

	Investments in production reliability	Investment documen- tation	Investments in Unit 6	Other pro- perty, plant and equip- ment being acquired	TOTAL
<b>Cost as at 1 Jan 2015</b>	<b>2,213,192</b>	<b>487,598</b>	<b>1,322,655,243</b>	<b>0</b>	<b>1,325,356,033</b>
Acquisitions	1,399,999	0	67,158,315	380,937	68,939,251
Disposals	0	(119,043)	0	0	(119,043)
Transfer from PPE under construction	(3,126,497)	(368,555)	(1,388,731,276)	(376,850)	(1,392,603,178)
Reposting	0	0	(1,082,282)	0	(1,082,282)
<b>Cost as at 31 Dec 2015</b>	<b>486,694</b>	<b>0</b>	<b>0</b>	<b>4,087</b>	<b>490,781</b>

### Note 3

#### Other long-term investments and investments in associates

EUR 60,003

#### Other long-term investments and loans

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Long-term investments in associates	59,503	59,503
Other long-term investments	500	500
<b>Total</b>	<b>60,003</b>	<b>60,003</b>

Long-term investments are classified as available-for-sale financial assets. The value of long-term investments recorded in the statement of financial position represents their cost.

Investments in associates include a 26 % share in Erico d.o.o.

In 2011, TEŠ invested EUR 200,000 in the establishment of a research and development centre, RCE – Razvojni center energije d.o.o.. Its share in the company amounted to 8 %. On 31 December 2014, TEŠ impaired its entire investments in RCE – Razvojni center energije d.o.o. due to the findings of the Ministry of Economic Development and Technology relating to its alleged violation of the Contract on Co-financing.

Other shares in the amount of EUR 500 represent investments in Center odličnosti nizkoogljične tehnologije (Centre of Excellence for Low-carbon Technologies).

The Company made investments in holiday homes (Krvavec, Rab, Portorož) in the amount of EUR 154,133. On 31 December 2010 these investments were impaired in the total amount of invested funds due to formally unresolved ownership and management relations and unexpected future cash flows.

In September 2014, TEŠ established, with an initial contribution of EUR 3,600, two new entities together with Razvojni center energija d.o.o.: TEŠING, svetovanje in inženiring, d.o.o.; and EnRaz, razvoj in svetovanje na področju energetike in varstva okolja, d.o.o.. TEŠ had a 24 % share in each company in relation to its share capital. Both investments were impaired in 2014, and deleted from the court register in 2015 on the basis of a court order. Tešing d.o.o. was deleted on 1 June 2015, and EnRaz d.o.o. on 24 June 2015.

#### Changes in other long-term investments

	<i>in EUR</i>	
	2015	2014
<b>Balance as at 1 January</b>	<b>60,003</b>	<b>260,003</b>
Acquisitions		3,600
Impairment loss		(203,600)
<b>Balance as at 31 December</b>	<b>60,003</b>	<b>60,003</b>

## Investments in associates

EUR 59,503

## Data on associates as at 31 December 2015

Company	Address	Activity	Co-owner company	% co-ownership
Erico d.o.o.	Koroška 59, Velenje	74.900	Premogovnik Velenje d.d. in Gorenje GA d.d.	26

## Significant amounts from the financial statements of associates for 2015

*in EUR*

Company	Amount	Liability (without equity)	Revenue	Net profit or loss for the period	Total equity
Erico d.o.o.	1,797,879	412,443	2,072,156	9,231	1,385,436
<b>Total</b>	<b>1,797,879</b>	<b>412,443</b>	<b>2,072,156</b>	<b>9,231</b>	<b>1,385,436</b>

## Long-term investments in associates

*in EUR*

Associate	31 Dec 2015	31 Dec 2014
Erico d.o.o.	59,503	59,503
<b>Total</b>	<b>59,503</b>	<b>59,503</b>

## Other long-term investments

EUR 500

## Other long-term investments

*in EUR*

	31 Dec 2015	31 Dec 2014
Center odličnosti nizkoogljične tehnologije	500	500
Razvojni center energija - RCE d.o.o.	0	0
<b>Total</b>	<b>500</b>	<b>500</b>

## Note 4

## Long-term operating receivables

EUR 79,099

## Long-term operating receivables

*in EUR*

	31 Dec 2015	31 Dec 2014
Long-term advances receivable	73,173	82,319
Long-term operating receivables due from others	5,926	7,958
<b>Total</b>	<b>79,099</b>	<b>90,277</b>

Under long-term operating receivables, long-term advances receivable are recorded in the amount of EUR 73,173 for an 8-year compensation for damages under an easement contract with the Parish of St. Martin in Velenje, which is secured by the entry of easement in the land register.

Part of the long-term operating receivables in the amount of EUR 5,926 includes long-term receivables from buyers of apartments sold under the Housing Act (Official Gazette of RS, no. 18/91).

## Note 5

**Other long-term assets** **EUR 21,951**

Other long-term assets

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Other long-term assets	21,951	37,328
<b>Total</b>	<b>21,951</b>	<b>37,328</b>

Other long-term assets include payments made by the Company as the floor owner of apartments, which will be used to cover the future costs of maintenance under the Housing Act.

## Note 6

**Assets held for sale** **EUR 201,723**

Held-for-sale assets

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Other held-for-sale assets	201,723	201,723
<b>Total</b>	<b>201,723</b>	<b>201,723</b>

Assets held for sale include a part of the 'Crikvenica' holiday complex. The sale of more than half of the complex to a Croatian buyer was completed in 2006. Due to unresolved ownership relations, the remaining part of the complex has not yet been sold.

## Note 7

**Inventories** **EUR 6,058,139**

Inventories

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Materials	6,058,139	10,453,202
<b>Total</b>	<b>6,058,139</b>	<b>10,453,202</b>

Inventories are mostly comprised of inventories of spare parts in the amount of EUR 2,966,867 and inventories of maintenance materials in the amount of EUR 1,812,303, which are needed for immediate elimination of defects in production equipment and, consequently, reliable operation.

At the end of 2015, the Company verified the net realisable value of inventories of spare parts and inventories of maintenance materials. On the basis of a valuation performed by a certified appraiser holding a licence from the Slovenian Institute of Auditors, inventories were impaired by the amount of EUR 5,595,584.

An inventory count of materials revealed a surplus in the amount of EUR 891 and a deficit in the amount of EUR 547.

#### Inventory surpluses and deficits and allowances

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Allowances for inventories	(5,595,584)	(2,622,791)
Surpluses in year-end count	891	88
Deficits in year-end count	(547)	(9)
<b>Total</b>	<b>(5,595,240)</b>	<b>(2,622,712)</b>

#### Note 8

##### Short-term investments and loans

**EUR 14,250,957**

##### Short-term investments and loans

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Other short-term deposits	14,250,957	0
<b>Total</b>	<b>14,250,957</b>	<b>0</b>

The short-term, specific-purpose call deposit in the amount of EUR 14,250,957 is a deposit made in line with the commitments to EBRD, which may not be utilised for managing current liquidity. The specific-purpose deposit is to be utilised as a provision for the repayment of loan liabilities to EBRD.

#### Changes in short-term investments and loans

	<i>in EUR</i>	
	2015	2014
Acquisitions	14,250,957	0
Repayments	0	0
<b>Balance as at 31 December</b>	<b>14,250,957</b>	<b>0</b>

## Note 9

Short-term operating receivables

EUR 27,176,947

Short-term operating receivables

*in EUR*

	31 Dec 2015	31 Dec 2014
Short-term operating receivables due from Group companies	25,802,385	23,844,587
Short-term operating receivables due from associates	176	169
Short-term trade receivables	1,374,386	1,499,079
<b>Total</b>	<b>27,176,947</b>	<b>25,343,835</b>

At the reporting date, the fair value of operating receivables was equal to their carrying amount.

Short-term operating receivables due from Group companies

*in EUR*

		31 Dec 2015	31 Dec 2014
HOLDING SLOVENSKE ELEKTRARNE d.o.o., Ljubljana	Slovenia	25,799,217	9,986,005
PREMOGOVNIK VELENJE d.d., Velenje	Slovenia	45	13,855,469
RGP d.o.o.	Slovenia	0	20
HSE INVEST d.o.o., Maribor	Slovenia	3,123	3,093
<b>Total</b>		<b>25,802,385</b>	<b>23,844,587</b>

Part of the operating receivables due from Group companies includes receivables from Holding Slovenske elektrarne d.o.o. in the amount of EUR 25,762,621 for electricity sold in the period from 15 November to 31 December 2015.

Receivables from HSE are higher in comparison with the previous year due to higher electricity output at the end of 2015 compared to the end of 2014 and early payments made in 2014. Receivables from Premogovnik Velenje at the end of 2014 also included short-term advances given for supplies of coal that were lower than planned. There were no such advances at the end of 2015.

Receivables from the sale of thermal energy in the amount of EUR 1,132,468.44 are secured by a blank bill of exchange. Security for other receivables was not necessary due to their specific nature.

Overdue and outstanding trade receivables include rents receivable from apartment lease, receivables due from RCE Velenje for a guarantee exercised in the amount of EUR 108,012.00 that were impaired and registered to the insolvent estate, and other. Receivables by due date are presented in section 4.11.1.

## Note 10

### Other short-term assets

EUR 21,577,097

### Other short-term assets

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Short-term advances given	113,580	2,739,281
Short-term operating receivables due from state and other institutions	1,229,637	8,830,565
Short-term operating receivables due from others	71,190	521,229
Accrued revenue	19,807,281	23,598,172
Short-term deferred costs and expenses	355,409	204,588
<b>Total</b>	<b>21,577,097</b>	<b>35,893,835</b>

Advances receivable in the amount of EUR 320,311 include advances receivable in the amount of EUR 20,749 for the construction of Unit 6, which are secured by a bank guarantee, advances receivable in the amount of EUR 71,500 for securing excise duty liabilities, other advances receivable in the amount of EUR 21,331, and advances receivable in the amount of EUR 206,731 from Primorje d.d. (in bankruptcy), which were registered to insolvent estate and were, pursuant to a court settlement, included in the insolvent estate among ordinary receivables. The Company impaired the specified receivables in 2013.

Short-term accrued revenue in the amount of EUR 19,807,281 refers to Addendum 1 to the Contract on coal purchase, lease of power and purchase of electricity, in which TEŠ and HSE agreed to change the amount foreseen for leased power in 2015 in order to settle the costs of purchase of additional CO<sub>2</sub> emission coupons for 2015 due to their shortage.

The accrued revenue is lower in comparison with the previous year, primarily due to the fact that at the end of 2014, the Company recorded under accrued revenue the amount of EUR 3,224,207 for hot start-up tests relating to the operation of Unit 6. This revenue was invoiced in 2015.

Other short-term assets include deferred costs related to services that were invoiced, but not yet provided in 2015 in the amount of EUR 355,409. Short-term deferred costs include the costs of insurances, one-year licenses, tuition fees, subscriptions, and other items for the year 2015 which so far have no effect on the profit or loss. The amounts of short-term deferred costs are justified and are evident from relevant documents on their inception.

## Note 11

### Cash and cash equivalents

EUR 36,534

### Cash and cash equivalents

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Cash in hand and cheques received	0	224
Cash in banks	36,534	8,319
<b>Total</b>	<b>36,534</b>	<b>8,543</b>

Cash and cash equivalents include cash on the Company's accounts.

## Note 12

### Equity

EUR 215,820,023

### Equity

in EUR

	31 Dec 2015	31 Dec 2014
Called-up capital	578,579,850	330,027,060
Capital surplus	116,883,008	116,883,008
Revenue reserves	68,771,666	68,771,666
Fair value reserve	(88,545)	(52,606)
Retained earnings	(548,325,956)	(89,275,670)
<b>Total</b>	<b>215,820,023</b>	<b>426,353,458</b>

The Company's total equity consists of share capital, capital surplus, revenue reserves, fair value reserves, retained earnings from the previous period, and temporarily unappropriated net profit for the financial year.

The amount of the Company's share capital, as recorded in the accounting records, is defined in the Company's Articles of Association, and has been duly registered with the court. It totals EUR 578,579,850. On 11 August 2015 the share capital was increased by a new in-kind contribution of the shareholder, Holding Slovenske elektrarne d.o.o., in the amount of EUR 248,522,790.

### Capital surplus

in EUR

	31 Dec 2015	31 Dec 2014
Paid-in capital surplus	116,883,008	116,883,008
<b>Total</b>	<b>116,883,008</b>	<b>116,883,008</b>

The capital surplus totals EUR 116,883,008 and is the result of reversal of a general equity revaluation adjustment.

Revenue reserves in the amount of EUR 68,771,666 comprise legal reserves in the amount of EUR 3,628,583 and other revenue reserves in the amount of EUR 65,143,083.

### Change in fair value reserve

in EUR

	Actuarial gains/losses arising from termination benefits upon retirement	Other	Total
<b>As at 1 January 2014</b>	<b>(16,314)</b>	<b>11,565</b>	<b>(4,749)</b>
Decrease	(47,857)		(47,857)
<b>As at 31 December 2014</b>	<b>(64,171)</b>	<b>11,565</b>	<b>(52,606)</b>
<b>As at 1 January 2015</b>	<b>(64,171)</b>	<b>11,565</b>	<b>(52,606)</b>
Creation, increase	(40,358)		(40,358)
Transfer to profit or loss brought forward	4,419		4,419
<b>As at 31 December 2015</b>	<b>(100,110)</b>	<b>11,565</b>	<b>(88,545)</b>

The major part of the fair value reserve consists of a revaluation adjustment in connection with the actuarial loss. In 2015 the actuarial loss arising from termination benefits upon retirement increased by EUR 40,358 and decreased by the transfer of EUR 4,419 to profit or loss brought forward due to the reversal of termination benefits upon retirement.

The net loss brought forward in the amount of EUR 89,280,089 increased by EUR 4,419 in 2015 from the decrease in actuarial loss due to reversal of termination benefits upon retirement.

In 2015 the Company recorded a loss in the amount of EUR 459,045,867, primarily due to the impairment of assets arising from a valuation of the recoverable amount of long-term assets as at 30 September 2015.

### Note 13

Provisions for termination and jubilee benefits

EUR 2,572,205

Provisions for termination and jubilee benefits

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Provisions for termination benefits	1,671,103	1,635,950
Provisions for jubilee benefits	901,102	880,644
<b>Total</b>	<b>2,572,205</b>	<b>2,516,594</b>

Long-term provisions comprise provisions for jubilee benefits and termination benefits upon retirement as determined in the actuarial calculation as at 31 December 2015.

The actuarial calculation was based on the following assumptions:

- an average salary growth of 0.5 % in the period from 2016 to 2018, and 2.0 % per year in the following years,
- a discount interest rate of 2.25 % p.a.,
- the number of employees in the Company as at 30 September 2015 (gender, age, total and pensionable years of service, gross salary for the month of September 2015),
- employee fluctuations according to age classes.

In 2015 the Company paid EUR 113,644 in jubilee benefits and EUR 112,425 in termination benefits.

## Change in provisions for termination and jubilee benefits

in EUR

	Provisions for termination benefits	Provisions for jubilee benefits	Total
<b>As at 1 January 2014</b>	<b>1,835,190</b>	<b>948,992</b>	<b>2,784,182</b>
Creation - increase		59,385	59,385
Decrease - utilisation	(70,368)	(127,733)	(198,101)
Decrease – reversal	(128,872)		(128,872)
<b>As at 31 December 2014</b>	<b>1,635,950</b>	<b>880,644</b>	<b>2,516,594</b>
<b>As at 1 January 2015</b>	<b>1,635,950</b>	<b>880,644</b>	<b>2,516,594</b>
Creation - increase	147,578	134,102	281,680
Decrease - utilisation	(112,425)	(113,644)	(226,069)
<b>As at 31 December 2015</b>	<b>1,671,103</b>	<b>901,102</b>	<b>2,572,205</b>

The Company created provisions for termination benefits upon retirement in the amount of EUR 40,357 against equity.

## Sensitivity analysis of provisions for termination benefits and jubilee benefits

in EUR

	2015				2014			
	Discount rate		Salary growth		Discount rate		Salary growth	
	Increase by 0.5	Decrease by 0.5	Increase by 0.5	Decrease by 0.5	Increase by 50bp	Decrease by 50bp	Increase by 50bp	Decrease by 50bp
Provisions for termination benefits upon retirement	(81,109)	87,672	(81,918)	87,716	(74,672)	80,597	(76,092)	81,417
Provisions for jubilee benefits	(31,311)	33,315	(31,626)	33,332	(29,687)	31,535	(30,256)	31,853
<b>Total</b>	<b>(112,420)</b>	<b>120,987</b>	<b>(113,544)</b>	<b>121,048</b>	<b>(104,359)</b>	<b>112,132</b>	<b>(106,348)</b>	<b>113,270</b>

## Note 14

### Other provisions

EUR 12,371,966

### Other provisions

in EUR

	31 Dec 2015	31 Dec 2014
For lawsuits	1,229,266	1,288,579
Other provisions	11,142,700	1,427,461
<b>Total</b>	<b>12,371,966</b>	<b>2,716,040</b>

## Changes in other provisions

*in EUR*

	For lawsuits	For decommissioning	Other provisions	Total
<b>As at 1 January 2014</b>	<b>1,225,810</b>	<b>0</b>	<b>1,083,580</b>	<b>2,309,390</b>
Creation - increase	62,769	0	749,585	812,354
Decrease - utilisation	0	0	(405,704)	(405,704)
<b>As at 31 December 2014</b>	<b>1,288,579</b>	<b>0</b>	<b>1,427,461</b>	<b>2,716,040</b>
<b>As at 1 January 2015</b>	<b>1,288,579</b>		<b>1,427,461</b>	<b>2,716,040</b>
Creation - increase	0	9,113,400	1,151,635	10,265,035
Decrease - utilisation	0	0	(406,582)	(406,582)
Decrease - reversal	(59,313)	(143,214)		(202,527)
<b>As at 31 December 2015</b>	<b>1,229,266</b>	<b>8,970,186</b>	<b>2,172,514</b>	<b>12,371,966</b>

In June 2015 the Company created, on the basis of an Energy permit and an estimation of the costs of decommissioning, provisions for decommissioning costs for the removal of Unit 6 after the end of its useful life in the amount of EUR 9,113,400. According to a technical detailed report, the estimated costs of decommissioning amount to EUR 16,200,000. The current value of estimated decommissioning costs as at the date of creating provisions, taking into account a discount rate of 1.436 (value of 30-year German bonds as at 19 June 2015), is EUR 9,113,400. At year-end the Company recalculated the costs of decommissioning, taking into account a discount rate of 1.495 as at 31 December 2015, and found that the current value of decommissioning costs amounts to EUR 8,970,186.

Other provisions of the Company predominantly include unpaid Christmas bonuses in a value that is lower than foreseen in the Entrepreneurial Collective Agreement for 2012, 2013, partly for 2014, and for 2015. In 2015, other provisions increased by the amount of unpaid Christmas bonus for 2015, and decreased by the amount of partial payment of Christmas bonus for 2014.

The majority of provisions for legal actions were created in 2011 on the basis of a received order of execution dated 15 February 2012 in connection with payment to the creditor Elektro Slovenija d.o.o..

The Company, as the debtor, received from the creditor a draft Contract on access to the transmission network in 2011 for electricity consumption («Contract on access to the network»). The conclusion of the Contract on access to the network would allow the creditor and debtor, in line with the Act on the methodology for determining network charges and criteria for identifying eligible costs for electricity networks, and the methodology for the calculation of network charges (Official Gazette of RS, no. 59/2010) (the «Act»), to settle their relations with respect to the payment of network utilisation costs of electricity consumption from the transmission network.

At the end of 2015, an unfavourable court judgement was received for TEŠ. On 31 December 2015 the Company created provisions for respective liabilities to be settled in 2016.

As at 31 December 2015, two labour disputes filed in 2013 were not yet concluded. The Company created provisions for these legal actions in the amount of EUR 288,166. Owing to the conclusion of a labour dispute in favour of TEŠ in 2015, the Company recorded a reversal of provisions in the amount of EUR 59,312.

## Note 15

### Other long-term liabilities

EUR 264,715

### Other long-term liabilities

*in EUR*

	31 Dec 2015	31 Dec 2014
Emission coupons	200,193	338,138
Quotas for the disabled	64,523	145,769
Other state aid received	0	1,564,288
<b>Total</b>	<b>264,716</b>	<b>2,048,195</b>

Other long-term liabilities at the end of 2014 in the amount of EUR 1,564,288 were related to government grants received for the acquisition of property, plant and equipment. These were used in proportion to the accumulated depreciation. Because the assets financed with government grants were impaired in their entirety on 30 September 2015, other state aid was utilised in its entirety.

The Company records under accruals and deferrals the emission coupons received free of charge from the state for the period from 2013 to 2020. The amount of emission coupons in 2015 decreased by the amount of foreseen coupons received, which the Company took into account in fulfilling its obligations to hand over the coupons for production emissions generated in 2015.

Accruals and deferrals arising from exemptions from the payment of contributions were created and are used in accordance with the Vocational rehabilitation and employment of persons with disabilities Act.

### Changes in other long-term liabilities

*in EUR*

	Emission coupons	Quotas for the disabled	Other state aid received	Total
<b>As at 1 January 2014</b>	<b>0</b>	<b>159,546</b>	<b>2,712,539</b>	<b>2,872,085</b>
Acquisitions	446,856	13,161	0	460,017
Disposals	(108,718)	(26,938)	(1,148,251)	(1,283,907)
<b>As at 31 December 2014</b>	<b>338,138</b>	<b>145,769</b>	<b>1,564,288</b>	<b>2,048,195</b>
<b>As at 1 January 2015</b>	<b>338,138</b>	<b>145,769</b>	<b>1,564,288</b>	<b>2,048,195</b>
Acquisitions	0	3,153	0	3,153
Disposals	(137,946)	(84,399)	(1,564,288)	(1,786,633)
<b>As at 31 December 2015</b>	<b>200,192</b>	<b>64,523</b>	<b>0</b>	<b>264,715</b>

## Note 16

### Long-term financial liabilities

EUR 672,012,620

### Long-term financial liabilities

*in EUR*

	31 Dec 2015	31 Dec 2014
Long-term financial liabilities to Group companies	80,003,889	0
Long-term financial liabilities to banks	592,008,731	741,226,191
<b>Total</b>	<b>672,012,620</b>	<b>741,226,191</b>

Long-term loans are denominated in EUR. The nominal interest rates for long-term loans ranged from 0.359 % to 5.97 %.

### Changes in long-term financial liabilities

*in EUR*

	Long-term fin. liabilities to Group companies – without interest	Long-term fin. liabilities to Group companies – with interest	Long-term fin. liabilities to banks	Total
<b>As at 1 January 2014</b>	<b>0</b>	<b>0</b>	<b>753,472,223</b>	<b>753,472,223</b>
Transfer to short-term liabilities	0	0	(12,246,032)	(12,246,032)
Long-term repayments	0	0	0	0
<b>As at 31 December 2014</b>	<b>0</b>	<b>0</b>	<b>741,226,191</b>	<b>741,226,191</b>
	Long-term fin. liabilities to Group companies – without interest	Long-term fin. liabilities to Group companies – with interest	Long-term fin. liabilities to banks	Total
<b>As at 1 January 2015</b>	<b>0</b>	<b>0</b>	<b>741,226,191</b>	<b>741,226,191</b>
Increase	78,728,094	1,275,795		80,003,889
Transfers to short-term liabilities	0	0	(149,217,460)	(149,217,460)
<b>As at 31 December 2015</b>	<b>78,728,094</b>	<b>1,275,795</b>	<b>592,008,731</b>	<b>672,012,620</b>

Changes in long-term financial liabilities

in EUR

No.	Lender	Contract value	Purpose	As at 31 Dec 2014	Repayment of principal	Drawing 2015	Interest – capitalisation of principal	As at 31 December 2015		
								Total	Short-term portion	Long-term portion
1.1	EIB	110 mio EUR	fin.Unit 6	110,000,000	0	0		110,000,000	110,000,000	0
1.2	EIB	440 mio EUR	fin.Unit 6	440,000,000	0	0		440,000,000	0	440,000,000
1.3	EBRD	200 mio EUR	fin.Unit 6	200,000,000	10,857,143	0		189,142,857	37,828,571	151,314,286
<b>1.</b>	<b>TOTAL long-term loans from foreign banks</b>			<b>750,000,000</b>	<b>10,857,143</b>	<b>0</b>		<b>739,142,857</b>	<b>147,828,571</b>	<b>591,314,286</b>
2.1	NLB d.d. Ljubljana	EUR 12.5 million	Invest-ment	3,472,223	1,388,889	0		2,083,335	1,388,889	694,445
<b>2.</b>	<b>TOTAL long-term loans from domestic banks</b>			<b>3,472,223</b>	<b>1,388,889</b>	<b>0</b>		<b>2,083,335</b>	<b>1,388,889</b>	<b>694,445</b>
<b>1+2</b>	<b>TOTAL LONG-TERM LOANS FROM BANKS</b>			<b>753,472,223</b>	<b>12,246,032</b>	<b>0</b>		<b>741,226,192</b>	<b>149,217,460</b>	<b>592,008,731</b>
3.1	HSE d.o.o. 1/HSE/TEŠ 15	EUR 83.0 million	fin.Unit 6	0	0	44,928,094	738,050	45,666,143	0	45,666,143
3.2	HSE d.o.o. 2/HSE/TEŠ 15	EUR 33.8 million	Liquidity financing	0	0	33,800,000	537,746	34,337,746	0	34,337,746
<b>3.</b>	<b>TOTAL long-term loans from Group companies</b>			<b>0</b>	<b>0</b>	<b>78,728,094</b>	<b>1,275,796</b>	<b>80,003,889</b>	<b>0</b>	<b>80,003,889</b>
<b>1+2+3</b>	<b>TOTAL LONG-TERM LOANS</b>			<b>753,472,223</b>	<b>12,246,032</b>	<b>78,728,094</b>	<b>1,275,796</b>	<b>821,230,081</b>	<b>149,217,460</b>	<b>672,012,620</b>

Note: the table also includes the short-term portions of long-term loans.

Long-term financial liabilities to Group companies include loans received from HSE and, in addition to the principal amounts totalling EUR 78,728,094, also accrued interest in the amount of EUR 1,275,796.

In 2015 the repayments of principal amounts and interest were made according to maturity dates and in accordance with existing amortisation schedules.

The portion of long-term financial liabilities in the amount of EUR 149,217,460 that falls due for payment in 12 months was recorded among short-term financial liabilities.

The maturity dates of long-term financial liabilities are presented in section 4.11.2 Liquidity risk.

On 31 December 2014 the Company found there to be certain deviations from the provisions of loan agreements.

The Company regularly reported the deviations established as at 31 December 2014 to both banks, but the banks failed to initiate any activities or procedures for withdrawing the long-term loans. These deviations from commitments in the loan agreements are the following:

1. Loan agreement between EIB and TEŠ for EUR 110 million and EUR 440 million:

- Increase in costs of the project. The Company managed to conclude an agreement with the lender, on the basis of which the previously mentioned commitment as at 31 December 2015 will no longer be violated.
- Delay in the completion of the Unit 6 project. The Company also managed to conclude an agreement with the lender regarding this violation, on the basis of which this commitment as at 31 December 2015 will no longer be violated.

2. Loan agreement between EBRD and TEŠ for EUR 200 million:

Compliance with relevant contracts. TEŠ undertook to observe and fulfil all relevant contracts to which it is a party or which are binding for its assets. According to the loan agreement, TEŠ has the possibility to eliminate such a deviation within an additional 30-day period from the date of EBRD's request for elimination thereof. The price of coal in 2015 was higher than specified in the long-term tripartite agreement signed on 12 March 2015 and effective from 1 January 2015 until 31 December 2054. The Company managed to conclude an agreement with the lender, on the basis of which the previously mentioned commitment as at 31 December 2015 will no longer be violated.

- Borrowing limit. TEŠ undertook not to borrow, assume or allow the existence of any financial debt, except for, among others, a shareholder loan (any TEŠ debt to HSE or other member of the HSE Group). HSE and TEŠ concluded a contract on debt assumption, under which the swap of these liabilities to equity was foreseen in 2015. On 3 June 2015 the Company received a letter from EBRD requiring that the swap of liabilities to equity be carried out by 30 June 2015. On the basis of a capital increase carried out on 30 June 2016 in the amount of EUR 248.5 million, Annex No. 2 to the loan agreement was concluded on 24 July 2015.
- Increase in costs of the project. The Company managed to conclude an agreement with the lender, on the basis of which this commitment as at 31 December 2015 will no longer be violated.

- Delay in the completion of the Unit 6 construction. The Company also managed to conclude an agreement with the lender regarding this violation, on the basis of which this commitment as at 31 December 2015 will no longer be violated.

#### COLLATERALIZATION OF LONG-TERM FINANCIAL LIABILITIES (together with short-term portion)

*in EUR*

	31 Dec 2015	31 Dec 2014
Government guarantees	440,000,000	440,000,000
Assignments, pledge of receivables	37,828,571	40,000,000
Bills of exchange	2,083,335	3,472,223
HSE guarantee	151,314,286	160,000,000
Bank guarantee	110,000,000	110,000,000
Uncollateralised	80,003,889	0
<b>Total</b>	<b>821,230,081</b>	<b>753,472,223</b>

As at 31 December 2015, TEŠ had 53.6 % of its financial liabilities collateralised through a government guarantee, 18.4 % through a HSE guarantee, 13.4 % through a bank guarantee, 4.6 % through assignments or pledge of receivables, and 0.3 % through bills of exchange, while 9.7 % of its financial liabilities were uncollateralised.

To secure the liabilities under the loan agreement – TEŠ Power Plant Šoštanj/B Finance Contract, FI No. 25.541 SI, concluded with the European Investment Bank for the purpose of financing Unit 6 (22 April 2010), in the amount of EUR 440 million, the Republic of Slovenia and the European Investment Bank concluded on 6 December 2012 a guarantee agreement in the amount of EUR 440 million. The contract became effective on 6 March 2013 (Official Gazette of the Republic of Slovenia, no. 4/15 March 2013).

On 24 November 2010 the Agreement on the issue of a bank guarantee for EUR 110 million was concluded between TEŠ, HSE and five guarantor banks (The Bank of Tokyo – Mitsubishi UFJ, Caja Madrid, Intesa SanPaolo, Societe Generale, and UniCredit Bank) for the purpose of providing a guarantee to the European Investment Bank in accordance with the provisions of the loan agreement with EIB in the amount of EUR 110 million. The date of issue of the guarantee was 28 January 2011.

The guarantees tied to this agreement are the following:

Assignment of receivables as collateral for the debt in the maximum amount of the principal, i.e., EUR 110 million, including interest, default interest, and other compensations, costs and expenditures payable under the Guarantee Agreement, in line with the Agreement on the assignment of receivables to collateral dated 24 November 2010 and concluded between TEŠ and guarantor banks for a period of five years;

- Pledge of bank accounts and cash as collateral for the settlement of all secured liabilities in the maximum amount of EUR 110 million, including interest, default interest and other compensations, costs and expenditures payable under the Guarantee Agreement, in line with the Agreement on the assignment of receivables to collateral dated 24 November 2010 and concluded between TEŠ and guarantor banks.

TEŠ failed to renew and submit a new guarantee agreement to secure the loan raised with EIB in the amount of EUR 110.0 million by the deadline of 28 October 2015. For this reason, pursuant to

a decision of the sole shareholder dated 23 October 2015, TEŠ sent the bank a notice of early repayment of the loan. The loan was repaid in its entirety on 27 January 2016. The guarantee agreement expired on 28 January 2016.

Guarantee of HSE d.o.o., with which it guarantees for the pledge of TEŠ's liabilities under the loan agreement for EUR 200 million. HSE guarantees for 80 % of the loan value as of the date of signing the contract (12 January 2011) and for the duration of the loan agreement (15 years). As additional collateral:

- TEŠ pledged bank accounts and cash as collateral to secure the existing and future, actual and contingent liabilities of the pledger under the loan agreement with EBRD or in accordance therewith, namely, by pledging each of the secured accounts and cash, including interest. The agreement was concluded on 3 February 2011 and is effective for the duration of the loan agreement, and
- TEŠ assigned receivables as collateral for the total repayment of all secured liabilities in the maximum principal amount of EUR 200 million with interest, including default interest. TEŠ signed the respective agreement with EBRD. The agreement on the assignment of receivables was concluded on 3 February 2011 and is effective for the duration of the loan agreement. Owing to the early repayment of a proportional part of the loan on 25 January 2016 in the amount of EUR 37.9 million, HSE's guarantee will be reduced accordingly to EUR 151 million.

## Note 17

### Short-term financial liabilities

**EUR 159,133,743**

### Short-term financial liabilities

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Short-term financial liabilities to Group companies, without/excl. interest	785,757	166,113,790
Short-term financial liabilities to Group companies, with/incl. interest	0	1,430,307
Short-term financial liabilities to banks, of which short-term liabilities excl. interest	158,347,461	17,106,032
Short-term financial liabilities to banks, of which short-term liabilities incl. interest	525	0
Other short-term financial liabilities	0	849,981
<b>Total</b>	<b>159,133,743</b>	<b>185,500,110</b>

Short-term financial liabilities to Group companies include the costs of the HSE guarantee for the EIB and EBRD loans in the amount of EUR 785,757.

In the period from 1 January 2015 to 30 June 2015, the Company concluded a debt assumption contract with HSE, on the basis of which HSE directly settled TEŠ's liabilities to suppliers for replacement Unit 6 in the total amount of EUR 82,439,000. Under the debt assumption contract concluded between HSE and TEŠ, a financial liability of TEŠ towards HSE was created. The liabilities under debt assumption contracts bore interest at the rate applicable for loans between related parties (6-month EURIBOR + 1.00 % p.a.).

The debt assumption contracts were concluded for the purpose of preventing economic loss and avoiding the suspension of works by the Alstom company and other suppliers of the replacement Unit 6 at TEŠ.

On 30 June 2015, the Company converted all of its financial liabilities under debt assumption contracts in a total amount of EUR 248,552,790 into the share capital of the Company on the basis of a decision adopted on 30 June 2015 by the sole shareholder, HSE Ljubljana. HSE d.o.o., as the founder and sole shareholder of TEŠ d.o.o., adopted a decision serving as a basis for carrying out the effective share capital increase by the payment of an in-kind contribution, the subject of which were receivables under debt assumption contracts concluded in 2013, 2014 and 2015 in the amount of EUR 248,552,790.

Short-term financial liabilities to banks as at 31 December 2015 comprised the principal amounts of long-term debts falling due for payment under loan agreements in the next 12 months in the amount of EUR 149,217,460, and a short-term loan in the amount of EUR 9,130,000.

In 2015, interest rates under contracts concluded for short-term loans ranged from the lowest agreed rate of 5.8 % to the highest rate of 5.92 %.

### Changes in short-term financial liabilities

*in EUR*

	Short-term fin. liabilities to Group companies – excl. interest	Short-term fin. liabilities to Group companies – incl. interest	Short-term fin. liabilities to banks, of which short-term liabilities excl. interest	Short-term fin. liabilities to banks, of which short-term liabilities incl. interest	Other short-term fin. liabilities	Total
<b>As at 1 January 2014</b>	<b>10,207,923</b>	<b>0</b>	<b>1,388,889</b>	<b>198</b>	<b>0</b>	<b>11,597,010</b>
Increase	155,905,867	1,430,307	52,491,000	22,710,686	849,981	233,387,841
Transfers from long-term liabilities	0	0	12,246,032	0	0	12,246,032
Repayments	0	0	(49,019,889)	(22,710,884)	0	(71,730,773)
<b>As at 31 December 2014</b>	<b>166,113,790</b>	<b>1,430,307</b>	<b>17,106,032</b>	<b>0</b>	<b>849,981</b>	<b>185,500,110</b>
	Short-term fin. liabilities to Group companies – excl. interest	Short-term fin. liabilities to Group companies – incl. interest	Short-term fin. liabilities to banks, of which short-term liabilities, excl. interest	Short-term fin. liabilities to banks, of which short-term liabilities, incl. interest	Other short-term fin. liabilities	Total
	<b>166,113,790</b>	<b>1,430,307</b>	<b>17,106,032</b>	<b>0</b>	<b>849,981</b>	<b>185,500,110</b>
Increase	0	1,270,231	63,027,000	22,245,002	11,747	86,553,980
Transfers	83,224,757	0	0	0	(861,728)	82,363,029
Transfers from long-term liabilities	0	0	149,217,460	0	0	149,217,460
Repayments	0	(2,700,539)	(71,003,031)	(22,244,477)	0	(95,948,047)
Swap to equity	(248,552,790)	0	0	0	0	(248,552,790)
<b>Balance as at 31 Dec 2015</b>	<b>785,757</b>	<b>0</b>	<b>158,347,461</b>	<b>525</b>	<b>0</b>	<b>159,133,742</b>

## Note 18

### Short-term payables

EUR 24,890,079

### Short-term payables

*in EUR*

	31 Dec 2015	31 Dec 2014
Short-term payables to Group companies	18,817,132	31,590,079
Short-term payables to associates	91,953	370,189
Short-term payables to suppliers	5,980,994	80,020,607
<b>Total</b>	<b>24,890,079</b>	<b>111,980,875</b>

Short-term payables as at 31 December 2015 were lower in comparison with the previous year, primarily due to the decrease in liabilities arising from the Contract on the assumption of debt.

### Short-term payables to Group companies

*in EUR*

		31 Dec 2015	31 Dec 2014
PREMOGOVNIK VELENJE d.d., Velenje	Slovenia	16,461,806	7,703,232
HOLDING SLOVENSKE ELEKTRARNE d.o.o., Ljubljana	Slovenia	1,229,928	19,499,232
RGP d.o.o.	Slovenia	436,058	3,015,121
HTZ IP d.o.o.	Slovenia	361,594	395,413
HSE INVEST d.o.o., Maribor	Slovenia	257,647	945,141
TERMOELEKTRARNA TRBOVLJE d.o.o., Trbovlje	Slovenia	36,004	0
PV INVEST d.o.o.	Slovenia	34,095	31,940
<b>Total</b>		<b>18,817,132</b>	<b>31,590,079</b>

Payables to Group companies include payables to Premogovnik Velenje d.d. for supplied quantities of coal for electricity and thermal energy production in the amount of EUR 16,461,806, payables to Group companies for the construction of Unit 6 in the amount of EUR 2,006,037, and other payables to the Group. The payables were not yet due on the reporting date.

Payables to Premogovnik Velenje d.d. were mostly higher in 2015 in comparison with 2014 due to early payments executed in 2014. At the end of 2014, payables to HSE also included advances payable in the amount of EUR 17,318,207.

Part of trade payables are payables arising from investments in property, plant and equipment in the amount of EUR 1,486,154. Trade payables are lower than planned primarily due to the lower payables to suppliers for the construction of replacement Unit 6. Other payables in the amount of EUR 4,586,793 are recorded under materials and services received. Payables arising from investments in property, plant and equipment are lower in comparison with the previous year due to the settlement of such payables, primarily in connection with debt assumption contracts concluded with HSE. Investments in Unit 6 were also lower in 2015.

As at 31 December 2015, the Company recorded EUR 12,055 in overdue and outstanding trade payables. All overdue payables were settled by 31 January 2016. The payables and their due dates are presented in section 4.11.2.

The Company generally settles all its liabilities by the agreed deadlines.

## Note 19

### Other payables

EUR 32,758,518

### Other payables

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Advances payable	10,249	514
Payables to employees	1,762,146	1,462,299
Payables to state and other institutions	4,615,203	4,380,929
Payables to others	94,609	4,544
Short-term accrued costs and expenses	26,276,311	20,695,057
<b>Total</b>	<b>32,758,518</b>	<b>26,543,343</b>

Other payables include:

- Salaries and other employment-related emoluments payable to employees for the month of December 2015 in the amount of EUR 1,226,619, which were paid on 14 January 2016, and accrued costs of unused annual leave at the end of 2015, which amount to EUR 535,527;
- Payables to state and other institutions in the amount of EUR 4,615,204. The environmental tax for CO<sub>2</sub> emissions accounts for the largest liability, which in 2015 totalled EUR 3,791,039 (1 coupon/1 ton of CO<sub>2</sub>);
- Other payables in the amount of EUR 94,609.

The main portion of other payables includes accrued costs of emission coupons. At the end of the year, the Company was short of 3,683,667 coupons to settle its liability to the state regarding CO<sub>2</sub> emissions generated in 2015. Costs in the amount of EUR 16,134,461 are accrued at the price set in the Contract for the purchase of CO<sub>2</sub> emission coupons less the portion recorded under payables to the state.

The accrued costs also comprise accrued costs of interest in the amount of EUR 6,015,187, costs of bank guarantees in the amount of EUR 988,167, costs of compensations for damages in the amount of EUR 2,230,000, costs of default interest in the amount of EUR 451,305, and costs of suppliers in the amount of EUR 457,191.

### Contingent liabilities and assets

#### Contingent liabilities

	<i>in EUR</i>	
	31 Dec 2015	31 Dec 2014
Other	8,700	8,700
<b>Total</b>	<b>8,700</b>	<b>8,700</b>

## Contingent assets

in EUR

	31 Dec 2015	31 Dec 2014
Bank guarantees received for regular operations	193,656	237,550
Bank guarantees received for investments	117,426,781	118,294,551
<b>Total</b>	<b>117,620,437</b>	<b>118,532,101</b>

The Company recorded under contingent liabilities a liability to NLB bank for a business card in the amount of EUR 8,700.

Contingent assets include bank performance bonds received primarily for the construction of Unit 6.

### 4.9.2 Notes to the Income statement

#### Note 20

**Net sales revenue** **EUR 158,774,403**

#### Net sales revenue

in EUR

	2015	2014
<b>In the domestic market</b>	<b>158,742,289</b>	<b>185,461,798</b>
Electricity	149,780,319	163,640,055
Thermal energy	3,024,273	3,354,696
Other products	49,056	31,781
Other merchandise and material	4,844,214	17,392,039
Other services	1,044,427	1,043,227
<b>In foreign markets</b>	<b>32,114</b>	<b>12,251</b>
Other merchandise and material	32,114	12,251
<b>Total</b>	<b>158,774,403</b>	<b>185,474,049</b>

Net sales revenue in the amount of EUR 158,774,403 was recorded at invoiced amounts. The major portion of revenue (96.2 %) was generated through the sale of electricity and thermal energy. Sales revenue from the sale of electricity and thermal energy does not include revenue generated in the period of Unit 6's trial operation in the amount of EUR 29.7 million, which was recognized under investments.

The major portion of sales revenue from the sale of material in the domestic market comprises sales revenue from the sale of gas in the amount of EUR 4,514,091 and relates to a concluded buyback contract that has been terminated.

## Note 21

Capitalised own products and own services **EUR 88,748**

### Capitalised own products and own services

	<i>in EUR</i>	
	2015	2014
Capitalised own products and own services	88,748	144,783
<b>Total</b>	<b>88,748</b>	<b>144,783</b>

Capitalised own services include materials used and services performed during the construction and trial operation of Unit 6.

## Note 22

Other operating revenue **EUR 2,985,946**

### Other operating revenue

	<i>in EUR</i>	
	2015	2014
Revenue from reversal of provisions	276,879	257,730
Use of deferred revenue	1,564,288	1,148,250
Gain on disposal of fixed assets and reversal of impairment of receivables	858,879	3,724,423
Revenue from compensation for damages and contractual penalties	11,171	17,111
Other operating revenue	274,729	279,774
<b>Total</b>	<b>2,985,946</b>	<b>5,427,288</b>

Revenue from reversal of provisions refers to the reversal of provisions for decommissioning costs in the amount of EU 143,214, reversal of provisions for putting into effect of a guarantee in the amount of EUR 71,135, reversal of provisions for lawsuits in the amount of EUR 59,313, and other.

Revenue from subsidies and other state aid includes revenue from subsidies, grants relating to property, plant and equipment for use of long-term liabilities in the amount of EUR 1,564,288 in accordance with the amount of depreciation expense and impairment loss.

A portion of other revenue includes revenue from emission coupons in the amount of EUR 137,945, which are recognised in the amount of a proportional share for 2015.

The Company received an emolument in the amount of EUR 1,897 to exceed the quota of disabled persons under the Vocational Rehabilitation and Employment of Persons with Disabilities Act. In 2015 the Company utilised the contributions assigned for disabled persons, which had been used in the past to purchase equipment for the needs of disabled persons and to cover the costs of salaries of disabled persons in the amount of EUR 84,399.

Operating revenue from revaluation in the amount of EUR 857,855 represents a gain on sale of dwellings and equipment.

## Note 23

Costs of goods, material and services

EUR 102,446,138

Costs of goods, material and services

*in EUR*

	2015	2014
Total costs of material	94,398,252	126,536,341
Total costs of services	8,067,886	11,078,146
<b>Total</b>	<b>102,466,138</b>	<b>137,614,487</b>

Costs of goods, material and services

*in EUR*

	2015	2014
Costs of material	92,807,481	123,761,646
Costs of auxiliary material	128,086	135,071
Costs of energy	176,552	132,908
Costs of spare parts	782,432	1,750,845
Costs of low-value assets	118,469	139,275
Other costs of material	385,232	616,596
<b>Total costs of material</b>	<b>94,398,252</b>	<b>126,536,341</b>
Costs of services in creating products	351,381	506,044
Costs of transport services	125,278	277,651
Maintenance services	3,335,432	5,164,380
Costs of rent	818,724	813,095
Costs of work-related expenses to employees	23,966	62,114
Costs of insurance and bank services	1,292,586	947,632
Costs of intellectual and personal services	516,211	608,183
Costs of research and development	16,842	143,849
Costs of trade fairs, advertising and entertainment	18,120	213,797
Costs of services rendered by natural persons	9,314	73,670
Other costs of services	1,560,032	2,267,731
<b>Total costs of services</b>	<b>8,067,886</b>	<b>11,078,146</b>
<b>Total</b>	<b>102,466,138</b>	<b>137,614,487</b>

Costs of material do not include the costs of energy products used during the trial operation of Unit 6. The costs of energy products amounted to EUR 9.0 million in the period from 24 September 2014 to 31 December 2014, and to EUR 23.1 million in the period from 1 January 2015 to 19 June 2015 (PAC).

The major portion of costs of material include the costs of coal consumption as an energy generating product in the production of electricity and thermal energy. In addition to coal, the Company also used gas to produce electricity.

The costs of energy consumed amount to EUR 176,552, which is more than in 2014 and above the plan. The costs of own electricity consumed were higher particularly in the second half of the year (several start-ups).

Costs of spare parts and materials for the maintenance of property, plant and equipment include materials for maintenance and spare parts in the value of EUR 782,432. Details are disclosed in the section on maintenance.

Following an inventory count of materials, surpluses of EUR 891 and deficits of EUR 547 were established.

Costs of services involving the maintenance of plants and equipment comprise the costs of regular maintenance in the amount of EUR 3,335,432.

Costs of intellectual and personal services include auditing costs in the amount of EUR 23,782. Besides the audit of the Annual Report by the auditing company KPMG Slovenija d.o.o., no other amounts were paid in 2015.

#### Audit costs

	<i>in EUR</i>	
	2015	2014
Audit of the Annual Report	23,782	23,000
<b>Total</b>	<b>23,782</b>	<b>23,000</b>

#### Note 24

**Labour costs** **EUR 17,469,939**

#### Labour costs

	<i>in EUR</i>	
	2015	2014
Salaries and wages	11,849,501	13,656,504
Pension insurance costs	1,674,298	1,719,742
Other insurance costs	957,258	1,046,887
Other labour costs	2,988,882	1,680,358
<b>Total</b>	<b>17,469,939</b>	<b>18,103,491</b>

## Number of employees and average number of employees by education structure

Education level	As at 1 Jan 2015	As at 31 Dec 2015	Average no. of employees
1	6	5	6
2	27	15	21
3	12	10	11
4	122	107	115
5	150	135	143
6/1	58	56	57
6/2	21	21	21
7	28	27	28
8/1	8	8	8
8/2	2	1	2
<b>Total</b>	<b>434</b>	<b>385</b>	<b>410</b>

Labour costs are based on the collective agreement and individual employment contracts. Salaries are comprised of the basic pay, allowances (for less favourable working hours, environmental impacts, etc.), and the incentive bonus.

Continued pay includes compensations for sick leave, annual leave, training, and other. Employees are entitled to compensation either on the basis of the Employment Relations Act, the collective agreement, or individual employment contracts.

The costs of supplementary pension insurance relate to the co-funding of the pension scheme by the employer under the Contract on the creation of a supplementary pension insurance scheme, concluded between Termoelektrarna Šoštanj d.o.o. and the TPP Šoštanj trade union. The pension scheme, labelled PN1, is managed by the insurance company Modra zavarovalnica d.d., Ljubljana.

Other employee earnings, benefits and refunds include vacation bonuses, termination pay upon termination of employment contracts, and other. From June onward, the costs of meal allowance in the amount of EUR 296,233 are also recorded under this item.

Labour costs do not include costs of meals during work in the amount of EUR 272,181. In the period up to June 2015, costs and revenue were recorded in books of account on internal realisation accounts and were not included in the income statement.

## Note 25

### Write-downs

EUR 450,296,155

### Write-downs

	<i>in EUR</i>	
	2015	2014
Amortisation of intangible assets	64,213	183,683
Depreciation of property, plant and equipment	35,435,458	28,740,882
Allowances for receivables and impairment of inventories	6,112,984	2,640,336
Disposal, write-down and impairment of property, plant and equipment and intangible assets	408,683,501	61,042,371
<b>Total</b>	<b>450,296,156</b>	<b>92,607,272</b>

The depreciation/amortisation expense in the 2015 financial year totalled EUR 35,499,671 and is accounted for at depreciation/amortisation rates determined on the basis of valuation or impairment, or at rates applicable to new purchases as determined by the internal client.

Operating expenses for revaluation in the amount of EUR 414,796,484 refer to:

- write-off of unusable goods in the amount of EUR 25,139, which is equivalent to their carrying amount. The assets were written off and excluded from use because they were worn out, technologically ineffective and economically obsolete;
- elimination of non-operating assets in the amount of EUR 114,556, which were sold;
- impairment of intangible assets, property, plant and equipment based on a valuation in the total amount of EUR 408,560,189;
- impairment of receivables by EUR 517,400 due to doubts as to their collection;
- impairment of inventories of spare parts on the basis of a valuation in the total amount of EUR 5,595,584.

## Note 26

### Other operating expenses

EUR 32,417,00

### Other operating expenses

	<i>in EUR</i>	
	2015	2014
Provisions	500,000	179,147
Compensation for building site use	4,444,648	4,427,700
Environmental protection charges	20,899,575	21,554,971
Donations	18,514	184,666
Other operating expenses	6,554,264	3,986,980
<b>Total</b>	<b>32,417,001</b>	<b>30,333,464</b>

Costs of provisions in the amount of EUR 500,000 include the costs of creating provisions for shortfalls in thermal energy supply in 2015, and are based on an interim injunction under which TEŠ is obliged to continuously supply thermal energy to the Velenje Public Utility Company according to the provisions of the contract dating from 2008 despite its termination.

The major portion of charges relates to a liability for payment of a compensation for building site use in the amount of EUR 4,444,648.

The majority of environmental protection charges refer to the costs of emission coupons in the amount of EUR 19,956,074. The Company produced 3,791,039 tons of CO<sub>2</sub> during the financial year. According to the Environmental Protection Act, the Company is required to hand over 3,791,039 emission coupons to the state.

Other operating expenses mostly comprise expenses relating to compensations for damages under compensation agreements for environmental loads, concluded with individual local communities and municipalities, in the amount of EUR 3,383,000, and compensations due to termination of contracts in the amount of EUR 2,230,000.

#### Note 27

**Financial revenue** **EUR 145,998**

#### Financial revenue

	<i>in EUR</i>	
	2015	2014
Financial revenue from loans and deposits	6,257	13,400
Other financial revenue	139,741	5,532
<b>Total</b>	<b>145,998</b>	<b>18,932</b>

Financial revenue from loans includes interest revenue from time deposits with the bank at which HSE holds a treasury account.

The majority of other financial revenue comprises interest revenue from Group companies in the amount of EUR 139,521.

#### Note 28

**Financial expenses** **EUR 18,391,728**

#### Financial expenses

	<i>in EUR</i>	
	2015	2014
Financial expenses for borrowings	13,266,521	533,899
Change in fair value of investments through profit or loss	0	203,600
Other financial expenses	5,125,207	234,390
<b>Total</b>	<b>18,391,728</b>	<b>971,889</b>

Expenses for financial liabilities comprise interest expenses for long-term and short-term borrowings in the amount of EUR 13,266,521. Interest is accounted for in accordance with contracts concluded between lenders and borrowers. Expenses are higher than in the previous year due to the capitalisation of Unit 6. Until the capitalisation of the investment in Unit 6 (19 June 2015), such borrowing costs increased the cost of investment, whereas after this date they are recorded under financial expenses.

Other financial expenses include expenses for the HSE guarantee in the amount of EUR 785,757, expenses for the guarantee contract in the amount of EUR 1,299,010, expenses for the government guarantee for the B6 investment in the amount of EUR 2,772,603, expenses arising from interest for provisions for termination and jubilee benefits in the amount of EUR 76,910, and expenses for operating liabilities to Group companies in the amount of EUR 190,927.

In 2015, until the date of capitalisation of investment in Unit 6, the Company capitalised the actual borrowing costs arising from specific-purpose borrowings in a total amount of EUR 23,155,708. The capitalised actual borrowing costs for 2014 amounted to EUR 34,248,549.

## Note 29

### Tax

#### Effective tax rate calculation

	<i>in EUR</i>	
	2015	2014
Profit or loss before tax	(459,045,867)	(88,565,551)
Tax calculated at applicable tax rate	(78,037,797)	(15,056,144)
Tax from revenue reducing tax base	(174)	(618,780)
Tax from tax relief	0	0
Tax from expenses reducing tax base	(152,346)	(12,475)
Tax from non-deductible expenses	357,770	376,556
Tax from other changes in tax balance sheet	(22,580)	(26,493)
Current-year tax loss for which no deferred tax asset is recognised	77,855,127	15,337,336
<b>Current tax</b>	<b>0</b>	<b>0</b>
<b>Deferred taxes</b>	<b>0</b>	<b>(710,119)</b>
<b>Total taxes</b>	<b>0</b>	<b>(710,119)</b>
<b>Effective tax rate</b>	<b>0.00</b>	<b>0.80</b>

In line with the Corporate Income Tax Act, the Company prepared a corporate income tax return for the period from 1 January 2015 to 31 December 2015, and established that due to the loss recorded in the period, the Company is not required to record tax liabilities.

As at 31 December 2015, the tax loss carried forward thus amounts to EUR 548,190,960, of which EUR 90,219,624 is from 2014 and EUR 457,971,336 is the tax loss for the 2015 financial year.

At the end of 2015, the Company recorded unused investment reliefs in the amount of EUR 93,432,934 from 2012, which may be used in the next two tax periods, EUR 84,368,557 from 2013, which may be used in the next three tax periods, and EUR 56,960,511 from 2014, which may be used

by the Company in the next four tax periods. The unused investment reliefs in 2015 amounted to EUR 11,554,785 and may be used by the Company in the next five tax periods. At the end of 2015, the unused investment reliefs totalled EUR 246,316,787.

The future taxable profits being uncertain, the Company did not create deferred tax assets.

## Note 29

**Net profit or loss** **EUR (459.045.867)**

### Net profit or loss

	<i>in EUR</i>	
	2015	2014
Gross operating yield	161,849,096	191,046,120
Operating profit or loss	(440,800,137)	(87,612,594)
Financial profit or loss	(18,245,730)	(952,957)
Profit or loss before tax	(459,045,867)	(88,565,551)
<b>Net profit or loss</b>	<b>(459,045,867)</b>	<b>(89,275,670)</b>

### 4.9.3 Notes to the Statement of other comprehensive income

In the statement of other comprehensive income, the Company discloses actuarial losses from termination benefits upon retirement based on an actuarial calculation of liabilities from provisions for jubilee benefits and termination benefits upon retirement and their reversal to the debit of retained profit or loss for the period.

### 4.9.4 Notes to the Cash flow statement

The cash flow statement for 2015 is prepared using the indirect method and comprises all cash receipts and cash payments in the period from 1 January 2015 to 31 December 2015.

Cash flows broken down by subgroups:

### Cash flows

	<i>in EUR</i>	
	2015	2014
Cash flows from operating activities	11,643,491	28,045,801
Cash flows from investing activities	(72,161,091)	(30,985,227)
Cash flows from financing activities	60,545,591	2,937,212
<b>Total</b>	<b>27,991</b>	<b>(2,214)</b>

The cash flow statement shows that in 2015 the Company generated net cash from operating activities in the amount of EUR 11,643,491, and net cash from financing activities in the amount of EUR 60,545,591, which were used entirely to cover cash payments from investing activities.

The Company managed liquidity risk by the careful planning of cash flows, time coordination of receivables and liabilities, and the sound management of free cash. Within the scope of cash management in the HSE Group, an agreement has been reached to pool liquidity surpluses for the purposes of ensuring short-term bridge financing.

The Company provided for short-term solvency in the above-mentioned period by the efficient and careful management of cash, as well as the systematic planning and monitoring of cash flows. Within the scope of regular operations in 2015, the Company's liquidity was managed by regular and early payments of invoices for supplied electricity, utilisation of advance payments for lease of power, and utilisation of short-term and long-term loans.

Instead of capital increase by the parent company, HSE d.o.o., debt assumption contracts were concluded between the parent company HSO d.o.o. and TEŠ d.o.o. for the settlement of liabilities related to the investment in the construction of replacement Unit 6 in the total amount of EUR 82.4 million, which were swapped in their entirety into the share capital of the Company on 30 June 2015 on the basis of a decision of the sole shareholder, HSE Ljubljana, adopted on 30 June 2015. HSE d.o.o., as the founder and sole shareholder of TEŠ d.o.o., adopted a decision serving as a basis for carrying out the effective increase of share capital by the payment of an in-kind contribution, the subject of which were receivables under debt assumption agreements concluded in 2015 in the amount of EUR 82.4 million, and receivables under debt assumption agreements concluded in 2013, 2014 and 2015 in the total amount of EUR 248.5 million. From June to December, a long-term loan for the completion of construction of replacement Unit 6 was drawn from the parent company HSE d.o.o. in a total amount of EU 44.9 million (partial drawing of the entire amount of EUR 83.0) to settle the liabilities related to the construction of replacement Unit 6.

To facilitate liquidity management in ordinary activities, the Company raised a short-term loan with a business bank in the amount of EUR 7.5 million, with date of repayment on 31 December 2015. Also for the purpose of facilitating liquidity management in ordinary activities, the Company made successive drawdowns on a revolving loan raised with a business bank in the amount of EUR 5.0 million. In the months of June, July and September, the Company also made drawdowns on a long-term loan raised with the parent company HSE d.o.o. for operating assets in the amount of EUR 33.8 million for the purpose of making a specific-purpose deposit – DSRA account in the amount of EUR 14.4 million to the benefit of EBRD, making advance payments for leased power in the amount of EUR 10.1 million, and making a specific-purpose deposit – DSRA account (2nd instalment) in the amount of EU 9.3 million. The long-term loan for operating assets in the amount of EUR 33.8 was thus drawn down in its entirety.

The Company regularly settled all its liabilities in the relevant period, including costs of financing the construction of replacement Unit 6. The liabilities for the replacement Unit 6 construction project in the amount of EUR 82.4 million were settled by the parent company HSE d.o.o. on the basis of debt assumption contracts, by utilisation of a long-term loan raised with the parent company HSE d.o.o. for the completion of construction of replacement Unit 6 in the amount of EUR 44.9 million (partial drawing of the entire amount of EUR 83 million), and partly from the Company's own resources and VAT refunds. The deferred, unsettled trade payables for the replacement Unit 6 project that had been brought forward from 2014 were settled in their entirety in the reporting period.

By implementing liquidity management measures as specified in the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act, TEŠ was not insolvent in 2015.

#### 4.9.5 Statement of changes in equity

The statement of changes in equity shows the changes in equity components in the reporting period. The Company prepares the statement of changes in equity in the form of a composite spreadsheet.

In 2015 the share capital was increased by the payment of an in-kind contribution of the shareholder HSE in the amount of EUR 248,522,790.

The total comprehensive income of the reporting period decreased by EUR 459,086,225, i.e., by EUR 459,045,867 of net loss for the period, and by EUR 40,358 of actuarial loss from the creation of provisions for termination benefits upon retirement.

#### Accumulated profit or loss

	<i>in EUR</i>	
	2015	2014
Net profit or loss for the period	(459,045,867)	(89,275,670)
Retained profit/Retained loss	(89.280.089)	0
<b>Accumulated profit or loss</b>	<b>(548,325,956)</b>	<b>(89,275,670)</b>

#### 4.9.6 Going-concern assumption

The Company concluded the 2015 financial year with a loss of EUR 459,046 thousand. The largest portion of the loss comprises the impairment of assets in the total amount of EUR 414,156 thousand (of which EUR 408,560 thousand for the impairment of intangible assets, property, plant and equipment on the basis of a valuation, and EUR 5,596 thousand for spare parts on the basis of a valuation).

As at 31 December 2015, short-term liabilities exceeded short-term assets by EUR 147,481 thousand. The largest portion of short-term liabilities consists of short-term financial liabilities in the amount of EUR 159,134 thousand. In January 2016, HSE d.o.o. provided long-term sources of financing to TEŠ d.o.o. in the amount of EUR million and a short-term bridging loan in the amount of EUR 24.9 million for settlement of the greater portion of previously mentioned short-term financial liabilities. As specified below, these two amounts represent part of the amount of EUR 228.1 million that was swapped into equity on 31 May 2016.

In 2015 the uncovered loss attained half the value of the share capital, primarily due to the impairment of assets. An Analysis and evidence of long-term solvency as at 31 December was prepared, proposing an increase in capital surplus to cover losses by transformation of the owner's receivables from loans granted and interest receivable in the value of EUR 218.4 million. This measure would allow the Company to eliminate the assumption under the second indent of paragraph 3 of Article 14 of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP). The proposal for the increase in capital surplus was subsequently changed, and on 31 May 2016 the shareholder adopted a decision on the transfer of non-cash, subsequent payments in the amount of EUR 228,062,740.

It was established in the analysis that the budget cash flow for the 2016-2030 period, compiled on the basis of the most recent, confirmed long-term projections, indicates that the Company is solvent.

In March 2016, TEŠ prepared the Plan of financial and business restructuring of TEŠ in the period from 2016 to 2018, in which the measures for financial and business restructuring were identified.

On 31 May 2016, the shareholder adopted a decision on the transfer of non-cash, subsequent payments in the amount of EUR 228,062,740 to capital surplus for the purpose of covering losses. The non-cash payments represent the owner's receivables from loans granted as at 31 March 2016. On 31 May 2016, HSE and TEŠ signed a Contract on the subsequent transfer of receivables to capital surplus.

The going concern assumption is not at risk.

#### 4.10 OTHER DISCLOSURES

##### 4.10.1 Related parties

###### Data on related companies

			<i>in EUR</i>
In EUR	Sale	Purchase	Borrowings, incl. interest
HSE d.o.o.	150,127,257	4,993,620	80,003,889
TET d.o.o. – in liquidation	0	29,511	0
PV d.d.	139,845	99,531,117	0
HTZ VELENJE I.P. d.o.o.	581	787,565	0
GOST d.o.o.	0	1,005	0
PV Invest d.o.o.	0	87,029	0
RGP d.o.o.	0	1,395,720	0
HSE Invest d.o.o.	15,355	1,926,894	0
<b>Total 2015</b>	<b>150,283,038</b>	<b>108,752,461</b>	<b>80,003,889</b>

The sales and purchase columns show all transactions (excl. VAT), including interest on borrowings and costs of guarantees, between TEŠ and related companies in 2015. The table does not include sales revenue from the sale of electricity to HSE d.o.o. in the total amount of EUR 29,127,284 and costs of coal from Premogovnik Velenje in the total amount of EUR 20,788,826. These revenues and costs were generated in the period of trial operation of Unit 6 and, in line with IFRS, were recognised in the cost of the Unit 6 investment as the difference between direct costs and revenue for hot start-up tests.

Borrowings are presented as at 31 December 2015 (principal + interest).

The balance of outstanding trade receivables due from related parties is disclosed under 4.9.1. Disclosure 9 – Short-term trade receivables, and the balance of outstanding trade payables under 4.9.1. Disclosure 18 – Short-term operating liabilities.

Sales prices and purchase prices for services are defined in line with the valid internal pricelist of HSE Group companies, while rents and sales prices of electricity are defined using the cost-plus method.

#### 4.10.2 Emoluments

Information on the board of management, supervisory board, and employees employed under individual employment contracts that are not subject to the tariff part of the collective agreement.

##### Emoluments

*in EUR*

	Salary	Other earnings	Bonuses	Refund of expenses	Total
Members of the Board of Management	115,786	4,146	3,494	1,133	124,559
Employees not subject to the tariff part of the collective agreement	278,286	115,380	291	3,380	397,337
<b>Total 2015</b>	<b>394,072</b>	<b>119,526</b>	<b>3,785</b>	<b>4,513</b>	<b>521,896</b>

The emoluments of members of the Board of Management and other employees who are not subject to the tariff part of the collective agreement comprise:

- gross emoluments, according to the payout principle,
- other emoluments,
- premiums paid for voluntary supplementary pension insurance, and
- refunds.

##### Emoluments of the Board of Management in 2015

*in EUR*

Name and surname	Gross salary	Incentive bonus	Other emoluments	Bonuses	Voluntary supplementary pension insurance	Refund of expenses	Total
Peter Dermol (until 5 Dec 2014 – payment in 2015)	981	0	0	0	0	0	981
Matjaž Eberlinc, PhD (1 Jan 2015 – 30 Nov 2015)	114,805	0	4,145	3,494	0	1,133	123,577
Arman Koritnik, LL.M (1 Dec 2015 – 31 Dec 2015)	0	0	0	0	0	0	0
<b>Total emoluments</b>	<b>115,786</b>	<b>0</b>	<b>4,145</b>	<b>3,494</b>	<b>0</b>	<b>1,133</b>	<b>124,558</b>

#### 4.10.3 Operating lease

The Company has computer hardware and software, land, and other items under operating lease.

The table below shows the liabilities arising from operating lease under notice of termination, which provides for the smallest lease payments.

##### Operating lease

*in EUR*

	31 Dec 2015	31 Dec 2014
Less than one year	458,432	530,129
<b>Total</b>	<b>458,432</b>	<b>530,129</b>

The costs of operating lease amounted to EUR 818,724 in 2015.

#### 4.11 FINANCIAL INSTRUMENTS AND RISKS

This section is linked to section 4.3.11 of the accounting report and also to section 2.11 of the management report covering financial risks.

##### 4.11.1 Credit risk

Credit risk is the risk of failure of the counterparty to settle its liabilities. In addition to failure to pay, we also risk failure to settle other non-financial liabilities. The consequence of risk is the lack of liquid assets. The consequences could be the non-payment of liabilities to suppliers and the cessation of works, as well as the costs of default interest.

With regard to business credit risk, the Company assesses that the probability of risk is low, while the impact on the Company's operations is medium. Risk management instruments comprise verification of credit ratings of business partners, conclusion of long-term contracts and, on the basis thereof, annual contracts with elements of securing receivables, such as, e.g., blank bills of exchange.

Receivables from the sale of thermal energy are secured with a blank bill of exchange. Advances receivable in the amount of EUR 20,749 are secured with a bank guarantee.

The majority of overdue advances receivable refer to advances receivable from Primorje d.d. (in bankruptcy) in the amount of EUR 206,731, for which allowances were created in the past.

Other overdue and outstanding trade receivables include rents receivable from apartment leases, receivables from RCE Velenje for an encashed bank guarantee in the amount of EUR 108,012, which were registered to the bankruptcy assets, and other.

##### Long-term receivables by maturity

*in EUR*

	DUE DATE			TOTAL
	UP TO 2 YEARS AFTER DATE OF SFP	3 TO 5 YEARS AFTER DATE OF SFP	OVER 5 YEARS AFTER DATE OF SFP	
Long-term advances	9,146	27,439	45,734	82,319
Long-term operating receivables due from others	2,032	5,926		7,958
<b>Total as at 31 December 2014</b>	<b>11,178</b>	<b>33,365</b>	<b>45,734</b>	<b>90,277</b>

*in EUR*

	DUE DATE			TOTAL
	UP TO 2 YEARS AFTER DATE OF SFP	3 TO 5 YEARS AFTER DATE OF SFP	OVER 5 YEARS AFTER DATE OF SFP	
Long-term advances	9,147	27,440	36,586	73,173
Long-term operating receivables due from others	2,032	3,894		5,926
<b>Total as at 31 December 2015</b>	<b>11,179</b>	<b>31,334</b>	<b>36,586</b>	<b>79,099</b>

## Short-term operating and financial liabilities by maturity date

in EUR

	DUE DATE						TOTAL
	NOT YET DUE	OVERDUE UP TO 3 MONTHS (up to 90 days)	OVERDUE FROM 3 TO 6 MONTHS (91 to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (181 to 270 days)	OVERDUE FROM 9 TO 12 MONTHS (271 to 360 days)	OVERDUE IN EXCESS OF ONE YEAR (from 361 days onward)	
Short-term payables to Group companies	23,844,567	20					23,844,587
Short-term payables to associates	169						169
Short-term trade payables	1,464,017	19,459	6,806	6,198	6,158	51,960	1,554,598
Short-term advances payable	216,362					2,729,650	2,946,012
Short-term payables to state and other institutions	8,830,565						8,830,565
Other short-term payables	521,229						521,229
<b>Total as at 31 December 2014</b>	<b>34,876,909</b>	<b>19,479</b>	<b>6,806</b>	<b>6,198</b>	<b>6,158</b>	<b>2,781,610</b>	<b>37,697,160</b>

in EUR

	DUE DATE						TOTAL
	NOT YET DUE	OVERDU UP TO 3 MONTHS (up to 90 days)	OVERDUE FROM 3 TO 6 MONTHS (91 to 180 days)	OVERDUE FROM 6 TO 9 MONTHS (181 to 270 days)	OVERDUE FROM 9 TO 12 MONTHS (271 to 360 days)	OVERDUE IN EXCESS OF ONE YEAR (from 361 days onward)	
Short-term payables to Group companies	25,802,385	0					25,802,385
Short-term payables to associates	176						176
Short-term trade payables	1,353,214	9,025	1,794	4,214	110,014	66,991	1,545,252
Short-term advances payable	113,580					206,731	320,311
Short-term payables to state and other institutions	1,229,637						1,229,637
Other short-term payables	71,190					509,040	580,230
Short-term deposits to others	14,250,957						14,250,957
<b>Total as at 31 December 2015</b>	<b>42,821,139</b>	<b>9,025</b>	<b>1,794</b>	<b>4,214</b>	<b>110,014</b>	<b>782,762</b>	<b>43,728,948</b>

## Changes in allowances for short-term operating receivables

	<i>in EUR</i>	
	2015	2014
<b>As at 1 January 2015</b>	<b>262,250</b>	<b>3,820,152</b>
Collected receivables written off	(1,024)	(3,575,447)
Creation of allowances for receivables	625,411	17,545
<b>As at 31 December 2015</b>	<b>886,637</b>	<b>262,250</b>

### 4.11.2 Liquidity risk

Liquidity is a condition for the Company's solvency and at the same time its ability for the timely settlement of overdue liabilities. By providing an optimal financial structure of operations in the framework of financial leverage, we ensure safe operations alongside the lowest costs of the financial structure. A deficit of liquidity assets results in unpaid overdue liabilities. The probability that the Company would face liquidity problems is medium high, while the impact of the Company's illiquidity is high. The liquidity risk management instrument is the careful planning of cash flows on a daily, monthly and annual basis. The appropriate time co-ordination of receivables and liabilities and, in particular, ensuring adequate sources of financing investments, are of key importance. As regards current liquidity, the Company has established appropriate credit lines for short-term liquidity management.

As at 31 December 2015, the Company recorded EUR 12,055 in overdue and outstanding liabilities to suppliers. All overdue liabilities were settled by 31 January 2016.

### Long-term liabilities by maturity

	<i>in EUR</i>			TOTAL
	UP TO 2 YEARS AFTER DATE OF SFP	3 TO 5 YEARS AFTER DATE OF SFP	OVER 5 YEARS AFTER DATE OF SFP	
Long-term financial liabilities to banks	28,469,028	143,330,215	569,426,948	741,226,191
<b>Total as at 31 December 2014</b>	<b>28,469,028</b>	<b>143,330,215</b>	<b>569,426,948</b>	<b>741,226,191</b>

	<i>in EUR</i>			TOTAL
	UP TO 2 YEARS AFTER DATE OF SFP	3 TO 5 YEARS AFTER DATE OF SFP	OVER 5 YEARS AFTER DATE OF SFP	
Long-term financial liabilities to Group companies			80,003,889	80,003,889
Long-term financial liabilities to banks	26,759,561	126,538,207	438,710,964	592,008,732
<b>31 December 2015</b>	<b>26,759,561</b>	<b>126,538,207</b>	<b>518,714,853</b>	<b>672,012,621</b>

Note: The short-term portions of long-term borrowings are not included in the table.

### Short-term operating and financial liabilities by maturity date

*in EUR*

	NOT YET DUE	DUE DATE	
		OVERDUE UP TO 3 MONTHS (up to 90 days)	TOTAL
Short-term payables to Group companies	31,565,805	24,274	31,590,079
Short-term payables to associates	370,189		370,189
Short-term trade payables	79,979,950	40,657	80,020,607
Short-term advances payable	514		514
Short-term payables to employees	1,462,299		1,462,299
Short-term payables to state and other institutions	4,380,929		4,380,929
Other short-term payables	4,544		4,544
Short-term financial liabilities to Group companies	167,544,097		167,544,097
Short-term financial liabilities to banks	17,106,032		17,106,032
Other short-term financial liabilities	849,981		849,981
<b>Total as at 31 December 2014</b>	<b>303,264,340</b>	<b>64,931</b>	<b>303,329,271</b>

*in EUR*

	NOT YET DUE	DUE DATE	
		OVERDUE UP TO 3 MONTHS (up to 90 days)	TOTAL
Short-term payables to Group companies	18,817,132	0	18,817,132
Short-term payables to associates	91,953		91,953
Short-term trade payables	5,968,939	12,055	5,980,994
Short-term advances payable	10,249		10,249
Short-term payables to employees	1,226,619		1,226,619
Short-term payables to state and other institutions	4,615,204		4,615,204
Other short-term payables	94,609		94,609
Short-term financial liabilities to Group companies	785,757		785,757
Short-term financial liabilities to banks	158,347,986		158,347,986
<b>Total as at 31 December 2015</b>	<b>189,958,448</b>	<b>12,055</b>	<b>189,970,503</b>

The risk of delayed capital increase was managed by the conclusion of debt assumption contracts by HSE, on the basis of which HSE directly settled TEŠ's liabilities to suppliers for Unit 6 by short-term and long-term borrowing, as well as by optimising liquidity and business operations. This risk was assessed as being adequately managed in 2015.

#### 4.11.3 Interest rate risk

Interest rate risk is the risk that changes in the interest rate will be unfavourable for the Company. It occurs mainly in borrowing, as the price of money depends on the level of market interest rates. The growth of interest rate results in the risk of failure to settle annuities due to inadequate liquidity reserves. The risk is assessed as very low and manageable, since the Company has established a policy of hedging against interest rate risks. Possible interest rate hedging instruments include a fixed interest rate with the lender.

The Company was exposed to the following interest rate risks (only instruments that affect profit or loss are taken into account):

## FINANCIAL INSTRUMENTS

in EUR

FINANCIAL INSTRUMENTS - BALANCE	2015	2014
<b>Financial instruments at variable interest rate</b>		
Financial liabilities	232,334,764	3,472,222
<b>TOTAL</b>	<b>232,334,764</b>	<b>3,472,222</b>

In 2014 the majority of financial liabilities were charged against the investment in Unit 6, and the profit or loss was not exposed to interest rate risk.

### *Sensitivity analysis of fair value of financial instruments at fixed interest rate*

A sensitivity analysis for financial instruments at fixed interest rate has not been prepared.

### *Sensitivity analysis of cash flow in financial instruments with a variable interest rate*

A change in interest rate by 50 base points (bp) at the reporting date would increase (decrease) the net profit or loss by the values indicated below.

## Financial instruments at variable interest rate

in EUR

FINANCIAL INSTRUMENTS	Net profit/loss 2015		Net profit/loss 2014	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
<b>Financial instruments at variable interest rate</b>				
Financial liabilities	(667,364)	667,364	(63,042)	63,042

The 2015 figures in the sensitivity analysis take into account the changes in interest rates for financial liabilities since the capitalisation of Unit 6 (19 June 2015). The 2014 figures take into account only the financial liabilities whose impact arising from a change in interest rate was reflected in the profit or loss.

### 4.11.4 Capital management

The main purpose of capital management is to ensure the best credit rating possible and capital adequacy for the purposes of financing operations and investments. An adequate volume of capital ensures the trust of creditors and the market, and maintains the future development of the Company's activities.

The Company monitors changes in equity using the financial leverage ratio, calculated by dividing the net liabilities by the total amount of net liabilities and the total amount of equity. The net liabilities of the Company include loans received and other financial liabilities less cash.

## Capital management

in EUR

	31 Dec 2015	31 Dec 2014
Long-term financial liabilities	672,012,620	741,226,191
Short-term financial liabilities	159,133,743	185,500,110
Total financial liabilities	831,146,363	926,726,301
Equity	215,820,023	426,353,458
<b>Financial liabilities/Equity</b>	<b>3.85</b>	<b>2.17</b>
Cash and cash equivalents	36,534	8,543
Net financial liabilities	831,109,829	926,717,758
<b>Net debt/equity</b>	<b>3.85</b>	<b>2.17</b>

The ratio shows the relation between the Company's debt and equity. The ratio was higher at the end of 2015 compared to 2014 due to a lower equity balance.

#### 4.11.5 Fair value

The Company assesses that the fair values of financial assets and liabilities do not deviate from their carrying amounts.

#### Carrying amounts and fair values of financial instruments

in EUR

Financial instruments	31 Dec 2015		31 Dec 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-derivative financial assets at fair value</b>	<b>60,003</b>	<b>60,003</b>	<b>60,003</b>	<b>60,003</b>
Available-for-sale financial assets	60,003	60,003	60,003	60,003
<b>Non-derivative financial assets at amortised cost</b>	<b>42,957,944</b>	<b>42,957,944</b>	<b>37,533,730</b>	<b>37,533,730</b>
Financial receivables	14,250,957	14,250,957	0	0
Operating receivables	28,670,453	28,670,453	37,525,187	37,525,187
Cash	36,534	36,534	8,543	8,543
<b>Total</b>	<b>43,017,947</b>	<b>43,017,947</b>	<b>37,593,733</b>	<b>37,593,733</b>
<b>Non-derivative financial liabilities at amortised cost</b>	<b>861,983,122</b>	<b>861,983,122</b>	<b>877,011,365</b>	<b>877,011,365</b>
Bank loans	750,356,717	750,356,717	758,332,223	758,332,223
Other financial liabilities	80,789,646	80,789,646	849,981	849,981
Operating liabilities	30,836,759	30,836,759	117,829,161	117,829,161
<b>Total</b>	<b>861,983,122</b>	<b>861,983,122</b>	<b>877,011,365</b>	<b>877,011,365</b>

## Financial assets carried at fair value by hierarchy

in EUR

	31 Dec 2015	31 Dec 2014
Financial assets at third-level fair value	60,003	60,003
<b>Total</b>	<b>60,003</b>	<b>60,003</b>

Short-term receivables and liabilities are recorded at carrying amount, which is considered as amortised cost.

### 4.12 BUSINESS SEGMENT REPORTING

According to the provisions of Article 109 of the Energy Act (EZ-1) and the Act on the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities (ZPFOLERD-1), the Company is required to keep separate financial statements for energy activities and for other activities.

The Company has specified in its Accounting Rules that it prepares separate financial statements for the following activities:

- electricity production,
- steam and hot water supply,
- canteen, and
- social standard,

which are market-oriented organisational parts of the Company that generate profit or loss through their operations.

The Šoštanj Thermal Power Plant records revenue and expenses of the Company in orders, cost centres (CC), and profit centres (PC). The Company's assets and liabilities are generally recorded by activity, while intangible assets, property, plant and equipment are also recorded in CCs. The majority of CCs and PCs belong directly to individual activities, while a portion of CCs is general, or indirect. In the classification of revenue and costs arising in the operations of the Company as a whole, or in the performance of two or more activities that cannot be directly classified, the Company makes use of allocation criteria/formulas. Allocation criteria/formulas are verified and corrected annually with respect to new facts.

The method of cost allocation by CC and determination of profit or loss by activity is based on methods of indirect cost allocation, which are a simple indirect cost distribution formula and cost allocation arising from empirical analyses, experience-based cognition, and the goals of a company.

General costs and expenses as well as general revenue are allocated by activity on the basis of allocation criteria/agreed allocation formulas.

The Company has two types of general cost centres in place:

- general production cost centres,
- general cost centres of professional services.

Criteria for cost allocation to general production cost centres:

Costs are first allocated to the activity of steam and hot water supply, i.e., to thermal stations 1 and 2 using a formula that takes into consideration the method of utilised primary energy (2015) and share of energy produced. Until 2015, the allocation formula was used for revenue from the sale of thermal

energy in relation to total revenue, which means cost variability. The costs of general production CCs are mainly fixed (from the aspect of the Act on the heat pricing methodology), which is why the allocation formula was redefined in 2015, with no essential variance.

Costs are allocated to the thermal station 3 (TS 3) using an allocation formula that takes into account the method of installed power and share of produced energy. In 2015 the allocation formula was redefined when TS 3 began to operate within the scope of the new Unit 6. The method of installed power considers the consumption of primary energy for thermal energy production at maximum power of TS 3, which is 120 MWth. The calculation was made on the basis of a comparison of the simultaneous use of primary energy for electricity production.

Costs are then allocated to individual PCs within the activity of electricity production, based on the share of utilised coal (in GJ). In the case of general maintenance costs, these are allocated to individual PCs based on the number of activity hours. Activity hours are hours performed by maintenance services for the needs of regular maintenance of production plant and equipment, and are recorded by work orders.

Criteria for cost allocation to general CCs of professional services:

Costs are first allocated to the canteen activity and the social standard activity. Costs are allocated to the canteen activity based on the share of sales revenue generated in the canteen in relation to the total sales revenue.

Costs are allocated to the social standard activity in the amount of one average monthly salary of a bookkeeper in the sales division (area of sales).

Costs are then allocated to the activity of steam and thermal water supply, i.e., to thermal stations 1 – 2 using the allocation formula that takes into account the method of utilised primary energy (2015), and to thermal station 3 using the allocation formula that considers the method of installed power. The next step is cost allocation to the activity of electricity production, i.e., to individual PCs based on the share of utilised coal (in GJ).

The revenue of the Company is generally direct revenue, and is broken down into operating and financial revenue. Operating revenue is direct revenue. Revenue generated through the performance of minor registered activities was recorded under the activity of electricity production due to the negligible revenue generated by these activities.

Financial revenue is allocated to an activity directly. If direct allocation is not possible, it is allocated to the activities of electricity production and steam and thermal water supply. Within the activity of steam and thermal water supply, financial revenue was allocated:

- to TS 1-2 using the allocation formula that takes into account the method of actually utilised primary energy and the share of thermal energy produced;
- to TS 3 using the allocation formula that takes into account the method of installed power (8 %) and considers the share of thermal energy produced;
- financial revenue was then allocated to the activity of electricity production and to individual PCs based on the electricity produced by individual PCs.

The Company's costs and expenses are broken down into operating and financial costs and expenses. Costs are divided by type, cost centre, and carrier. By natural type, the following costs are distinguished: costs of material, costs of services, costs of depreciation, labour costs, other operating expenses, and financial expenses.

Costs of material – energy products and other costs related to fuel consumption were allocated to CCs and activities directly on the basis of actually consumed quantities. Costs of chemicals were mostly allocated to PCs on the basis of coal consumption. Chemicals whose consumption is recorded in general production CCs or in general CCs of professional services were allocated using the allocation formulas described in paragraphs six and seven of this section.

Maintenance costs (of material and services) are allocated directly to CCs and PCs. Maintenance costs whose consumption was recorded in general production CCs were allocated using the allocation formulas described in paragraph six of this section.

Other costs of material, services and other expenses are allocated directly to CCs and PCs. Other costs, such as expenditures for emission coupons, are allocated to activities directly (Report on quantities of CO<sub>2</sub> emissions from combustion and processing activities at TEŠ). The costs recorded in production CCs or in the general cost centres of professional services are allocated using the allocation formulas described in paragraphs six and seven of this section.

Depreciation costs are allocated to CCs, PCs and activities directly on the basis of records from the register of fixed assets. The common devices of Unit 6 and TS 3 are also defined in this register, and their depreciation costs are allocated to TP 3 using the allocation formula that takes into account the method of installed power (8 %) and the share of thermal energy produced. The depreciation costs recorded in production CCs or the general CCs of professional services are allocated using the allocation formulas described in paragraphs six and seven of this section. The costs of assets impairment were treated in the same manner.

Labour costs are allocated directly to CCs as defined by the human resources department. A specific method is used to allocate labour costs to the activity of steam and thermal water supply, where the labour costs of two employees are allocated to TS 1-2, and the average annual salary of on-duty locksmiths is allocated to TS 3. The labour costs recorded under general CCs are allocated using the allocation formulas described in paragraphs six and seven of this section.

Financial expenses are allocated to CCs, PCs, and activities directly. The financial expenses recorded in the CCs of general professional services were allocated to the activity of steam and thermal water supply using the allocation formula described in paragraph seven of this section. Financial expenses for borrowings for the construction of replacement Unit 6 (interest, costs of guarantees, costs of government guarantee) were allocated to the activity of steam and thermal water supply (TS 3) on the basis of the share of TP 3's production equipment, together with pertaining common devices, in the value of all production equipment of Unit 6.

The internal revenue and costs among activities have no effect on the Company's profit or loss, as the internal revenue among activities on the one side means the internal expenses among activities on the other side. However, they do affect the profit or loss of individual activities.

Intangible long-term assets are allocated to activities on the basis of their definition in the register of fixed assets. They are generally recorded under direct CCs.

Property, plant and equipment are allocated on the basis of data in the register of fixed assets. Within the scope of the new replacement Unit 6, common devices were capitalised and are allocated to the activity of steam and water supply using the allocation formula that takes into account the method of installed power (8 %). Inventory of equipment that is not subject to depreciation is recorded within the activity of electricity production.

Property, plant and equipment being acquired are allocated to activities in accordance with the investment programme.

Investments, receivables, and loans are allocated to activities on the basis of the document from which the investment, receivable, or loan is derived. An activity that cannot be precisely defined is allocated to the activity of electricity production.

Trade receivables are allocated on the basis of an open accounts balance directly to the activity to which they relate. Other receivables and assets held for sale are allocated directly to the activity. If this is not possible, the activity of electricity production is determined as the carrier of receivables.

Inventories of energy products are allocated to the activity of electricity production. Inventories of material of the canteen activity are allocated to other activities. Other inventories of material, including inventories of spare parts, are allocated to the activities of electricity production and steam and hot water supply based on the share of material consumed in the regular maintenance of devices.

Other assets are allocated directly to the activity. If this is not possible, the activity of electricity production is determined as the carrier of assets.

Cash and cash equivalents are generally allocated to the activity of electricity production. In 2015, cash was also allocated to other activities (sale of holiday facilities and apartments).

Equity is allocated to activities on the basis of established differences between assets and liabilities as at 31 December 2000 (preparation of SFP – opening balance sheet by activity). A portion of the share capital and pertaining capital surplus (equity revaluation adjustment) is allocated to the activity. The equity of an activity is reduced by the established loss for the current year and the uncovered loss of previous years, or increased by the established profit and capital increase. In 2015, the Company carried out a capital increase, which was allocated to the activity of steam and thermal water supply based on the share of TS 3's production equipment, together with pertaining common devices, in the value of all production equipment of Unit 6. Revenue reserves are allocated to the activities based on the share of attained net profit or loss from previous periods that was the subject of the creation of provisions.

Long-term provisions and long-term deferred revenue are, according to the balance at the reporting date, allocated to activities based on the purpose of the creation of provisions.

Financial liabilities are allocated to activities based on the purpose of borrowing. The share of borrowings for the construction of replacement Unit 6 was allocated to the activity of steam and thermal water supply on the basis of the share of TS 3's production equipment, together with pertaining common devices, in the value of all production equipment of Unit 6.

Operating and other liabilities are allocated into activities as a direct liability by origin. Liabilities that cannot be directly defined are recorded under the activity of electricity production.

#### 4.12.1 Statement of financial position by business segments

in EUR

ASSETS	31 Dec 2015	Electricity production	Steam and hot water supply	Other business segments
<b>A. LONG-TERM ASSETS</b>	<b>1,050,522,473</b>	<b>999,721,171</b>	<b>50,468,839</b>	<b>332,463</b>
I. Intangible assets	454,804	129,785	307,565	17,454
II. Property, plant and equipment	1,049,906,616	999,458,210	50,161,274	287,132
V. Other long-term financial assets and loans	60,003	60,003	0	0
VI. Long-term operating receivables	79,099	73,173	0	5,926
VII. Other long-term assets	21,951	0	0	21,951
<b>B. SHORT-TERM ASSETS</b>	<b>69,301,397</b>	<b>66,779,820</b>	<b>1,191,145</b>	<b>1,330,432</b>
I. Assets held for sale	201,723	0	0	201,723
II. Inventories	6,058,139	6,002,064	48,678	7,397
III. Short-term investments	14,250,957	14,250,957	0	0
IV. Short-term operating receivables	27,176,947	25,995,196	1,136,117	45,634
VI. Other short-term assets	21,577,097	21,558,241	6,350	12,506
VII. Cash and cash equivalents	36,534	(1,026,638)	0	1,063,172
<b>TOTAL ASSETS</b>	<b>1,119,823,870</b>	<b>1,066,500,991</b>	<b>51,659,984</b>	<b>1,662,895</b>

in EUR

EQUITY AND LIABILITIES	31 Dec 2015	Electricity production	Steam and hot water supply	Other business segments
<b>A. EQUITY</b>	<b>215,820,023</b>	<b>205,379,585</b>	<b>9,158,179</b>	<b>1,282,259</b>
I. Called-up capital	578,579,850	563,992,559	13,776,541	810,750
II. Capital surplus	116,883,008	113,996,941	1,588,199	1,297,868
III. Revenue reserves	68,771,666	66,578,344	984,336	1,208,986
IV. Fair value reserve	(88,545)	(85,417)	0	(3,128)
V. Retained earnings	(548,325,956)	(539,102,842)	(7,190,897)	(2,032,217)
<b>C. LONG-TERM LIABILITIES</b>	<b>687,221,507</b>	<b>653,413,010</b>	<b>33,695,779</b>	<b>112,718</b>
I. Provisions for termination and jubilee benefits	2,572,205	2,491,824	0	80,381
II. Other provisions	12,371,966	11,839,629	500,000	32,337
III. Other long-term liabilities	264,716	64,523	200,193	0
IV. Long-term financial liabilities	672,012,620	639,017,034	32,995,586	0
<b>D. SHORT-TERM LIABILITIES</b>	<b>216,782,340</b>	<b>207,708,396</b>	<b>8,806,026</b>	<b>267,918</b>
II. Short-term financial liabilities	159,133,743	151,476,223	7,657,520	0
III. Short-term operating liabilities	24,890,079	24,258,360	535,109	96,610
V. Other short-term liabilities	32,758,518	31,973,813	613,397	171,308
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,119,823,870</b>	<b>1,066,500,991</b>	<b>51,659,984</b>	<b>1,662,895</b>

#### 4.12.2 Income statement by business segments

*in EUR*

ITEM	I-XII 2015	Electricity production	Steam and thermal water supply	Other business segments
<b>OPERATING REVENUES</b>	<b>162,207,087</b>	<b>157,453,815</b>	<b>3,162,972</b>	<b>1,590,300</b>
1. Net sales revenue	158,774,403	155,274,521	3,073,329	426,553
a) in the domestic market	158,742,289	155,242,407	3,073,329	426,553
b) in foreign markets	32,114	32,114	0	0
3. Capitalised own products and own services	88,748	88,748	0	0
4. Other operating revenue	3,343,936	2,090,546	89,643	1,163,747
<b>GROSS OPERATING INCOME</b>	<b>162,207,087</b>	<b>157,453,815</b>	<b>3,162,972</b>	<b>1,590,300</b>
<b>OPERATING EXPENSES</b>	<b>603,007,224</b>	<b>580,104,975</b>	<b>21,994,429</b>	<b>907,821</b>
5. Costs of material and services	102,466,139	99,963,381	2,086,157	416,601
b) costs of material	94,398,253	92,155,112	1,903,782	339,359
c) costs of services	8,067,886	7,808,269	182,375	77,242
6. Labour costs	17,469,939	16,549,453	545,208	375,278
7. Write-downs in value	450,296,155	431,753,722	18,442,395	100,039
a) depreciation and amortisation expense	35,499,671	34,449,504	967,809	82,358
b) impairment/write-down, disposal of intangible assets and property, plant and equipment	408,683,501	391,219,497	17,446,670	17,334
c) impairment/write-down of receivables and inventories	6,112,983	6,084,721	27,916	347
8. Other operating expenses	32,774,991	31,838,419	920,669	15,903
<b>OPERATING PROFIT OR LOSS</b>	<b>(440,800,137)</b>	<b>(422,651,160)</b>	<b>(18,831,457)</b>	<b>682,479</b>
9. FINANCIAL REVENUE	145,998	145,480	298	220
10. FINANCIAL EXPENSES	18,391,728	17,448,237	940,068	3,423
<b>FINANCIAL RESULT</b>	<b>(18,245,730)</b>	<b>(17,302,757)</b>	<b>(939,770)</b>	<b>(3,203)</b>
<b>11. PROFIT OR LOSS BEFORE TAX</b>	<b>(459,045,867)</b>	<b>(439,953,917)</b>	<b>(19,771,227)</b>	<b>679,276</b>
<b>13. NET PROFIT OR LOSS FOR THE PERIOD</b>	<b>(459,045,867)</b>	<b>(439,953,917)</b>	<b>(19,771,227)</b>	<b>679,276</b>

Note: In the income statement presented by business segments, revenue and expenses also include internal realisation.

#### 4.12.3 Cash flow statement by business segments

in EUR

ITEM	I-XII 2015	Electricity production	Steam and thermal water supply	Other business segments
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit or loss for the period	(459.045.867)	(439.953.915)	(19.771.227)	679.275
<b>Adjustments for:</b>				
Amortisation of intangible assets	64.213	58.527	1.090	4.596
Depreciation of property, plant and equipment	35.435.458	34.390.977	966.719	77.762
Impairment of property, plant and equipment	408.538.937	391.074.933	17.446.670	17.334
Impairment of intangible assets and goodwill	21.251	21.251		
Impairment of trade receivables	517.400	489.137	27.916	347
Impairment of inventories	5.595.583	5.595.583	0	0
Creation of provisions	2.730.000	2.230.000	500.000	0
Reversal of provisions	(1.766.545)	(1.766.545)	0	0
Write-down of property, plant and equipment	1.437	1.437	0	0
Reversal of allowances for trade receivables	(1.024)	(1.837)	0	813
Loss on the sale of property, plant and equipment	121.876	120.268	0	1.608
Finance income	(145.998)	(145.480)	(298)	(220)
Finance costs	18.391.728	17.448.237	940.068	3.423
Gain on sale of property, plant and equipment	(857.855)	(71.724)	0	(786.131)
<b>Cash generated from operating activities before change in net current assets and taxes</b>	<b>9.600.594</b>	<b>9.490.849</b>	<b>110.938</b>	<b>(1.193)</b>
<b>Change in net short-term assets and provisions</b>				
<b>Change in:</b>				
Inventories	(1.200.520)	(1.262.690)	62.330	(160)
Trade and other receivables and deferred costs and accrued revenue	8.743.044	8.871.679	(120.171)	(8.464)
Trade and other payables and accrued costs and deferred revenue	(5.540.473)	(5.973.179)	197.504	235.202
Provisions	40.846	(147.696)	188.542	
<b>Cash from operating activities</b>	<b>11.643.491</b>	<b>10.978.964</b>	<b>439.142</b>	<b>225.385</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	6.257	6.257	0	0
Proceeds from sale of property, plant and equipment	961.987	124.200	0	837.787
Acquisition of property, plant and equipment	(58.743.569)	(55.884.727)	(2.858.842)	0
Acquisition of intangible assets	(134.809)	(134.809)	0	0
Costs of increasing short-term loans	(14.250.957)	(14.250.957)	0	
<b>Net cash used in investing activities</b>	<b>(72.161.091)</b>	<b>(70.140.036)</b>	<b>(2.858.842)</b>	<b>837.787</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Change in equity</b>				
Proceeds from long-term borrowings	78.728.093	76.400.818	2.327.275	
Proceeds from short-term borrowings	63.027.000	63.027.000		
Payment of interest on borrowings and other financial liabilities	(9.784.505)	(9.314.530)	(469.975)	
Repayment of long-term borrowings	(12.246.032)	(12.808.432)	562.400	
Repayment of short-term borrowings	(59.178.965)	(59.178.965)		
<b>Net cash used in financing activities</b>	<b>60.545.591</b>	<b>58.125.891</b>	<b>2.419.700</b>	<b>0</b>
<b>OPENING BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>8.543</b>	<b>8.543</b>	<b>0</b>	<b>0</b>
Financial result	27.991	(1.035.181)	0	1.063.172
<b>CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>36.534</b>	<b>(1.026.638)</b>	<b>0</b>	<b>1.063.172</b>

In accordance with the provisions of the Energy Act (EZ-1), TEŠ has prepared a cash flow statement by business segments using the indirect method.

**Abbreviations:**

ARSO – Slovenian Environment Agency  
BDP – Gross domestic product  
CCS – Capture and storage of CO<sub>2</sub>  
CO NOT – Centre of Excellence Low-carbon Technologies  
DDV – Value-added tax  
DSRA – Debt Service Reserve Account  
DZ – National Assembly of the Republic of Slovenia  
EBRD – European Bank for Reconstruction and Development  
EIB – European Investment Bank  
EIS – Environmental Information System  
ERP – KOPA information system  
FIX - Trading community  
GTO – Main technological equipment  
GZS – Slovenian Chamber of Commerce and Industry  
HACCP – Analysis of risk and determination of critical control points  
HESS – Hidroelektrarne na Spodnji Savi d.o.o.  
HSE – Holding Slovenske elektrarne d.o.o.  
IED- Industrial Emissions Directive  
IS - Industrial standard  
ISO 9001 –Quality management standard  
ISO/ICE 27001 – Information management standard  
IPI – Income statement  
IT – Information technology  
KP EGS- Collective Agreement for the Slovenian Electricity Sector  
KPMG – auditing companies  
KPV – Velenje public utility company  
MF – Ministry of Finance, Government of the Republic of Slovenia  
MGRT- Ministry of Economic Development and Technology  
MPEIBTEŠ – Act ratifying the guarantee agreement between the Republic of Slovenia and the European investment bank (Šoštanj Thermal Power Plant)  
MSRP – International Financial Reporting Standards  
MZIP – Ministry of Infrastructure and Spatial Planning, Government of the Republic of Slovenia  
MZI - Ministry of Infrastructure  
NIP – Revised investment programme  
NOx – Nitrogen oxides  
NS – Supervisory board  
ODOS – Electronic document system  
OHSAS 18001 – Occupational health and safety management standard  
OMRS –International Accounting Standards Committee  
OPMSRP – International Financial Reporting Interpretations Committee  
OVD – Environmental permit  
PAC – Provisional Acceptance Certificate  
PN – Business plan  
PT – Gas turbines  
PSU – Rehabilitation areas of collapsed formations  
PV – Premogovnik Velenje d.d. (Velenje Coal Mine)  
RDP – Desulphurisation flue gases  
ROE – Return on equity  
RLV – Rudnik lignita Velenje (Velenje Lignite Mine)  
RS – Republic of Slovenia  
SCADA – Supervisory Control and Data Acquisition

SDE – Trade Union of Energy Sector Workers of Slovenia  
SNCR – Selective Non-Catalytic Reduction  
SOD – Slovenian Compensation Fund  
SOP – Standard Operating Procedure  
SRO – Environmental management system (regulated by ISO 14001)  
STS – Slovenian Technical Permit  
TEŠ – Termoelektrarna Šoštanj d.o.o.  
TET – Termoelektrarna Trbovlje d.o.o.  
TGP – Greenhouse gas emissions  
TP – Thermal station  
UEN – Management of energy plants  
VKN – Large combustion plant  
VPD – Safety at work  
VZD – Occupational health and safety  
ZAG – Slovenian National Building and Civil Engineering Institute  
ZDDPO – Corporate Income Tax Act  
ZDR-1 – Employment Relations Act  
ZFPPIPP – Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act  
ZGD – Companies Act  
ZJNVETPS – Public Procurement in the Water, Energy, Transport and Postal Services Sectors Act  
ZVO – Environmental Protection Act  
WACC – Weighted Average Cost of Capital