TERMOELEKTRARNA ŠOŠTANJ

Skupina hse

2016
ANNUAL REPORT

Šoštanj, April 2017

CONTENTS

1 INTRODUCTION

Termoelektrarna Šoštanj d.o.o. (TEŠ) is the largest thermal production facility in the Holding Slovenske Elektrarne (HSE) Group. With an output reflected in an almost 30% share of electricity produced 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 ensuring the quality of this energy, as well as for frequency and power regulation. In addition, TEŠ provides thermal energy for district heating to several thousand residents of the Šaleška Valley.

TEŠ is dependent on the use of lignite from Velenje as its primary energy product in electricity production. The consequence of using coal is reflected in an atmosphere burdened by 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. Therefore, on the one side we are striving to ensure the reliable domestic production of electricity, while on the other side we are restricted by environmental requirements.

Last year marked fifty years from the laying of the foundation stone that marked the future of Slovenia's largest thermal power facility to the present day, when the facility has been built and is producing electricity – this is Unit 6. It is a fact that this newly constructed unit is an indispensable link in the chain of safe and reliable electricity supply to Slovenia. Owing to the use of the most up-to-date technologies and materials, the power plant's net capacity factor (NCF) has increased, while both its coal consumption and emissions into the environment have decreased.

1.1 LETTER OF THE MANAGING DIRECTOR

Dear all,

We shall remember the year 2016 by our company's record-breaking production of 4,121 GWh of electricity, which represented 36.1% of all the electricity produced in Slovenia.

The company generated almost EUR 199 million in revenue, which is 25% more than in the previous year, largely owing to the year-long operation of Unit 6 after having obtained its operating permit in June. This investment project was thus brought to its successful completion.

The high investment in Unit 6 and low electricity prices were of key importance in the organisational and cost optimisation carried out in the past year. This adjustment to market conditions was absolutely necessary in order to ensure the company's long-term business operation and preservation of jobs, as well as to attain positive effects on our operation.

Being aware that the quality of work performed is also measured through the satisfaction of employees, we devoted a great deal of time to communications with social partners and all our employees. Such an extensive change in organisation and adaptation to market circumstances is, in a collective like ours, impossible to implement without the awareness of all stakeholders. I believe we are well on our way and that the implemented changes will, in the long term, provide for our positive business operation and satisfied, professionally qualified employees.

Šoštanj, 26 April 2017

Arman Koritnik, LL.M.
Managing Director

1.2 OPERATING HIGHLIGHTS IN 2016

TEŠ began the year by obtaining an exception in connection with the implementation of the IED Directive in the Slovenian legal order, allowing the Company to continue operating Unit 4 in future, without any additional investments, for up to 17,500 operating hours at the most or until the year 2023 at the latest. On 9 June, Unit 6 received its operating permit. In 2016 TEŠ produced a record 4,121 GWh of electricity, the highest annual output in its entire 60-year history of operation. This record production testifies to the fact that the share of electricity produced at TEŠ is needed to ensure reliable production, particularly in a time when renewable sources are not available in sufficient quantities.

ITEM	2016	2015	2016 / 2015
Net sales revenue (EUR)	198,796,771	158,774,402	125
Net sales revenue in the domestic market (EUR)	198,700,380	158,742,288	125
Net sales revenue in foreign markets (EUR)	96,391	32,114	300
Net profit or loss (EUR)	(47,226,819)	(459,045,867)	
Revenue (EUR)	201,660,837	161,995,094	124
Expenses (EUR)	248,887,656	621,040,962	40
Labour costs (EUR)	15,965,259	17,469,939	91
EBIT = operating profit or loss (EUR)	(14,652,816)	(440,800,138)	
EBITDA = EBIT + AM (EUR)	21,443,923	9,496,018	226
Assets (EUR)	1,089,707,662	1.119,823,870	97
Equity (EUR)	396,560,385	215,820,023	184
Bank indebtedness (EUR)	595,419,612	750,556,717	79
Investments (EUR)	7,559,374	63,241,898	12
Number of employees at the end of the period	323	385	84
Electricity sold (GWh)	4,121	3,557	116
Net return on equity ratio (ROE)	(0.154)	(1.430)	
Net return on assets ratio (ROA)	(0.043)	(0.351)	
Added value (EUR)	37,409,182	26,965,956	139
Added value per employee in EUR	105,676	65,451	161

In 2016 TEŠ generated EUR 198,796,771 in net **sales revenue**. This is 25 percent more than in 2015, primarily due to the operation of Unit 6 through the entire year (in 2015 the effects of operation of Unit 6 during its trial operation were transferred to assets under construction), and the favourable conditions in electricity markets in the last quarter of 2016.

The net profit or loss of the Company totalled EUR 47,226,819. The loss is the consequence of low selling prices of electricity, unchanged coal prices, as well as depreciation expense and

financial expenses for borrowings undertaken to finance the construction of replacement Unit 6, which in 2016 were recognized in their total amount in the current profit and loss. The high loss in 2015 resulted from the impairment of the Company's property, plant, and equipment and inventories in a total amount of EUR 414.3 million.

The assets of the Company decreased by 3 percent over 2015 due to the depreciation of assets required by the Company in performing its main activity.
The construction of replacement Unit 6 is completed. The elimination of defects in the warranty period and the purchase of spare parts are currently in progress. All phases of the project were completed on schedule and without major difficulties. On 9 June 2016 the Company obtained an operating permit for Unit 6 and pertaining facilities.

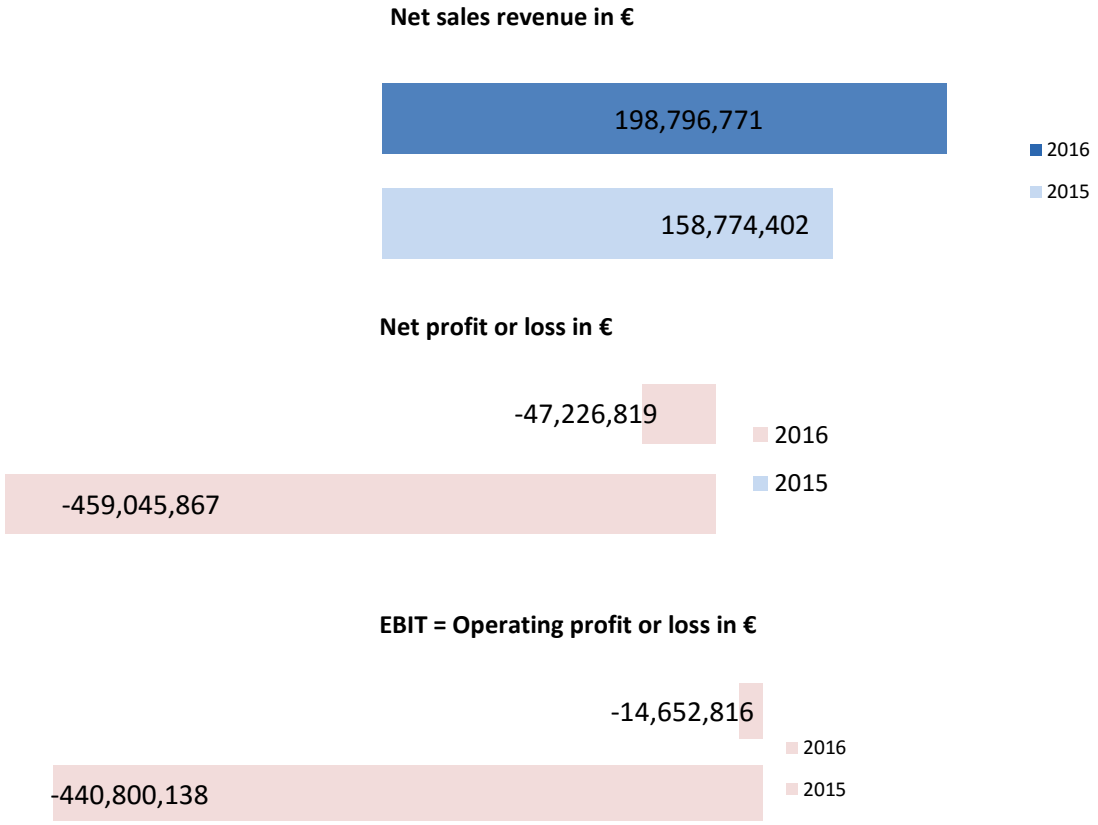
Of importance among other investments is the renewal of the contract for the supply of a new block transformer for Unit 5, as the start of works on the revitalisation of Unit 5 is foreseen in 2017.

Indebtedness to banks amounted to EUR 595,419,612 and was 21 percent lower than at the end of 2015. In 2016 the Company repaid a loan from EIB in the amount of EUR 110 million and, in line with the pari passu provision, also a proportional part of a loan raised with EBRD. The loans were repaid by borrowing from HSE and a partial drawing of funds on the debt service reserve account (DSRA).

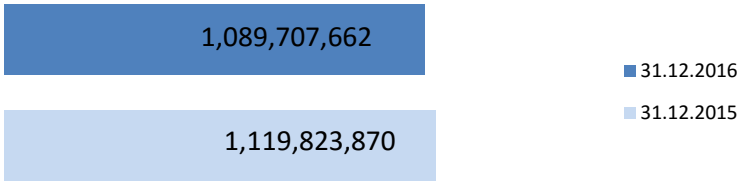
On 31 December 2016, TEŠ had 323 employees. This is 62 employees less than at the end of 2015.

In 2016 TEŠ generated and sold 4,121 GWh of electricity. The Company's annual output increased by 16% over 2015, representing a record annual production in the 60-year history of its operation.

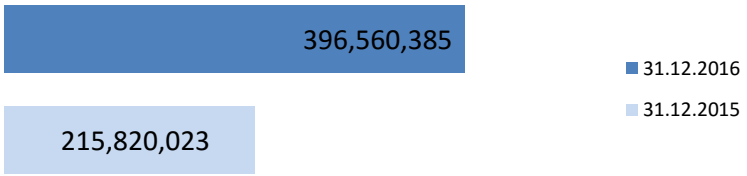
Overview of performance:



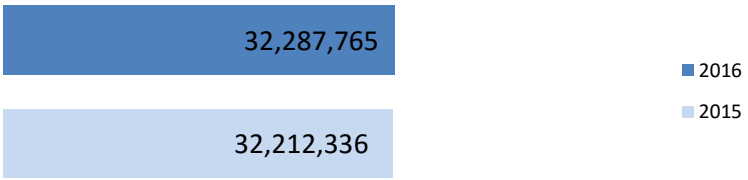
Assets in €



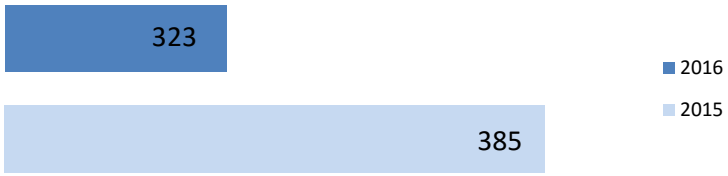
Equity in €



Cash flows from operating activities in € (direct)



Employees as at 31 Dec



Electricity produced/sold (GWh)

2 BUSINESS REPORT

2.1 OVERVIEW OF SIGNIFICANT EVENTS IN 2016

On 29 February 2016 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 14 March 2016 a draft resolution on a debt-to-equity swap and the covering of losses brought forward from previous years and the 2015 financial year was presented to the sole shareholder.

On 15 March 2015 the Plan of Financial and Business Restructuring of TEŠ in the 2016-2018 period (with a look ahead to 2030) was presented to the sole shareholder for approval.

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 of 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.

On 23 March 2016, the management of TEŠ received notice from the Trade Union of Energy Sector Workers of Slovenia that strike activities were being planned in April 2016. Pursuant to a decision of the Trade Union of Energy Sector Workers of Slovenia, the strike activities were discontinued on 20 April 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 the Act on internal organisation and job classification, which became effective on 14 April 2016.

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 presented it to social partners on 8th April 2016. The management of TEŠ adopted the Dismissal Programme for Redundant Workers on 15 April 2016.

As of 1st May 2016, catering services for TEŠ's employees during working hours began to be provided by the company Gorenje Gostinstvo d.o.o.

On 13 May 2016 the shareholder adopted a decision on the amendment of the Articles of Association of the limited liability company Termoelektrarna Šoštanj d.o.o., dated 18 November 2015, by the addition of a new article.

The shareholder adopted a decision to execute and transfer to TEŠ, by 31 May 2016, non-cash subsequent payments (payments of receivables to capital reserves) in the amount of EUR 228.1 million.

On 9 June 2016, TEŠ obtained an operating permit for Unit 6. The permit was issued at the end of its twenty-month trial operation, during which the investor proved that the facility meets all the prescribed environmental and technical requirements.

On 7 July 2016 the Managing Director presented to employees a plan of reform of the payroll system at TEŠ. Activities related to the reform of the payroll system are in progress, with the active participation of both employees and social partners.

On 30 August 2016 the shareholder adopted a decision to cover losses brought forward from previous periods from capital and other reserves.

On 19 September 2016, Addendum No. 10 to Contract No. 33/14/HSE/N on the purchase of active power reserve and control energy for the needs of tertiary frequency regulation in the period from 1st January 2014 to 31 December 2018 was concluded between HSE d.o.o. and TEŠ d.o.o.

On 26 September 2016 an application for approval of the base price of thermal energy was submitted to the Energy Agency.

In September 2016 the »Operating Strategy« was prepared at TEŠ and discussed at the September meeting of the Supervisory Board of HSE. On 7 November 2016 the sole shareholder of TEŠ adopted a decision stating that it took note of the mentioned document.

In October TEŠ set a new record in monthly electricity production in its entire history (475 GWh), which was almost 16% above the plan. Such high production was the result of high electricity requirements (overhaul of Krško Nuclear Power Plant). This proved, once again, the significance of a thermal power plant, which is capable of meeting electricity needs irrespective of external factors.

On 2 December 2016, Addendum No. 11 to Contract No. 33/14/HSE/N determining the price of electricity for tertiary active power reserve in the period from 1st October 2016 to 31 December 2016 was concluded with HSE d.o.o.

On 21 December 2016 TEŠ set a new record in daily electricity production: 18,582,503 kWh. In 2016 the Company set a new record in annual electricity production: 4,121 GWh.

2.2 IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On 26 January 2017 the Agreement on the termination/freeze and peaceful resolution of all previous disputes was concluded between HSE, TEŠ, the Trade Union of Energy Sector Workers of Slovenia, the Trade Union of Energy Sector Workers of Slovenia at TEŠ, and the Trade Union of Employees at TEŠ.

On 27 January 2017 the Agreement on the fulfilment of liabilities arising from vacation bonus, Christmas bonus, and hours arising from the rescheduling of working hours by 31 December 2016 was concluded between TEŠ and the Trade Union of Energy Sector Workers of Slovenia at TEŠ. Relevant agreements were signed by all employees by 10 February 2017.

On 27 February 2017, HSE approved the Business Plan of TEŠ for 2017, together with an additional plan for 2018 and 2019, as well as the Projections of TEŠ's Business Operation in the period from 2017-2030. In March 2017 it was decided that the proposed measure of preferential dispatching would be withdrawn from the proposed amendment of the Energy Act (EZ-1), and consequently the Company began to prepare a revision of the plan.

On 8 March 2017, TEŠ received the Energy Agency's consent to the base price of thermal energy for district heating.

2.3 PRESENTATION OF THE COMPANY

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

2.3.1 Company profile as at 31 December 2016

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	www.te-sostanj.si
E-mail	info@te-sostanj.si
Activity code	35.112

DATA ON TRANSACTION ACCOUNTS

Bank	Transaction account
BANKA KOPER	101000038312861
NLB	024260017217937
NOVA KBM	045150001707126
UNICREDIT	290000003080383

DATA ON MANAGEMENT AS AT 31 DECEMBER 2016

POSITION	Name and surname	Start	End
Managing Director	Arman Koritnik, LL.M.	1st Dec 2015	30 Nov 2019

OWNERSHIP STRUCTURE OF COMPANY

Member / Shareholder	Address	Share in EUR as at 31 Dec 2016	Share in % as at 31 Dec 2016
Holding Slovenske elektrarne d.o.o.	Koprska 92, Ljubljana	578,579,850	100.00%
		578,579,850	**100.00%**

2.3.2 Business activities of the Company

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

2.3.3 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.

2.3.4 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 1st January 2016 to 31 December 2016.

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 2016 was in compliance with the Corporate Governance Code for Companies with Capital Assets of the Republic of Slovenia, and with the Recommendations and Expectations adopted by Slovenski državni holding, d.d. (Slovenian Sovereign Holding - SDH) in February 2016. The Code is publicly accessible on the website of SDH.
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. The Company meaningfully considered the Code in its business operations, taking into account the activities and other particularities of the Company.

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 programme 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;
- the 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 Audit has been established in the parent company.

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 controls 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 Company has adopted a code of ethics, which is published on the Company's intranet.

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.

As the undersigned, I hereby declare to be acquainted with the content of constituent parts of the Annual Report of TEŠ d.o.o. for 2016 and thereby its overall Annual Report for 2016. I hereby agree with the stated content and confirm it with my signature.

Šoštanj, 26 April 2017

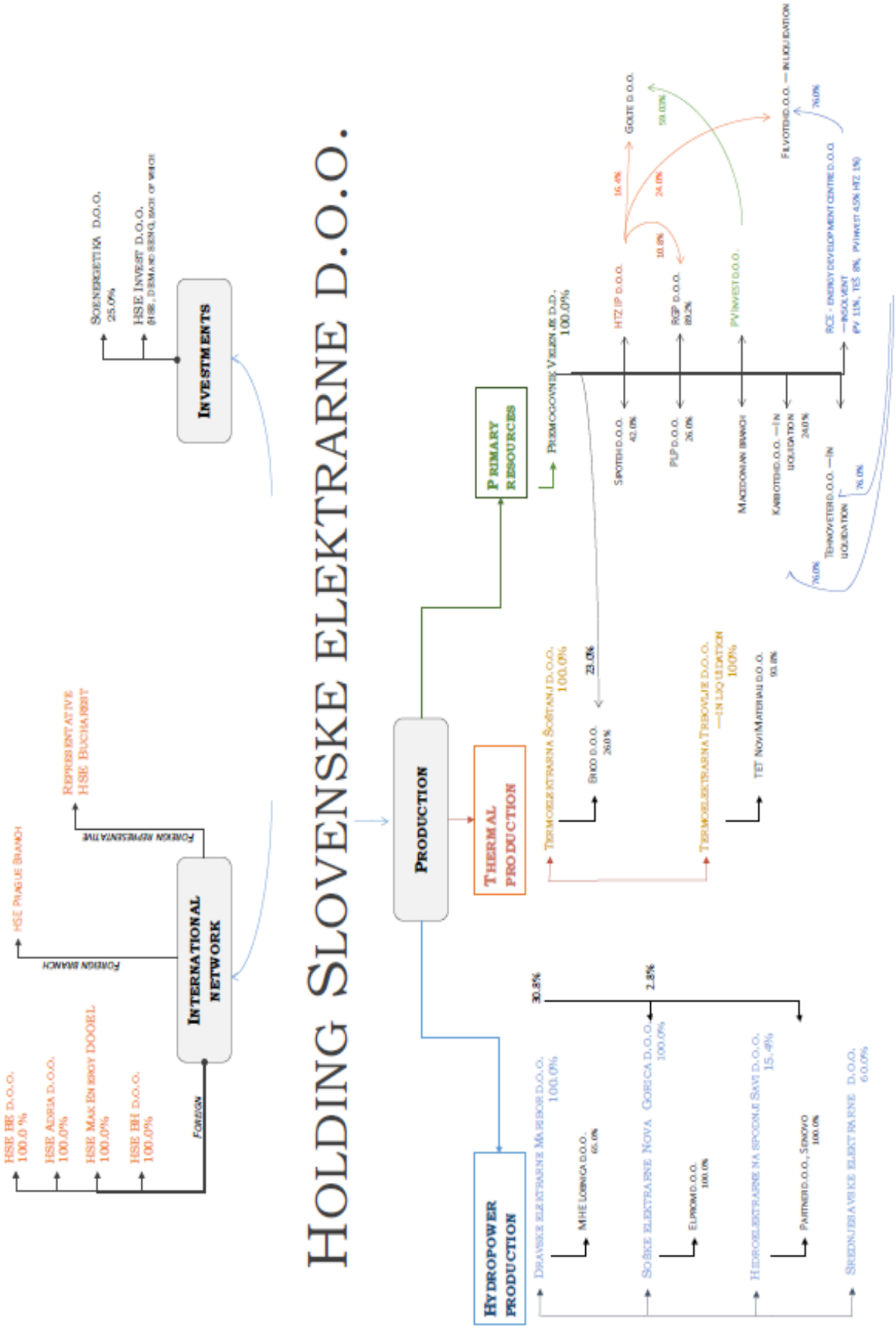
Arman Koritnik, LL.M.
Managing Director

2.3.5 Relations with the controlling company

Termoelektrarna Šoštanj d.o.o. is part of the Holding Slovenske elektrarne Group. On 31 December 2016, Holding Slovenske elektrarne d.o.o., with its registered office at Koprska 92 in Ljubljana, was the Company's sole shareholder, i.e., controlling company, which prepared the 2016 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 2016 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 2016



2.3.6 Capital links with other companies

Company	Subsidiary/ Associate	Company reg.no.	Address	Year established	Main activity	Total equity in EUR as at 31 Dec 2016	Share capital in EUR as at 31 Dec 2016	Controlling company's equity share
Erico d.o.o. Velenje	associated	558305	Koroška cesta 58, Velenje	1 April 1992	74.900	1,377,575	278,494	26.00%

Erico d.o.o. was established in 1992 as an institution engaged in scientific research activities in the area of environmental studies, focusing 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 would 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.

2.4 COMPANY'S BUSINESS POLICY

MISSION

The mission of Termoelektrarna Šoštanj is to provide customers with sufficient quantities of energy through the production of electricity and thermal power, and thus contribute to developing 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 the most environment-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 the long-term, reliable, safe, competitive, and environment-friendly production of electricity and thermal power based on the use of diverse primary sources.

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

2.5 MANAGEMENT SYSTEM POLICY

2.5.1 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 1st 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 2016 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/assessment 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.

2.5.2 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 regulated systematically on the basis of the OHSAS 18001 standard, which has been successfully certified for several years.

In 2016 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 2017 the Company will continue to devote considerable attention to the occupational safety training of employees, regulation of fire safety within the Company, inspections of working equipment, purchase of quality safety equipment, and promoting health in the workplace.

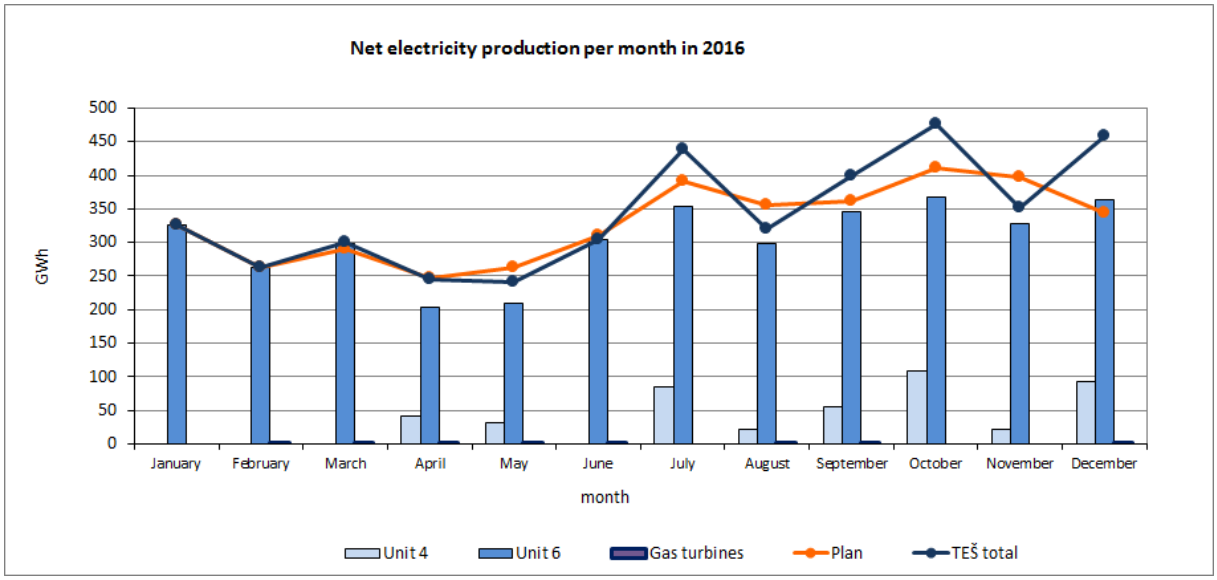
In the given economic circumstances, we shall be careful to select programs and activities that will contribute to a maximum extent towards ensuring a healthier and safer working environment.

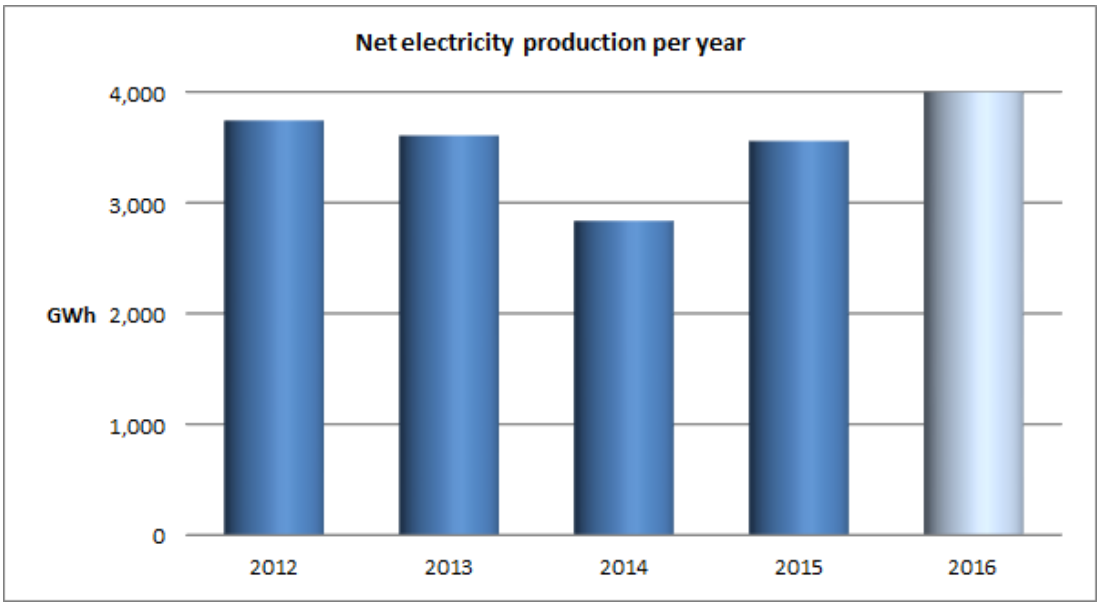
2.6 PRODUCTION

Production of electricity (net)

In 2016, TEŠ produced 4,121 GWh of electricity, which is 564 GWh or 16 % more than in 2015. Electricity production was higher because Unit 6 operated regularly through the entire year (trial operation in 2015), as well as due to the favourable situation in electricity markets, particularly in the last quarter of 2016.

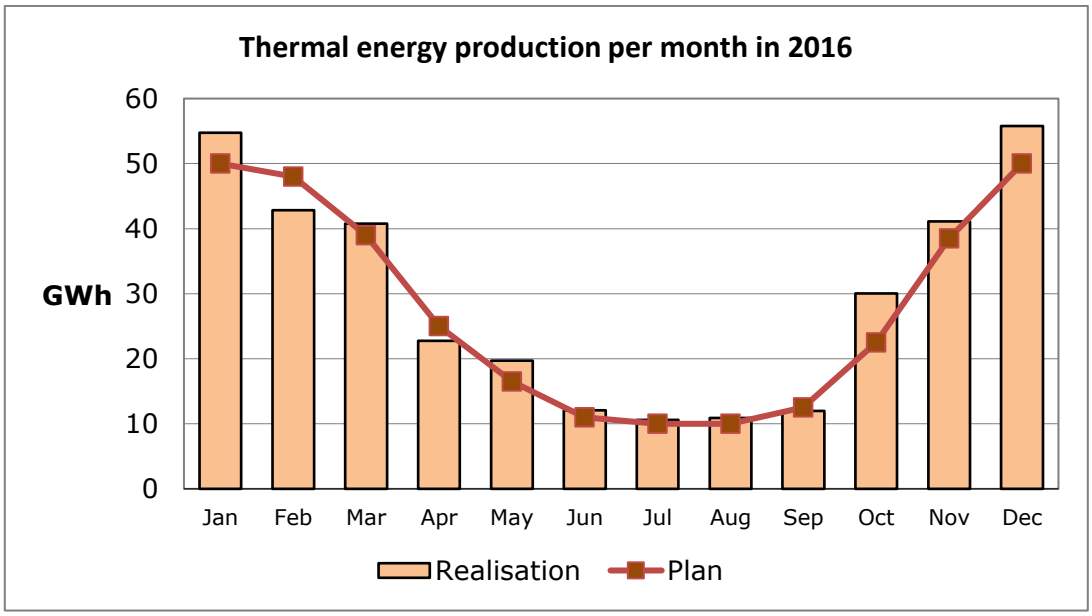
4,117 GWh of electricity was produced from coal and 4 GWh from gas.

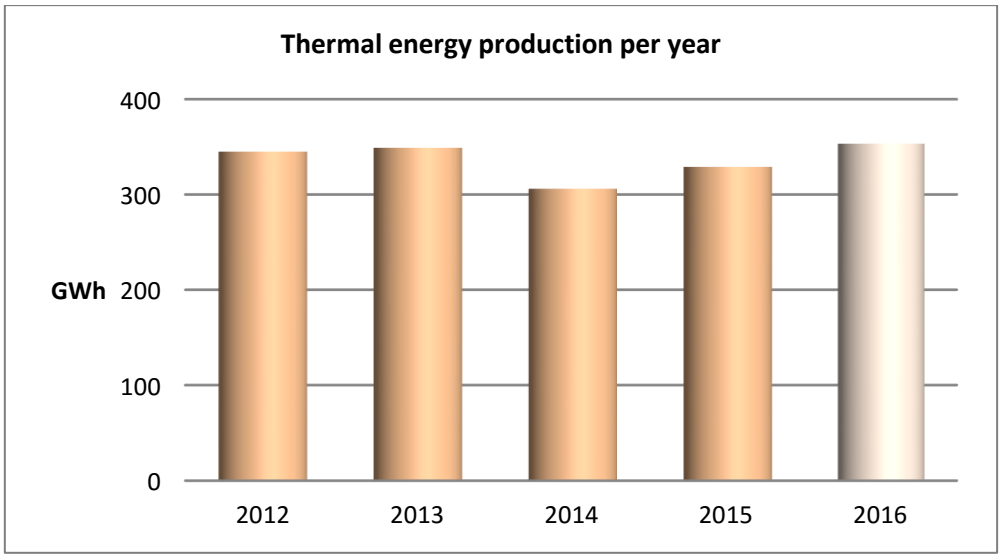




Thermal energy production

In 2016, TEŠ produced 353 GWh of thermal power for heating, which is 24 GWh or 7 % more than in 2015. This was primarily due to low temperatures, which resulted in higher thermal power consumption.





Consumption of energy products

In 2016 we used 3,365 thousand tons of coal, of which 3,282 thousand tons for electricity production and 83 thousand tons for thermal energy production. The average calorific value of supplied coal was 11,733 kJ/kg, which is better than in 2015, when the calorific value was 11,418 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 1st January 2013 to 31 December 2020.

In 2016, TEŠ emitted 4,149,183 tons of CO_2 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_2) by 30 April 2017. To settle this tax, TEŠ possesses 26,747 free coupons. The difference in the amount of 4,122,436 emission coupons was purchased from HSE.

2.7 MAINTENANCE

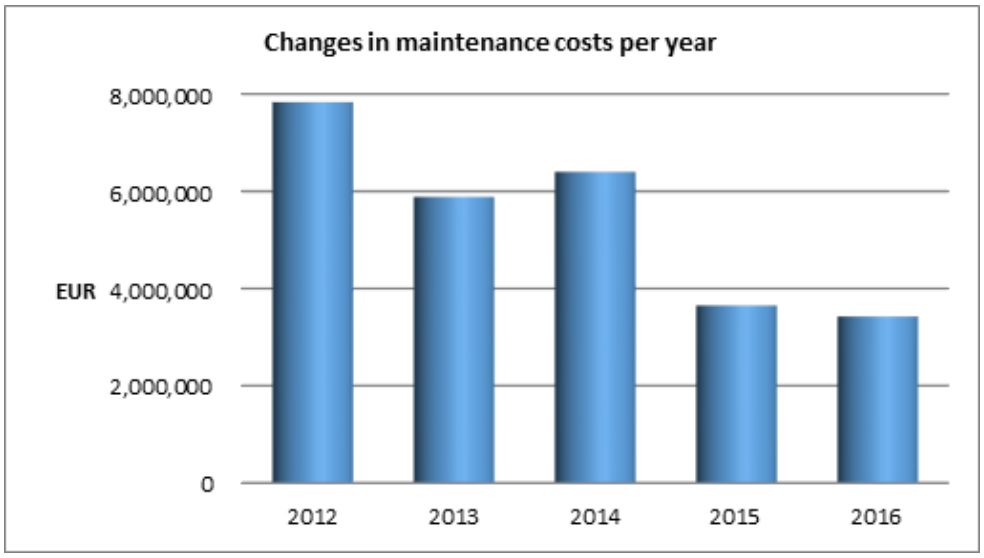
To ensure the undisturbed production of electricity, the power plant had to maintain two steam production units (Units 4 and 6), as well as two gas production units (intended for tertiary reserve), two thermal stations, a coal transport system, water preparation in the hydrogen production facility, and joint facilities. The only works performed on Unit 5 included works designed to ensure safety and works needed to establish conservation of the unit. 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 an 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 3,424,471 was spent on the maintenance of all drive units, other facilities and plants, which is 6 % less than in 2015. Lower expenses are primarily the result of continuing to implement optimisation measures, which were 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.



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 continue to be focused on searching for ways to optimise maintenance costs while observing the prescribed maintenance works to be performed by producers.

2.8 MARKET POSITION

2.8.1 Economic environment in 2016

Economic growth has been recorded since the end of 2013. In the first nine months of 2016, the GDP was 2.6 % higher than in the same period in the previous year. The main components that positively influenced the growth of GDP in 2016 were exports and domestic consumption. Its further strengthening is expected in 2017 and 2018 due to favourable conditions in the labour market and increased private consumption.

Gross investments did not recover in 2016. They have remained low and are still around 40 % lower than in the years preceding the economic crisis. The relatively low level of investments and the surpluses created by companies point to the fact that the situation is not yet favourable for the flourishing of investments. Investment and profit levels were below the multiannual average of EU member states and the euro zone.

Employment increased at higher rates than in the past, on average by 2 %. In numbers, this represents an increase by approx. 20,000 persons in comparison with the same period in 2015.

Available data indicate that the country's debt has not been growing as rapidly since 2015 as in the period after 2013. According to the latest data of the Ministry of Finance, Slovenia took advantage of the pre-financing option in 2015 due to favourable conditions in debt capital markets, whereas in upcoming years the Ministry foresees a gradual decrease in this area. Although the state is still using more funds than it receives, data indicates that expenditures are gradually decreasing.

The economic climate indicator is showing positive trends. Its value continued to rise in October and November 2016 as well. Since May 2014 it has been above the long-term average, and in November 2016 attained its highest value after May 2008.

Given the foreseen growth in the prices of oil and other raw materials as well as the continuing growth of demand, a slightly higher inflation in 2016 and the next year can be expected. Consumer prices began to increase at the end of last year, primarily as the consequence of rising prices of oil and other raw materials after several years of decline. Inflation in 2016 was 0.5 %.

The total electricity produced by power plants in the Republic of Slovenia in 2016 and supplied to the transmission network amounted to 14,117 GWh, which is 8.7 % more in comparison with 2015. Thermal power plants and heating plants supplied 4,401 GWh (+15.5 % compared to 2015), hydro power plants supplied 4,293 GWh (+15.8 %), and the nuclear power plant supplied 5,423 GWh (+1.1 %) of electricity. In the previous year, the users of the transmission network imported 8,359 GWh and exported 8,976 GWh of electricity.

2.8.2 Sales and customers

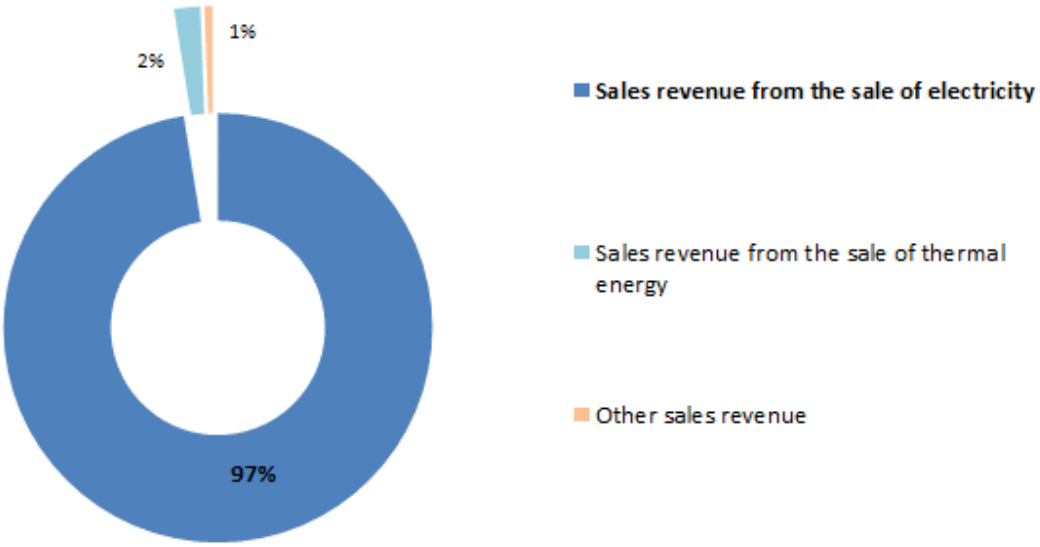
In 2016, Termoelektrarna Šoštanj generated EUR 198,796,771 in sales revenue, which is EUR 40,022,369 or 25 % more than in 2015, due to higher revenues from the sale of electricity.

Sale of Electricity

In 2016 TEŠ generated EUR 193,705,820 in revenue from the sale of electricity, which is 29 % or EUR 43,925,501 more than in 2015. 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 higher sales revenue in 2016 was primarily the result of the higher amount of electricity produced and sold (+16 %).

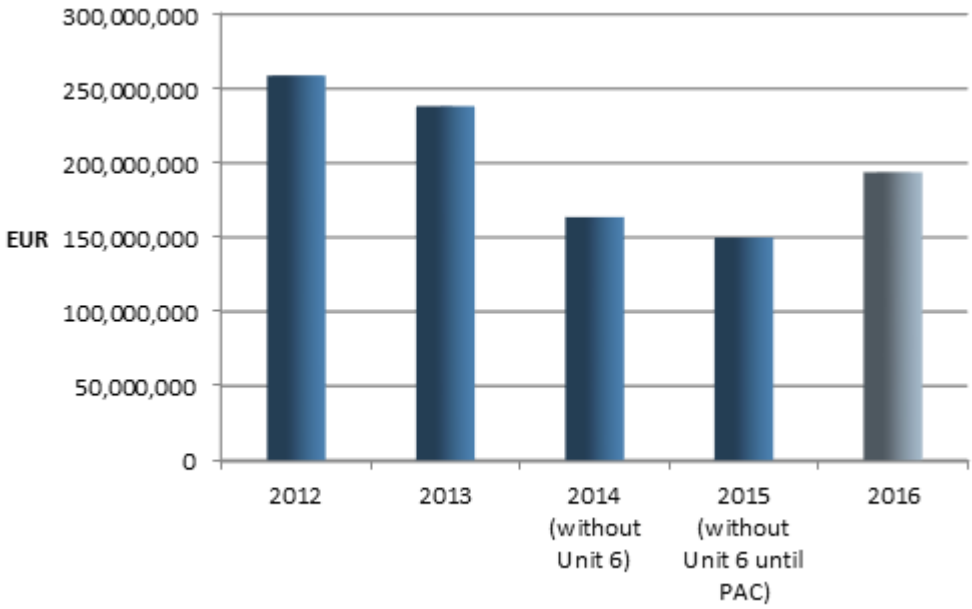
The Company sells electricity in the market within the scope of its owner, Holding Slovenske elektrarne d.o.o.

Sales revenue structure in 2016:



As the Company's largest customer, Holding Slovenske elektrarne d.o.o. purchases all of the electricity produced, which accounts for 97 % of the total sales.

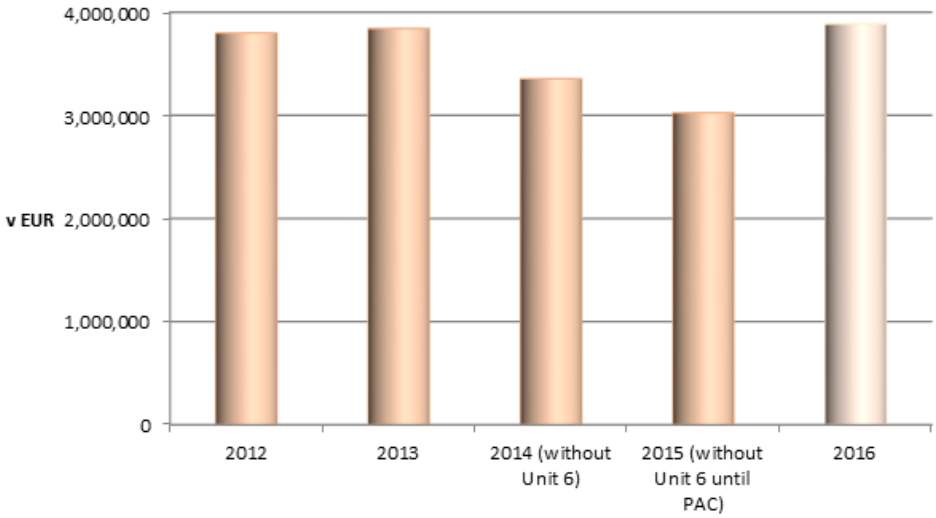
Sales revenue from the sale of electricity per year:



Sale of thermal energy

In 2016 the Company generated EUR 3,886,449 in revenue from the sale of thermal energy, which is 29 % above the 2015 figure. The sales revenue is higher than in 2015 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).

Sales revenue from the sale of thermal energy:



Other sales revenue

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

2.8.3 Purchasing and suppliers

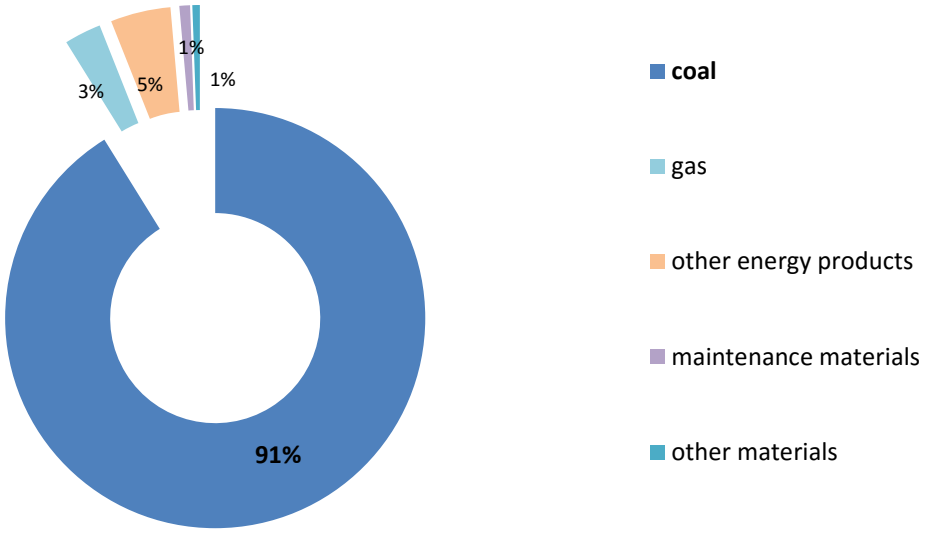
The main objective of purchasing is to provide raw materials, materials, spare parts, equipment and services required for regular operations, as well as the purchase of investment equipment, at the most favourable prices, under the most favourable terms of payment and delivery, from the most reliable 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 Act (ZJN-3), effective as of 1st April 2016, which replaced the previously applicable Public procurement in the water, energy, transport and postal services sectors Act.

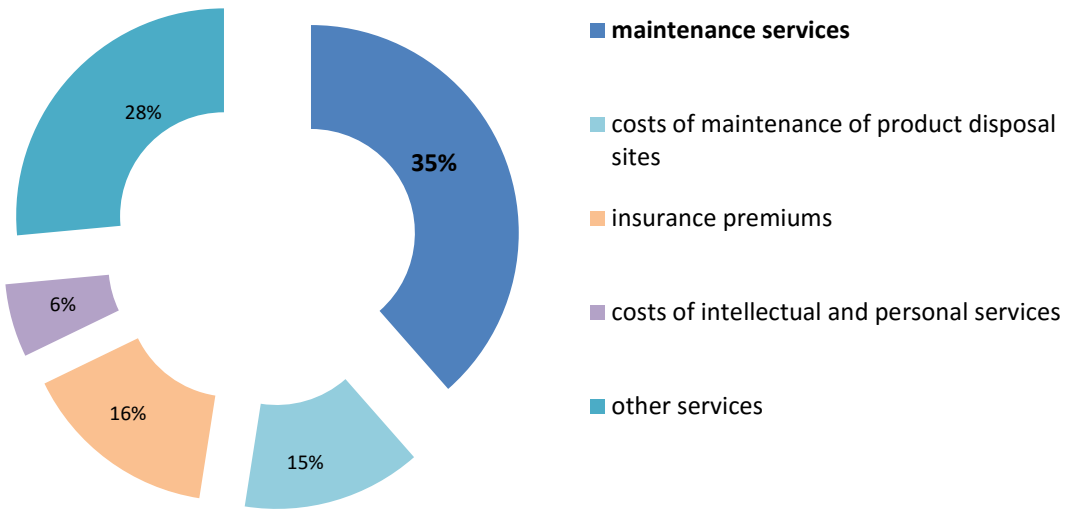
The Company's most important strategic supplier is Premogovnik Velenje d.d. (Velenje Coal Mine). The purchase of coal for electricity and thermal energy production accounts for 81 % of all purchases. In the previous year 38,499 TJ of coal was used in electricity production, and 986 TJ of coal in thermal energy production.

Purchases of materials accounted for 88 % of all purchases.

The materials purchasing structure is as follows:



Purchases of services accounted for 6 % of all purchases. The services purchasing structure is as follows:



The share of investment purchases accounts for 6 % of the total purchases, and refers primarily to purchases for the needs of completing the construction of replacement Unit 6 and spare parts for Unit 6.

2.9 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 2016 to final works on the construction of replacement Unit 6 and the supply of spare parts. Within the scope of investments in reliable production, the contract for the supply of a new block transformer for Unit 5 was renewed in the previous year, as the commencement of works on the revitalisation of Unit 5 is foreseen in 2017. The goal of this investment project is to prepare Unit 5 for operation by the year 2030. 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			in EUR
	Completed in the January-December 2016 period		
	Loans	Other funds	**TOTAL**
NEW FACILITIES	**4,570,402**		**4,570,402**
Unit 6	4,570,402		4,570,402
INVESTMENTS IN PRODUCTION RELIABILITY	**2,434,621**		**2,434,621**
Supply of block transformer for Unit 5	2,207,862		2,207,862
Coal revitalisation	135,570		135,570
Restoration of industrial water supply system	89,989		89,989
Ecological/technological rehabilitation of PSZ	1,200		1,200
MINOR INVESTMENTS		**459,485**	**459,485**
BUSINESS INFORMATION SYSTEM		**94,866**	**94,866**
TOTAL COMPANY	**7,005,023**	**554,351**	**7,559,374**

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.

With the construction of Unit 6, which, after completed startup tests, was successfully synchronised with the Slovenian electricity network at the end of September 2015, the level

of environmental pollution is decreasing, quality and energy efficiency is improving, and the power plant is achieving compliance with international standards thanks to the use of BAT (Best Available Technology). On 9 June 2016 an operating permit was issued for Unit 6 and pertaining facilities. The elimination of defects in the warranty period and the supply of necessary spare parts are continuing.

Overview of investments in the construction of replacement Unit 6

in EUR

INVESTMENTS IN REPLACEMENT UNIT 6	Estimated value of RIP, Revision 5	Estimated value of RIP, Revision 6, Dec 2014 issue	Contracts concluded on 31 Dec 2016	Invoiced on 31 Dec 2016	Paid on 31 Dec 2016
Building works	67,589,700	79,461,100	75,845,128	75,055,164	74,981,054
Equipment	1,126,738,500	1,191,801,000	1,179,248,679	1,170,725,324	1,170,588,804
Other	26,067,900	32,836,300	33,355,640	33,057,651	32,946,686
Cost of financing	82,096,200	124,359,300	123,074,398	123,074,398	123,074,398
Effects of operation during testing				-4,888,000	
Cost of decommissioning (balance as at 31 Dec 2016)				11,141,325	
SKUPAJ	**1,302,492,300**	**1,428,457,700**	**1,411,523,845**	**1,408,165,862**	**1,401,590,942**

in EUR

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 on 31 Dec 2016	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	109,446,758	111
TOTAL	**1,302,492,300**	**1,428,457,700**	**1,401,590,942**	**98**

Note: In the invoiced value as at 31 December 2016, the Company considered, in accordance with IAS 16.17, 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. The calculated effect until PAC is the amount of EUR 4.9 million that is deducted upon completion of the investment. This includes costs of decommissioning in the amount of EUR 11.1 million, which upon the expiry of Unit 6's service life are expected to be covered by the foreseen revenue from the sale of waste material (EUR 15.5 million).

Investing in reliable production

In 2016 TEŠ spent EUR 2,434,621 for investments in production reliability, primarily for the renewed contract on the supply of a new block transformer for Unit 5. The operation of Unit 6 with a power of 710 MVA or 600 MW requires the construction of a system for connecting

Unit 5 to the 220 kV transmission network, since Unit 6 transmits the electricity generated to the transmission network on the 400 kV level via the existing transmission line.
For the purpose of connecting the existing Unit 5 to the 220 kV network, a new 228 kV/21 kV block transformer (power 377 MVA, OFWF cooling, without regulation) needs to be supplied. In addition to the new transformer, it will also be necessary to supply and install 220 kV equipment, as well as steering, measuring and protection equipment needed for the connection of Unit 5 to the 220 kV network.

2.10 BUSINESS PERFORMANCE ANALYSIS

2.10.1 Business operations in 2016

The business operations of TEŠ in 2016 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 2016, together with addendums thereto, signed in March 2016; and on the Business Plan of TEŠ for the year 2016. On 18 March 2016, the sole shareholder approved, in line with the provisions of the Articles of Association, the Business Plan for the year 2016, together with the additional plan for 2017 and 2018.

In 2016 the Company generated a net loss in the amount of EUR 47,226,819. The poor financial result was influenced by the low selling price of electricity and the unchanged price of coal. The loss in 2015 was high due to the impairment of assets (EUR 414.3 million), which 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.

Owing to the unfavourable movements in the selling prices of electricity and in order to preserve the Company's long-term efficiency, TEŠ consistently implemented its measures for financial and business restructuring in 2016. These measures were predominantly focused on reducing needs for external manpower, excluding any non-operating assets and activities, and rationalising costs. Despite the implemented measures, the financial result is still negative and a reflection of a variable with great impact (low price of electricity).

OPERATING RESULTS (in EUR)	2016	2015
Operating profit or loss	(14,652,816)	(440,800,137)
Net cash	(32,574,003)	(18,245,730)
PROFIT OR LOSS BEFORE TAX	**(47,226,819)**	**(459,045,867)**
Corporate income tax	0	0
Deferred tax	0	0
NET PROFIT OR LOSS	**(47,226,819)**	**(459,045,867)**

Revenue

	2016	%	2015	%
OPERATING REVENUE	201,659,264	100.00	161,849,096	99.91
FINANCIAL REVENUE	1,573	0.00	145,998	0.09
REVENUE	**201,660,837**	**100.00**	**161,995,094**	**100.00**
- change in value of inventories	0		0	
TOTAL	**201,660,837**		**161,995,094**	

In 2016 the Company achieved EUR 201,660,837 in revenue. The 2016 revenue was higher by 24 % compared to the previous year. The 2015 revenue was lower 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) to assets under construction; on the other hand, the costs of production of such energy also decreased (EUR 23.6 million).

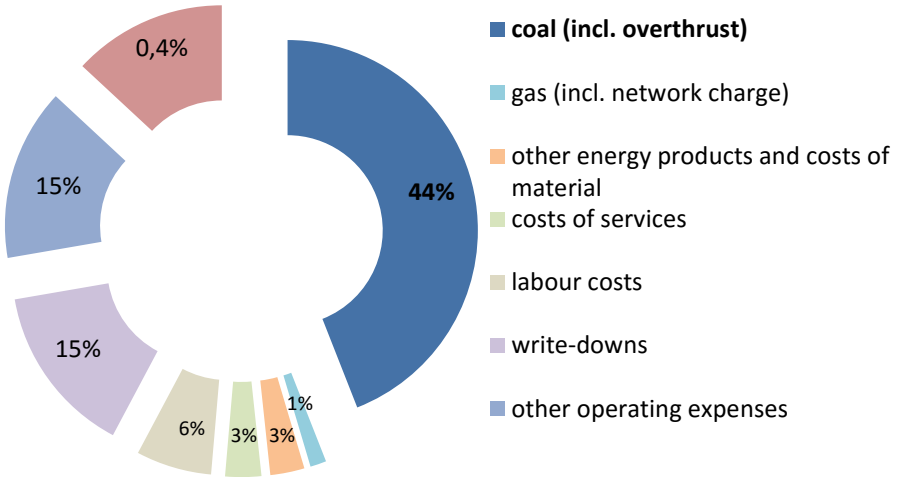
The 2016 revenue was also higher due to the higher quantity of electricity sold.

Expenses

	2016	%	2015	%
OPERATING EXPENSES	216,312,080	86.91	602,649,233	97.04
FINANCIAL EXPENSES	32,575,576	13.09	18,391,728	2.96
EXPENSES	**248,887,656**	**100.00**	**621,040,961**	**100.00**

In 2016, expenses amounted to EUR 248,887,656, which is less than in 2015. Operating expenses were considerably higher in 2015 due to the impairment of assets and inventories (EUR 414.3 million).
Financial expenses increased in comparison with the previous year, and in 2016 were charged in their total amount against current financial expenses. In 2015 financial expenses for borrowings for the construction of Unit 6 until PAC were recognized under investments.

Expense structure in 2016:



Assets, equity and liabilities

The Company's balance sheet sum amounted to EUR 1,089,707,662 and decreased by 3 % or EUR 30,116,218 in comparison with the balance as at 31 December 2015.
Taking into account the inflation rate (December 2016/December 2015), which stood at 0.5 %, the balance sheet sum was also 3 % lower in real terms.

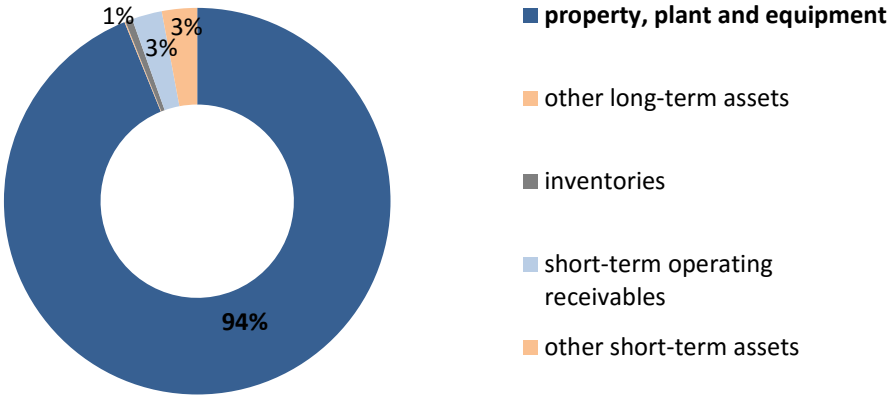
Assets

As at 31 December 2016, the Company's assets amounted to EUR 1,089,707,662 (31 December 2015: EUR 1,119,823,870) and decreased by 3 % from the beginning of the year. Long-term assets decreased by 3 % and current assets decreased by 5 %.

Long-term assets account for 94 % of all assets of the Company. The most important among these assets are property, plant and equipment. In 2016 the value of these assets decreased by EUR 27,122,871, primarily due to depreciation expense.

Among current assets, a decrease was recorded in short-term financial investments due to the utilisation of funds on the DSRA account for the premature repayment of long-term loans (EIB, EBRD). Other short-term assets are accrued revenue from the lease of electricity for emission coupons. These assets increased due to the higher quantity and price of emission coupons.

Structure of assets as at 31 December 2016:



Equity and liabilities

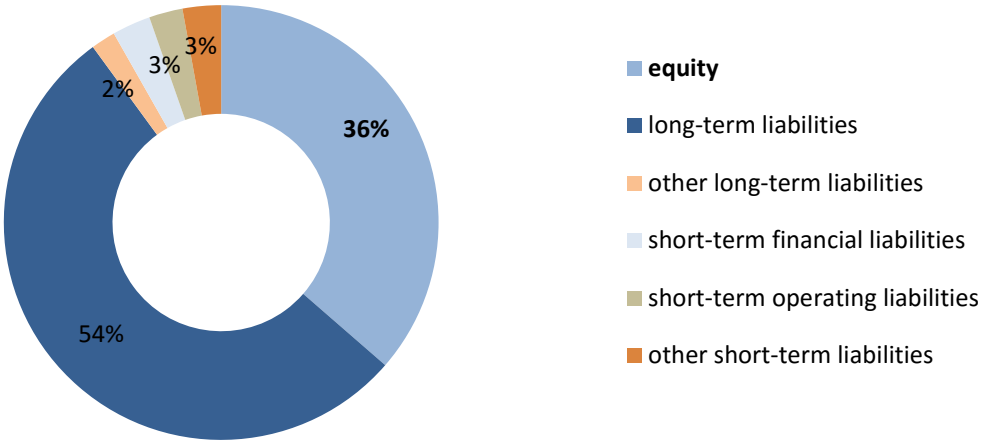
As at 31 December 2016, the Company's equity to debt ratio stood at 1:1.7, which means that the share of equity increased in comparison with the previous year.

Under equity and liabilities, equity represents 36 % of the total amount, which is more than at the end of 2015 (19 %). In 2016, equity increased by 84 % or EUR 180,740,362. The higher equity was due to the transfer of liabilities to HSE to the Company's equity in the amount of EUR 228,062,740. The equity also decreased by the current loss in the amount of EU 47,226,819.

Long-term liabilities, mostly consisting of long-term borrowings, represent 54 % of all liabilities. In 2016, long-term liabilities to HSE were increased by the utilisation of borrowings from HSE, early repayment of long-term bank borrowings from EIB and EBRD (EUR +137.5 million), and utilisation for the needs of Unit 6 and sustainable operation (EUR +25.4 million). Liabilities (principal+interest) to HSE subsequently decreased due to their transfer to the Company's equity (EUR -228.1 million). The principal amounts of long-term borrowings falling due for payment in 2016 were transferred to short-term liabilities.

Short-term liabilities account for 8 % of the total liabilities, and decreased by EUR 127,194,397 in 2016. These liabilities decreased primarily due to the early repayment of long-term borrowings from EIB and EBRD. At year-end short-term liabilities comprised the principal amounts of long-term borrowings falling due to payment in 2017 (EUR 26.8 million), short-term bank borrowings (EUR 3.4 million), and liabilities to HSE for guarantees given (EUR 1.0 million).

Structure of liabilities as at 31 December 2016:



Business segments

All business segments (electricity production, steam and hot water supply, and canteen) recorded losses in 2016, except for social standard, primarily due to the low selling prices of both electricity and thermal power.

2.10.2 Main activities and goals achieved

The Company set its annual goals in the Business Plan for 2016. The majority of these goals were achieved, and those related to the production of electricity and thermal power were even surpassed.

Production of electricity and thermal energy (net)

In 2016, the Company's net electricity production reached 4,121 GWh, which is 3 % or 102 GWh above the plan. The higher output is the consequence of favourable conditions in electricity markets, particularly in the last quarter of 2016.

The volume of electricity produced in 2016 represents 53 % of the HSE Group's total output, and 29 % of Slovenia's total electricity production (electricity sent to the transmission network). TEŠ's share in 2016 is higher compared to the previous year. Productivity increased and amounted to 13 GWh per employee.

Thermal energy production was higher in 2016, and reflected the need for this type of energy. We produced 353 GWh of thermal energy, which is 20 GWh more than planned in 2016.

Sale of electricity and thermal energy

The measurable sales target of electricity was higher than planned. The volume of electricity sold was 4 % higher, and sales revenue was higher as well.

The measurable sales target of thermal energy was surpassed due to greater needs for this type of energy. The volume of thermal energy sold was 6 % higher than planned, while the sales revenue from the sale of such energy was lower by 19 % 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 2016; the staff count decreased by 62 compared to 2015. As at 31 December 2016, the Company employed 323 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.

2.10.3 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 undisturbed 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,
- drawing of long-term loans from HSE,
- daily planning of inflows and outflows.

To manage daily liquidity in 2016, we also utilised two short-term loans raised with a commercial bank.

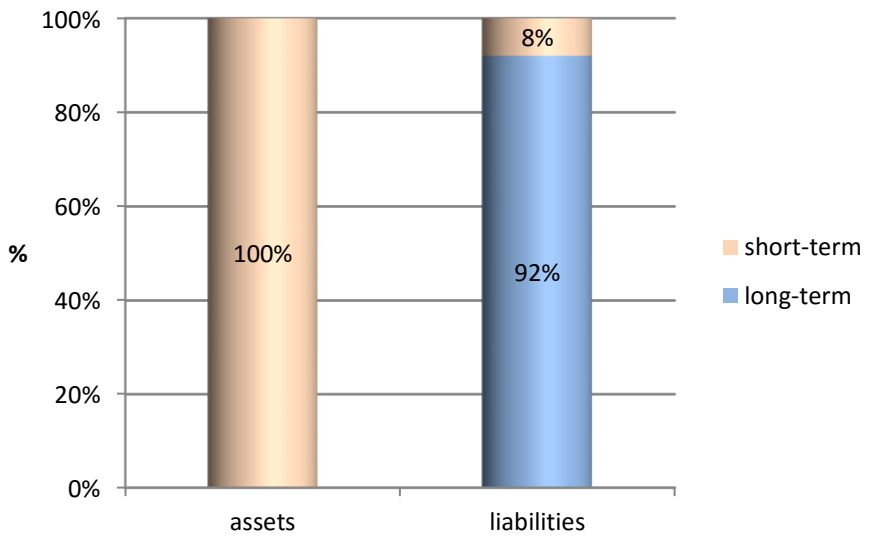
2.10.4 Capital adequacy

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 2016 indicates that the Company's assets are financed as follows:

- with long-term sources – 92 % (of which 36 % refer to equity and 55 % to long-term liabilities), and
- with short-term sources – 8 %.

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



At the beginning of 2016, the uncovered loss exceeded the amount of half of the Company's share capital due to the recognized impairment of assets in 2015. In line with the provisions of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP), an analysis (evidence) of long-term solvency was prepared. The action taken by the

Board of Management was the adoption of long-term projections of TEŠ's business operations, together with the business plan of the Company by March 2016 at the latest, and close monitoring of the realization of projected cash flows. In case of any digressions from the planned cash flows, a programme of measures would have to be prepared for ensuring the Company's long-term solvency and improving its capital adequacy. The shareholder gave its consent to both documents on 18 March 2016. On 14 March 2016, TEŠ submitted to the sole shareholder (HSE) a proposal for a debt-to-equity swap and the covering of losses from previous years and the 2015 financial year. On 15 March 2016 the Plan of Financial and Business Restructuring of TEŠ in the 2016-2018 period (with a look ahead to 2030) was submitted to the shareholder. On 31 May 2015 the shareholder adopted a resolution on the transfer of subsequent non-cash payments (payment of receivables into capital reserves) in the amount of EUR 228.1 million. The implementation of this resolution helped to improve the capital structure and prevent the violation of financial commitments related to capital reduction.

2.10.5 Debt ratio

As at 31 December 2016, the Company's financial liabilities (short-term and long-term) totalled EUR 614,853,337 and accounted for 56 % of the total equity and liabilities. The majority of these liabilities relate to long-term loans raised for the construction of replacement Unit 6.

2.11 COMPANY RATIOS

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

- Financing state ratios (EUR)

EQUITY FINANCING RATE	31 Dec 2016	31.12.2015
1. Equity and liabilities	1,089,707,662	1,119,823,870
2. Equity	396,560,385	215,820,023
Equity financing rate = 2 / 1	**36.39**	**19.27**

At year end, the Company's equity accounted for 36 % of its total equity and liabilities. In comparison with 2015, the equity financing rate increased by 17 percentage points due to the transfer of subsequent non-cash payments, the payment of HSE's receivables into TEŠ's capital reserves, in the amount of EUR 228.1 million.

LONG-TERM FINANCING RATE	31 Dec 2016	31 Dec 2015
1. Equity	396,560,385	215,820,023
2. Long-term liabilities	603,559,334	687,221,507
3. Total (1 + 2)	1,000,119,719	903,041,530
4. Equity and liabilities	1,089,707,662	1,119,823,870
Long-term financing rate = 3 / 4	**91.78**	**80.64**

TEŠ financed 92 % of its assets from long-term resources and 8 % from short-term resources. The long-term financing rate was higher by 11 percentage points in comparison with the end of 2015, primarily due to the increase in equity. The equity increased as a result of the transfer of financial liabilities to HSE to the equity of TEŠ.

OPERATING FIXED ASSETS RATE	31 Dec 2016	31 Dec 2015
1. Property, plant and equipment	1,022,783,745	1,049,906,616
2. Intangible assets	336,160	454,804
3. Total fixed assets at carrying amount (1 + 2)	1,023,119,905	1,050,361,420
4. Assets	1,089,707,662	1,119,823,870
Operating fixed assets rate = 3 / 4	**93.89**	**93,80**

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.

- Horizontal financial structure ratios (EUR)

EQUITY TO FIXED ASSETS RATIO	31 Dec 2016	31 Dec 2015
1. Equity	396,560,385	215,820,023
2. Property, plant and equipment	1,022,783,745	1,049,906,616
3. Intangible assets	336,160	454,804
4. Total fixed assets at carrying amount (2 + 3)	1,023,119,905	1,050,361,420
Equity to fixed assets ratio = 1 / 4	**0.39**	**0.21**

The equity to operating fixed assets ratio stood at 0.39 at the end of 2016, which means that less than half of the most illiquid assets were financed from equity. Compared to the balance at the end of 2015, the ratio was higher due to the increase in equity (transfer of financial liabilities to HSE to the equity of TEŠ).

QUICK RATIO	31 Dec 2016	31.12.2015
1. Cash and cash equivalents	45,367	36,534
2. Short-term financial assets	2,512,514	14,250,957
3. Short-term operating receivables	27,450,370	28,591,354
4. Total (1 + 2 + 3)	30,008,251	42,878,845
5. Short-term liabilities	89,587,943	216,782,340
Quick ratio = 4 / 5	**0.33**	**0.20**

The quick ratio stood at 0.33 at the end of 2016, which means that TEŠ covers 33 % of all its short-term liabilities from short-term receivables. Short-term liabilities decreased due to the

early repayment of borrowings from EIB and EBRD by the use of borrowings from HSE and the funds on the DSRA account.

CURRENT RATIO	31 Dec 2016	31 Dec 2015
1. Current assets	65,973,847	69,301,397
2. Short-term liabilities	89,587,943	216,782,340
Current ratio (short-term liabilities) = 1 / 2	**0.74**	**0.32**

The current ratio was 0.74 at the end of 2016, which means that TEŠ covered 74 % of all its short-term liabilities from its short-term assets. Compared to the balance at the end of 2015, the ratio is higher due to the decrease in short-term liabilities (partial early repayment of borrowings from EIB and proportional part of borrowings from EBRD).

- Operating efficiency and profitability ratios (EUR)

OPERATING EFFICIENCY RATIO	I-XII 2016	I-XII 2015
1. Operating revenue	201,659,264	161,849,096
2. Operating expenses	216,312,080	602,649,233
Operating efficiency ratio = 1 / 2	**0.93**	**0.27**

The operating efficiency ratio indicates that despite the optimisation of costs and expenditures, the attained operating revenue of TEŠ has not yet given a positive operating result.

NET RETURN ON ASSETS RATIO (ROA) *- on a yearly level*	I-XII 2016	I-XII 2015
1. Net profit or loss	(47,226,819)	(459,045,867)
2. Average assets	306,190,204	321,086,741
Net return on assets ratio = 1 / 2	**(0.154)**	**(1.430)**

The net return on assets ratio (ROA) for 2016 is negative. This is due to the loss generated in 2016, which is primarily the consequence of the change in key input parameters (low electricity prices, unchanged prices of coal, which impact the Company's business operation).

2.12 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. Such 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.

The key risks facing the Company are recognised, addressed and assessed in the catalogue of risks. Risks are regularly monitored, and activities are also performed for their adequate management.

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 and the risk of insolvency due to capital inadequacy.

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

TEŠ prepared an overview of adopted commitments and their achievement, and outlined preventive and corrective measures with the goal of ensuring that no violations of commitments occur. The Company managed to reach an agreement with its largest lenders on changes in the conditions under which its loans were granted.

Among the key financial risks is the insolvency risk arising from the assumption of capital inadequacy as the consequence of recording impairments as at 30 September 2015. The uncovered loss as at 31 December 2015 exceeded 50 % of the share capital. The risk was eliminated in its entirety after the shareholder adopted on 31 May 2016 a resolution on the transfer of subsequent non-cash payments in the amount of EUR 228,062,740 to increase capital reserves, and on 30 August 2016 a resolution on the covering of losses brought forward from capital and other reserves. By this measure the Company fully eliminated the assumption under indent 2 of paragraph three of Article 14 of ZFPPIPP.

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

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 at 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.

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.

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.

The risk of inadequate mixing of the stabilised side product may result in loss of the environmental permit and the 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.

Regulatory risks

A key risk is the risk of TEŠ's operation in conformity with the environmental permit as regards the operation of Unit 4 after 1st 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 1st January 2016 for 17,500 operating hours. TEŠ has acquired all the necessary permits, including the environmental permit and EIB's consent to the further operation of Unit 4 after 1st January 2017 until 30 June 2017.

Also recognized as a regulatory risk is the risk that preferential dispatching is not implemented by 1st July 2017. In March 2017 it was decided that the proposed measure of preferential dispatching be withdrawn from the proposed amendment of the Energy Act (EZ-1). To ensure sustainable business operation, it will therefore be necessary to find alternative solutions as soon as possible.

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

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 2016 the Company adopted a new Act on internal organisation and job classification, which defines the organisation and work processes in a manner allowing employees easier transfer between different areas of work, thus reducing the risk of overload and burnout.

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 redundancy programme has been adopted and is being implemented. However, because this programme foresees a reduction in the number of employees, the level of risk has increased. The measures for managing this risk include active communication with employees – besides regular monthly assemblies, numerous meetings were held with employees in order to explain the reasons and measures being implemented by the Company, and reduce the negative impacts and consequences of such measures. The supervision of technological facilities and work processes as well as the protection thereof were increased. To improve or reduce dissatisfaction and demotivation, the Company immediately undertook measures such as, e.g., the preparation and/or revision of the payroll system, where employees were actively included in the process itself.

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.

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.

2.13 PUBLIC RELATIONS

Public relations activities were carried out in line with the decision on the policy of managing sponsor, donor and advertising applications in the Company and in the HSE Group, as well as the decision on the uniform monitoring of media in the HSE Group.

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).

For the exchange of experience, knowledge and opinions among all employees of the HSE Group, we have access to the intranet in the HSE Group. The intranet portal of the HSE Group is the responsibility of HSE's Corporate Communications Department.

In communications with the internal public, we make use of the TEŠ intranet, e-mail, and notice boards. Our website features news and events, where we post information on current developments at TEŠ. In the »Ask us« section, visitors can post questions at any time, and we will duly reply. Another section on our website is »Open house day«, where visitors receive current information on the operations of the Company and its facilities. Using the above-mentioned tools, we punctually inform the target public on current events at TEŠ.

2.14 SOCIAL RESPONSIBILITY REPORT

2.14.1 Responsibility to employees

On its evolutionary path, TEŠ has stepped firmly into the second half of a century, as it has been operating for the past 60 years. 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. We are, to a significant extent, endeavouring to utilise the so-called soft methods, although this is not always possible.

2.14.2 Human resources

As at 31 December 2016, TEŠ had 323 employees, of whom 322 were full-time employees and 1 had a fixed-term contract. In comparison with 31 December 2015, the number of employees decreased by 62.

FIXED TERM / PERMANENT	31 Dec 2016	31 Dec 2015
Fixed term	1	1
Permanent	322	384
TOTAL	**323**	**385**

CA / MC	31 Dec 2016	31 Dec 2015
Collective agreement	320	382
Management contract	3	3
- of these: no. of management board members	1	1
TOTAL	**323**	**385**

As at 31 December 2016, the average age structure of permanent employees was 46 years and 8 months, and their average period of service was 25 years and 2 months. On this day the Company's permanently employed staff comprised 290 males (90 %) and 33 females (10 %).

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 2015. Work processes were reorganised, the Redundancy programme was adopted and, alongside organisational changes, specific measures related to the reduction of labour costs were implemented. Labour cost optimisation measures also include the comprehensive renewal of the payroll system, which is in the final phase.

2.14.3 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 2016/2017 academic year, 12 employees or 3.7 % of all employees are undergoing part-time education. The average age of employees included in part-time education is 41 years and 5 months.

Numerous training programmes related to management, operation, and maintenance are being conducted. Employees are also actively participating in various professional training programmes.

2.14.4 RESPONSIBILITY TO THE NATURAL ENVIRONMENT

Responsibility towards the natural environment has for several years been carried out through constant controls, warnings and measures. We are strictly monitoring the production of by-products, emissions and ambient air quality, supervising the consumption of raw and additional waters as well as the quantity and quality of waste waters, preparing balances of closed-loop water systems, conducting examinations of TEŠ's accumulated wastes, implementing environmental administrative procedures, and proposing necessary measures.

In addition to regular controls of immisions and emissions from TEŠ, at the beginning of the year we extended our weekly controls of hourly data to include the interceptor of polluted water and waste cooling water at Unit 6. Owing to needs and requirements, in February we revised our emission instructions and the instruction for informing the Ministry of the Environment and Spatial Planning (MOP) and the Defence Inspectorate of the Republic of Slovenia (IRSO).

In terms of efficient use of combustion residue, we analysed the production of stabilisation material. It was found that as regards automatic supervision of dry composition, around 95% of the material was mixed adequately, whereas with respect to wet composition the situation was less favourable, as there was insufficient moisture in the material. An environmental management system programme for adding moisture in the intermediate storage facility had already been prepared in the past, but the project was not completed.

In the first quarter, excessive quantities of slag were temporarily detected during startup of the mixing plant. In the second quarter, mixing was satisfactory in the mixers themselves, but continuing plant failures and other technical difficulties were detected, which led to the removal of individual components (particularly slag) without prior mixing in the rehabilitation area of collapsed formations. A request was therefore delivered to our Technical Department for carrying out a tender procedure for a licensed waste receiver, followed by a proposal for a new environmental management system programme that would allow for the subsequent controlled dosage of slag and correction of the stabilisation material. Problems appeared in this area on 11th July, when the stabilisation material removal system was inoperable for 4 days.

Owing to the requirements of new legislation, in February we submitted an application for waste recovery. Having already requested the recovery of waste in 2011 within the scope of acquiring the basic environmental permit for TEŠ, we presented in this last application a collection of all documents relating to waste recovery since that time. Although the existing

environmental permit specifies the requirements for waste recovery, at the end of September we received a letter from the Slovenian Environmental Agency requiring that our supplementation be prepared in full, according to the new instructions posted on its website. We submitted the application at the end of October, and also included the use of centrifuge sludge.

In connection with the rehabilitation of areas of collapsed formations, we supplemented our Investment Plan. In response to our inquiry regarding the construction of wells in order to check the watertightness of materials and identify any cracks in the areas of collapsed formations, Premogovnik Velenje d.d. (PV) informed us on 23rd March that they are currently in the phase of selecting a contractor. After obtaining a proposal for the location of wells from PV on 16th August, we proceeded to prepare an order for the conduction of required measurements of excavated materials. Drilling works and tests of drilled materials were subsequently performed. Since the preliminary results pointed to considerable leaks, we brought this to the attention of all competent authorities.

With respect to the implementation of Article 33 of the CCS Directive, we achieved an appropriate temporary solution. On the basis of our complaint filed in 2016 regarding the revocation of the Slovenian Environmental Agency's decision on the obligations of the operator in connection with providing space for the subsequent installation of CO_2 capture and compression devices, we received a confirmation at the beginning of the year in the form of a decision annulling the revocation and returning the procedure to the first-level body for reconsideration.

As regards the allowed use of hazardous substances for the purpose of plant maintenance, at the beginning of the year we drew attention to the preparation of a list of hazardous substances that would serve for further activities. Later on we examined applicable legislation in the areas of soil, ground waters, and initial state, and in July we prepared tender documentation for the elaboration of an initial. We coordinated the input data for each location of hazardous substances. In mid August, after obtaining updated lists of oil fillings and chemicals, we published a public tender for the elaboration of an initial report.

In connection with the decree under no. 57/2015 requiring the inspection of technical measures for preventing the pollution of soil and ground water, we obtained an indicative offer from HSE Invest and sent it to the Technical Department for commissioning.

Owing to considerable water losses, we devoted special attention in the first three months to DEKA's water balance and the confirmation of the basic technological scheme of water flows. The first analyses showed that controlling under DEKA does not allow as rapid changes of raw water as is required by the cooling system, resulting in spillovers. We also recorded subsequent major water losses, but the cause has not yet been clarified. It would undoubtedly be useful to have automatic hourly control of all waters, which had been foreseen in one of our environmental management system programmes, but is not yet implemented.

As regards the controlled use of water from Topolšica, an increase in the volume of pumped water was recorded in the first quarter, which could jeopardize the annual permitted quota. After issuing a warning, its consumption was reduced.

Regarding our application for a permit for the operation of Unit 4 as an exception, in the first quarter we were requested by the Slovenian Environmental Agency to give an opinion on the inclusion of certain parties in the procedure, and in February we obtained the environmental permit for the operation of Unit 4. We submitted an application for modification of the environmental permit to PT51 – for up to 500-hour use of ELHO in emergency cases. On 18 November the Slovenian Environmental Agency issued an operating permit for up to 500-hour operation of ELHO jointly on both gas turbines.

During the trial operation of Unit 6, we conducted the first measurements of industrial waste water. In the period we also obtained the results of the first measurements of emissions into the air, which were examined and sent to the Slovenian Environmental Agency. Based on the requirements specified in the guarantee of the desulfurization facility, we coordinated the performance of guarantee measurements. In mid-March we received a refusal from the Slovenian Environmental Agency regarding a permit for desulfurization testing using adipic acid at Unit 5. we therefore focused our activities on a commission to the Slovenian National Building and Civil Engineering Institute (ZAG) for the laboratory mixing of adipic acid and stabilisation material for the purpose of verifying conformity with the existing Slovenian Technical Permit. At the end of May ZAG sent us a report on stabilisation material prepared with adipic acid and, in the beginning of June, a report on the use of decarbonisation sludge. After examining them, we requested an additional opinion with focus on the need to change the Slovenian Technical Permit. In mid June we received a letter from ZAG stating that the Slovenian Technical Permit could remain the same and that it did not need to be changed.

On the basis of the above-mentioned, in June we proceeded to prepare an application of planned modifications in the plant's operation in accordance with Article 77 of the Environmental Protection Act, all united in a single application. The application was subsequently divided into three separate ones – an application for modifications in additional tanks and generating sets, an application for the use of adipic acid, and a separate application for the direct use of centrifuge sludge from decarbonisation. Based on the requirements of the Slovenian Environmental Agency (ARSO), we subsequently supplemented the applications with additional explanations regarding the use of centrifuge mud, and submitted a request for a preliminary procedure for the use of adipic acid.

In September, ARSO assessed the use of additional tanks and generating sets as acceptable, which allowed us to submit on 21 December an application for modification of the environmental permit. In October, ARSO also assessed the use of centrifuge sludge as acceptable, and on 28 October we included this procedure in the supplemented application for waste recovery.

Within the scope of ISO 14001, we examined and renewed perspectives, environmental programmes, added some programmes, and submitted a report on the effectiveness of the process, as well as a report to the management on the state of the system. In July we conducted a management review, and passed an audit by an external certification authority. In the area of legislation, at the end of July we prepared comments on the proposed decree on soil conditions and sent it to the Ministry of the Environment and Spatial Planning and to HSE.

2.14.5 RESPONSIBILITY TO THE BROADER SOCIAL COMMUNITY

Both by its location and activities, TEŠ is strongly 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 impacts of our electricity production on the environment.

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.

2.15 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.

Despite its limited resources, the management of the Company fosters the development of a culture that encourages innovations on various levels, whose direct applicability in daily business operations is of great importance.

2.16 FUTURE PROJECTIONS

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): 3,846 GWh,
- production of thermal energy: 329.6 GWh,
- provision of necessary system services (secondary reserve of Unit 6, possibly up to
- +/-45 MW),
- ensuring tertiary reserve PT 52 and PT 51 (2x32 MW),
- optimisation of average specific consumption of units, as follows:

  Unit 4 max 11,900 kJ/kWh
  Blok 6 max 9,000 kJ/kWh
- optimisation of coal consumption,
- ensuring high reliability and availability F > 0.970.

Sales of electricity and other services

- electricity: at least 3,846 GWh,

- thermal energy 329.6 GWh,
- marketing of services on the basis of own knowledge and capacities,
- marketing of other TEŠ products (ash, gypsum,…).

Capital investments

- revitalisation of Unit 5.

Assurance of funds for development and undisturbed operation

- providing long-term sources of financing for funding investments by ensuring optimal sources of financing,
- ensuring short-term liquidity by implementing an appropriate liquidity policy,
- borrowing within the HSE Group to ensure short-term and long-term solvency,
- generating revenue from the sale of products and services as foreseen in the business plan.
-

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 (Public Procurement Act (ZJN-3)),
- optimising maintenance costs through prevention activities aimed at preventing the occurrence of breakdowns, rational depletion of materials used, and shortening deadlines for the repair of individual appliances so that maintenance costs do not exceed the planned amount,
- implementing the cost optimisation plan.

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

- employment: 331 permanent employees (or in line with the financial and business restructuring of the Company),
- renewal of the payroll system.

3 INDEPENDENT AUDITOR'S REPORT

3.1 AUDITOR'S REPORT

KPMG

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Independent Auditor's Report[1]

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

Report on the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

Other Information

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

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

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

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

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

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

Responsibility of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of Financial Statements

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

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

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

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

Report on Other Legal and Regulatory Requirements

The Company disclosed the financial statements by activity with notes in the section *3.11 Reporting pursuant to Energy Act*, which include the statement of financial position by activity as at 31 December 2016, the income statement by activity, and the statement of cash flows by activity for the year then ended.

Company's management is responsible for keeping accounting records by activity and applying criteria defined in the Transparency of Financial Relations and Maintenance of Accounts for Different Activities Act (ZPFOLERD-1) and in compliance with provisions of the Energy Act (EZ-1).

Our responsibility is to examine the adequacy of criteria and accuracy of their use as required under the provisions of ZPFOLERD-1 and whether the Company observed the provisions of the Energy Act in view of disclosures in the financial statements by activity.
Based on procedures carried out during the audit of financial statements, we herewith report that the Company disclosed the financial statements by activity and that it appropriately applied the criteria during the compilation of these statements.

On behalf of the Company

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

Danilo Bukovec
Certified Auditor
Director

Barbara Kunc
Certified auditor
Partner

KPMG Slovenija, d.o.o.

Ljubljana, 26 April 2017

[1] 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.

3.2 STATEMENT OF MANAGEMENT'S 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 2016 on 26 April 2017.

Šoštanj, 26 April 2017

Arman Koritnik, LL.M.
Managing Director

3.3 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.

3.3.1 Reporting entity

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 2016 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 Koprska ulica 92 in Ljubljana.

3.3.2 Basis for preparation

In preparing the financial statements as at 31 December 2016, 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.

a) New 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 2016:

- **IFRS 9 Financial instruments (2014):** (Effective for annual periods beginning on or after 1 January 2018. Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)

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

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

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

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

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

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

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.
The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

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

The Company does not expect the IFRS 9 (2014) to have a significant impact on financial statements when initially applied. The classification and measurement of Company's financial instruments will not materially change while taking into account provisions of IFRS 9.

- **IFRS 15 Revenue from contracts with customers:** (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. This pronouncement is not yet endorsed by the EU.)

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

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

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

Although the initial estimate of the IFRS 15's possible impact on the Company's financial statements is not fully completed, the Management assesses that the standard on the day of its first use shall not have a significant impact on its financial statements.

Although the initial estimate of the possible impact of IFRS 15 on the Company's financial statements is not entirely finished, the Management believes the standard not to have any significant impact on the financial statements when initially applied. The Company does not expect that the time and measurement of its revenue under IFRS 15 will not change due to its nature of business operations and type of revenue.

- **IFRS 16 Leases:** (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15 – Revenue from contracts with customers.) This pronouncement is not yet endorsed by the EU.

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

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

- leases with a lease term of 12 months or less and containing no purchase options, and

- leases where the underlying asset has a low value ('small-ticket' leases).

Accounting of leases by lessors does not significantly change. The lessee defines the lease either as an operating or a finance lease. The lease is classified as a finance lease if all significant risks and benefits relating to the asset's ownership are transferred. Otherwise, it is an operating lease.

It is expected that the amendment, when initially applied, will not have a significant impact on the financial statements as the Company has no lease contracts that would be subject to provisions of IFRS 16.

- **Amendments to IFRS 2: Classification and measurement of share-based payment transactions:** (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.)
  This pronouncement is not yet endorsed by the EU.

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

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

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

- **Amendments to IFRS 4: Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts:** Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)
  This pronouncement is not yet endorsed by the EU.

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

The Company intends to apply the exemption from adopting IFRS 9 and therefore does not expect any material impact on its financial statements.

- **Amendments to IFRS 10 and IAS 28: Investments in Sale or contribution of assets between an investor and its associate or joint venture:** (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

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

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

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Company has no subsidiaries, associates or joint ventures.

- **Amendments to IAS 7:** (The amendments apply for annual periods beginning on 1 January 2017 or later. Early application of the amendments is permitted.)
  This pronouncement is not yet endorsed by the EU.

Amendments require additional disclosures that enable the users of the financial statements to estimate the amount of changes in the company's obligations arising from financing, and disclosures that include the changes which are the result of cash flows and non-cash changes (e.g. impact of exchange gains and losses, changes upon takeover or loss of control over subsidiaries, change in fair value).

The Company estimates that the amendments will not have a significant impact on its financial statements.

- **Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses:** (The amendments apply for annual periods beginning on 1 January 2017 or later. Early application of the amendments is permitted.)
  This pronouncement is not yet endorsed by the EU.

In addition, the amendments clarify how a company should determine the future taxable profits and describe the circumstances under which a company can recognize the profit from recovery of certain assets that is higher than their carrying amount under the item of taxable profit.

The Company estimates that the amendments will not have a significant impact on its financial statements, as it measures future taxable profits as required under the relevant amendment.

- **Amendments to IAS 40: Investment property:** (The amendments apply for annual periods beginning on 1 January 2018 or later; amendments are used prospectively.)
  This pronouncement is not yet endorsed by the EU.

Amendments consolidate the principle of IAS 40 Investment property regarding the transfers to or from investment property; it namely determines that such a transfer can be performed only if it comes to a change in the property's use. In compliance with the amendments, the

transfer is carried out when and only when it actually comes to the changed use i.e. the assets no longer meets the definition of investment property, and there is evidence on the change of the asset's use. The management's changed intent is not considered as the reason for transfer.

The Company estimates that the amendments will not have a significant impact on its financial statements, as it has no investment property.

- **OPIFRS 22 Foreign currency transactions and advance considerations:** (The amendments apply for annual periods beginning on 1 January 2018 or later.)
  This pronouncement is not yet endorsed by the EU.

Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income.

The Company estimates that the amendments will not have a significant impact on its financial statements, as it applies upon initial recognition of non-monetary assets or liabilities arising from payment or receipt of advance consideration, the exchange rate applicable as at the date of transaction.

Annual improvements

The annual improvements of IFRS 2014–2016 were published on 8 December 2016 and introduce changes to two standards and consequently amendments to other standards and interpretations, which result in accounting changes for the purpose of presentation, recognition and measurement. Amendments to IFRS 12 Disclosure of interests in other entities, are applicable for annual periods that begin on 1 January 2017 or later, amendments to IAS 28 Investments in associates and joint ventures are applicable for annual periods beginning on 1 January 2018 or later. Early application is allowed.

3.3.3 Basis for 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.

- 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.

3.3.4 Currency reports

3.3.4.1 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.

3.3.4.2 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.

Non-monetary 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).

3.3.5 Use of estimates and judgements

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.

3.3.6 Events after the reporting date

Significant events after the date of the statement of financial position:

As at 8 March 2017, TEŠ received a consent from the Energy Agency for the starting price of the thermal energy for district heating.

As at 22 March 2017, the Annex no. 3 to the Contract no. 1/16/HSE/N on the purchase of coal, purchase of power and electricity, was signed based on which the contracting parties (HSE, TEŠ, Premogovnik Velenje) agreed on the amended purchase price for coal for additional A quantities, the amended amount of leased power in 2016 due to settling costs for the purchase of CO_2 emission coupons required for electricity production in 2016, and on extending the validity of the Contract until 31 December 2017.

According to the final Report on the monitoring of TGP emissions in 2016, TEŠ emitted 4,148,697 tons of CO2 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 4,148,697 emission coupons (1 coupon per ton of CO2) as payment for the environmental pollution tax. To settle this tax, the Company utilised 26,747 free coupons and 4,121,950 emission coupons purchased from HSE in March.

3.3.7 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.

3.3.7.1 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.

Useful lives – intangible assets

	in years from - till
Software	3-11 let
Licenses	3-8 let

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.

3.3.7.2 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.

Useful lives – property, plant and equipment and parts of production plant and equipment

	in years from - till
Buildings	17 - 41 years
Parts of buildings	5 - 40 years
Production equipment	7- 49 years
Parts of the production equipment	2,5 - 14 years
Computer Hardware	2-5 years
Furniture	3-10 years
Cars	5-12 years
Other vehicles	5-25 years
Other devices 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.

3.3.7.3 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.

3.3.7.4 Financial instruments

Financial instruments include the following items:

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

3.3.7.4.1 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.

3.3.7.4.2 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.

3.3.7.5 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.

3.3.7.6 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.

3.3.7.7 Impairment of assets

3.3.7.7.1 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.

3.3.7.7.2 Non-financial 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.

3.3.7.8 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.

3.3.7.9 Provisions for jubilee premiums 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.

3.3.7.10 Employee benefits

Employee benefits are measured without being discounted and are recorded among income, when the work of the employee relating to a certain short-term earning is rendered. Liabilities are recorded in an amount, which is expected to be repaid in form of short-term benefits if the company has a present legal or indirect obligation for such payments based on previously performed work of the employee and the relevant liability can be measured reliably.

3.3.7.11 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.

3.3.7.12 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 after the date of statement of financial position. They also include received state subsidies and assets-related subsidies.

3.3.7.13 Contingent liabilities and contingent 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.

3.3.7.14 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. Should the Company record more positive than negative exchange

differences from business operations, then these are disclosed among revenue from sale of goods.

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.

3.3.7.15 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. Should the Company record more negative than positive exchange differences from business operations, then these are disclosed among costs of material.

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.

3.3.7.16 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.

3.3.8 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.

3.3.9 Statement of cash flows

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 based on data in the statement of financial position and the income statement as required under the IFRS.

3.3.10 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 3.11.5 Fair value.

3.3.11 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 2.12 on risks in the management report. In terms of value, financial risks are disclosed in item 3.11 of the Notes.

3.4 STATEMENT OF FINANCIAL POSITION

in EUR

	Note	31 Dec 2016	31 Dec 2015
ASSETS		**1,089,707,662**	**1,119,823,870**
A. LONG-TERM ASSETS		**1,023,733,815**	**1,050,522,473**
I. Intangible assets	1	336,160	454,804
II. Property, plant and equipment	2	1,022,783,745	1,049,906,616
V. Other long-term investments and loans	3	60,003	60,003
VI. Long-term operating receivables	4	70,920	79,099
VII. Other long term assets	5	482,987	21,951
B. SHORT-TERM ASSETS		**65,973,847**	**69,301,397**
I. Assets (disposal groups) held for sale	6	201,723	201,723
II. Inventories	7	6,445,180	6,058,139
III. Short-term investments and loans	8	2,512,514	14,250,957
IV. Short-term operating receivables	9	25,462,237	27,176,947
VI. Other short-term assets	10	31,306,826	21,577,097
VII. Cash and cash equivalents	11	45,367	36,534
EQUITY AND LIABILITIES		**1,089,707,662**	**1,119,823,870**
A. EQUITY	**12**	**396,560,385**	**215,820,023**
I. Called-up capital		578,579,850	578,579,850
II. Capital surplus		0	116,883,008
III. Revenue reserves		0	68,771,666
V. Fair value reserve		(204,359)	(88,545)
VI. Retained earnings or losses		(181,815,106)	(548,325,956)
B. LONG-TERM LIABILITIES		**603,559,334**	**687,221,507**
I. Provisions for termination benefits and jubilee premiums	13	2,514,947	2,572,205
II. Other provisions	14	17,155,817	12,371,966
III. Other long term liabilities	15	232,092	264,716
IV. Long-term financial liabilities	16	583,656,478	672,012,620
C. SHORT-TERM LIABILITIES		**89,587,943**	**216,782,340**
II. Short-term financial liabilities	17	31,196,859	159,133,743
III. Short-term operating liabilities	18	21,102,765	24,890,079
V. Other short-term liabilities	19	37,288,319	32,758,518

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

3.5 INCOME STATEMENT

in EUR

	Note	2016	2015
OPERATING INCOME		**201,659,264**	**161,849,097**
1 Revenue	1	198,796,771	158,774,403
3. Capitalised own products and own services		0	88,748
4. Other operating income	2	2,862,493	2,985,946
GROSS OPERATING YIELD		**201,659,264**	**161,849,097**
OPERATING EXPENSES		**216,312,080**	**602,649,234**
5. Costs of goods, material and services	3	127,842,275	102,466,139
6. Employee benefits expense	4	15,965,259	17,469,939
7. Write- downs in value	5	36,096,739	450,296,155
a) Depreciation and amortization		36,086,804	35,499,671
b) Impairments/write-offs/sales of intangible assets , property, plant and equipment		1,042	408,683,501
c) Impairments/write-offs of receivables		8,893	517,400
d) Impairments/write-offs of inventories		0	5,595,583
8. Other operating expenses	6	36,407,807	32,417,001
OPERATING PROFIT OR LOSS		**(14,652,816)**	**(440,800,137)**
9. Finance income	**7**	**1,573**	**145,998**
10. Finance costs	**8**	**32,575,576**	**18,391,728**
FINANCIAL RESULT		**(32,574,003)**	**(18,245,730)**
PROFIT OR LOSS BEFORE TAX		**(47,226,819)**	**(459,045,867)**
TAX		**0**	**0**
NET PROFIT OR LOSS FOR THE PERIOD		**(47,226,819)**	**(459,045,867)**

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

3.6 STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR

	Note	2016	2015
Net profit or loss of the period		**(47,226,819)**	**(459,045,867)**
Actuarial gains and losses of employee defined benefit plans		(95,559)	(40,358)
Items that will not be transferred to profit or loss		**(95,559)**	**(40,358)**
Total comprehensive income for the period		**(47,322,378)**	**(459,086,225)**

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

3.7 STATEMENT OF CHANGES IN EQUITY

in EUR

	CALLED-UP CAPITAL		REVENUE RESERVES			RETAINED EARNINGS OR LOSSES		
	Basic capital	Capital surplus	Legal reserve	Other revenue reserves	Surplus from revaluation	Retained earings or losses	Net profit or loss for the period	Total
Balance as at 1.1.2015	**330,027,060**	**116,883,008**	**3,628,583**	**65,143,083**	**(52,606)**		**(89,275,670)**	**426,353,458**
B.1. Transactions with owners	**248,552,790**	**0**	**0**	**0**	**0**	**0**	**0**	**248,552,790**
Subscription of called-up share capital	*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)**
Actuarial gains and losses of employee defined benefit plans					*(35,939)*	*(4,419)*		*(40,358)*
B.3. Changes within eqiuty	**0**	**0**	**0**	**0**	**0**	**(89,275,670)**	**89,275,670**	**0**
Allocation of the remaining portion of net profit of the comparable period to other equity components						*(89,275,670)*	*89,275,670*	*0*
Balance as at 31.12.2015	**578,579,850**	**116,883,008**	**3,628,583**	**65,143,083**	**(88,545)**	**(89,280,089)**	**(459,045,867)**	**215,820,023**
Balance as at 1.1.2016	**578,579,850**	**116,883,008**	**3,628,583**	**65,143,083**	**(88,545)**	**(89,280,089)**	**(459,045,867)**	**215,820,023**
B.1. Transactions with owners	**0**	**228,062,740**	**0**	**0**	**0**	**0**	**0**	**228,062,740**
Additional paid-in capital		*228,062,740*						*228,062,740*
B.2. Changes in total comprehensive income	**0**	**0**	**0**	**0**	**(115,814)**	**20,255**	**(47,226,819)**	**(47,322,378)**
Net profit or loss for the reporting period							**(47,226,819)**	**(47,226,819)**
Items that will not be transferrd to profit or loss	**0**	**0**	**0**	**0**	**(115,814)**	**20,255**	**0**	**(95,559)**
Actuarial gains and losses of employee defined benefit plans					*(115,814)*	*20,255*		*(95,559)*
B.3. Changes within eqiuty	**0**	**(344,945,748)**	**(3,628,583)**	**(65,143,083)**	**0**	**(45,328,453)**	**459,045,867**	**0**
Allocation of the remaining portion of net profit of the comparable period to other equity components						*(459,045,867)*	*459,045,867*	*0*
Settlement of loss as a deduction component of equ		*(344,945,748)*	*(3,628,583)*	*(65,143,083)*		*413,717,414*		*0*
	578,579,850	**0**	**0**	**0**	**(204,359)**	**(134,588,287)**	**(47,226,819)**	**396,560,385**

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

3.8 STATEMENT OF CASH FLOWS

V EUR

	2016	2015
CASH FLOWS FROM OPRATING ACTIVITIES		
Profit or loss for the period	(47,226,819)	(459,045,867)
Adjustements for		
Amortisation of intangible assets	47,583	64,213
Depreciation on property, plant and equipment	36,039,221	35,435,458
Impairment of property, plant and equipment	0	408,538,937
Impairment of intangible assets and goodwill	**0**	21,251
Impairment of trade receivables	8,893	517,400
Write-off of invenstories	0	5,595,583
Formation of provisioins	3,030,000	2,730,000
Reversal of provisions	(2,230,000)	(1,766,545)
Write-off of property, plant and equipment	0	1,437
Reversal of allowances for trade receivables	(9,520)	(1,024)
Loss on sale of property, plant and equipment	678	121,876
Finance income	(1,573)	(145,998)
Finance cost	32,575,576	18,391,728
Gain on sale of property, plant and equipment	(463,722)	(857,855)
Cash generated from operating activities before change in net current assets and taxses	**21,770,317**	**9,600,594**
Change in net current assets and provisions		
Change in		
Inventories	(387,041)	(1,200,520)
Trade and other receivables	(8,454,345)	8,743,044
Trade and other payables	709,864	(5,540,476)
Provisions	2,002,879	40,846
Cash from operating activities	**15,641,674**	**11,643,488**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received and ncome from other financing activities	1,573	6,257
Proceeds from sale of property, plant and equipment	484,965	961,987
Proceeds from sale of other short-term investments	14,250,957	0
Acquisitions of property, plant and equipment	(7,015,293)	(58,743,569)
Acquisitions of intangible assets	(36,311)	(134,806)
Costs for increasing other short-term investments	(2,512,514)	(14,250,957)
Net cash used in investing activities	**5,173,377**	**(72,161,088)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	135,415,762	78,728,093
Proceeds from short-term borrowings	67,122,950	63,027,000
Payment of interest on borrowings and costs for other financial liabilities	(28,802,471)	(9,784,505)
Repayment of long-term borrowings	(149,217,459)	(12,246,032)
Repayment of short-term borrowings	(45,325,000)	(59,178,965)
Net cash used in financing activities	**(20,806,218)**	**60,545,591**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	**36,534**	**8,543**
Financial result	8,833	27,991
CLOSING BALANCE OF CASH AND CASH EQUVALENTS	**45,367**	**36,534**

3.9 NOTES TO THE FINANCIAL STATEMENTS

3.9.1 Notes to the statement of financial position

Note 1

Intangible assets EUR 336,160

in EUR

	31 Dec 2016	31 Dec 2015
Emission coupons	200,193	307,565
Other long-term property rights	135,967	147,239
Total	**336,160**	**454,804**

Movements in 2016

in EUR

	Emissions coupons	Other long-term property rights	Total
Costs at 1.1.2016	**307,565**	**1,739,699**	**2,047,264**
Acquisitions	19,818,128	36,311	19,854,439
Disposals - write-offs, sales	(19,925,500)	0	(19,925,500)
Write-offs		(26,749)	(26,749)
Costs at 31.12.2016	**200,193**	**1,749,261**	**1,949,454**
Write-downs at 1.1.2016		**1,592,460**	**1,592,460**
Amortisation		47,583	47,583
Write-offs		(26,749)	(26,749)
Write-down value at 31.12.2016		**1,613,294**	**1,613,294**
Carrying amount at 1.1.2016	**307,565**	**147,239**	**454,804**
Carrying amount at 31.12.2016	**200,193**	**135,967**	**336,160**

Movements in 2015

v EUR

	Emissions coupons	Other long-term property rights	Total
Costs at 1.1.2015	**446,679**	**1,604,890**	**2,051,569**
Acquisitions	20,385,097	0	20,385,097
Disposals - write-offs, sales	(20,524,211)	0	(20,524,211)
Transfers - restatements		134,809	134,809
Write-offs		0	0
Costs at 31.12.2015	**307,565**	**1,739,699**	**2,047,264**
Write-downs at 1.1.2015		**1,506,996**	**1,506,996**
Amortisation		64,213	64,213
Impairments		21,251	21,251
Write-downs at 31.12.2015		**1,592,460**	**1,592,460**
Carrying amount at 1.1.2015	**446,679**	**97,894**	**544,573**
Carrying amount at 31.12.2015	**307,565**	**147,239**	**454,804**

The predominant portion of the Company's intangible assets are emission coupons. Pursuant to the Environmental Protection Act, the Ordinance on the list of operators of installations emitting greenhouse gases and the Decision on emission coupons, 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 2016 is only 26,747, which is attributable to the higher utilisation for settling TGP obligations for 2015. 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 March 2016, TEŠ purchased from HSE 3,683,667 emission coupons in order to meet the obligations under the emissions produced in 2015. In April 2016, the amount of coupons decreased by 3,791,039 (Report on assessment of the Report on greenhouse gas emissions for 2015) coupons that were handed over for the emissions produced in 2015. As at 31 December 2016, the Company recorded among its long-term property rights 200,193 free emission coupons.

Intangible assets include EUR 135,967 worth of licences and other software which, depending on their useful life, are amortised at rates ranging from 6.3% to 33.33%.

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

Note 2

Property, plant and equipment — EUR 1,022,783,745

in EUR

	31 Dec 2016	31 Dec 2015
Land	2,648,850	2,648,850
Buildings	59,162,894	60,932,594
Production equipment	951,140,708	982,280,392
Other equipment	3,449,667	3,553,999
Property plant and equipment being acquired	6,381,626	490,781
Total	**1,022,783,745**	**1,049,906,616**

Movements in 2016

in EUR

	Land	Buildings	Production equipment	Other equipment	Property, plant and equipment being aquired	Total
Costs at 1.1.2016	**4,049,882**	**282,129,423**	**2,328,452,301**	**16,572,032**	**490,781**	**2,631,694,419**
Acquisitions					7,559,374	7,559,374
Disposals		(246,532)		(80,337)		(326,869)
Transfers from investments			622,264	502,184	(1,124,448)	0
Transfers - restatements			1,923,714		(544,081)	1,379,633
Write-offs			(502,990)	(140,991)		(643,981)
Costs at 31.12.2016	4,049,882	**281,882,891**	**2,330,495,289**	**16,852,888**	**6,381,626**	**2,639,662,576**
Write-downs at 1.1.2016	**1,401,032**	**221,196,829**	**1,346,171,909**	**13,018,033**		**1,581,787,803**
Disposals		(226,180)		(78,404)		(304,584)
Amortisation		1,749,348	33,685,662	604,211		36,039,221
Write-offs			(502,990)	(140,619)		(643,609)
Write-downs at 31.12.2016	**1,401,032**	**222,719,997**	**1,379,354,581**	**13,403,221**	**0**	**1,616,878,831**
Carrying amount at 1.1.2016	**2,648,850**	**60,932,594**	**982,280,392**	**3,553,999**	**490,781**	**1,049,906,616**
Carrying amount at 31.12.2016	**2,648,850**	**59,162,894**	**951,140,708**	**3,449,667**	**6,381,626**	**1,022,783,745**

Movements in 2015

v EUR

	Zemljišča	Buildings	Production equipment	Other equipment	Property, plant and equipment being aquired	Total
Costs as at 1.1.2015	**3,711,949**	**205,773,714**	**1,038,002,465**	**16,021,122**	**1,325,356,033**	**2,588,865,283**
Acquisitions					68,939,251	68,939,251
Disposals		(664,906)	(21,946,976)	(156,205)	(119,043)	(22,887,130)
Transfers from investments	337,933	77,020,615	1,314,375,405	869,225	(1,392,603,178)	0
Transfers - restatements					(1,082,282)	(1,082,282)
Write-offs			(1,978,593)	(162,110)		(2,140,703)
Costs as at 31.12.2015	**4,049,882**	**282,129,423**	**2,328,452,301**	**16,572,032**	**490,781**	**2,631,694,419**
Write downs at 1.1.2015	**1,401,032**	**190,346,933**	**959,091,058**	**11,774,774**		**1,162,613,797**
Disposals		(611,642)	(21,919,262)	(130,218)		(22,661,122)
Depreciation		2,839,392	31,872,893	723,173		35,435,458
Impairments		28,622,146	379,105,633	811,157		408,538,936
Write-offs			(1,978,413)	(160,853)		(2,139,266)
Write-downs at 31.12.2015	**1,401,032**	**221,196,829**	**1,346,171,909**	**13,018,033**	**0**	**1,581,787,803**
Carrying amount at 1.1.2015	**2,310,917**	**15,426,781**	**78,911,407**	**4,246,348**	**1,325,356,033**	**1,426,251,486**
Carrying amount at 31.12.2015	**2,648,850**	**60,932,594**	**982,280,392**	**3,553,999**	**490,781**	**1,049,906,616**

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, during which it was established that the Company's assets are disclosed in an actual amount.

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:

- value is estimated using the method of present value of expected free cash flows (value in use);
- going concern assumption was applied;
- an impairment test was performed on the basis of long-term projections of operations of cash-generating units until 2054 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_2 emission coupons on the HUPX stock exchange for the 2017-2019 period;

the long-term forecasts of market price trends of electricity and CO_2 emission coupons (updated in September 2016) from 2019 onward, as prepared by the internationally reputed institution Poyry Management Consulting (which also conducted impairment tests in 2015);

- an average annual electricity output in coal-fired power plants of 3.7 TWh in the 2017-2030 period, 2.6 TWh in the 2031-2040 period, and 2.0 TWh in the 2041-2054 period. The 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 23.9 million in 2017 to EUR 27.3 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 2020 to 2040 are considered in real prices, together with the observed projections of sales prices of electricity and CO_2 emission coupons based on the forecasts of an independent institution, while the projections for the subsequent period up to 31 December 2054 (when replacement 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;

- a discount rate reflecting the required weighted average cost of capital (WACC) of the Company was used in the nominal value of 7.35%. Since the long-term projections are prepared on the basis of real prices, the following real discount rate was considered in the impairments: 6.19% for December 2016, 5.87% in 2017, and 5.77% from 2018 onward (the discount rate of 5.48% from 2018 onward was used in the 2015 impairment test). 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 projections of prices of electricity and CO_2 emission coupons used in long-term forecasts that were used in the impairment test are as follows:

Movement of electricity and emission coupons prices

Base	Period	Change in price of electricity	Change in price of emission coupons
Year		**2016**	
Initial price	2017	37,91 EUR/MWh	4,83 EUR/t
Stock exchange prices for standardised forward contracts (HUPEX) in %	2017-2019	-4,05 %	1,13 %
Poyry price forecast in %	2020-2040	4,56 %	11,86 %
Poyry price forecast for 2040	2041-2054	0	0
Year		**2015**	
Initial price	2016	41,90 EUR/MWh	8,15 EUR/t
Stock exchange prices for standardised forward contracts (HUPEX) 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 equipmetn in 000 EUR	
Discount rate (WACC)	(0.5)	0.5	69,572	(63,230)
NOPLAT (EBIT - tax)	(10)	10	(58,322)	58,323
CAPEX	(10)	10	11,313	(11,308)

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

Land EUR 2,648,850

As at the reporting date, the value of land equals the value established as at the year-end of 2015.

Buildings EUR 59,162,894

The value of buildings declined over the previous year by the amount of accounted depreciation and the sale of apartments.

Production plant, machinery and other equipment EUR 954,590,375

Value of production plant, machinery and other equipment declined over the previous year for the accounted depreciation and write-off of non-useful equipment.

The increase in investments in Unit 6 also includes the effects of recalculating the costs of decommissioning in the amount of EUR 1,923,714 due to the changed discount rate. 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 16,200,000. Provisions for the costs of decommissioning the Unit 6 by taking into account the discount rate of the 30 year old German bond amount as at 31 December 2016 to EUR 11,141,325.

Property, plant and equipment being acquired EUR 6,381,626

Major portion of increases in property, plant and equipment being acquired refers to closing investments in the construction of the replacement Unit 6 in the amount of EUR 4,570,402, which are not yet completed.

The take-over of spare parts for the Unit 6 and placing them into the warehouse resulted in lower investments by EUR 544,081; inventories of spare parts increased in the same amount.

Other investments were implemented at EUR 2,988,972 and relate mostly to a part of supply of the new unit transformer within the recovery of the Unit 5 that shall start in 2017.

In 2016, investments in the total value of EUR 1,124,449 were activated. The total value of unfinished investments is recorded at EUR 6,381,626.

Changes in investments in property, plant and equipment under construction

in EUR

	Investments in production reliability	Investments in Unit 6	Other property, plant and equipment being acquired	TOTAL
Cost as at 1 Jan 2016	**486,694**	**0**	**4,087**	**490,781**
Acquisitions	2,434,621	4,570,402	554,351	7,559,374
Transfer from PPE under construction	(622,264)	(4,325)	(497,860)	(1,124,449)
Reposting	0	(544,081)		(544,081)
Cost as at 31 Dec 2013	**2,299,051**	**4,021,996**	**60,578**	**6,381,625**

Note 3

Other long-term investments and investments in associates EUR 60,003

in EUR

	31 Dec 2016	31 Dec 2015
Long-term investments in associated companies	59,503	59,503
Other long-term investments	500	500
Total	**60,003**	**60,003**

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., which is to be sold.

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.

Data on the associates as at 31 December 2016

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 in the financial statements of associates for 2016

in EUR

Company	Assets	Liability (without equity)	Revenue	Net profit or loss for the period	Total equity
Erico d.o.o.	1,942,297	564,723	2,137,513	45,397	1,377,575
Total	**1,942,297**	**564,723**	**2,137,513**	**45,397**	**1,377,575**

Value of long-term investments in associates EUR 59,503

in EUR

Associate	31 Dec 2016	31 Dec 2015
Erico d.o.o.	59,503	59,503
Total	**59,503**	**59,503**

Other long-term investments EUR 500

in EUR

	31 Dec 2016	31 Dec 2015
Center odličnosti nizkoogljične tehnologije	500	500
Total	**500**	**500**

Note 4

Long-term operating receivables EUR 70,920

in EUR

	31 Dec 2016	31 Dec 2015
Long term advances	67,026	73,173
Other long-term receivables	3,894	5,926
Total	**70,920**	**79,099**

Under long-term operating receivables, long-term advances receivable are recorded in the amount of EUR 67,026 3 and long-term receivables arising from the sale of apartments based on provisions of the Housing Act (Official Journal of RS no. 18/91) in the amount of EUR 3,894.

Note 5

Other long-term assets — EUR 482,987

in EUR

	31 Dec 2016	31 Dec 2015
Other long-term assets	15,259	21,951
Emmison coupons	467,728	0
Total	**482,987**	**21,951**

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, and the calculated purchase of emission coupons for stock.

Note 6

Assets held for sale — EUR 201,723

in EUR

	31 Dec 2016	31 Dec 2015
Other held-for-sale assets	201,723	201,723
Total	**201,723**	**201,723**

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 6,445,180

in EUR

	31 Dec 2016	31 Dec 2015
Material	6,445,180	6,058,139
Total	**6,445,180**	**6,058,139**

Inventories are mostly comprised of inventories of spare parts in the amount of EUR 3,216,899 and inventories of maintenance materials in the amount of EUR 2,108,187, which are needed

for immediate elimination of defects in production equipment and, consequently, reliable operation.

Inventories are not pledged as collateral for liabilities.
Carrying amount of inventories does not exceed their net realisable value.

An inventory count of materials revealed a surplus in the amount of EUR 101 and a deficit in the amount of EUR 85.

Inventory surpluses and deficits EUR 16

in EUR

	31 Dec 2016	31 Dec 2015
Value of inventory for which adjustment on net rea		(5,595,584)
Surplus at inventory taking	101	891
Negative differences at invetory taking	(85)	(547)
Total	**16**	**(5,595,240)**

Note 8

Short-term investments and loans EUR 2,512,514

in EUR

	31 Dec 2016	31 Dec 2015
Short term deposits to others	2,512,514	14,250,957
Total	**2,512,514**	**14,250,957**

The short-term, specific-purpose call deposit in the amount of EUR 14,250,257 was a deposit made at the year-end of 2015 in line with the commitments to EBRD and was used in January 2016 for the early repayment of the EBRD loan. Short-term specific-purpose deposit in the amount of EUR 2,512,514 is tied in form of provisions for repaying liabilities to EBRD in March 2017 and is not to be used for balancing current liquidity.

Changes in short-term investments and loans

in EUR

	2016	2015
Balance 1.1.	**14,250,957**	**0**
Acquisitions	2,512,514	14,250,957
Repayments	(14,250,957)	0
Balance 31.12.	**2,512,514**	**14,250,957**

Note 9

Short-term operating receivables EUR 25,462,237

v EUR

	31 Dec 2016	31 Dec 2015
Short-term operating receivables due from associates	24,026,498	25,802,385
Short-term operating receivables due from jointly controlled compa	155	176
Short-term trade receivables	1,435,584	1,374,386
Total	**25,462,237**	**27,176,947**

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

in EUR

		31 Dec 2016	31 Dec 2015
HSE d.o.o.	Slovenija	24,019,089	25,799,217
SENG d.o.o.	Slovenija	3,167	0
TET d.o.o. - in liquidation	Slovenija	678	0
PV d.d.	Slovenija	427	45
HSE Invest d.o.o.	Slovenija	3,137	3,123
Total		**24,026,498**	**25,802,385**

Part of the operating receivables due from Group companies includes receivables from Holding Slovenske elektrarne d.o.o. in the amount of EUR 24,019,089 for electricity sold in the period from 15 November to 31 December 2016.

Receivables from the sale of thermal energy in the amount of EUR 1,300,450 are secured by a blank bill of exchange. Security for other receivables was not necessary due to their specific nature.

Receivables by due date are presented in section 5.11.1.

Note 10

Other short-term assets EUR 31,306,826

in EUR

	31 Dec 2016	31 Dec 2015
Short term advances	427,998	113,580
Short-term operating receivables to state and other institutions	1,560,135	1,229,637
Short-term operating receivables due from others	0	71,190
Accrued income	28,905,591	19,807,281
Short-term deferred costs and expenses	413,102	355,409
Total	**31,306,826**	**21,577,097**

Accrued revenue in 2016 in the amount of EUR 28,903,047 refer to accounted revenue from emission coupons, while in the amount of EUR 747,712 to the use of coal based on Addendum

3 to the Contract on coal purchase, lease of power and purchase of electricity, in which the contracting parties agreed on the changed amount for leased power in 2016.

Other short-term assets include deferred costs related to services that were invoiced, but not yet provided in 2016 in the amount of EUR 413,074. Short-term deferred costs include the costs of insurances, one-year licenses, tuition fees, subscriptions, and other items for the year 2017 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 45,367

v EUR

	31 Dec 2016	31 Dec 2015
Bank balances	45,367	36,534
Total	**45,367**	**36,534**

Cash and cash equivalents include cash on the Company's bank balances and the call deposit referring to cash pooling.

Note 12

Equity — EUR 396,560,385

v EUR

	31 Dec 2016	31 Dec 2015
Called-up capital	578,579,850	578,579,850
Capital surplus	0	116,883,008
Other revenue reserves	0	68,771,666
Fair value reserve	(204,359)	(88,545)
Retained earnings	(181,815,106)	(548,325,956)
Total	**396,560,385**	**215,820,023**

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 at the amount of EUR 578,579,850.

As at 31 May 2016, capital surplus increased EUR 228,062,740. Capital surplus in the amount of EUR 116,883,008 relates to the elimination of general capital revaluation adjustment. As at 31 May 2016, the shareholder adopted a decision on transferring subsequent non-cash contributions, arising from shareholder's receivables for loans given, in the amount of EUR 228,062,740 for increasing capital surplus in order to cover the loss. Based on the

shareholder's decision, capital surplus was as at 30 August 2016 used in its full amount to cover the losses from previous years.

Revenue reserves in the amount of EUR 68,771,666 consisted of legal reserves (EUR 3,628,583) and other revenue reserves (EUR 65,142,083). Based on the shareholder's decision, revenue reserved were as at 30 August 2016 used in their full amount to cover the losses from previous years.

The major part of the fair value reserve consists of a revaluation adjustment in connection with the actuarial loss.

The item of net loss brought forward from 2014 and 2015 upon covering the loss was as at 30 August 2016 recorded at EUR 134,608,542 and is the result of previous losses from operations (impairment of assets in 2014 and 2015).

In the period from January to December 2016, the Company generated a loss in the amount of EUR 47,226,819.

Movement of fair value reserve

in EUR

	Actuarial gains/losses on termination benefits upon retirement	Other	Total
Balance as at 1.1.2016	**(100,110)**	**11,565**	**(88,545)**
Decrease	(95,559)		(95,559)
Transfer to retained earnings or losses	(20,255)		(20,255)
Balance at 31.12.2016	**(215,924)**	**11,565**	**(204,359)**
	Actuarial gains/losses on termination benefits upon retirement	**Other**	**Total**
Balance as at 1.1.2015	**(64,171)**	**11,565**	**(52,606)**
Formation, increase	(40,358)		(40,358)
Transfer to retained earnings or losses	4,419		4,419
Balance as at 31.12.2015	**(100,110)**	**11,565**	**(88,545)**

In 2016, the fair value reserve declined by the actuarial loss in the amount of EUR 115,785.

Retained earnings or losses increased by EUR 20,255 based on the actuarial calculation as a result of eliminating termination benefits upon retirement.

Note 13

Provisions for termination and jubilee benefits EUR 2,514,947

in EUR

	31 Dec 2016	31 Dec 2015
Provisions for termination benefits upon retirement	1,551,452	1,671,103
Provisions for jubilee premiums	963,495	901,102
Total	**2,514,947**	**2,572,205**

Long-term provisions comprise provisions for jubilee benefits and termination benefits upon retirement as determined in the actuarial calculation as at 31 December 2016.

The actuarial calculation was based on the following assumptions:

- for 2017 and 2018 rates of wage's average growth in the Republic of Slovenia taken from the Autumn forecast of economic development for 2016 (UMAR). The average wages in Slovenia are from 2019 onwards expected to increase with the 2% inflation and the actual growth by 0.2%. It is assumed, the amounts as set in the Decree shall not increase in 2017 and 2018; subsequently, these amount are expected to increase in accord with the inflation;
- the discount rate established on the basis of the yield of Slovenia's government bonds as at 31 December 2016 is stipulated at 1.2% p.a.;
- the number of employees in the Company as at 31 October 2016 (gender, age, total and pensionable years of service, gross salary for the month of October 2016);
- employee fluctuations according to age classes.

In 2016 the Company paid EUR 152,865 in jubilee benefits and EUR 310,243 in termination benefits.

Movement in 2016

in EUR

	Provisions for termination benefits	Provisions for jubilee benefits	Total
Balance as at 1.1.2016	**1,671,103**	**901,102**	**2,572,205**
Creation - increase	190,592	215,258	405,850
Decrease - drawing	(310,243)	(152,865)	(463,108)
Balance as at 31.12.2016	**1,551,452**	**963,495**	**2,514,947**

Movement in 2015

in EUR

	Provisions for termination benefits	Provisions for jubilee benefits	Total
Balance as at 1.1.2015	**1,635,950**	**880,644**	**2,516,594**
Creation - increase	147,578	134,102	281,680
Decrease - drawing	(112,425)	(113,644)	(226,069)
Balance as at 31.12.2015	**1,671,103**	**901,102**	**2,572,205**

Sensitivity analysis of provisions for termination benefits and jubilee benefits

in EUR

	2016			
	Discount rate		Growth if wages	
	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	88,176	(81,278)	(83,373)	86,963
Provisions for jubilee premiums	40,088	(37,336)	(38,958)	40,963
Total	**128,264**	**(118,614)**	**(122,331)**	**127,926**

in EUR

	2015			
	Discount rate		Growth if wages	
	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%
Provisions for termination benefits upon retirement	87,672	(81,109)	87,716	(81,918)
Provisions for jubilee premiums	33,315	(31,311)	33,332	(31,626)
Total	**120,987**	**(112,420)**	**121,048**	**(113,544)**

Note 14

Other provisions EUR 17,155,817

v EUR

	31 Dec 2016	31 Dec 2015
Provisions for lawsuits	3,183,077	1,229,266
For decommissioning	11,141,325	8,970,186
Other provisions	2,831,416	2,172,514
Total	**17,155,818**	**12,371,966**

Movement of other provisions

in EUR

	For lawsuits	For decommissioning	Other provisions	Total
Balance as at 1.1.2016	**1,229,266**	**8,970,186**	**2,172,514**	**12,371,966**
Creation - increase	3,030,000	2,171,139	760,838	5,961,977
Decrease - drawing	(998,238)		(101,936)	(1,100,174)
Decrease - reversal	(77,951)			(77,951)
Balance as at 31.12.2016	**3,183,077**	**11,141,325**	**2,831,416**	**17,155,818**
Balance as at 1.1.2015	**1,288,579**	**0**	**1,427,461**	**2,716,040**
Creation - increase		9,113,400	1,151,635	10,265,035
Decrease - drawing			(406,582)	(406,582)
Decrease - reversal	(59,313)	(143,214)	0	(202,527)
Balance as at 31.12.2015	**1,229,266**	**8,970,186**	**2,172,514**	**12,371,966**

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 the 30 year old German bonds amounted as at 31 December 2016 to EUR 11,141,325. The increase of provisions for decommissioning Unit 6 included also EUR 247,425 of financial expenses (discounting due to lapse of time), while EUR 1,923,714 relates to the effects of the amended discount rate.

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 2016, other provisions increased by the amount of unpaid Christmas bonus for 2016, by the difference of the vacation bonus up to the amount stated in the Entrepreneurial Collective Agreement, and decreased by the amount of partial payment of Christmas bonus for 2014.

The decline in provisions mostly relates to the payment made to Eles arising under the lost legal action.
One employment-related legal action was completed in 2016, thus the Company recorded a reversal of provision in the amount of EUR 77,951, a payment upon a legal action in the amount of EUR 54,821, and settled EUR 2,316 of expenditure on disputes.

Note 15

Other long-term liabilities EUR 232,092

in EUR

	31 Dec 2016	31 Dec 2015
Emission coupons	173,446	200,193
State aids received	58,646	64,523
Total	**232,092**	**264,716**

The Company records under accruals and deferrals the emission coupons received free of charge from the state for the period from 2016 to 2020. The amount of emission coupons in 2016 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 2016.

Accruals and deferrals arising from exemptions from the payment of contributions were created in accordance with the Vocational Rehabilitation and Employment of Persons with Disabilities Act. They are used for covering costs that are defined by the aforesaid Act.

Changes in other long-term liabilities

in EUR

	Emission coupons	State aids received	Total
Balance as at 1.1.2016	**200,193**	**64,523**	**264,716**
Disposals	(26,747)	(5,877)	(32,624)
Balance as at 31.12.2016	**173,446**	**58,646**	**232,092**
	Emission coupons	**State aids received**	**Total**
Balance as at 1.1.2015	**338,138**	**1,710,057**	**2,048,195**
Increases		3,153	3,153
Disposals	(137,945)	(1,648,687)	(1,786,632)
Balance as at 31.12.2015	**200,193**	**64,523**	**264,716**

Note 16

Long-term financial liabilities EUR 583,656,478

in EUR

	31 Dec 2016	31 Dec 2015
Long-term financial liabilities to group companies excluding interest	16,641,499	78,728,094
Long-term financial liabilities to group companies for interest	1,765,809	1,275,796
Long-term financial liabilities to banks	565,249,170	592,008,731
Total	**583,656,478**	**672,012,621**

Long-term loans are denominated in euro. The nominal interest rates for loans ranged from the lowest 0.146% (1-month Euribor + 0.52%) to the highest of 5.97% (fixed). Further clarification is provided in Note 17.

Movement in 2016

in EUR

	Long-term financial liabilities to group companies excluding interest	Long-term financial liabilities to group companies for interest	Long-term financial liabilities to banks	Total
Balance as at 1.1.2016	**78,728,094**	**1,275,795**	**592,008,731**	**672,012,620**
Acquisitions	135,415,762	3,532,446		138,948,208
Transfers to short term liabilities			(26,759,561)	(26,759,561)
Transfers to capital	(197,502,357)	(3,042,432)		(200,544,789)
Balance as at 31.12.2016	**16,641,499**	**1,765,809**	**565,249,170**	**583,656,478**

Movement in 2015

in EUR

	Long-term financial liabilities to group companies excluding interest	Long-term financial liabilities to group companies for interests	Long-term financial liabilities to banks	Total
Balance as at 1.1.2015	**0**	**0**	**741,226,191**	**741,226,191**
Acquisitions	78,728,094	1,275,795		80,003,889
Transfers to short term liabilities			(149,217,460)	(149,217,460)
Balance as at 31.12.2015	**78,728,094**	**1,275,795**	**592,008,731**	**672,012,620**

As at 31 December 2016, the Company discloses liabilities in the amount of EUR 583,656,478 arising under the long-term portion of borrowings, namely:

- in the amount of EUR 419,534,884 referring to EIB and its loan that matures on 15 March 2038;
- in the amount of EUR 145,714,286 referring to EBRD and its loan that matures on 31 March 2025;
- in the amount of EUR 6,141,499 referring to HSE and its loan that matures on 2 January 2026;
- in the amount of EUR 10,500,000 referring to HSE and its loan that matures on 31 December 2029;
- in the amount of EUR 1,765,809 referring to interest on long-term borrowings from HSE.

The Company discloses covenants under loan contracts signed with EIB and EBRD, which as at 31 December 2016 show no signs of breach.

Due to the failure to renew the GFA contract, the Company acted upon a decision of the sole shareholder and fully repaid on 27 January 2016 the loan from EIB in the amount of EUR 110.0 million, including interest. In view of the pari passu provision, the Company was required to repay also the proportionate portion of the EBRD loan in the amount of EUR 37.9 million, inclusive the accompanying costs. The proportionate share of the loan was repaid on 25 January 2016.

In 2016 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 26.759.561 that falls due for payment in 12 months after the balance sheet date was recorded among short-term financial liabilities.

Collateralization of long-term financial liabilities (including the short-term portion)

in EUR

	31 Dec 2016	31 Dec 2015
Government guarantees	440,000,000	440,000,000
Assignments, pledge of receivables	0	37,828,571
Bills of exchange	694,445	2,083,335
HSE guarantee	151,314,286	151,314,286
Bank guarantee	0	110,000,000
Uncollateralised	18,407,308	80,003,889
Total	**610,416,039**	**821,230,081**

As at 31 December 2016, TEŠ had 72.1% of its financial liabilities collateralised through a government guarantee, 24.8 % through a HSE guarantee, 5.0% through assignments or pledge of receivables, and 0.1% through bills of exchange, while 3.0% 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 110,000,000 million was concluded between TEŠ, HSE and five guarantor banks (The Bank of Tokyo – Mitshubishi 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 110,000,000 million. The guarantee's validity expired on 27 January 2016 and was not extended or renewed.

As at 31 December 2016, the Company's long-term liabilities to the parent company HSE amounted to EUR 18,407,308.26 and refer to following borrowings and related interest liabilities:

- on 11 June 2015, a contract on the long-term loan in the amount of EUR 83.0 million was signed for the purpose of financing the replacement Unit 6. The anticipated investment in the Unit 6 was achieved at a lower value, thus the value of the borrowing was reduced based on the Addendum no. 1 to EUR 73.0 million. Up until 31 March 2016, the loan was drawn in the amount of EUR 47.2 million and was on 31 May 2016 in its full amount transferred to capital surplus. In the period from 1 April 2016 to 31 December 2016, the loan was drawn in the amount of EUR 6.1 million,
- on 11 June 2015, a contract on the long-term loan in the amount of EUR 33.8 million was signed with HSE for the purpose of financing current operations and repaying financial liabilities. The loan was on 31 March 2016 drawn in its full amount and was on 31 May 2016 transferred to capital surplus,
- on 22 January 2016, a contract on bridge financing no. 1/HSE/TEŠ/16 was signed in the amount of EUR 37.9 million for the purpose of providing solvency. As at 31 March 2016, the loan was drawn in the amount of EUR 27.5 million and was in the same amount on 31 May 2016 transferred to capital surplus. An Addendum no. 2 was concluded on 6 August 2016 for the undrawn portion of the bridge financing in the amount of EUR 10.4 million and used for rescheduling the short-term bridge loan into a long-term loan,
- on 26 January 2016, a contract on a long-term borrowing in the amount of EUR 110.0 million bearing interest at 4.2% was signed for the purpose of early repaying the EIB loan. The respective loan was drawn in its full amount in January and was 31 May 2016 transferred to capital surplus;
- on 22 February 2016, a contract on a long-term borrowing in the amount of EUR 29.0 million bearing interest at 4.2% was signed for the purpose of financing current operations and repaying financial liabilities. Up until 31 March 2016, the loan was drawn in the amount of EUR 6.5 million and was as at 31 May 2016 transferred among capital surplus. In the period from 1 April 2016 to 31 December 2016, the loan was drawn in the amount of EUR 10.5 million,
- accrued interest in the amount of EUR 1.8 million relating to borrowings raised in the period from 1 April 2016 to 31 December 2016.

The guarantee of HSE d.o.o., with which it guarantees for the pledge of TEŠ's liabilities under the EBRD loan in the current amount of EUR 151,314,286. HSE guarantees for 100% 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 at 25 January 2016, the Company repaid the proportionate share (20%) of the long-term loan in the total amount of EUR 37,88,571.

HSE d.o.o. as joint guarantor up to 80% of the liabilities' value, acceded to the agreement between TEŠ and UniCredit bank relating to the short-term loan. The cost of suretyship is 1.30% p.a. of the actual annual value of TEŠ's liabilities to the bank.

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 151,314,286 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.

Note 17

Short-term financial liabilities EUR 31,196,859

v EUR

	31 Dec 2016	31 Dec 2015
Short-term financial liabilities to group companies excluding interest	1,026,417	785,757
Short-term financial liabilities to banks excluding interest	30,169,561	158,347,461
Short-term financial liabilities to banks for interest	881	525
Total	**31,196,859**	**159,133,743**

Movement in 2016

in EUR

	Short-term financial liabilities to group companies excluding interest	Short-term financial liabilities to banks excluding interest	Short-term financial liabilities to banks for interest	Other short-term financial liabilities	Total
Balance as at 1.1.2016	**785,757**	**158,347,461**	**525**	**0**	**159,133,743**
Acquisitions	28,544,367	39,605,000	20,192,604	2,765,027	91,106,998
Transfers from long term liabilities		26,759,561			26,759,561
Repayments	(28,303,707)	(45,325,000)	(20,192,248)	(2,765,027)	(96,585,982)
Long-term repayments		(149,217,461)			(149,217,461)
Other					0
Balance as at 31.12.2016	**1,026,417**	**30,169,561**	**881**	**0**	**31,196,859**

Movement in 2015

in EUR

	Short-term financial liabilities to group companies excluding interest	Short-term financial liabilities to banks excluding interest	Short-term bank loans of which short-term interest liabilities	Other short-term financial liabilities	Total
Balance as at 1.1.2015	**167,544,097**	**17,106,032**	**0**	**849,981**	**185,500,110**
Acquisitions	84,494,989	63,027,000	22,245,002	11,747	169,778,738
Transfers from long term liabilities		149,217,460			149,217,460
Repayments	(2,700,539)	(58,756,999)	(22,244,477)	(861,728)	(84,563,743)
Long-term repayments		(12,246,032)			(12,246,032)
Other	(248,552,790)				(248,552,790)
Balance as at 31.12.2015	**785,757**	**158,347,461**	**525**	**0**	**159,133,743**

As at the balance sheet date, short-term financial liabilities refer to the principal amount of long-term financial loans, which according to contracts with NLB mature in the next 12 months in the amount of EUR 694,445, to the principal amount of loan contracts signed with EIB and EBRD in the amount of EUR 26,065,116, to liabilities arising under the short-term framework loan in the amount of EUR 3,410,000, and to liabilities to HSE under collaterals in the amount of EUR 1,026,417.

In accord with the signed loan contracts, the interest rates lied in 2016 at 5.8% (3-m Euribor + margin) and fixed interest rates of 4.2% p.a.
The interest rate was reduced based on the Addendum no. 2 signed on 27 December 2017 from 5.8% to 4.65% (3-m Euribor + margin).
As at the balance sheet date, the Company recorded EUR 1,590,000.00 of undrawn borrowing arising from the loan contract signed with the UniCredit bank.

Note 18

Short-term operating liabilities EUR 21,102,765

in EUR

	31 Dec 2016	31 Dec 2015
Short-term operating liabilities to associates	15,636,814	18,817,132
Short-term operating liabilities to jointly controlled companies	81,716	91,953
Short-term operating liabilities to suppliers	5,384,235	5,980,994
Total	**21,102,765**	**24,890,079**

in EUR

		31 Dec 2016	31 Dec 2015
HSE d.o.o.	Slovenija	42,743	1,229,928
TET d.o.o. - in liquidation	Slovenija	0	36,004
PV d.d.	Slovenija	15,441,473	16,461,806
HTZ I.P. d.o.o.	Slovenija	68,266	361,594
PV Invest d.o.o.	Slovenija	10,002	34,095
RGP d.o.o.	Slovenija	52,358	436,058
HSE Invest d.o.o.	Slovenija	21,972	257,647
Total		**15,636,814**	**18,817,132**

Payables to Group companies include payables to Premogovnik Velenje d.d. for quantities of coal for electricity and thermal energy production supplied in the period from 1 December 2016 to 31 December 2016 in the amount of EUR 15,441,473, payables to Group companies for the construction of Unit 6 in the amount of EUR 52,358, and other payables to suppliers of Group companies in the total amount of EUR 152,335.

As at 31 December 2016, the Company discloses EUR 82,008 of due, unsettled trade payables (maturity up to 3 months). Payables by maturity are presented in the section 4.11.2. All Company's liabilities are generally settled within agreed deadlines.

Note 19

Other short-term liabilities EUR 37,288,319

v EUR

	31 Dec 2016	31 Dec 2015
Short-term operating liabilities from advances	0	10,249
Short-term operating liabilities to employees	1,589,006	1,762,146
Short-term operating liabilities to state and other insti	5,233,896	4,615,203
Short-term operating liabilities to others	10,983	94,609
Short-term accrued costs and expenses	30,454,434	26,276,311
Total	**37,288,319**	**32,758,518**

Other operating liabilities include salaries and other employment-related emoluments payable to employees for the month of December 2016 in the amount of EUR 911,702, which were paid on 13 January 2017, and accrued costs of unused annual leave at the end of 2016, which amount to EUR 677,304.
Payables to state and other institutions in the amount of EUR 5,233,896. The environmental tax for CO_2 emissions accounts for the largest liability, which in 2016 totalled EUR 4,149,183 (1 coupon/1 ton of CO_2). The purchase of emission coupons was carried out in March 2017.
Other short-term liabilities are recorded at EUR 10,983.

The accrued costs also comprise accrued costs in the amount of EUR 24,048,059 relating to the price, which is anticipated in the Contract for purchasing CO_2 emission coupons, less the share recorded among liabilities to the state.
The accrued costs also comprise costs in the amount of EUR 944,281 based on accounted costs of suppliers and other costs, while costs of default interest are disclosed at EUR 5,438,628.

As at 31 December 2016, the Company recorded EUR 82,008 of past due and unsettled payables to suppliers. All past due liabilities were settled by 31 January 2017. Liabilities by maturity are presented in section 4.11.2.

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

Contingent liabilities EUR 8,700

v EUR

	31 Dec 2016	31 Dec 2015
Other	8,700	8,700
Total	**8,700**	**8,700**

Contingent assets EUR 64,696,216

v EUR

	31 Dec 2016	31 Dec 2015
Received bank guaranties for regular business	402,377	193,656
Received bank guaranties for investments	64,293,839	117,426,781
Total	**64,696,216**	**117,620,437**

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.

3.9.2 Notes to the Income Statement

Note 1

Revenue EUR 198,796,771

v EUR

	2016	2015
Generated in domestic market	**198,700,380**	**158,742,289**
Electricity	193,705,820	149,780,319
Heat energy	3,886,449	3,024,273
Other products	50,070	49,056
Other merchandise and material	87,049	4,844,214
Other services	970,992	1,044,427
Generated in foreign market	**96,391**	**32,114**
Other merchandise and material	96,391	32,114
Total	**198,796,771**	**158,774,403**

Net sales revenue in the amount of EUR 198,796,771 was recorded at invoiced amounts. The major portion of revenue (99.4 %) was generated through the sale of electricity and thermal energy. The increase in revenue over the previous year refers mostly to the operation of the Unit 6 throughout the financial year.

Note 22

Other operating income EUR 2,862,493

in EUR

	2016	2015
Income on reversal of provisions	77,952	276,879
Reversal of deferredi ncome	0	1,564,288
Reversal of impaired receivables	9,520	0
Income on compensations and contractual penalties	13,003	11,171
Interest on late payments	1,863	3,877
Profit on sale of fixed assets	463,722	858,879
Other	2,296,433	270,852
Total	**2,862,493**	**2,985,946**

Most of other operating income include the amount of EUR 2,230,000 EUR arising under the elimination of accrued costs that were formed for terminating the contract for supplying the new transformer for Unit. The relevant contract was renewed in 2016.

Note 3

Costs of goods, material and services EUR 127,842,275

v EUR

	2016	2015
Costs of material	120,228,451	94,398,253
Costs of services	7,613,824	8,067,886
Total	**127,842,275**	**102,466,139**

in EUR

	2016	2015
Costs of material	118.561.845	92.807.199
Costs of auxiliary material	116.745	128.086
Energy costs	188.219	176.552
Costs of spare parts	984.617	782.432
Small tools	105.791	118.469
Office Supplies	19.669	30.638
Specialized literature	12.090	17.007
The operating costs of canteens	90.336	322.203
Other costs of material and small inventory	124.889	-297
Other	24.250	15.964
Total costs of material	**120.228.451**	**94.398.253**
Costs of services in cresting products	18.279	351.381
Costs of transportation	56.648	125.278
Maintenance	2.875.065	3.335.432
Rentals	933.933	818.724
Refund of work-related costs to employees	16.138	23.966
Insurance costs and bank services	1.390.985	1.292.586
Costs of professional and intellectual services	462.387	516.211
Costs of research and development	0	16.842
Costs of fairs, advertising and entertainment	4.576	18.120
Costs of services rendered by individuals	10.975	9.314
Communal services	372.522	373.332
Costs of security and surveillance	277.277	210.278
Cleaning services	0	8.343
Membership fees	35.495	39.163
Real estate management	21.782	42.459
Costs of editing landfill	1.130.577	870.618
Other	7.185	15.839
Total costs of services	**7.613.824**	**8.067.886**
Total	**127.842.275**	**102.466.139**

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 (EUR 108,146,414). In addition to coal, the Company also used gas to produce electricity.

The costs of energy consumed amount to EUR 188,219 and refer to electricity consumed for its own use, which is to be ensured through the transmission system.

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 980,351. Details are disclosed in the section on maintenance.

Following an inventory count of materials, surpluses of EUR 101 and deficits of EUR 85 were established.

Costs of services involving the maintenance of plants and equipment comprise the costs of regular maintenance in the amount of EUR 2,632,038.

Costs of the audit performed by KPMG Slovenija amounted to EUR 22,782, while the review of the Report on relations with affiliated entities amounted to EUR 1,800.

Auditor's fee

in EUR

	2016	2015
Audit of the Annual Report	22,782	23,782
Other non-audit costs	1,800	0
Total	**24,582**	**23,782**

Note 4

Employee benefits expense EUR 15,965,259

v EUR

	2016	2015
Wages and saleries	10,221,421	12,410,771
Pension insurance costs	1,608,524	1,674,298
Other insurance costs	893,255	957,258
Other labour costs	3,242,059	2,427,612
Total	**15,965,259**	**17,469,939**

Level of education	As at 1.1.2016	As at 31.12.2016	Average number of employees in 2016
1	5	4	5
2	14	13	14
3	10	10	10
4	106	86	96
5	135	115	125
6/1	56	52	54
6/2	21	14	18
7	27	22	25
8/1	8	7	8
8/2	1	0	1
Total	**383**	**323**	**353**

Employee benefits expense is 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 433,345 are also recorded under this item.

Note 5

Write-downs in value EUR 36,096,739

v EUR

	2016	2015
Amortisation of intangible assets	47,583	64,213
Depreciation of property, plant and equipment	36,039,221	35,435,458
Imapirment/Allowances for or write-off of receivables	8,893	517,400
Imapirment/Allowances for or write-off of inventories		5,595,583
Impairment of property, plant and equipment and intangible assets		408,560,188
Write-offs of property, plant and equipment		1,437
Sale of property, plant and equipment and investment property	1,042	121,876
Total	**36,096,739**	**450,296,155**

The depreciation/amortisation expense in the 2016 totalled to EUR 36,039,221 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.

Note 6

Other operating expenses EUR 36,407,807

v EUR

	2016	2015
Provisions	3,030,000	500,000
Fee for building site use	4,391,128	4,444,648
Environmental charges	28,541,027	20,899,575
Donations	63,000	18,514
Other operating expenses	382,652	6,554,264
Total	**36,407,807**	**32,417,001**

In 2016, the Company formed provisions for contingent liabilities in the total amount of EUR 3,030,000.

The major portion of charges relates to a liability for payment of a compensation for building site use in the amount of EUR 4,391,129.

The majority of environmental protection charges refer to the costs of emission coupons in the amount of EUR 27,729,515. The Company produced 4,149,183 tons of CO_2 during the financial year. According to the Environmental Protection Act, the Company is required to hand over 4,149,183 emission coupons to the state.

Note 7

Financial revenue EUR 1,573

in EUR

	2016	2015
Financial revenue on loans granted and deposits	122	6,257
Other financial revenue	1,451	139,741
Total	**1,573**	**145,998**

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 1,451.

Note 8

Financial expenses EUR 32,575,576

in EUR

	2016	2015
Interest expenses	23,148,490	13,266,521
Other financial costs	9,427,086	5,125,207
Total	**32,575,576**	**18,391,728**

Expenses for financial liabilities comprise interest expenses for long-term and short-term borrowings from banks in the total amount of EUR 19,616,044, and expenses for borrowings from Group companies in the amount of EUR 3,532,446. Financial expenses for interest increased over 2015 as a result of activating Unit 6 in the second half-year of 2015. These expenses were capitalised in the first half-year of 2015. Interest is accounted in accord with contracts entered into between the borrower and lender.

Other financial expenses primarily arise under the state guarantee provided for the investment in the Unit in the amount of EUR 5,500,000, under the HSE guarantee in the amount of EUR 1,025,102, and costs for bank waivers in the amount of EUR 2,292,822. The difference refers to expenses for guarantee-related contracts, interest expenses for provisions for retirement and jubilee benefits, financial expenses for discounting, and other financial expenses for other financial liabilities.

Note 9

Taxes

In EUR

	2016	2015
Profit or loss before tax	(47,226,819)	(459,045,867)
Tax calculated at applicable tax rate	(8,028,559)	(78,037,797)
Tax on income reducing tax base	(34,404)	(174)
Tax on expeses reducing tax base	(59,351)	(152,346)
Tax on non-deductible expenses	174,542	357,770
Tax on other changes in tax calculation	0	(22,580)
Tax effect of non-deductible deferred receivables for tax losses	7,947,772	77,855,127
Current tax	**0**	**0**
Total tax	**0**	**0**
Effective tax rate	**0.00%**	**0.00%**

In line with the Corporate Income Tax Act, the Company prepared a corporate income tax return for the period from 1 January 2016 to 31 December 2016, and established that due to the loss recorded in the period, the Company is not required to record tax liabilities.

As at 31 December 2016, the tax loss carried forward thus amounts to EUR 548,190,960, of which EUR 90,219,624 is from 2014, EUR 457,971,336 is the tax loss from the 2015 financial year, and EUR 46,799,377 for the tax loss for 2016.

At the end of 2016, 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 four tax periods. In 2016, the unused investment reliefs totalled to EUR 3,023,750 and may be used by the Company in the next five tax periods. Thus, unused investment reliefs are recorded in the total amount of EUR 249,340,536.

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

Note 11

Loss for the period EUR (47,226,819)

v EUR

	2016	2015
Gross operating yield	201,659,264	161,849,097
Operating profit or loss	(14,652,816)	(440,800,137)
Funancial result	(32,574,003)	(18,245,730)
Profit or loss before tax	(47,226,819)	(459,045,867)
Net profit or loss for the period	**(47,226,819)**	**(459,045,867)**

3.9.3 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.

3.9.4 Notes to the Statement of cash flows

The 2016 statement of cash flows is prepared using the indirect method and comprises all cash receipts and cash payments in the period from 1 January 2016 to 31 December 2016.

In 2016, short-term financial liabilities (EUR 27,517,950), long-term financial liabilities (EUR 197,502,357), and interest (EUR 3,042,433) due from the parent company were converted into equity on the basis of the decision adopted by the shareholder on 31 May 2016 i.e. transfer of subsequent non-cash contributions.

Breakdown of cash flows in terms of subgroups:

in EUR

	2016	2015
Cash flows from operating activities	15,641,674	11,643,491
Cash flows from investing activities	5,173,377	(72,161,091)
Cash flows from financing activities	(20,806,218)	60,545,591
Cash flow for the period	**8,833**	**27,991**

As disclosed in the statement of cash flows, net cash from operating activities amounted to EUR 15,392,934 and net cash from investment activities in the amount of EUR 5,173,377, which were entirely used for financing costs.

For the purpose of managing liquidity, the Company is required to implement following measures:

- diligent planning and analysing of cash flows,
- implementing measures for streamlining regular business operations.

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 2016, 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.

3.9.5 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 2016, equity increased by the amount of capital surplus based on the shareholder's decision adopted on 31 May 2016 with regard to the transfer of subsequent non-cash contributions (financial liabilities were converted into equity) in the amount of EUR 228,062,740. Given the shareholder's decision, the Company used the capital surplus and revenue reserves in their full amount to cover the losses from previous periods.

The total comprehensive income of the reporting period decreased by EUR 47,322,378 i.e. by EUR 47.226.819 of net loss for the period, and by EUR 95,559 of actuarial loss from the creation of provisions for termination benefits upon retirement.

Accumulated profit or loss

in EUR

	2016	2015
Net profit or loss for the period	(47,226,819)	(459,045,867)
Retainedearningsor losses	(134,588,287)	(89,280,089)
Total	**(181,815,106)**	**(548,325,956)**

OTHER DISCLOSURES

3.9.6 Related parties

v EUR

	Sales	Purchases	Loans received with interests
HSE d.o.o.	194,032,858	5,155,487	19,433,725
TET d.o.o. - in liquidation	1,296		
PV d.d.	3,501	108,146,414	
HTZ I.P. d.o.o.	535	481,378	
PV Invest d.o.o.		23,523	
RGP d.o.o.		370,030	
GOLTE d.o.o.		66	
HSE Invest d.o.o.	10,777	481,473	
Total 2016	**194,048,967**	**114,658,371**	**19,433,725**

The sales and purchase columns show all transactions (excl. VAT), including interest on borrowings and costs of guarantees, between TEŠ and related companies in 2016.

Borrowings are presented as at 31 December 2016 (principal + interest).

The balance of outstanding trade receivables due from related parties is disclosed under 5.11.1 and the balance of outstanding trade payables 5.11.2.

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.

3.9.7 Emoluments

Information on the board of management and employees employed under individual employment contracts that are not subject to the tariff part of the collective agreement.

Emoluments of Management

in EUR

	Salary	Other receipts	Bonuses	Cash reimbursement	Total
Members of the Management Board	107,816	3,686	6,827	133	118,462
Employees who are not subject to the tariff part of the collective agreemen	183,009	5,526	392	1,527	190,454
Total 2016	**290,825**	**9,212**	**7,219**	**1,660**	**308,916**

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 Management Board members

v EUR

	Salary	Other receipts	Bonuses	Cash reimbursement	Total
Arman Koritnik	107,816	3,686	6,827	133	118,462
Total	107,816	3,686	6,827	133	118,462

3.9.8 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

v EUR

	31 Dec 2016	31 Dec 2015
Less then a year	337,357	458,432
Skupaj	**337,357**	**458,432**

The costs of operating lease amounted to EUR 913.479 in 2016.

3.10 FINANCIAL RISKS AND MANAGEMENT

This section is linked to section 3.3.11 of the accounting report and also to section 2.12 of the management report covering financial risks.

3.10.1 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 289,503 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 uncashed bank guarantee in the amount of EUR 108,012, which were registered to the bankruptcy assets, and other.

Maturity dates of long-term operating and financial receivables

v EUR

	MATURITY DATE			
	TILL TO 2 YEARS AFTER THE DATE OF BALANCE SHEET	FROM 3 TO 5 YEARS AFTER THE DATE OF BALANCE SHEET	UP TO 5 YEARS AFTER THE DATE OF BALANCE SHEET	TOTAL
Long term advances	10,147	29,440	27,439	67,026
Other long-term receivables	2,032	1,862		3,894
31.12.2016	**12,179**	**31,302**	**27,439**	**70,920**

v EUR

	MATURITY DATE			
	TILL TO 2 YEARS AFTER THE DATE OF BALANCE SHEET	FROM 3 TO 5 YEARS AFTER THE DATE OF BALANCE SHEET	UP TO 5 YEARS AFTER THE DATE OF BALANCE SHEET	TOTAL
Long term advances	9,147	27,440	36,586	73,173
Other long-term receivables	2,032	3,894		5,926
Total 31.12.2015	**11,179**	**31,334**	**36,586**	**79,099**

Maturity dates of short-term operating and financial receivables

in EUR

	MATURITY DATE						
	IMMATURED	MATURED UP TO 90 DAYS	MATURED FROM 91 TO 180 DAYS	MATURED FROM 181 TO 270 DAYS	MATURED FROM 271 TO 360 DAYS	MATURED UP TO ONE YEAR	TOTAL
Short-term receivables owed by group companies	24,026,498						24,026,498
Short-term receivables owed by associates	155						155
Short-term trade receivables	1,412,643	19,873	1,936	1,525	1,135	159,040	1,596,152
Short term advances	427,999					206,731	634,730
Short-term operating receivables to state and other institutions	1,560,135						1,560,135
Other short-term receivables						509,040	509,040
Short term deposits to others	2,512,514						2,512,514
31.12.2016	**29,939,944**	**19,873**	**1,936**	**1,525**	**1,135**	**874,811**	**30,839,224**

v EUR

	ZAPADLOST V PLAČILO						
	IMMATURED	MATURED UP TO 90 DAYS	MATURED FROM 91 TO 180 DAYS	MATURED FROM 181 TO 270 DAYS	MATURED FROM 271 TO 360 DAYS	MATURED UP TO ONE YEAR	TOTAL
Short-term receivables owed by group companies	25,802,385						25,802,385
Short-term receivables owed by associates	176						176
Short-term trade receivables	1,353,214	9,025	1,794	4,214	110,014	66,991	1,545,252
Short term advances	113,580					206,731	320,311
Short-term operating receivables to state and other institutions	1,229,637						1,229,637
Other short-term receivables	71,190					509,040	580,230
Short term deposits to others	14,250,957						14,250,957
Total 31.12.2015	**42,821,139**	**9,025**	**1,794**	**4,214**	**110,014**	**782,762**	**43,728,948**

As for other receivables and their specifics, no collateralization is required.

Receivables for advances given in the amount of EUR 289,503 refer to the construction of Unit 6. Other receivables for advances given refer to receivables due from Primorje d.d., which is in bankruptcy (EUR 206,731), to receivables due from advances given in relation to securing excise-relating liabilities (EUR 124,500), and to receivables due from other advances (EUR 13,996). Receivables on advances and referring to Primorje d.d. (in bankruptcy) in the amount of EUR 206,731 are included in the bankruptcy estate and were based on a court settlement classified among ordinary receivables. The stated receivables were 2013 impaired by the Company.

Trade receivables past due and unsettled refer to receivables under the cashed guarantee due from the company RCE d.o.o. Velenje (EUR 108,012), to receivables due from Habit Velenje arising under apartment rents (EUR 48,377) and other trade receivables.

Receivables due from RCE d.o.o. was in September 2015 included in the bankruptcy estate.

Movements of short-term operating receivables

in EUR

	2016	2015
Stanje na dan 1.1.	**886,637**	**262,250**
Written-off receivables collected	(10,619)	(1,024)
Allowances for receivables	8,893	625,411
Final write-down of recevables	(8,572)	0
Stanje na dan 31.12.	**876,339**	**886,637**

3.10.2 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. The Company raised two short-term borrowings at the Unicredit bank i.e. a bullet loan in the amount of EUR 7.5 million (undrawn at the year-end) and a revolving loan in the amount of EUR 5 million (drawn at the year-end in the amount of EUR 1.6 million).

As at 31 December 2016, the Company recorded EUR 82,008 in overdue and outstanding liabilities to suppliers. All overdue liabilities were settled by 31 January 2017.

Maturity dates of long-term liabilities

in EUR

	MATURITY DATE			
	UP TO 2 YEARS AFTER DATE OF SFP	3 TO 5 YEARS AFTER DATE OF SFP	OVER 5 YEARS AFTER DATE OF SFP	TOTAL
Long-term financial liabilities to group companies			16,641,499	16,641,499
Long-term financial liabilities to group companies			1,765,809	1,765,809
Long-term bank loans	42,179,402	84,358,804	438,710,964	565,249,170
Total 31.12.2016	**42,179,402**	**84,358,804**	**457,118,272**	**583,656,478**

	MATURITY DATE			
	UP TO 2 YEARS AFTER DATE OF SFP	3 TO 5 YEARS AFTER DATE OF SFP	OVER 5 YEARS AFTER DATE OF SFP	TOTAL
Long-term financial liabilities to group companies			80,003,889	80,003,889
Long-term bank loans	26,759,561	126,538,206	438,710,964	592,008,731
Total 31.12.2015	**26,759,561**	**126,538,206**	**518,714,853**	**672,012,620**

Maturity dates of short-term operating and financial liabilities

in EUR

	IMMATURED	MATURITY DATE					TOTAL
		MATURED UP TO 90 DAYS	MATURED FROM 91 TO 180 DAYS	MATURED FROM 181 TO 270 DAYS	MATURED FROM 271 TO 360 DAYS	MATURED UP TO ONE YEAR	
Short-term operating liabilities to group companies	15,636,814						15,636,814
Short-term operating liabilities to associates	81,716						81,716
Short-term trade liabilities	5,302,227	82,008					5,384,235
Short-term operating liabilities to employees	911,702						911,702
Short-term operating liabilities to state and other institutions	5,233,896						5,233,896
Other short-term operating liabilities	10,983						10,983
Short-term financial liabilities to group companies	1,026,417						1,026,417
Short-term bank loans	30,170,442						30,170,442
Total 31.12.2016	**58,374,197**	**82,008**	**0**	**0**	**0**	**0**	**58,456,205**

	IMMATURED	MATURITY DAY					TOTAL
		MATURED UP TO 90 DAYS	MATURED FROM 91 TO 180 DAYS	MATURED FROM 181 TO 270 DAYS	MATURED FROM 271 TO 360 DAYS	MATURED UP TO ONE YEAR	
Short-term operating liabilities to group companies	18,817,132						18,817,132
Short-term operating liabilities to associates	91,953						91,953
Short-term trade liabilities	5,968,939	12,055					5,980,994
Short-term operating liabilities for advances	10,249						10,249
Short-term operating liabilities to employees	1,226,619						1,226,619
Short-term operating liabilities to state and other institutions	4,615,203						4,615,203
Other short-term operating liabilities	94,609						94,609
Short-term financial liabilities to group companies	785,757						785,757
Short-term bank loans	158,347,986						158,347,986
Total 31.12.2015	**189,958,447**	**12,055**	**0**	**0**	**0**	**0**	**189,970,502**

The risk of delayed capital increase was managed by the conclusion of a long-term and short-term borrowing by HSE, as well as by optimising liquidity and business operations. This risk was assessed as being adequately managed in 2016.

3.10.3 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

	2016	2015
Financial instruments with variable interest rate		
Financial liabilities	92,718,731	232,334,764
Total	**92,718,731**	**232,334,764**

Sensitivity analysis of cash flow in instruments with a variable interest rate

A change in the variable interest rate by 50 base points (bp) at the reporting date would increase (decrease) the net profit or loss by the values indicated below. The analysis assumes that all variables, mostly the exchange rates, remain unchanged. Due to negative values of Euribor market interest rates in 2016, the sensitivity analysis took into account solely the mark-up/increase + 0.50 bp. As for loans concluded under the Euribor zero floor interest rate, the analysis observed the mark-up + 50 bp over the average Euribor value in 2016 (average value of 3-month Euribor was -0.265%).

in EUR

Financial instruments	Net profit or loss 2016		Net profit or loss 2015	
	Increase by 50 bp	Decrease by 50 bp	Increase by 50 bp	Decrease by 50 bp
Financial liabilities	(496,510)	556,842	(667,364)	667,364
Total	**(496,510)**	**556,842**	**(667,364)**	**667,364**

Financial assets are subject to agreed fixed interest rates, hence the sensitivity analysis for this part was not prepared.

3.10.4 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 2016	31 Dec 2015
Long term financial liabilities	583,656,478	672,012,620
Short-term financial liabilities	31,196,859	159,133,743
Total financial laibilities	614,853,337	831,146,363
Capital	396,560,385	215,820,023
Financial liabilities/Capital	**1.55**	**3.85**
Neto financial liabilities	614,807,970	831,109,829
	1.55	**3.85**

The ratio improved due to the share capital increase in the amount of EUR 228.1 million.

3.10.5 Fair values

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 2016 Carrying amount	31 Dec 2016 Fair value	31 Dec 2015 Carrying amount	31 Dec 2015 Fair value
Non-derivative financial assets at fair value	**500**	**500**	**500**	**500**
Available-for-sale financial assets	500	500	500	500
Non-derivative financial assets at amortised cost	**30,079,171**	**30,079,171**	**42,957,944**	**42,957,944**
Financial receivables	2,512,514	2,512,514	14,250,957	14,250,957
Operating receivables	27,521,290	27,521,290	28,670,453	28,670,453
Cash	45,367	45,367	36,534	36,534
Total	**30,079,671**	**30,079,671**	**42,958,444**	**42,958,444**
Non-derivative financial liabilities at amortised cost	**624,614,771**	**624,614,771**	**782,779,476**	**782,779,476**
Bank loans	595,419,612	595,419,612	750,356,717	750,356,717
Other financial liabilities	1,026,417	1,026,417	785,757	785,757
Operating liabilities	28,168,742	28,168,742	31,637,002	31,637,002
Total	**624,614,771**	**624,614,771**	**782,779,476**	**782,779,476**

Financial assets carried at fair value by hierarchy

in EUR

	31 Dec 2016	31 Dec 2015
Financial assets at third-level fair value	60,003	60,003
Total financial assets at fair value	**60,003**	**60,003**

Short-term receivables and liabilities are recorded at carrying amount, which is considered as amortised cost.

3.11 REPORTING PURSUANT TO THE ENERGY ACT

3.11.1 Additional disclosures based on the Energy Act

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:

i. Costs that are collected at general production cost centres under the code no. 1210, 1220, 1230, 1240, 1400 and 1500, are allocated by TEŠ first to the business segment of steam and hot water supply, which consists of three profit centres. Costs relating to the working of the profit centre Thermal station 1 and Thermal station 2 (hereinafter 'TS 1' and 'TS 2'), are since 1 January 2016 allocated pursuant to the key that observes the method of actually used primary energy and is recorded at 2.43%, by taking into account the share of heat produced. Costs of the profit centre Thermal station 3 (hereinafter 'TS 3') are allocated pursuant to the key that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of heat production and is recorded at 2.61%, by taking into account the share of electricity produced.

   The residual costs are allocated to the business segment of electricity production and within the latter to profit centres in view of the share of used coal.

ii. Costs that are collected at general production cost centres under the code no. 3000, 3100, and 3200 in 3300, are allocated by TEŠ first to the business segment of steam and hot water supply. Costs relating to the working of the profit centre TS 1 and TS 2 are since 1 January 2016 allocated according to the key that observes the method of actually used primary energy and is recorded at 2.43%, by taking into account the share of heat produced. Costs of the profit centre TS 3 are allocated pursuant to the key that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of heat production and is recorded at 2.61%, by taking into account the share of electricity produced.

    The residual costs are allocated to the business segment of electricity production and within that to profit centres in terms of the number of production hours, performed by the maintenance departments as part of the regular maintenance of production plants.

iii. Costs collected at the general cost centres of professional departments are allocated to all four business segments by following three steps: (1) costs are first allocated to the canteen business segment (criteria – share of canteen's income within the total income) and the social standard business segment (criteria – average monthly wage of a bookkeeper in the commercial areas; (2) the residual amount of costs are thereupon allocated to the business segment of steam and hot water supply by applying the keys as presented in the first paragraph of point (b) actual findings; and (3) the remaining costs are at the end allocated to the business segment of electricity production and within that to profit centres by taking into account the share of electricity produced.

As the heat production with the gas unit in TEŠ is replacing the heat production from TS 3 and TEŠ thereby ensures an ongoing supply of thermal energy, the activity of steam and hot water supply is allocated 39.6% of fixed costs (under the methodology dividing the primary energy between the production of thermal energy and electricity).

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 and using the allocation formula that takes into account the method of actually utilised primary energy and 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 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_2 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. Depreciation costs relating to CS 1160 Unit 6 are treated as a general production CS, which indicates that costs are allocated to TS 3 based on the key that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of heat production (2.61%), including the share of electricity produced. Depreciation costs are recorded at indirect CSs and allocated by relevant key indirect CSs.

Employee benefits expense is allocated directly to CCs as defined by the human resources department. A specific method is used to allocate employee benefits expense to the activity of steam and hot water supply, where the employee benefits expense of a locksmith at Unit 4 or 5 or of one worker (locksmith) are allocated to TS 1-2, and two average annual salaries of on-duty locksmiths is allocated to TS 3 (Unit 6, RDP of Unit 6, etc.). Employee benefits expense recorded under indirect CCs are allocated using the relevant indirect CCs key formulas.

Financial expenses are allocated to CCs, PCs, and activities directly. The financial expenses recorded in the indirect CCs were allocated by using the relevant indirect CCs key formulas. A specific method is used to allocate financial expenses for loans raised at foreign banks for financing the construction of B 6, as they are allocated to the activity of steam and hot water supply by applying the key that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of heat production (2.61%), including the share of electricity produced.

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. Property, plant and equipment recorded in the fixed assets register at the CC 1160 Unit 6 are allocated to the activity of steam and hot water supply by applying the key that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of heat production (2.61%), including the share of electricity produced.
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 is allocated directly to the activity; if this is not possible, cash is allocated to the activity of electricity produced.

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 2016, financial liabilities to HSE were transferred to equity, which was previously allocated to the activity of hot water supply as financial liabilities.

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.

Short-term and long-term financial liabilities under loans that were raised to finance the construction of the Unit 6 are allocated to the activity of steam and hot water supply by applying the key that observes the deferral of variable costs according to the method of equitable allocation of congregation effects of heat production (2.61%), including the share of electricity produced.

Trade and other payables are allocated by activities as a direct liability by source of the accrual. Liabilities that cannot be directly defined are allocated to the activity of electricity production.

3.11.2 STATEMENT OF FINANCIAL POSITION BY BUSINESS SEGMENTS

in EUR

ASSETS	31 Dec 2016	Electricity production	Steam and hot water supply	Other business segments
A. LONG-TERM ASSETS	**1,023,733,815**	**988,773,342**	**34,718,944**	**241,529**
I. Intangible assets	336,160	123,066	200,193	12,901
II. Property, plant and equipment	1,022,783,745	988,523,247	34,051,023	209,475
V. Other long-term financial assets and loans	60,003	60,003	0	0
VI. Long-term operating receivables	70,920	67,026	0	3,894
VII. Other long-term assets	482,987	0	467,728	15,259
B. SHORT-TERM ASSETS	**65,973,847**	**64,177,898**	**263,649**	**1,532,300**
I. Assets held for sale	201,723	0	0	201,723
II. Inventories	6,445,180	6,415,488	29,692	0
III. Short-term investments	2,512,514	2,512,514	0	0
IV. Short-term operating receivables	25,462,237	24,136,419	1,307,153	18,665
VI. Other short-term assets	31,306,826	31,294,010	10,698	2,118
VII. Cash and cash equivalents	45,367	(180,533)	(1,083,894)	1,309,794
TOTAL ASSETS	**1,089,707,662**	**1,052,951,240**	**34,982,593**	**1,773,829**

in EUR

EQUITY AND LIABILITIES	31 Dec 2016	Electricity production	Steam and hot water supply	Other business segments
A. EQUITY	**396,560,385**	**386,392,275**	**8,379,162**	**1,788,948**
I. Called-up capital	578,579,850	566,751,495	11,017,605	810,750
IV. Fair value reserve	(204,359)	(204,359)	0	0
V. Retained earnings	(181,815,106)	(180,154,861)	(2,638,443)	978,198
C. LONG-TERM LIABILITIES	**603,559,334**	**579,505,395**	**24,053,939**	**0**
I. Provisions for termination and jubilee benefits	2,514,947	2,514,947	0	0
II. Other provisions	17,155,817	16,547,163	608,654	0
III. Other long-term liabilities	232,092	58,646	173,446	0
IV. Long-term financial liabilities	583,656,478	560,384,639	23,271,839	0
D. SHORT-TERM LIABILITIES	**89,587,943**	**87,053,570**	**2,549,492**	**(15,119)**
II. Short-term financial liabilities	31,196,859	30,110,754	1,086,105	0
III. Short-term operating liabilities	21,102,765	20,060,585	1,041,661	519
V. Other short-term liabilities	37,288,319	36,882,231	421,726	(15,638)
TOTAL EQUITY AND LIABILITIES	**1,089,707,662**	**1,052,951,240**	**34,982,593**	**1,773,829**

3.11.3 INCOME STATEMENT BY BUSINESS SEGMENTS

in EUR

ITEM	I-XII 2016	Electricity production	Steam and thermal water supply	Other business segments
OPERATING REVENUES	**201,674,723**	**196,984,076**	**3,963,012**	**727,633**
1. Net sales revenue	198,796,771	194,609,651	3,936,265	250,855
a) in the domestic market	198,700,380	194,513,260	3,936,265	250,855
b) in foreign markets	96,391	96,391	0	0
3. Capitalised own products and own services	0	0	0	0
4. Other operating revenue	2,877,951	2,374,425	26,747	476,778
GROSS OPERATING INCOME	**201,674,723**	**196,984,076**	**3,963,012**	**727,633**
OPERATING EXPENSES	**216,327,537**	**210,783,010**	**5,228,633**	**315,894**
5. Costs of material and services	127,842,275	125,047,986	2,669,647	124,642
b) costs of material	120,228,451	117,675,040	2,459,903	93,508
c) costs of services	7,613,824	7,372,946	209,744	31,134
6. Labour costs	15,965,259	15,397,680	464,531	103,048
7. Write-downs in value	36,096,738	34,683,005	1,341,770	71,963
a) depreciation and amortisation expense	36,086,804	34,683,051	1,341,743	62,010
b) impairment/write-down, disposal of intangible assets and property, plant and equipment	1,042	(55)	27	1,070
c) impairment/write-down of receivables and inventories	8,893	10	0	8,883
8. Other operating expenses	36,423,265	35,654,339	752,685	16,241
OPERATING PROFIT OR LOSS	**(14,652,814)**	**(13,798,934)**	**(1,265,621)**	**411,739**
9. FINANCIAL REVENUE	1,573	1,437	0	136
10. FINANCIAL EXPENSES	32,575,576	31,775,794	798,295	1,487
FINANCIAL RESULT	**(32,574,004)**	**(31,774,357)**	**(798,295)**	**(1,351)**
11. PROFIT OR LOSS BEFORE TAX	**(47,226,818)**	**(45,573,291)**	**(2,063,916)**	**410,388**
13. NET PROFIT OR LOSS FOR THE PERIOD	**(47,226,818)**	**(45,573,291)**	**(2,063,916)**	**410,388**

Note: In the income statement presented by business segments, revenue and expenses also include internal realisation.

3.11.4 STATEMENT OF CASH FLOWS BY BUSINESS SEGMENTS

in EUR

ITEM	I-XII 2016	Electricity production	Steam and thermal water supply	Other business segments
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit or loss for the period	(47,226,819)	(45,573,291)	(2,063,916)	410,388
Adjustments for:				
Amortisation	36,086,804	34,683,051	1,341,743	62,010
Impairment of trade receivables	8,893	10	0	8,883
Creation of provisions	3,030,000	0	0	3,030,000
Reversal of provisions	(2,230,000)	0	0	(2,230,000)
Reversal of allowances for trade receivables	(9,520)	(9,520)	0	0
Loss on the sale of property, plant and equipment	678	678	0	0
Finance income	(1,573)	(1,437)	0	(136)
Finance costs	32,575,576	31,775,794	798,295	1,487
Gain on sale of property, plant and equipment	(463,722)	0	0	(463,722)
Cash generated from operating activities before change in net current assets and taxes	**21,770,317**	**20,875,285**	**76,122**	**818,910**
Change in net short-term assets and provisions				
Change in:				
Inventories	(387,041)	(413,424)	18,986	7,397
Trade and other receivables and deferred costs and accrued revenue	(8,454,345)	(7,870,845)	(643,112)	59,612
Trade and other payables and accrued costs and deferred revenue	709,864	704,766	288,134	(283,036)
Provisions	2,002,879	2,806,943	108,654	(912,718)
Cash from operating activities	**15,641,674**	**16,102,725**	**(151,216)**	**(309,835)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received and other income from financing	1,573	1,437	0	136
Proceeds from sale of property, plant and equipment	484,965	0	0	484,965
Proceeds from decrease in other short-term investments	14,250,957	14,250,957	0	0
Acquisition of property, plant and equipment	(7,015,293)	(7,015,293)	0	0
Acquisition of intangible assets	(36,311)	(36,311)	0	0
Costs of increasing short-term loans	(2,512,514)	(2,512,514)	0	0
Net cash used in investing activities	**5,173,377**	**4,688,276**	**0**	**485,101**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term borrowings	135,415,762	131,894,952	3,520,810	0
Proceeds from short-term borrowings	67,122,950	65,377,753	1,745,197	0
Payment of interest on borrowings and other financial liabilities	(28,802,471)	(28,052,120)	(748,864)	(1,487)
Repayment of long-term borrowings	(149,217,459)	(145,337,805)	(3,879,654)	0
Repayment of short-term borrowings	(45,325,000)	(44,146,550)	(1,178,450)	0
Net cash used in financing activities	**(20,806,218)**	**(20,263,770)**	**(540,961)**	**(1,487)**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	**36,534**	**(1,026,638)**	**0**	**1,063,172**
Financial result	8,833	846,105	(1,083,894)	246,622
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**45,367**	**(180,533)**	**(1,083,894)**	**1,309,794**

Abbreviations:

ARSO – Slovenian Environment Agency
BDP – Gross domestic product
CCS – Capture and storage of CO_2
DDV – Value-added tax
EBRD – European Bank for Reconstruction and Development
EIB – European Investment Bank
ELKO – Extra light fuel oil
ERP – KOPA information system
EZ – Energy Act
IED – Industrial Emissions Directive
IP – Investment programme
HSE – Holding Slovenske elektrarne d.o.o.
IFRS – International Financial Reporting Standards
MzIP – Ministry of Infrastructure and Spatial Planning
NS – Supervisory Board
PAC – Provisional Acceptance Certificate
PV – Premogovnik Velenje d.d.
RDP – Desulphurisation flue gases
RLV – Rudnik lignita Velenje (Velenje Lignite Mine)
SD – Workers Council
SDE – Trade Union of Energy Sector Workers of Slovenia
SRO – Environmental management system
STS – Slovenian Technical Permit
TEŠ – Termoelektrarna Šoštanj d.o.o.
TGP – Greenhouse gas emissions
VZD – Occupational health and safety
ZDDPO – Corporate Income Tax Act
ZFPPIPP – Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
ZJNVETPS – Public Procurement in the Water, Energy, Transport and Postal Services Sectors Act
ZGD – Companies Act
ZJN – Public Procurement Act
ZVO – Environmental Protection Act